Atradius Payment Practices Barometer
June 2022

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Managing risk, enabling trade

Taiwan: sharp rise in bad debts

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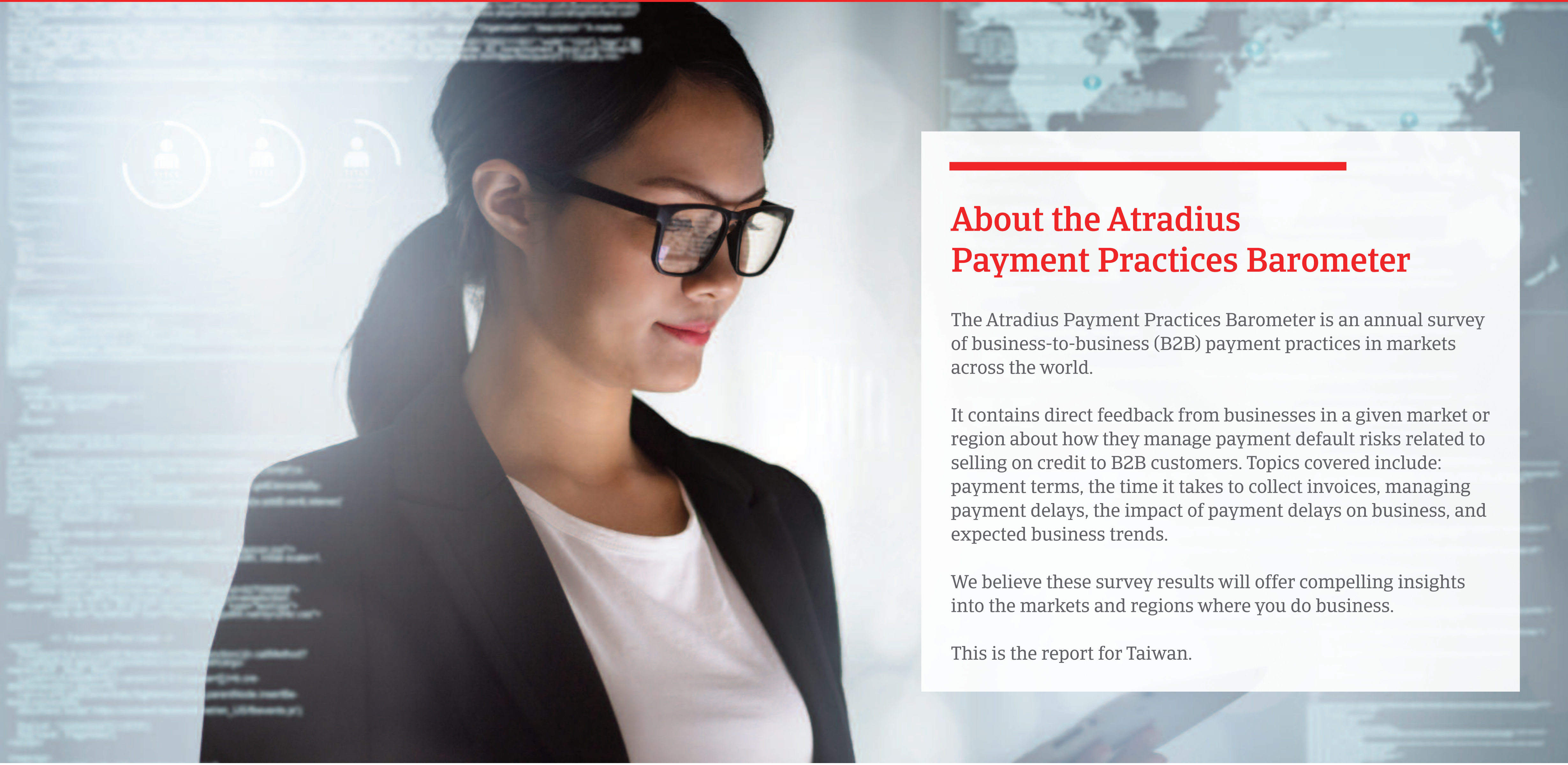

About the Atradius Payment Practices Barometer

The Atradius Payment Practices Barometer is an annual survey of business-to-business (B2B) payment practices in markets across the world.

It contains direct feedback from businesses in a given market or region about how they manage payment default risks related to selling on credit to B2B customers. Topics covered include: payment terms, the time it takes to collect invoices, managing payment delays, the impact of payment delays on business, and expected business trends.

We believe these survey results will offer compelling insights into the markets and regions where you do business.

This is the report for Taiwan.

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Taiwan: overview of key survey findings

8% write off

(up 3% from 2021 survey)

Major concern amid geopolitical issues, rise in payment defaults

- The situation in Taiwan is in a state of flux, with many companies telling us they are unsure what the future holds. This is partly a result of the pandemic and, more significantly, due to the specific geopolitics of Taiwan itself, of widespread and acute uncertainty across all industries polled about its potential impact on domestic and foreign trade. One third of companies said they had anxiety about maintaining profitability.
- Our survey showed a sharp rise in bad debts written off as uncollectable. They nearly tripled, up to an average of 8%, while in the chemicals industry it was as high as 12%. There was an equally worrying increase in the number of overdue B2B invoices, revealing a disturbing deterioration in payment practices. The level of customer payment defaults climbed to an average of 54%, up from last survey's 40%.

DSO troubles and liquidity issues spark need for strong credit management

- A clear majority of businesses polled in the Taiwan market told us that liquidity issues are a growing factor leading to B2B customer payment default. This had a severe knock-on effect through the respective supply chains. Almost one third of companies told us they experienced a significant deterioration in Days-Sales-Outstanding (DSO), a threat to both cash flow and to business growth.
- The tough trading conditions found in the survey reinforced a rising awareness among companies polled in Taiwan of the need for a credible and strong credit management strategy. There was focus on the internal credit process to manage payment defaults and a notable rise in businesses who either outsourced the issue to a credit insurer or who purchased specific trade finance solutions.

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Taiwan: credit sales and payment terms (B2B)

B2B trade on credit climbs amid competitive pressures

- Companies polled in Taiwan reported that an average of 52% of the total value of their business-to-business (B2B) sales was made on credit during the past months, compared to last survey's 55%. There was a striking increase in accepting trade credit requests from B2B customers, with nearly 40% of companies saying they did so more often. Electronics/ICT businesses cited this most often, reflecting a surge in exports triggered chiefly by strong demand due to the pandemic. Rejection of B2B trade credit requests was mainly due to deterioration of the customer credit quality or insufficient in-depth risk information.
- Our survey found that withstanding competitive pressures is the key reason for B2B trading on credit for Taiwan companies -- and is the dominant factor in the strongly competitive chemicals industry. Growing market share by winning new customers is also a driving force behind the appetite of Taiwan companies for trading on credit with B2B customers, domestically and abroad. Businesses from both Taiwan's electronics/ICT and textile/clothing industries told us this was the reason they most often traded on credit with B2B customers.

Credit risk worsening is a worry, and companies seek insurance protection

- There was a contrasting approach among companies polled in Taiwan to setting payment terms for B2B customers. Nearly twice as many as in our last survey offered more liberal terms, especially in the chemicals sector, with the aim of withstanding competitive pressures. A significant number did the opposite, though, shortening terms due to a deterioration of the customers' credit quality. Overall, this led to an average payment term of 52 days from invoicing, around three weeks than in our previous survey.
- This suggests a heightened perception of the risk of customer payment default and may explain why having a credit insurance cover has reportedly become a decisive factor in setting payment terms across almost all industries polled in Taiwan. The exception is the textile/clothing sector, where pressures to sell and grow the market by offering favourable payment terms to B2B customers appears to override concern about management of customer payment default. Our survey found that internal customary trade practices also still often apply for setting payment terms, notably in the chemicals industry.

52 days

(2021: 73 days)

B2B payment terms in Taiwan shortened significantly over the past months, reflecting a heightened perception of the risk of customer payment default from customers.

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Taiwan: customer payment default (B2B)

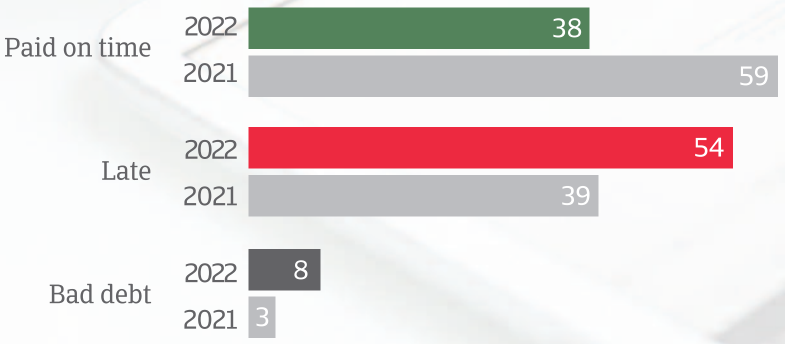
Companies rocked as payment defaults and bad debt losses soar

- Despite the relative success and strength of the Taiwan economy, businesses across the major industrial sectors reported struggling with increased levels of customer payment default. Our survey found an average of 54% of B2B invoices were settled overdue, compared just last survey's 40%. The hardest impact was felt by the textile/clothing industry, which exports much of its output and which suffered most from payment default by foreign B2B customers. Most companies polled in this industry said their reaction to customer payment default was strengthening credit control, getting external financing, or requesting bank overdrafts to avoid being liquidity squeezed.
- Bad debts written off as uncollectable also increased markedly in the Taiwan market, nearly tripling over the past months to a worrying average 8% of all B2B credit-sales value. This figure rose to 12% in the Taiwan chemicals industry, causing a negative impact on cash flow. This could explain why chemicals companies who opted to manage customer credit risk in-house told us they more often outsourced collection of long-term overdue trade debt to specialist agencies to avoid being liquidity-squeezed due to bad debts losses.

Liquidity squeezes trigger increase in customer payment default

- Nearly 60% of companies polled said their B2B customers, both domestic and foreign, defaulted on payments mainly due to liquidity issues that our survey found is troubling business across the Taiwan market. They told us their response, in a bid to preserve enough cash needed for their business operations, was to slow down payments to their own suppliers. This triggered knock-on effects along the whole supply chain and was especially noted in both the electronics/ICT industries and chemicals.
- Customer disputes are also a very frequent reason for payment delay, a problem reported by more than one third of companies, and a particular concern in the textile/clothing sector. Another finding, which fits in with the general anxiety about cash flow issues, is that a sizeable number of businesses delayed payment of invoices due to administrative delays in their payment process. This appears to be a widespread practice in the electronics/ICT industry.

Taiwan: % of the total value of B2B invoices paid on time, overdue and bad debt as uncollectable (2022/2021)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - June 2022

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Taiwan: impact of customer payment default (B2B)

Easing impact of customer payment default on the business utmost priority

- The significant deterioration in customer payment default shown in our survey prompted companies in Taiwan to strengthen their internal credit control process and ease the negative impact on business cash flow and profits. As a key step to enhancing their credit management process, businesses polled in Taiwan told us they focused on improving assessments of customer creditworthiness. While direct information from the customer remains the most common source of information for assessment of customer credit quality prior to selling on credit, we found there was also widespread use of financial statements and bank references.
- Other techniques to protect their liquidity positions were also reported to be used by Taiwan companies in their credit risk management strategy. 56% of the businesses polled, particularly in the chemicals industry, told us they requested cash payments on delivery. Almost as many companies said they actively adopted a flexible approach to their payment terms set for customers, lengthening or shortening the terms according to need. This was especially mentioned in the electronics/ICT industry.

DSO troubles spark concern about growth and profitability

- Almost one third of companies polled in Taiwan (up from last survey's 22%) reported a weaker liquidity position during the past months, the result of a worsening of their Days-Sales-Outstanding (DSO), the length of time between invoicing and getting paid by customers. Most businesses said this DSO worsening was chiefly due to cash flow deterioration caused by the soaring impact of payment defaults and bad debts. A more liberal trade credit policy with B2B customers, undertaken without adequate measures to protect against payment default, was noted particularly noted in the textiles/clothing industry.
- One positive outcome reported in the survey was that DSO did not significantly change year-on-year for most companies polled in the Taiwan machines industry. This probably reflected the use of various measures to mitigate customer payment default on the business. These included the avoidance of credit risk concentration, as well as increased time and resources spent on sending invoice payment reminders to defaulting customers.

Average time it takes to convert overdue B2B invoices into cash (year-on-year change)

(% of respondents)

Sample: all survey respondents - Source: Atradius Payment Practices Barometer - June 2022

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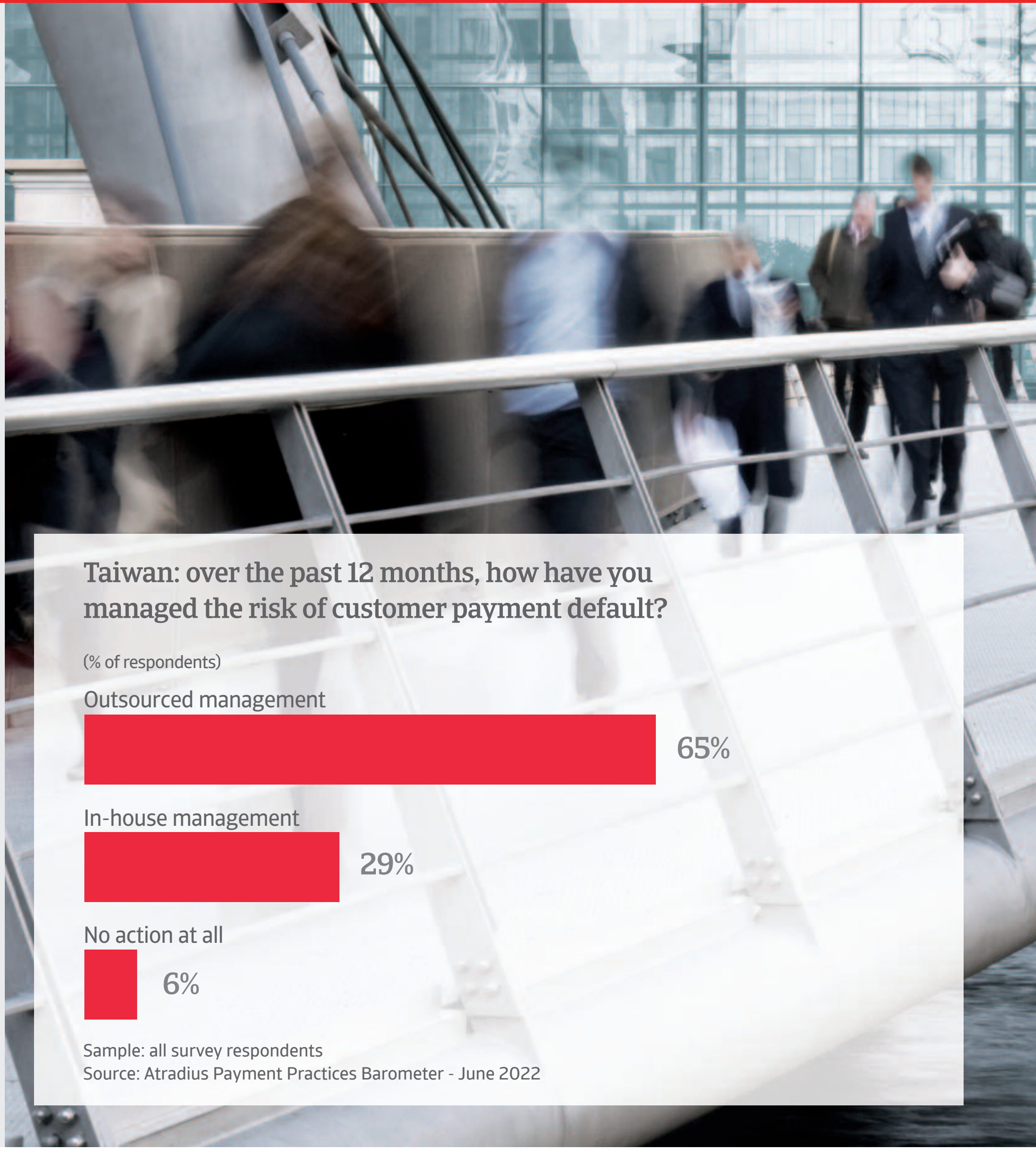
Taiwan: management of customer payment default (B2B)

Rising awareness of crucial role played by strategic credit management

- Compared to our last survey, far fewer businesses polled in the Taiwan market told us they opted to retain and manage customer credit risk in-house. Instead, they preferred to outsource the issue to a credit insurer, or to purchase specific trade finance solutions complementing in-house credit management or insurance. This clearly signals increased awareness of the importance of strategic credit management in the challenging economic and trading conditions in which businesses currently operate.

- Outsourcing credit risk management to a credit insurer was reported by Taiwan companies to have significant benefits, including the ability to offer open credit terms safely and securely to new and potential customers. It also gave access to in-depth risk information on potential customers and provided an overall enhancement of credit management procedures which helped improve DSO and free up working capital. This was strongly noted across all sectors expect for the Taiwan machines industry, where our survey reveals a preference for a swift invoice to cash turnaround, especially though factoring.



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Taiwan: the business outlook (B2B)

Mixed opinions on evolution of B2B trade credit landscape

- Our survey reveals uncertainty in the Taiwan market about the year ahead. 44% of companies polled said they anticipate improvement in B2B payment practices, but the rest expect no change in the current tough environment. It was the same mixed message about how trading on credit with B2B customers will evolve. Many see no significant change ahead, an opinion expressed most often in the machines industry. However, significant numbers of businesses polled in Taiwan told us they expect to increase offering of trade credit to remain competitive, particularly so in the electronics/ICT industry.

Serious concern geopolitical risks will hurt domestic and export trade

- There was more confidence that DSO would remain stable, with 54% of companies polled in Taiwan saying they expect no significant change, perhaps reflecting rising awareness of the role of strategic credit management. However, 42% do anticipate DSO deterioration, notably in the chemicals industry. Almost 30% of businesses told us they are worried about maintaining profitability amid the adverse conditions of the global economy, with particular anxiety about falling sales revenue and higher trade debt management costs.

- The key concerns for Taiwan business are twofold -- continuing pandemic uncertainty, as well as a potential impact of geopolitics on the country's domestic and foreign trade. This is acutely felt across all industries polled in the market. Against this backdrop, more than 25% of companies told us they anticipate problems in keeping cash flow levels under control, which is expected to dent profit margins during the coming months.

Taiwan: overview of key survey findings by industry

Chemicals

Sales on credit (% of all B2B sales)	68%	(2021: 58%)
Payment term (d=average days)	55d	(2021: 62d)
Payment duration* (d=average days)	95d	(2021: 82d)
Late payment (% of all B2B invoices)	55%	(2021: 27%)
Write offs (% of all B2B invoices)	12%	(2021: 2%)
% of businesses anticipating longer payment duration	69%	(2021: 70%)
% of businesses managing credit risk in-house	27%	(2021: n/d)
Falling demand of aur products and services: greatest challenge ahead	55%	(businesses reporting it)

* payment term on the invoice plus any delay.

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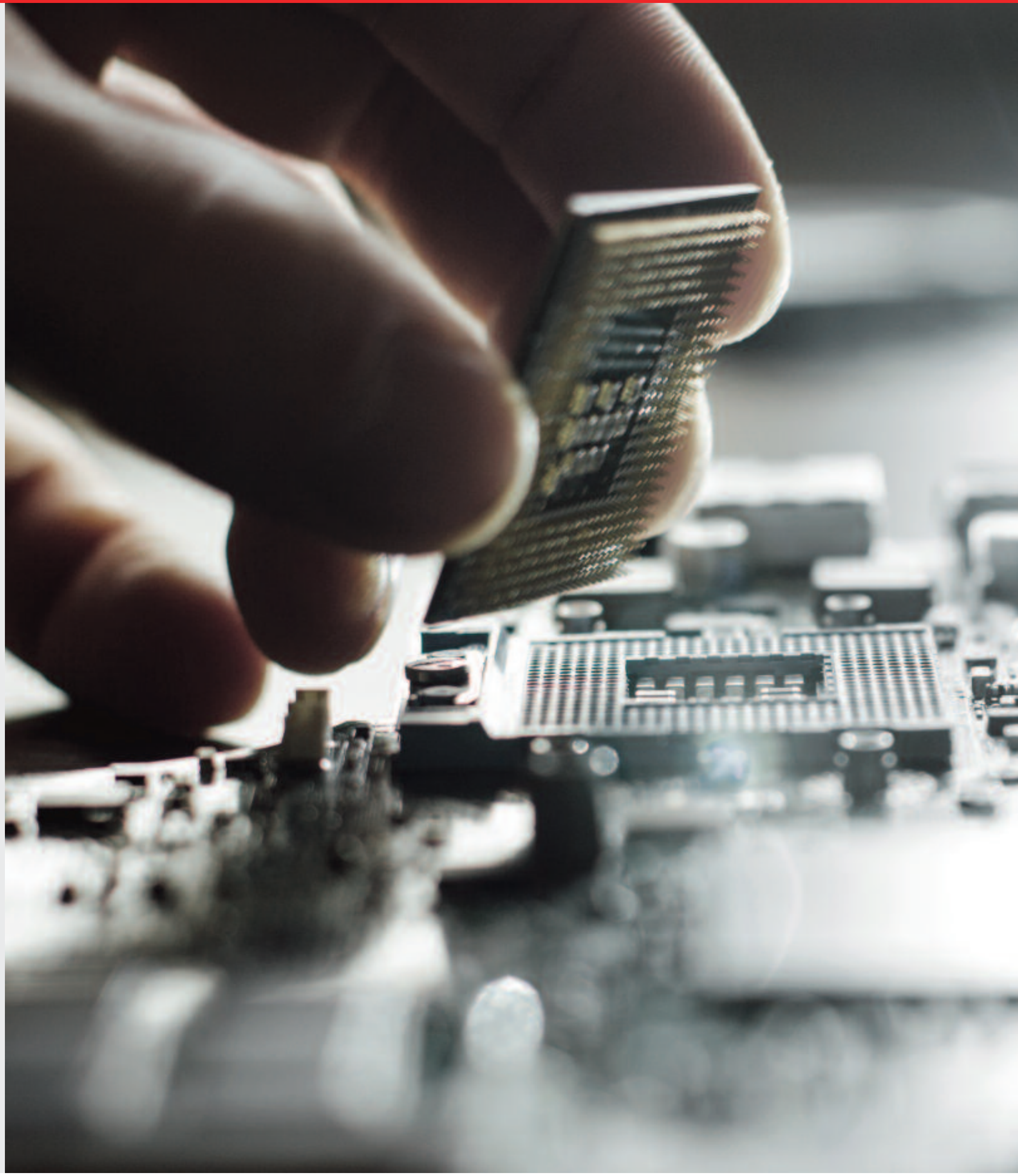
Taiwan: overview of key survey findings by industry

Electronics/ICT

Sales on credit (% of all B2B sales)	61%	(2021: 55%)
Payment term (d=average days)	57d	(2021: 75d)
Payment duration* (d=average days)	93d	(2021: 95d)
Late payment (% of all B2B invoices)	49%	(2021: 42%)
Write offs (% of all B2B invoices)	8%	(2021: 3%)
% of businesses anticipating longer payment duration	58%	(2021: 52%)
% of businesses managing credit risk in-house	44%	(2021: n/d)
Ongoing pandemic: greatest challenge ahead	44% (businesses reporting it)	

* payment term on the invoice plus any delay.



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Taiwan: overview of key survey findings by industry

Machines

Data not available for 2021

Sales on credit (% of all B2B sales)	37%
Payment term (d=average days)	58d
Payment duration* (d=average days)	98d
Late payment (% of all B2B invoices)	49%
Write offs (% of all B2B invoices)	4%
% of businesses anticipating longer payment duration	24%
% of businesses managing credit risk in-house	16%
Shrinking profit margins: greatest challenge ahead	42% (businesses reporting it)

* payment term on the invoice plus any delay.

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Taiwan: overview of key survey findings by industry

Textile/Clothing

Sales on credit (% of all B2B sales)	42%	(2021: 50%)
Payment term (d=average days)	36d	(2021: 65d)
Payment duration* (d=average days)	60d	(2021: 79d)
Late payment (% of all B2B invoices)	64%	(2021: 23%)
Write offs (% of all B2B invoices)	9%	(2021: 4%)
% of businesses anticipating longer payment duration	13%	(2021: 25%)
% of businesses managing credit risk in-house	21%	(2021: n/d)
Ongoing pandemic: greatest challenge ahead	32%	(businesses reporting it)

* payment term on the invoice plus any delay.

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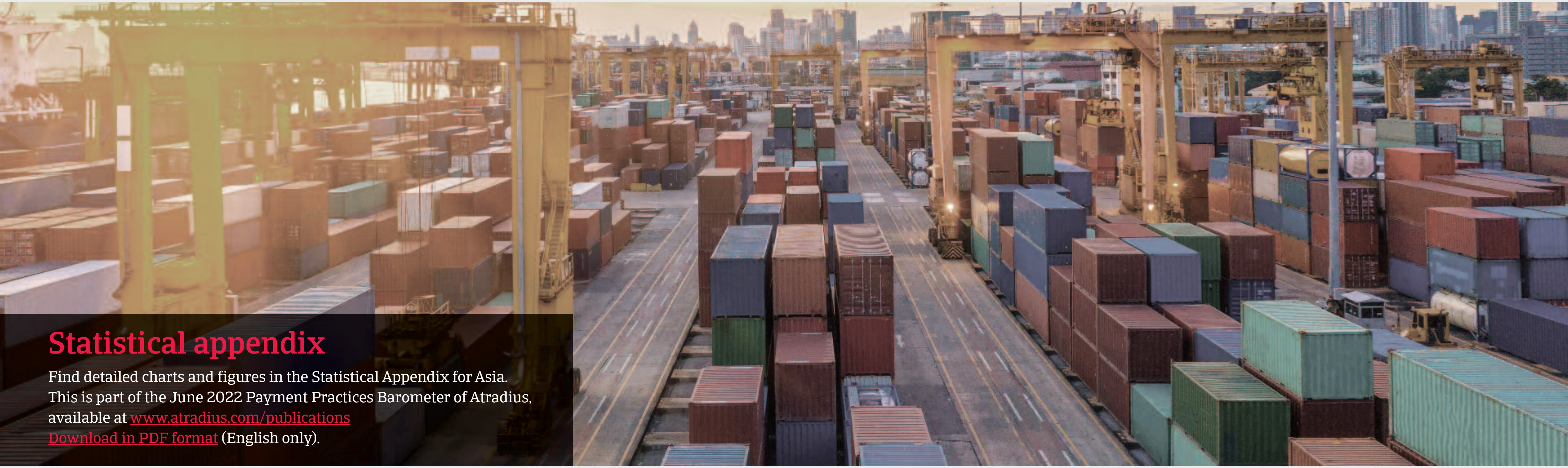
Glossary



Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia.
This is part of the June 2022 Payment Practices Barometer of Atradius, available at www.atradius.com/publications
Download in PDF format (English only).

Payment term (credit period, credit term)

The period after delivery or shipment of goods or after rendering of services at the expiry of which invoices are due to be paid.

Overdue invoice (past due invoice, defaulted invoice)

A customer's obligation that has not been paid by its due date.

Write-offs

Overdue invoices that cannot be collected and therefore are treated as bad debts and written off as uncollectable.

Days Sales Outstanding (DSO)

Average time (days) a company takes to convert its credit sales into cash or cash in the outstanding payments from its customers.

Survey design

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the Atradius Payment Practices Barometer. Taiwan companies are the focus of this report, which forms part of the 2022 edition of the Atradius Payment Practices Barometer. A change in research methodology means year-on-year comparisons are not feasible for some of these survey results. Using a questionnaire, CSA Research conducted 200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** Companies from Taiwan were surveyed, and the appropriate contacts for accounts receivable management were interviewed
- **Sample design:** The Strategic Sampling Plan enables us to perform an analysis of country data crossed by sector and company size. It also allows us 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=200 people were interviewed in total. 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 2022.

Sample overview – Total interviews = 200

Business sector	Interviews	%
Manufacturing	113	56
Wholesale	13	7
Retail trade / Distribution	50	25
Services	24	12
TOTAL	200	100
Business size	**Interviews**	**%**
Micro enterprises	0	0
SME - Small enterprises	46	23
SME - Medium enterprises	80	40
Large enterprises	74	37
TOTAL	200	100
Industry	**Interviews**	**%**
Chemicals	51	26
Electronics/ICT	52	26
Machines	50	25
Textiles/clothing	47	23
TOTAL	200	100

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