



Debt Collections in China

World Congress FENCA 2012
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By Julian Chen, Managing Director



Creditreform

CHINA 中国

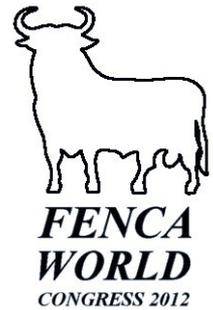
julian.chen@creditreform.cn

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Today's Topics



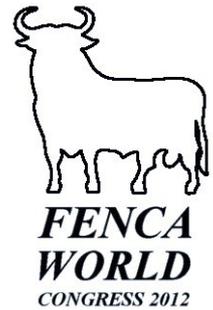
- Current Economy in China
- Credit Environment in China
- China Credit Management Index (CCMI)
- Legal Environment in China
- Business Culture in China
- Collections in China
- Collection Procedures in China
- Misconceptions that Affect Collections
- Creditreform's China Capability
- Collection Difficulty Factors
- Q&A

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Current Economy in China



- China's recent achievements
 - China became the world's largest exporter
 - China become the world's second-largest economy
 - China's fast-growing economy
- China Economic Challenges
 - Change of economic growth mode
 - China's industrial restructuring
 - Research and development
 - Disparity between rich and poor
 - Dilemma of RMB gains
 - Deterioration in the environment
 - Government efficiency issues

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FENCA Credit Environment in China



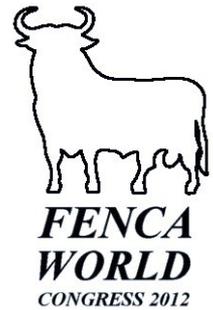
- Incomplete but developing
- Lack of reliable information
- Business decisions are based on trusting relationship
- High company turnover rate
- Most overseas companies deal on L/C basis
- Sales contract often includes arbitration clause
- Payment instruments
- Government making great efforts to build international standard credit information system
- China Credit Management Index

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China Credit Management Index (CCMI)



- Objective
 - Measures company:
 - 1) business development;
 - 2) credit management practices;
 - 3) performance;
 - 4) outsourcing;
 - 5) organizational structure; and
 - 6) management system.
 - Understand company behaviors in credit management based on industry, geography, company size, targets market differences

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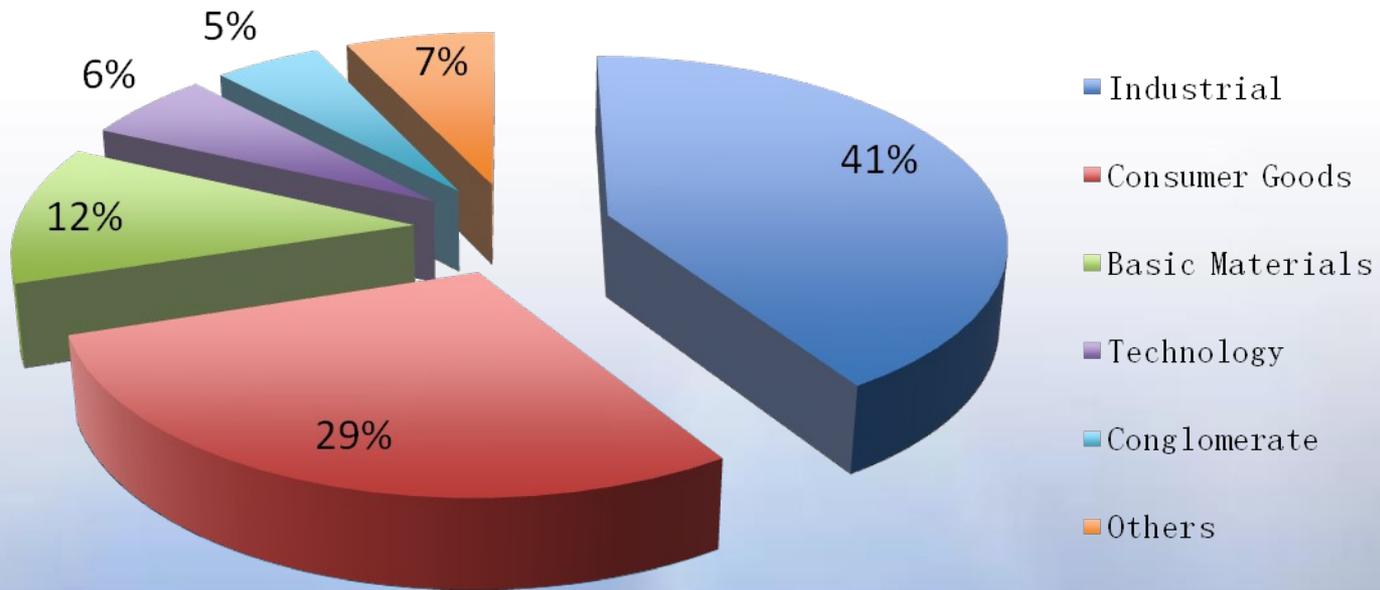




China Credit Management Index (CCMI)



- Objective
- Study
 - Industries Covered

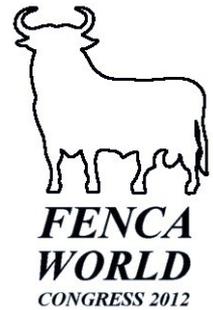


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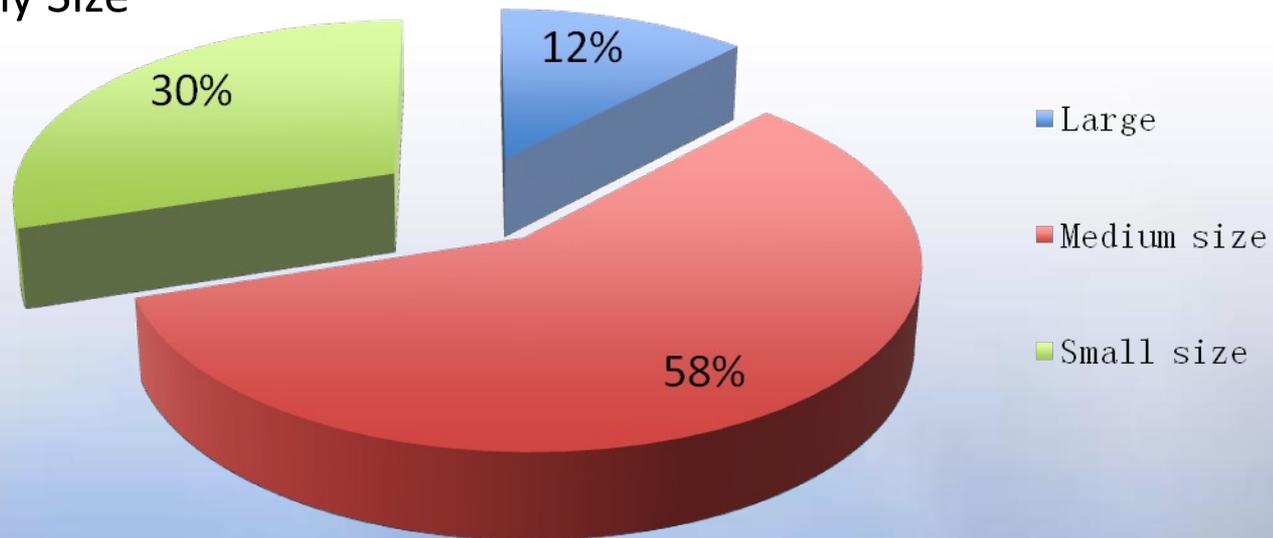




China Credit Management Index (CCMI)



- Objective
- Study
 - Industries Covered
 - Company Size

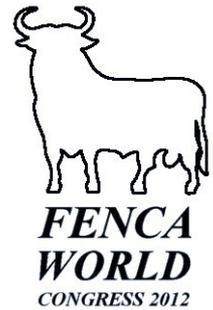


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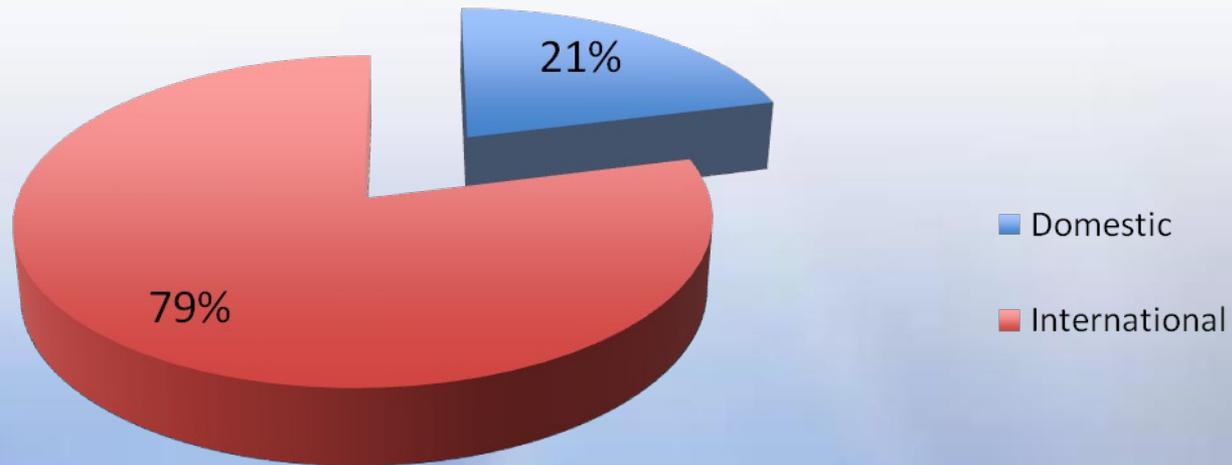




China Credit Management Index (CCMI)



- Objective
- Study
 - Industries Covered
 - Company Size
 - Market Territories



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China Credit Management Index (CCMI)



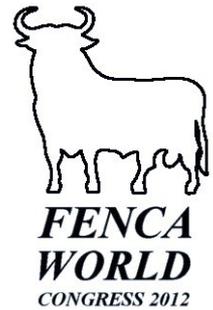
- Credit management department
 - 68 % No credit management dept. but related functions
 - 8 % Have credit management dept. and becoming more important
 - 6 % Have credit management dept. and not very important
 - 19 % No credit management dept. and no related functions
- Credit managers
 - 10% Have credit management dept, with average of 4 people
 - 45% No credit management dept., but have average of 3 people within related functions
 - 41% No credit function

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China Credit Management Index (CCMI)



- Risk mitigation tools
 - 29 % Credit insurance
 - 21 % Factoring
 - 17 % Risk hedging tools
 - 39 % Letter of credit
 - 16 % Guaranty
- Outsourcing
 - 62 % Never
 - 10 % Yes
 - 7 % Plan to use
 - 21 % Don't know

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Legal Environment in China



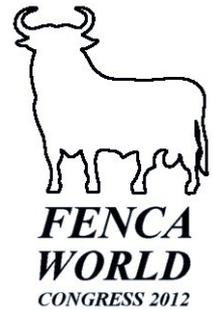
- Legal system relatively efficient
- Post judgment remedy relatively effective
- Arbitration popular alternative dispute resolution mechanism (ADR)
- Local collection agencies prohibited by law
- Quality of professional legal services varies wildly
- Local protectionism exists
- Well prepared documentation critical in terms of collection
- Bankruptcy law for enterprises
- Compliance issue

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Business Culture in China



- Connections
- Culture awareness
- Business behaviour
 - Building up a trusting mutual relationship with suppliers and customers
 - No culture of transparency and no information sharing
 - Carrying debt is a shame, and collecting debt will be labelled with a stigma
 - OPM is a new fashion
 - Collection is about saving face
 - Management: Man vs. Policy
 - Throw the monkey to the decision maker: blind faith/gamble
 - Renegotiation: Trial and Error (After sales “adjustment”)

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Collections in China



- Experience
 - Recoveries are relatively low
 - Claims are old
 - Exporters often do not properly check credentials before extending credit terms
 - Negotiation process is very time consuming
 - Collection results vary by geographic area
 - Many misconceptions
 - Traditional way of managing receivables risk in China is to establish a trusting relationship with your customer on a personal level
 - Cost of managing your A/R is high
 - In-house collections vs. 3rd party collections

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Collections in China



- Experience
- Challenges
 - Costs for internal receivable management and in-house collection are high
 - Amicable collection efforts often result in ineffectiveness
 - Collection agencies are prohibited by law
 - Lack of quality of legal services
 - Chinese lawyers lack consistency and 2 “C”s vary widely
 - Court cost in China seems high
 - Local protectionism exists

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Collection Procedures in China



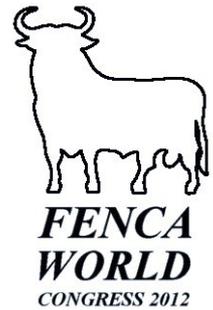
1. Placement of Accounts
2. Processing of Claims
3. Conducting a Due Diligence on the Debtor
4. Collection Action
5. Litigation
6. Civil Process in China
7. Post-Judgment Remedy
8. Recovery
9. Closing Accounts

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Misconceptions that Affect Collections



- Which governing law to choose for contract?
- How to deal with statute of limitation?
- Is litigation a good way to solve debt collections?
- How to choose a right third party to collect our debts?
- Cost of a collection!

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Creditreform's China Capability



- Our organization in China
 - Operation center
 - Bierens law firm
- Our service coverage
 - Service all major economic cities in China
- Our 2C's
 - Long experience in the management of collection matters in China.
 - Extensive knowledge of Chinese law and civil procedure, and as well in international commercial laws
 - Sensitivity towards Chinese culture and practice
 - An effective attorneys network in China
 - Multilingual capability
 - Maintains a team of experts in all areas of credit management
- Our service charges
 - Flat rate based on contingency
 - Attorney collections are included



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Collection Difficulty Factors



| Country | Currency Rating / Trade Payment Risk | Collection Difficulty Factor | Statute of Limitations (Years) |
|------------------|--------------------------------------|------------------------------|--------------------------------|
| United States | A | 3 | 4 |
| China | B | 4 | 2 |
| Hong Kong, China | A | 6 | 6 |
| Chinese Taipei | A | 7 | 15 |
| Japan | A | 7 | 5 |
| Korea | B | 9 | 5 |
| Singapore | A | 4 | 6 |
| Thailand | B | 7 | 2 |
| Malaysia | B | 5 | 6 |
| Indonesia | C | 7 | N/A |
| Philippines | C | 8 | N/A |
| Vietnam | C | 9 | N/A |

Currency Rating: A = Most Not Risky E = Most Risky Source: EIU of "The Economist"

Collection Diff Factor: This appraisal made by 3Acredit's international collection division on a scale of 1 to 10, with 1 being the least difficult.

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Questions & Answers



- Contact: Julian Chen
Managing Director
Creditreform China
- Address: 2nd Floor, Youhao Business Center
433 Chifeng Road, Shanghai 200083
China
- Phone: +86.1364.196.9478
- E-mail: julian.chen@creditreform.cn



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