



PRESS RELEASE

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Coface surveys on corporate payment behaviour trends: Open account: India stands out from China

The use of open account payment terms, while relatively unknown ten years ago, has now become common practice in China and India, according to Coface's first comparative survey on corporate payment behaviour trends in the two countries. If the generalisation of the open account is in India a commercial argument in a competitive environment, in China it becomes a necessity in front of the buyers' liquidity problems.

Contractual payment terms are often superseded. Especially in China where the sectors suffering from overcapacities and low added-value industries are still facing financial difficulties.

Open account is better managed in India compared to China

Open account sales are offered by nearly all companies in China and India (65% and 72% respectively). It therefore appears that both countries have adopted the global standards for this. And the trend seems to be becoming more widespread, with the use of open accounts rising by 11 points in China compared with the previous survey results. While in India, one out of three companies interviewed indicates having increased the number of open accounts granted over the last year. This development of open accounts is the result of buyers' liquidity problems in China, whereas in India, it is used to face market competition in a competitive environment. Standard payment terms are longer in China than in India (an average of 60 days compared with 30 days).

However, the use of increasingly longer payment terms raises the question of to what extent payment conditions are under control. Both in India and China almost all the companies questioned are recording overdue payments. In India, invoices are generally being paid within 30 days following the due date; whereas in China, 75% of overdue payments are going over the 30 days after the payment due date.

A more balanced growth in India compared to China

Both countries seem to have succeeded in limiting the impact of the crisis. The growth will remain high in 2009, in China (around 7%). However, major structural changes are being implemented. In order to face the crisis, China focuses on high-level range industries. In some sectors, especially the ones in low value-added industries (textiles, shoes, toys) and the industries suffering from over-capacity (automotive, construction, steel), the number of actors will decrease. These sectors will concentrate most of payment default risks.

The Indian growth is more balanced and improvement signs are already perceptible (Q1 2009 growth of 5.8% vs 5.1% during Q4 2008). The level of overdue payments should remain relatively stable. However, companies are calling for external financing and a prolonged scarcity of the credit on international financial markets could affect them. In case of a new crisis, payment defaults could rise.

In China, most of the companies prefer amicable negotiation to recover. The Indian companies can count on a more reliable business climate and have largely recourse to legal actions to recover.

“This is the 1st edition of our survey on the Indian territory and the 6th for China.” recalls Yves Zlotowski, chief economist of Coface. *“The remarkable resistance of these economies to the crisis regarding growth does not mean there is no payment defaults’ risk, in particular in the Chinese private sector, still under pressure!”*

Methodology:

This comparative survey brings together the results of the sixth annual survey on corporate credit risk management in China conducted by Coface Greater China and the first survey of this kind carried out by Coface India in India.

The two surveys were conducted between September and December 2008 among 556 companies based in mainland China and 694 companies in India.

For China, the interviewed companies are divided up as followed:

- *8% are state owned, 27% are private limited companies, 44% are wholly-owned by foreign businesses, 18% are joint ventures and 2% are collective owned companies.*
- *72 % are in manufacturing, 8 % are in services and 20 % are traders or wholesalers.*

For India, interviewed companies are divided up as followed:

- *48% are private limited companies, 24% are public limited companies, 13% are proprietary concerns and 14% are partnership firms.*
- *70% are in manufacturing, 3 % are in services and 27 % are traders or wholesalers.*

Coface in Asia

Since 1994 Coface has established a network of companies and partners in Asia, today active in 10 countries and organised around 3 regional platforms in Singapore, Hong Kong and Tokyo, with respectively 146, 158 and 65 employees.

With more than 4 500 clients, Coface is leader of Trade Receivables management in Asia and offers credit insurance, factoring, company information and receivables management to its clients.

Since 2003, Coface is the technical partner and reinsurer of Ping An Property & Casualty Insurance in China, for its offer in domestic credit insurance.

Coface established a Liaison office in India in early 2000 which was converted into a subsidiary in February 2001. Coface India has technical partnership agreements with IFFCO-Tokio Marine General Insurance Company and ICICI Lombard General Insurance Company for its offer in domestic and export credit insurance.

About Coface

Coface's mission is to facilitate global business-to-business trade by offering its 130,000 customers four business lines to fully or partly outsource trade relationship management and to finance and protect their receivables: credit insurance, factoring, ratings and business information and receivables management. Thanks to the worldwide local service delivered by 7,000 staff in 65 countries, over 45% of the world's 500 largest corporate groups are already customers of Coface.

Coface is a subsidiary of Natixis whose share capital (Tier 1) was 13.4 billion euros end December 2008.