

# CHINA:

## Trade Credit Risk Insights

M. Arrighini , E. Mastrogiacomo

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## Customers

52'000 customers

- ✓ 6,000+ employees
- ✓ €800 billion covered transactions
- ✓ 1'700 claims paid per week
- ✓ 20'000 credit limit decisions per day



## Expertise

40+ mio companies in our database

- ✓ Local presence in 50 Countries
- ✓ 245 analyzed Countries
- ✓ 3 offices in CH (Lugano, Zurich, Lausanne)
- ✓ Market leader with 34% World market share
- ✓ 380'000+ Collection Files



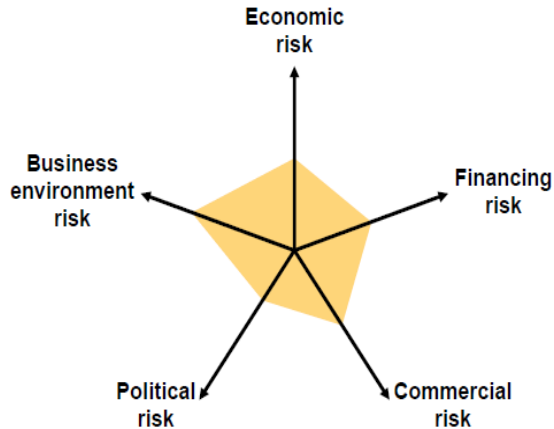
## Solidity

Rating AA di S&P's e Dagong Europe

- ✓ 2017 Group Turnover: €2,567 billions
- ✓ 201t Net Margin: €376,1Mio
- ✓ Allianz Group al 94%

## Country Rating

B2



### INSOLVENCY INDEX

72

2018f

2016, Euler Hermes

### DAYS SALES OUTSTANDING (DAYS)

92

2017

2016, Euler Hermes

### PAST DUES (AVERAGE IN €)

64 687

2017

2016, Euler Hermes

### NON PAYMENTS (AVERAGE IN €)

659 503

2017

2016, Euler Hermes

\* Global Insolvency Index 2018f = 95

## Strengths

- Strong FX reserves and external surpluses
- Large domestic market
- Huge industrial base
- Solid growth prospects
- Low public and external debt
- Improvement in macro-prudential management
- Increasing market orientation

## Weaknesses

- Ageing population
- Difficult business environment, lack of transparency
- High corporate debt
- High inequality, low share of private consumption to GDP regarding the economic performance
- Competitiveness erosion
- Key sectors with overcapacities (steel, e.g.)
- Continued geopolitical tensions with key countries in the region

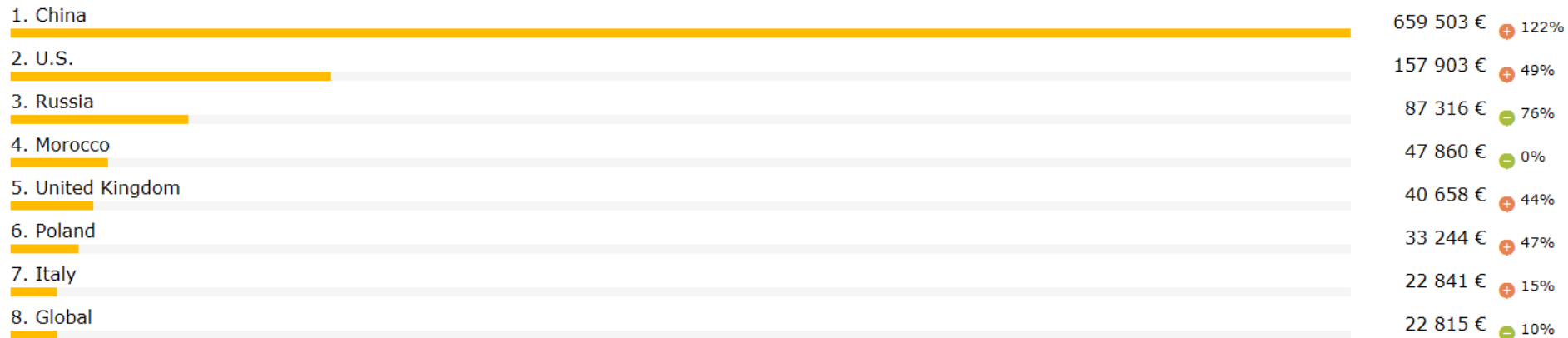
Average past dues amount : A loan payment that has not been made as of its due date.

China in 2<sup>nd</sup> position (-10%)



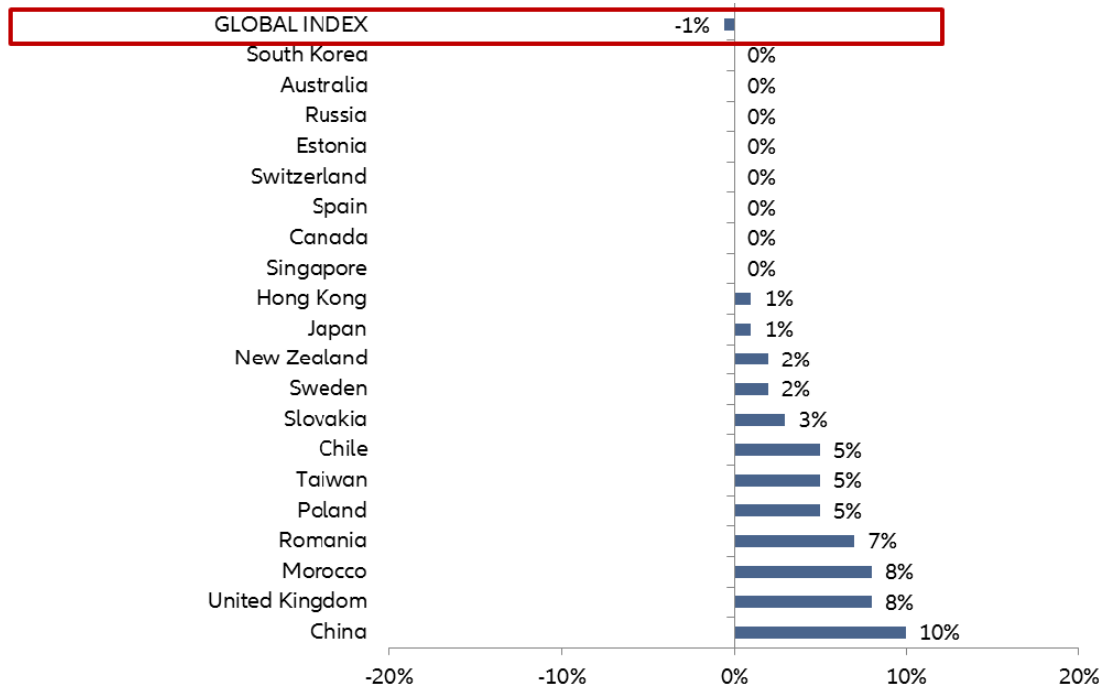
Average non-payment amount : Failure to pay an amount of money that is owed.

China has highest increase +122%



(Insolvency is when a company, business, or individual, cannot meet their financial obligations with lenders when debts become due)

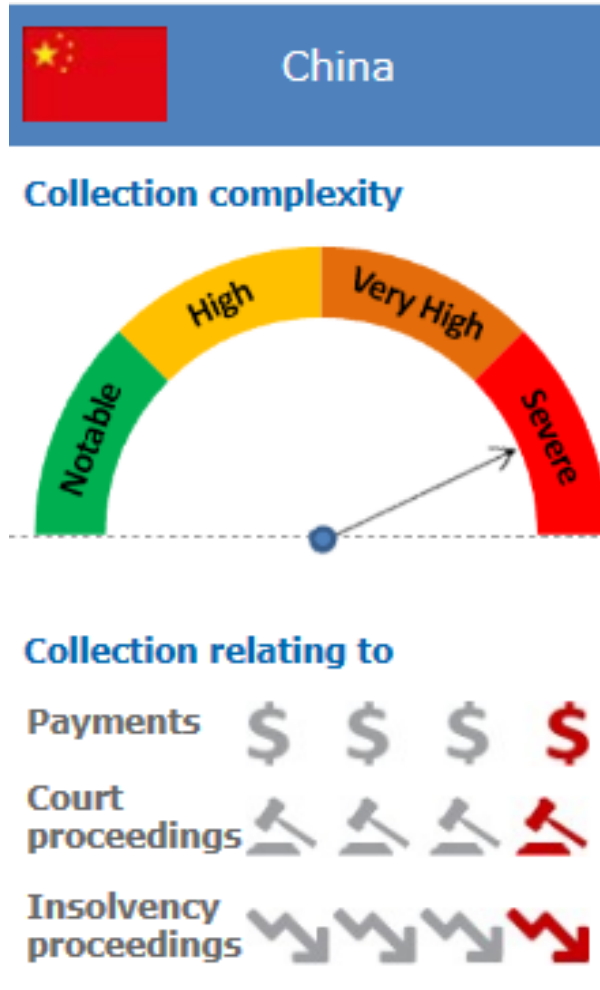
## Insolvencies by country 2018 forecast



Sources: National Statistics, Euler Hermes

Over the full year, we expect bankruptcies to **decrease by -1%**. In 2018, insolvencies will continue to rise in China (+10%) - after a significant pick-up in 2017 (+35%)

# Collecting in China (1)



The court system is complex and suffers from a lack of transparency, delays and high costs.

As enforcement results are poor, amicable or non-litigation collection is the preferred option.

The insolvency framework is complex, with liquidation as the default procedure.

There are no restrictions on business owners starting new businesses after shutting down another without settling debts.

Euler Hermes obtains financial information also from Chinese Credit Research Companies which cross-verify data originating from, among other sources, the State Administration for Industry and Commerce (SAIC).



# Collecting in China (2)

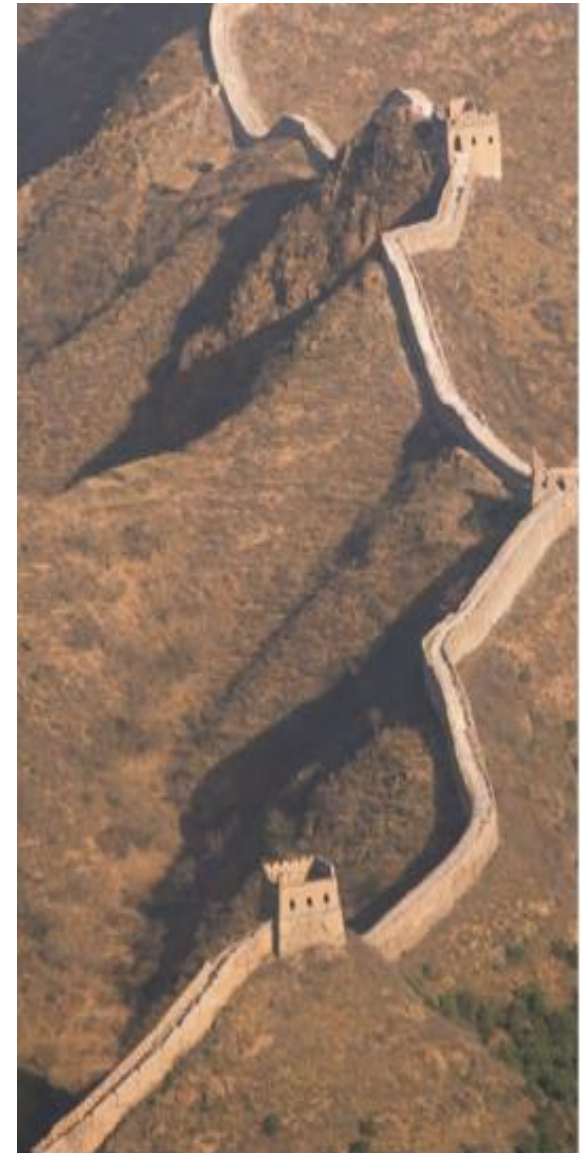
**Amicable action (Negotiating).** The key to amicable collection in China is **expertise in the market** and knowing what can be leveraged to draw the debtor back to negotiation as dunning letters are not very effective.

**Legal action (Ordinary Proceeding).** If the debt is undisputed, it is possible to start a pre-court procedure (law no. 189) requesting a Payment Order from the Basic People's Court. If the debtor brings a counterclaim, **the case must be dealt with through ordinary court proceedings.**

**How much could this cost?** Legal and enforcement costs from 2% to 15% of the claim. Court fees will be charged when filing petition, while the rate is from 2.5% to 0.5%.

**How long could legal action take?** By law, 6 months from the acceptance of the case by the court but in practice, it **can reach two years** or much longer when a foreign party is involved.

**Any alternatives to legal action?** Arbitration increasingly helps to solve disputes but sometimes remains unreliable due to the lack of reliability of some domestic courts. Disputes tend to be resolved through a foreign forum. **Subjecting the contract to Hong Kong law** could therefore seem preferable and also **applying Swiss business law in contracts is sometimes recommended** as it is perceived as being neutral.







# Credit Risk Team Ticino

**Marco Arrighini**  
Senior Sales Manager

**Emanuele Mastrogiacomo**  
Senior Risk Underwriter

 +41.91.922.73.64

 [Info.ch@eulerhermes.com](mailto:Info.ch@eulerhermes.com)