



Singapore: An increase in credit risk impacts import-export economy

Atradius Payment Practices Barometer





Maria Sandhu

CEO for Atradius in Singapore
commented on the report

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Successful businesses will take steps to protect their accounts receivable through 2021.

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Singapore punches well above its weight in the global economy, acting as the main transport and financial services hub for Southeast Asia and, with a particular strength in intermediary trade, is regarded as one of the most pro-business locations in the world. However, the city-state's leading status as a centre for the import of raw goods-refinement-and-export has also meant it has been vulnerable to pandemic-induced supply chain disruptions and global demand contractions.

Four large stimulus packages that were introduced by the government in 2020, helped prop-up the economy from the most negative effects of the global recession. However despite this, some signs of market stress were evident among the businesses interviewed for the Payment Practices Barometer, including a reported increase in bad debts and an increase in payment delays. Indeed, 32% of businesses in Singapore expressed liquidity concerns and told us they were worried about maintaining adequate cash flow over the coming months.

This contrasts with the average across Asia where the same concern was expressed by 26%. That said, Singapore is one of the world's strongest economies and a strong rebound is projected for 2021. What remains to be seen is the impact of the removal of government support.

It is likely that businesses that would have entered insolvency last year were insulated by the government packages. And, as that support is phased out over the course of 2021, there will be a spike in bankruptcies. In this environment of increased risk, successful businesses will take steps to protect their account receivables through increased credit assessments and a build up of their own bad debt reserves, or executing specialist support from a credit insurance firm, or possibly both. On the whole, business confidence remains fairly buoyant in Singapore and, as long as the pandemic can be controlled, this sense of optimism should be replicated in the health of trade flows and invoice payments.

Key takeaways

More credit sales than anywhere else in Asia

With more B2B sales made on credit in Singapore than in any other of the countries we surveyed for the Payment Practices Barometer in the region, the costs associated with the provision of trade credit need to be thoroughly managed by Singapore-based businesses. When this is not done, costs can quickly outweigh sales revenue, which in turn risks jeopardising the profitability of the business, especially if profit margins are tight.

Late payments prove costly to the chemicals/pharma industry

There are more late payments in the Singaporean chemicals/pharma industry than in the wider Asia region, with 59% of B2B credit sales overdue last year, this industry also had the highest percentage of late payments across the industries we surveyed in the city state. This points to significant differences in credit management between businesses in the Singapore industry and their peers in Asia and may also suggest they lost more money on these transactions than other businesses in the region (through increased collections costs, finance cost and write-off losses).

Bad debts increased for more than a third of businesses

36% of businesses in Singapore reported an increase in bad debts over the past year. This was most commonly seen among businesses that opted to self-insure, rather than outsource the risk through letters of credit, factoring or self-insurance.

As the Singaporean government continues to phase out the temporary fiscal measures introduced to support industries through the pandemic, businesses should take steps to protect their accounts receivable from the risks associated with the 2021 projected uptick in insolvencies.

Agri-food relies on cash amid supply chain uncertainty

With a heavy dependence on importing food supplies, the Singapore agri-food sector has been more exposed to interruptions to supply chains during the pandemic than other industries. Perhaps for this reason, agri-food is the industry that most commonly demands cash payments up front.

The downside of this approach is that agri-food businesses risk missing out on opportunities to offer competitive terms in a global marketplace and the chance to build strong customer relations through flexible credit terms.

Competitive market drives strategic use of trade credit

24% of the businesses we polled for the Payment Practices Barometer told us that they used trade credit to stay competitive in their markets. This is almost twice as much as reported for the regional average and is likely to reflect Singapore's status as a global entrepôt, engaging with businesses across the world in both import and export trade. This position does make businesses vulnerable to fluctuations in the economies they trade with and we may see increased caution as different countries start to ease pandemic fiscal packages later in 2021.

Survey results for Singapore

Singapore sells on credit terms more often than any other market in Asia

Singapore tops the table of Asian countries trading on B2B credit. 59% of all B2B sales in the industries we surveyed (agri-food, chemicals and construction) are made on credit, higher than the 54% for Asia as a whole. Compared to last year, Singapore's credit sales have dipped slightly from 61% to 59%, however a significant number of businesses told us they either increased or did not alter the frequency of credit sales in the months following the outbreak of the pandemic. This was on average 43% of respondents, almost in line with the response rate in Asia.

The comparison between the average amount of sales to B2B customers transacted on credit by businesses polled in Singapore and those transacted on credit by their peers in Asia point to a significantly greater role played by trade credit in B2B trade relations of Singaporean businesses than of businesses in Asia.

When comparing the use of trade credit between domestic and export markets it is clear than businesses in Singapore prefer to offer credit terms to domestic customers. 62% (regional average: 56%) of credit sales were with domestic customers, whereas export credit sales were reported by 38% of respondents, (regional average: 44%).

Singapore: how do you expect your business performance to change over the coming months?



IMPROVE
50%

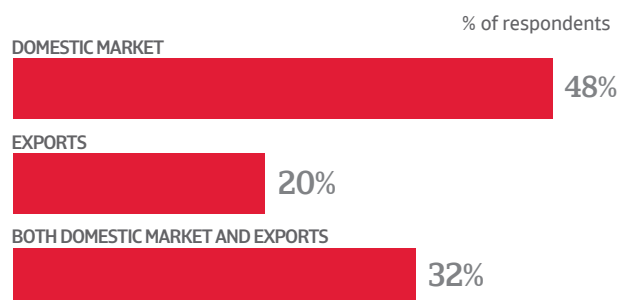


NO CHANGE
40%



DETERIORATE
10%

Which key developments will drive your business improvement?



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

43%

of the businesses polled in Singapore are of the opinion that selling on credit to B2B customers will become an increasingly widespread business practice over the next 12 months. (regional average: 36%)

From an industry standpoint, the Singaporean construction industry is the most likely to trade on credit terms, with an average of 68% of its B2B sales made on credit (consistent with the average for the industry in Asia). The Singaporean chemicals industry ranks second, with 60% credit sales (higher than 54% in the same industry in Asia). The agri-food industry follows with an average of 57% credit sales (also higher than the 52% average for the industry in Asia).

A quarter of businesses use trade credit to gain a competitive edge

Almost a quarter of the businesses we polled in Singapore (24%) told us that they increased the use of trade credit to stay competitive in their markets. This was significantly higher than the 13% average reported across Asia and the

Singapore: top 5 greatest challenges to business profitability in 2021

% of respondents

Maintaining adequate cash flow



Containment of costs



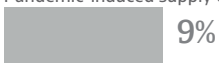
Economic crisis due to the coronavirus pandemic



Falling demand for your products and services



Pandemic-induced supply chain disruptions



Other



Sample: all interviewed companies

Source: Atradius Payment Practices Barometer - June 2021

highest percentage in the region. Similarly, more businesses polled in Singapore (20%) than in Asia (8%) reported increasing the use of trading on credit to provide their customers with short-term finance. In effect they gave their customers longer to pay if they were awaiting payment from their own customers. Conversely, using trade credit to encourage repeat business was less commonly cited by businesses in Singapore (37%), than the Asian average (54%).

The same goes for using credit to win new customers. This was reported by 26% of the businesses we interviewed in Asia and 20% in Singapore.

Companies who do not outsource collections observe more bad debt challenges

More businesses in Singapore (51%) than in Asia (41%) reported no change in administrative costs associated with management of accounts receivable arising from B2B trade in the year that followed the pandemic outbreak. 39% of businesses reported an increase in administrative costs (regional average: 49%), and most of these were spent on credit reports from specialist agencies.

However, the capital costs (i.e. financing or interest costs paid during the time-lag between the credit sale and the settlement of the invoice) did not change significantly for businesses in Singapore over the past year (likewise for their Asian counterparts). On a less positive note, bad debts increased for more businesses in Singapore (36%) than in Asia (33%) over the past year.

This was most often cited by businesses that opted to manage the collection of long-term overdue invoices internally, rather than in outsourcing.

Payment terms hold steady

Over the past year, most of the businesses we polled in Singapore (57%) did not alter their average payment terms. Their Asian peers reported a similar position. Those that changed payment terms most often gave their customers longer to pay (cited by 33% of businesses in Singapore and 35% in Asia). A breakdown of payment terms by industry can be seen below, in the overview by industry section. 52% most often set payment terms according to their company standards (regional average: 53%).

Additional reasons cited by respondents include reflecting the payment terms of their own suppliers, as well as being guided by the availability and cost of capital needed to finance credit sales. This suggests a strong focus on working capital requirements, although this is less strong in Singapore than in Asia.

Respondents reported an increase in overdue B2B invoices

More respondents in Singapore (45%) than in Asia (40%) reported an increase in overdue invoices over the past year. On average, overdue invoices were settled within one month past due, longer than last year's 22-day average. This affected an average of 52% of all B2B invoices (Asia average 50%). A similar trend was evident in the case of long-term overdue invoices (over 90 days overdue) which appeared to impact businesses in Singapore slightly more than others polled across Asia and in write-offs (6%, compared to 5% in Asia).

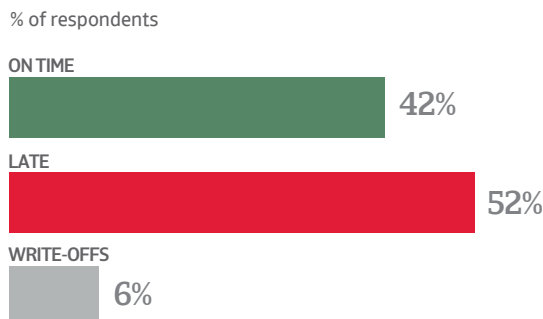
Liquidity issues and cost containment top future business concerns

More businesses in Singapore (32%) than in Asia (26%) expressed concern about maintaining adequate cash flow over the coming months. The unsuccessful containment of costs negatively impacting business profitability, is a concern for more businesses in Singapore (23%) than in Asia (20%). This is likely to be partly caused by the increased costs experienced in relation to the management of B2B receivables and bad debts. Interestingly, businesses in Singapore appear far less worried than their peers in Asia about any possible fall in demand for their products and services over the next months. This concern was expressed by 9% of Singaporean respondents compared to 15% in Asia. Similarly, the continuation of supply chain disruptions arising from the impact of the pandemic appears to worry businesses in Singapore (9%) more than their Asian peers (7%).

Businesses in Singapore far more optimistic than Asian peers as to improvement in business performance stemming from domestic economic rebound

Looking ahead, half of the businesses polled in Singapore (on par with the regional average) appear to be optimistic about an improvement in their business performance (sales and profits) over the next 12 months. For one in two businesses in Singapore and Asia alike the expected improvement in business performance will be mainly due to a rebound of the domestic economy. 32% in Singapore (36% in Asia) believe that the improvement will stem from a combination of healthier export flows and the domestic economic rebound. Interestingly, more businesses in Singapore (20%) than their peers in Asia (15%) believe an improvement in business performance will come exclusively from exports. This is may be a reflection of the fact that export trade is the source of most of Singapore's revenues. Against this backdrop, far more businesses in Singapore (43%) than in Asia (36%) are of the opinion that B2B credit sales will become an increasingly widespread business practice over the next 12 months. The primary

Singapore: on average, within what time frame do your B2B customers pay their invoices?



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

reason cited for this is to allow customers more time to pay, followed by the desire to stimulate demand from customers, particularly in the industries where it may have dropped due to the pandemic economic downturn.

Trade debts securitisation becoming more popular amongst businesses in Singapore

37% of businesses, (regional average: 34%) told us they plan to securitise receivables more often over the next few months to reduce outstanding trade debt, minimise credit risk and avoid liquidity constraints. To protect the business from trade credit risk, 35% of the businesses we polled in Singapore (regional average: 42%) plan to request guarantees of payment from customers more frequently over the coming months. In-house retention and management of customer credit risk through self-insurance is planned by 33% of businesses (43% in Asia). These respondents told us they aim to intensify their invoice collection efforts over the same time frame, especially the collection of long-term overdue invoices (more than 90 days overdue) to help minimise DSO deterioration. 26% of the businesses we polled in Singapore (regional average: 37%) plan to resort to trade credit insurance more frequently over the coming months. 36% of the businesses polled told us they expect DSO to deteriorate (regional average 38%), whereas just 12% expect it to improve over the coming months (regional average: 10%).

45%

of the suppliers polled in Singapore told us their B2B customers lengthened their payment timings over the past year (regional average: 40%).

Overview of payment practices in Singapore By industry



AGRI-FOOD



Overview

Due to limited cultivable land and therefore little local agricultural production, the city-state of Singapore is almost totally dependent on imports for its food requirements. Concerns about disruption to the industry supply chains have been exacerbated by the pandemic, and have compounded business concerns over maintaining adequate cash flow over the coming months. In light of this, businesses polled in the agri-food industry in Singapore believe that B2B trade credit will be more widespread over the coming months, in particular as a bid to stimulate demand.

Despite collection efforts, DSO higher than in Asia

Agri-food businesses in Singapore (63%) are far more likely than their industry peers in Asia (57%) to request cash payments. Once the terms of the trade deal agreed, more businesses in Singapore (64%) than in Asia (55%) rely on letters of credit initiated from their customers to secure payment. Adjusting payment terms to reflect the credit risk profile of the customer is also more often reported by businesses in Singapore (63%) than by their industry peers in Asia (51%). Despite this diversified approach to managing credit risk, 52% of the agri-food industry in Singapore appears to be impacted by late payments, compared to an average of 49% in Asia. However, when it comes to bad debt losses, businesses in Singapore appear to be better positioned than their Asia-wide peers.

On average, the former wrote off 4% of the total value of their B2B receivables as uncollectable. This is lower than the 6% the average for industry in Asia. Although this reflects relatively stronger collection efforts, local industry respondents spent more resources on chasing overdue invoices (52% in Singapore versus 48% in Asia). In addition, more businesses in Singapore (41%) reported an increase in DSO over the past year than their peers in Asia (37%). The Singaporean agri-food industry reported an average DSO of 123 days, compared to a 119-day average for the industry in Asia.

Twice as many agri-food businesses in Singapore worried about supply chain than in Asia

Perhaps reflecting their more vulnerable dependence on food supply chains, twice as many respondents in Singapore than in Asia are worried about future disruptions to the industry supply chain impacting their business operations and ultimately profitability.

That said, businesses are more optimistic than their regional peers about potential improvement to their business performance (sales and profits). 34% of the Singaporean agri-food industry expressed concern about maintaining adequate cash flow levels over the coming months (regional average: 32%). Although the majority of businesses polled in the city-state (53%, compared to 57% in Asia) believe that the expected improvement will arise from a rebound in the domestic economy, more businesses in Singapore (20%) than in Asia (13%) believe their business performance will improve due to a revamping of export trade flows.

The remainder believe business performance will improve due to a combination of increased exports and more favourable economic conditions. Against this backdrop, far more businesses in the Singapore industry (42%) than in Asia (33%) believe that B2B trading on credit will become more widespread to stimulate demand.



CHEMICALS/PHARMA



Overview

There are more late payments in the Singaporean chemicals/pharma industry than on average for the industry in Asia. Despite this, local businesses show a strong focus on protecting liquidity levels and containing costs to safeguard business profitability.

This comes as no surprise for a key industry in Singapore, where a relatively strong carry-over of insolvencies from last year to this year was anticipated after the gradual phasing out of insolvency moratorium measures.

More Singapore late payments than chemicals/pharma industry in Asia

59% of the total value of B2B credit sales last year was reported to be overdue (compared to the 54% average for Asia). This pattern repeats for long-term overdue invoices (more than 90 days overdue) where Singapore's chemicals/pharma industry appears less successful at collection than its peer across Asia. 9% of the total value of B2B receivables was written off last year (regional average: 7%).

To protect their own businesses from the impact of late payments, 37% of respondents delayed paying suppliers, (significantly more than the regional average of 21%). However, only 12% suspended deliveries until invoice payment, compared to 26% in Asia.

10% of chemicals/pharma businesses in Singapore turned away new customers to avoid financial risk, half of the 20% in Asia that reported doing so.

Maintaining cash flow is significant business concern

27% of respondents in Singapore told us they are concerned about maintaining cash flow in the coming months, (compared to 24% in Asia). 25% are worried about containing credit management costs (regional average: 21%). It is worth mentioning that twice as many respondents in Singapore than in Asia are worried about likely bank lending restrictions that could hamper their financial flexibility and their ability to access cash to weather fluctuations in their business activity.

47% of businesses in the industry anticipate improvement in their business performance over the next few months (fewer than the regional average of 57%).

Although a significant number of respondents both in Singapore and Asia predict this improvement will come from a rebound of the domestic economy, more businesses in Singapore (25%) than in Asia (15%) believe the expected improvement will stem from export trade flows.

At the same time, far more businesses in the Singapore industry (47%) than in Asia (35%) believe that B2B trading on credit will be more widespread over the coming months, as businesses act to support their customers by allowing them more time to pay.



CONSTRUCTION



Overview

The pandemic-induced economic crisis has severely hit businesses in the construction industry in Singapore. Restriction of migrant workers, particularly from India, into the city-state has caused severe disruption to the industry. This is mainly due to manpower shortfalls that are currently expected to trigger increases in labour costs, which in turn will be a factor affecting commercial offers for contracts.

Amid expectations of emergency government measures to address these issues, local businesses have expressed concern over their liquidity levels alongside their ability to contain credit management costs, and how these may impact their profitability and viability going forward.

Half of the total value of B2B invoices is overdue

50% of the total value of B2B invoices is overdue (consistent with Asia) and, on average, it took businesses up to one month longer than the due date to pay. Late payments are the reason why 67% of the industry spent more on collection efforts. A significant number of the businesses we polled told us that they needed to strengthen their internal credit control procedures, and more often retained and managed customer credit risk internally through self-insurance. Requesting payments in cash, delaying payments to suppliers and to staff were also liquidity protection measures often cited by industry respondents. As a reflection of strong collection efforts, bad debt write offs in the Singapore industry represented only 2% of B2B receivables, consistent with the average for Asia.

Cash flow is primary worry for construction industry

Nearly half (45%) of the businesses polled in the Singapore construction industry expressed concern about maintaining adequate cash flow over the coming months. In addition, a significant number of businesses are worried about containing credit management costs and the impact of these on profitability.

However, the majority of construction businesses anticipate no change in their business performance over the coming months. Should there be a change, more businesses are of the opinion it will be an improvement (25%) than a worsening (15%). A significant 80% believe any improvement will be due to a rebound of the domestic economy. Within this context, 45% of businesses believe that trade credit will be used more often over the coming months to allow customers more time to pay invoices, rather than as a tool to stimulate demand.

Survey design for Asia

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the Atradius Payment Practices Barometer. In this report focusing on Asia, which is part of the 2021 edition of the Atradius Payment Practices Barometer, companies from six economies (China, Hong Kong, Indonesia, Singapore, Taiwan and United Arab Emirates) have been surveyed.

Due to a change in research methodology for this survey, some year-on-year comparisons are not feasible for some of the results. Using a questionnaire, CSA Research conducted 1,200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from six economies (China, Hong Kong, Indonesia, Singapore, Taiwan and UAE) were surveyed. The appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** the Strategic Sampling Plan enables to perform an analysis of the market data crossed by sector and company size. It also allows to compare data referring to a specific sector crossed by each of the economies surveyed.
- **Selection process:** companies were selected and contacted by use of an international internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- **Sample:** N=1,200 people were interviewed in total (approximately n=200 people per market). In each market, a quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q2 2021.

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Sample overview – Total interviews = 1,200

Economy	Interviews	%
China	200	16.7
Hong Kong	200	16.7
Indonesia	200	16.7
Singapore	200	16.7
Taiwan	200	16.7
UAE	200	16.7

Business sector (total Asia)	Interviews	%
Manufacturing	521	43.4
Wholesale trade/Retail trade/Distribution	464	38.7
Services	215	17.9

Business size (total Asia)	Interviews	%
Small enterprises	99	8.2
Medium-sized enterprises	896	74.7
Large enterprises	205	17.1

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.

Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia.

This is part of the June 2021 Payment Practices Barometer of Atradius, available at

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