

SURVEY

Impact of Late Payments on your company

1st September 2023



Context

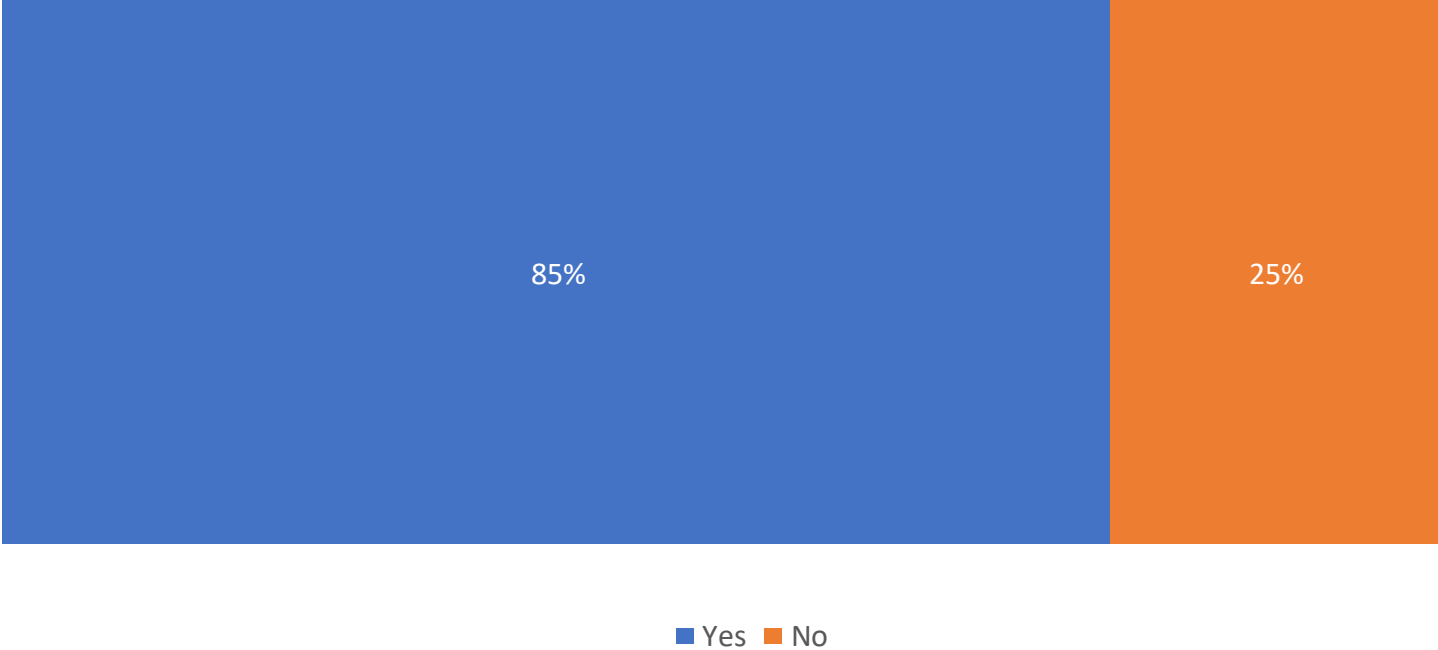
- Revision of the Late Payment Directive 2011/7/EU
- European Commission public consultation launched on 20 January 2023 until 17 March 2023
- The European Commission will set up the "EU Observatory of Payments in Commercial Transactions".
- Lack of figures/statistics in Luxembourg

Survey on Late Payment

- The survey was answered by 255 Luxembourg companies from all economic sectors (except the craft sector).
- The survey contains 13 questions (single-choice and multiple-choice question) and was opened from 15 May 2023 to 21 July 2023.
- The results presented below reflect the responses received from the launching of the survey.

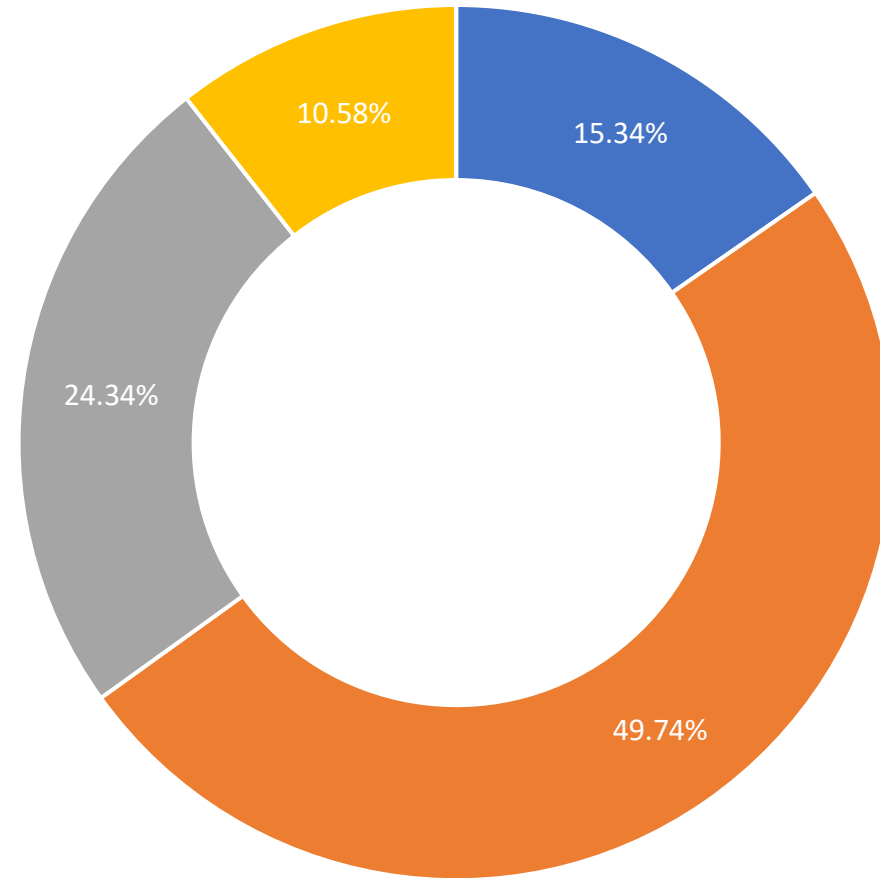
Q1 - Have you experienced late payment and/or excessively long payment periods from a company or public authority?

Over the 255 Luxembourg companies surveyed, 85% had experienced excessively long payment periods from another company or a public authority.



Q2 – If yes, how often?

We note that approx. 65% of the companies that claimed to have been confronted with excessively long payment periods stated that this happened to them on a regular basis or often (more than 10 times a year).

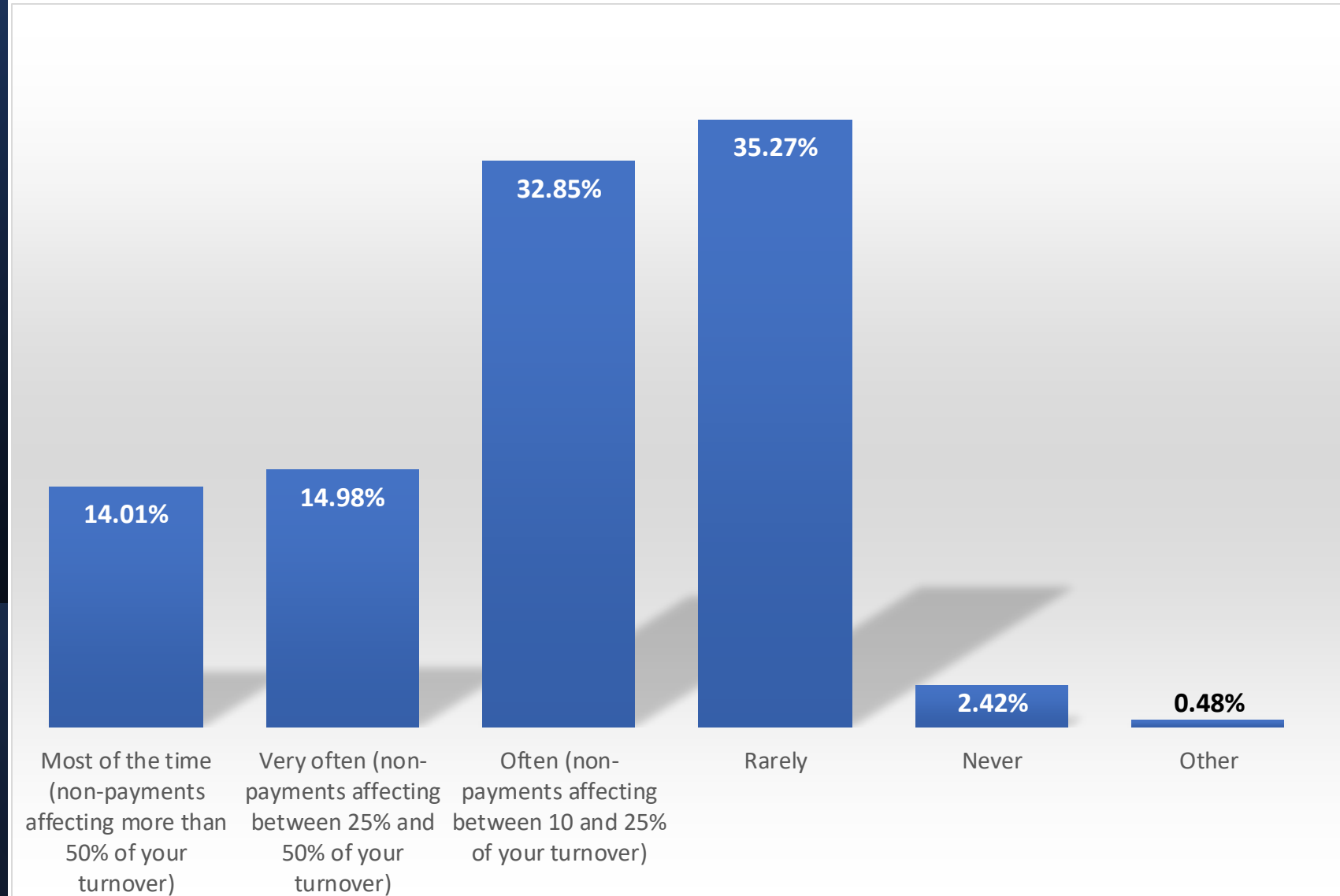


■ Always ■ Often (more than 10 times a year) ■ Sometimes (4-10 times a year) ■ Rarely (1-2 times a year)

Q3 - In **business-to-business** transactions, how often do your clients pay you after the deadline agreed in the contract?

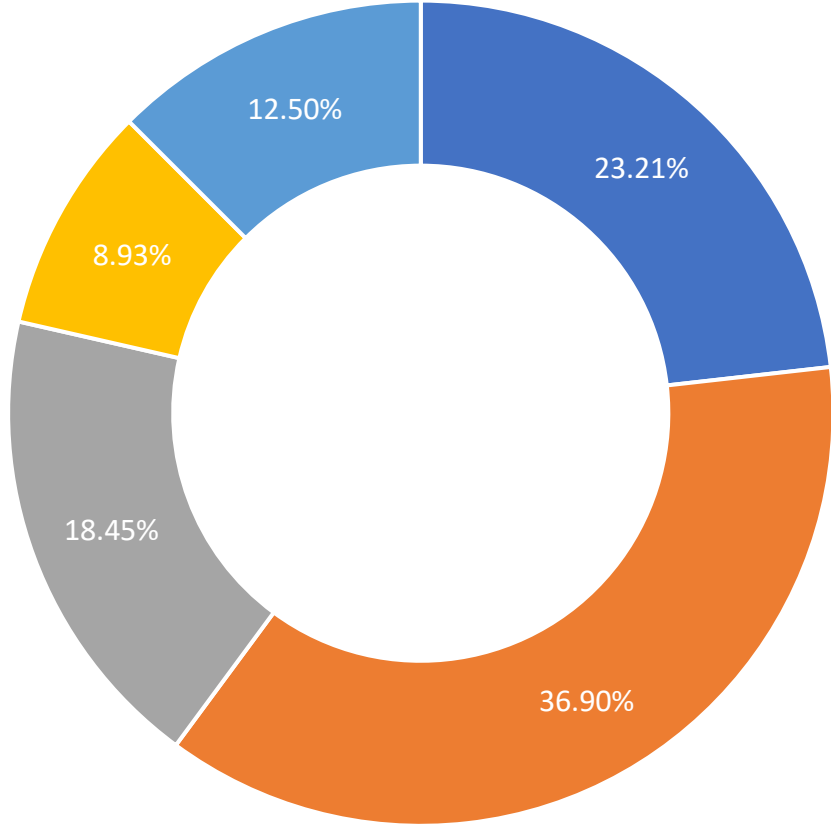
Among business-to-business transactions :

- *Approx. 29% of them state that unpaid bills affect up to 25% of their turnover*
- *32.85% said that overdue payments affected between 10 and 25% of their turnover*
- *Only 2.42% of companies claim that they are never paid after the deadline agreed in the contract.*



Q4 - How often do public entities pay you after the deadline agreed in the contract?

- *Approx. 32% of companies surveyed believe that late payments by public authorities are often and affect up to 25% of their turnover*



- Never
- Rarely (non-payments affecting up to 10% of your turnover)
- Often (non-payments affecting between 10 and 25% of your turnover)
- Very often (non-payments affecting between 25% and 50% of your turnover)
- Most of the time (non-payments affecting more than 50% of your turnover)

Q5 - To your knowledge, what are the reasons for late payment? (Multiple choice)

Main reasons:

Late payment is a form of zero-cost financing for the debtor. (44.79%)

Lack of liquidity to pay own suppliers. (45.31%)

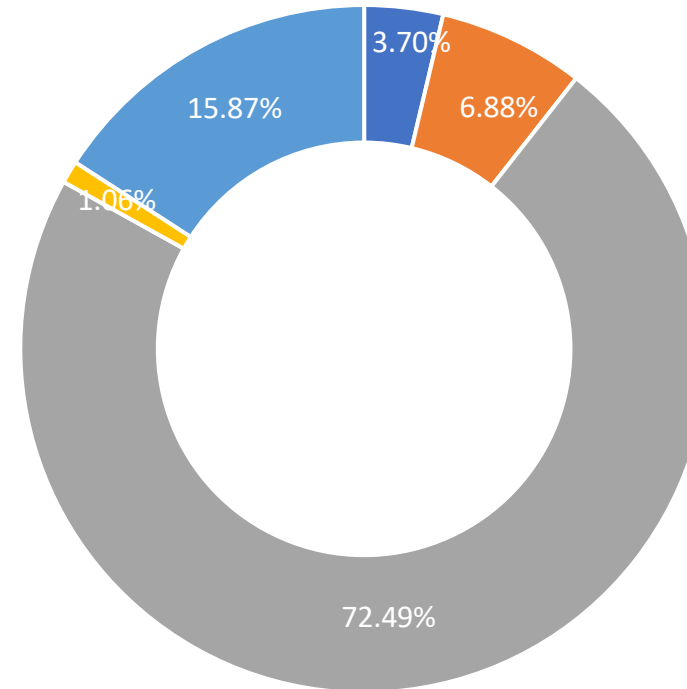
Late payment is a vicious circle (a company is paid late and ends up paying late in turn). (46.35%)

Small businesses have to accept the conditions set by the bigger players if they don't want to lose their customers. (46.88%)

#	To your knowledge, what are the reasons for late payment? (Multiple choice)	Percentage
1	Late payment is a form of zero-cost financing for the debtor.	44.79%
2	Lack of liquidity to pay own suppliers.	45.31%
3	Payment on time is not encouraged/rewarded.	16.67%
4	Late payment is a vicious circle (a company is paid late and ends up paying late in turn).	46.35%
5	Companies are not aware of the specific rules relating to payments.	6.77%
6	The existing rules are unclear (Law of 18 April 2004 on payment periods and late payment interest, as amended).	11.46%
7	The existing rules are not properly applied.	22.40%
8	Small businesses have to accept the conditions set by the bigger players if they are not to lose their customers.	46.88%
9	Lack of access to financial training/credit management tools	4.17%
10	Lack of access to information on customer payment discipline (e.g. credit checks).	8,85%
11	Other	16.15%
12	I don't know	3,13%

Q6 - What are the reasons why you accept longer payment terms?

More than 72% of companies surveyed believe that the reason they accept longer payment terms is to retain a customer and/or preserve their market position in increasing competition context.

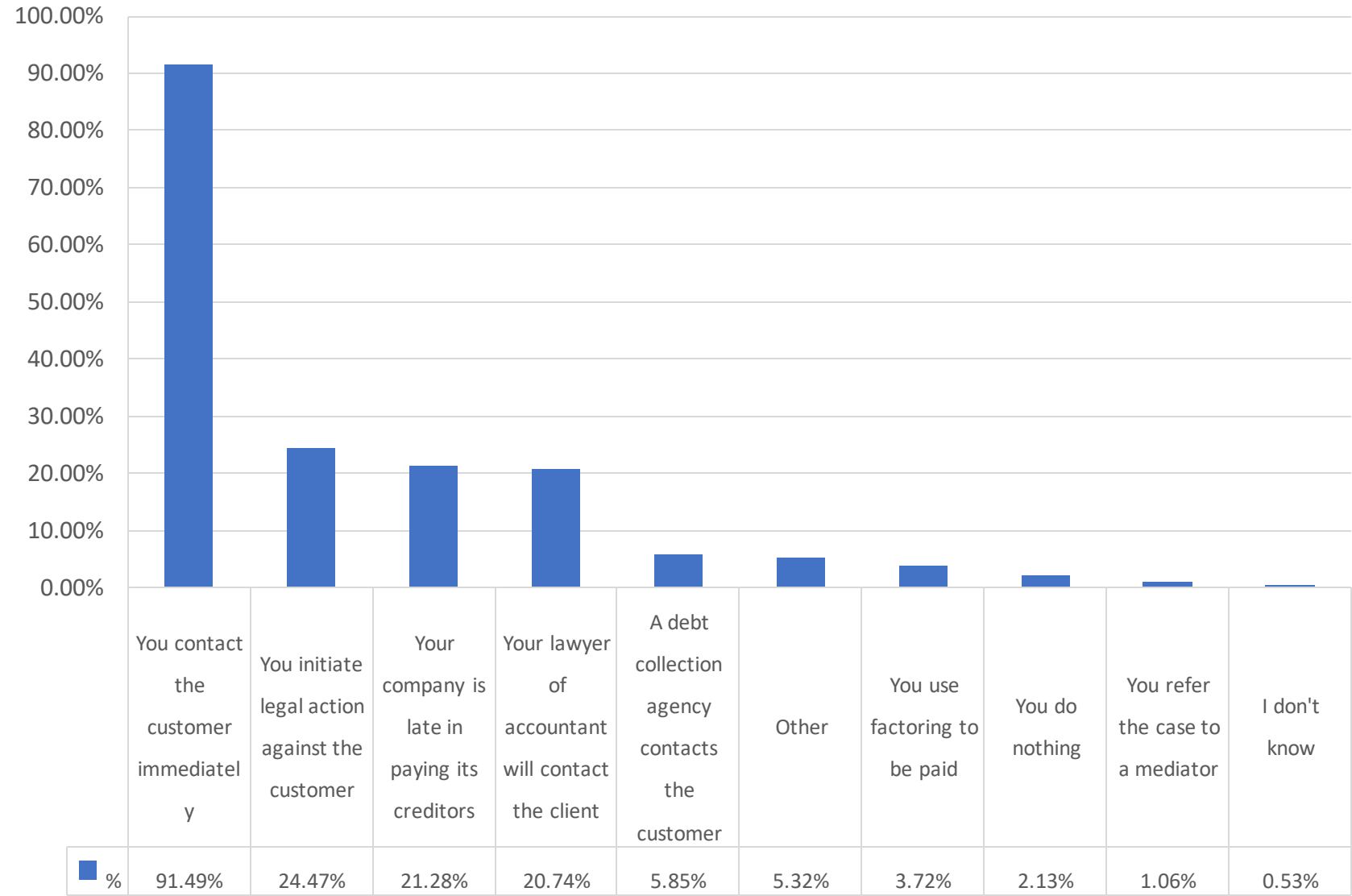


- Attract new customers and/or enter new markets
- To secure larger orders
- Retain a customer and/or preserve your market position against increasing competition
- I don't know
- Other

Q7 - What do you do if you are not paid according to the terms of the contract? (Multiple answers)

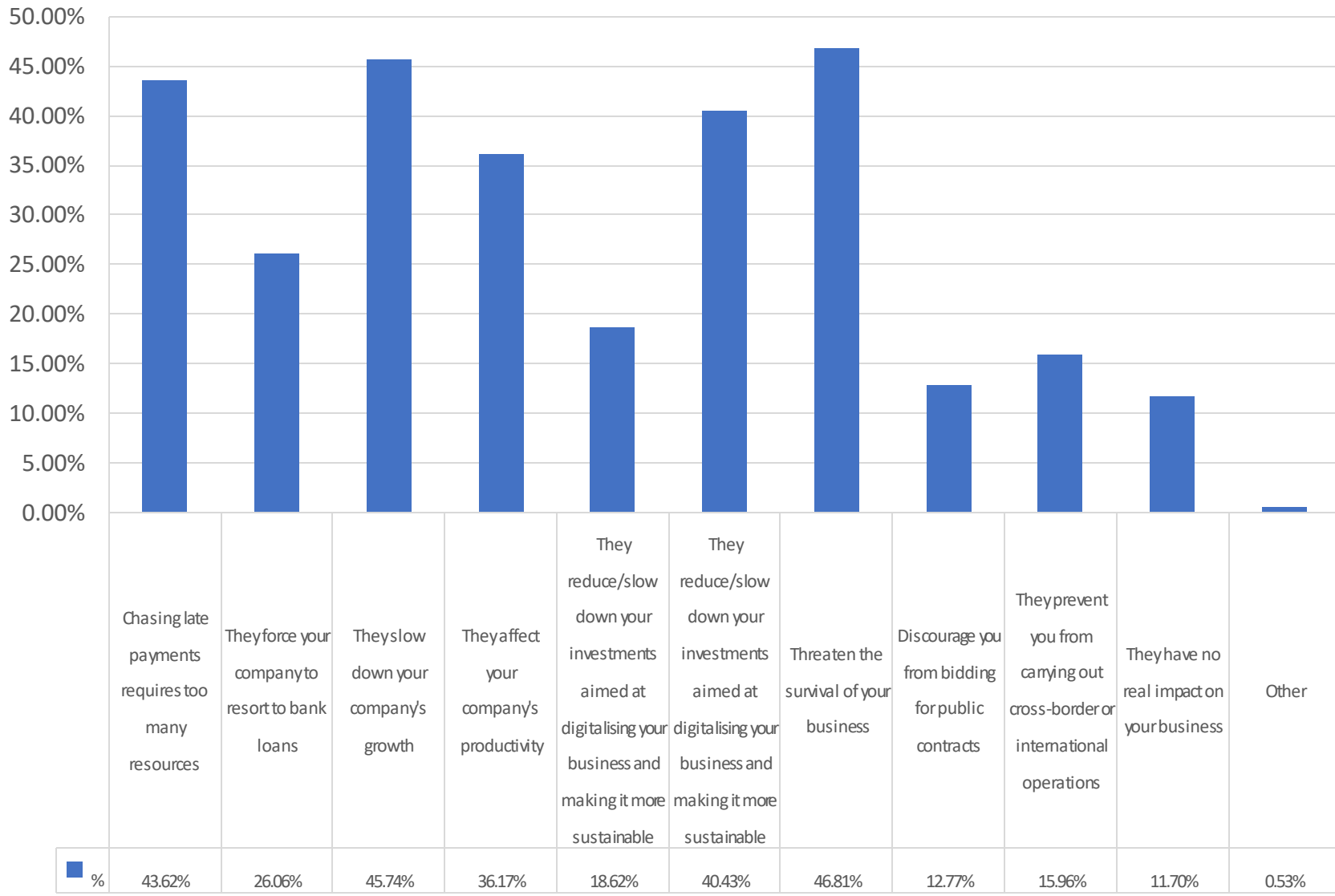
Main actions engaged by companies in case of late payment:

- 91.49% of companies contact the customer immediately
- 24.47% of companies surveyed take legal action against the customer
- 21.28% of companies surveyed pay their creditors late



Q8 - What **incident(s)** do late payments have on your business? (Multiple answers)

- 46.81% believe that late payments threaten the survival of their business
- 45.74% believe that late payment hinders the growth of their business
- 43.62% of companies surveyed believe that it takes too many resources to collect late payments
- 40.43% of companies surveyed believe that late payments reduce/slow down their overall investment



Q9 - Do you claim **interest** for late payment?

- 50% of companies surveyed never claim late interest
- 38% of companies rarely claim late interest
- Only 3.72% of companies claim late interest

#	Are you claiming interest for late payment?	Percentage
1	Never	50.00%
2	Rarely	38.30%
3	Often	3.72%
4	Very often	1.06%
5	Always	3.72%
6	Other	3.19%

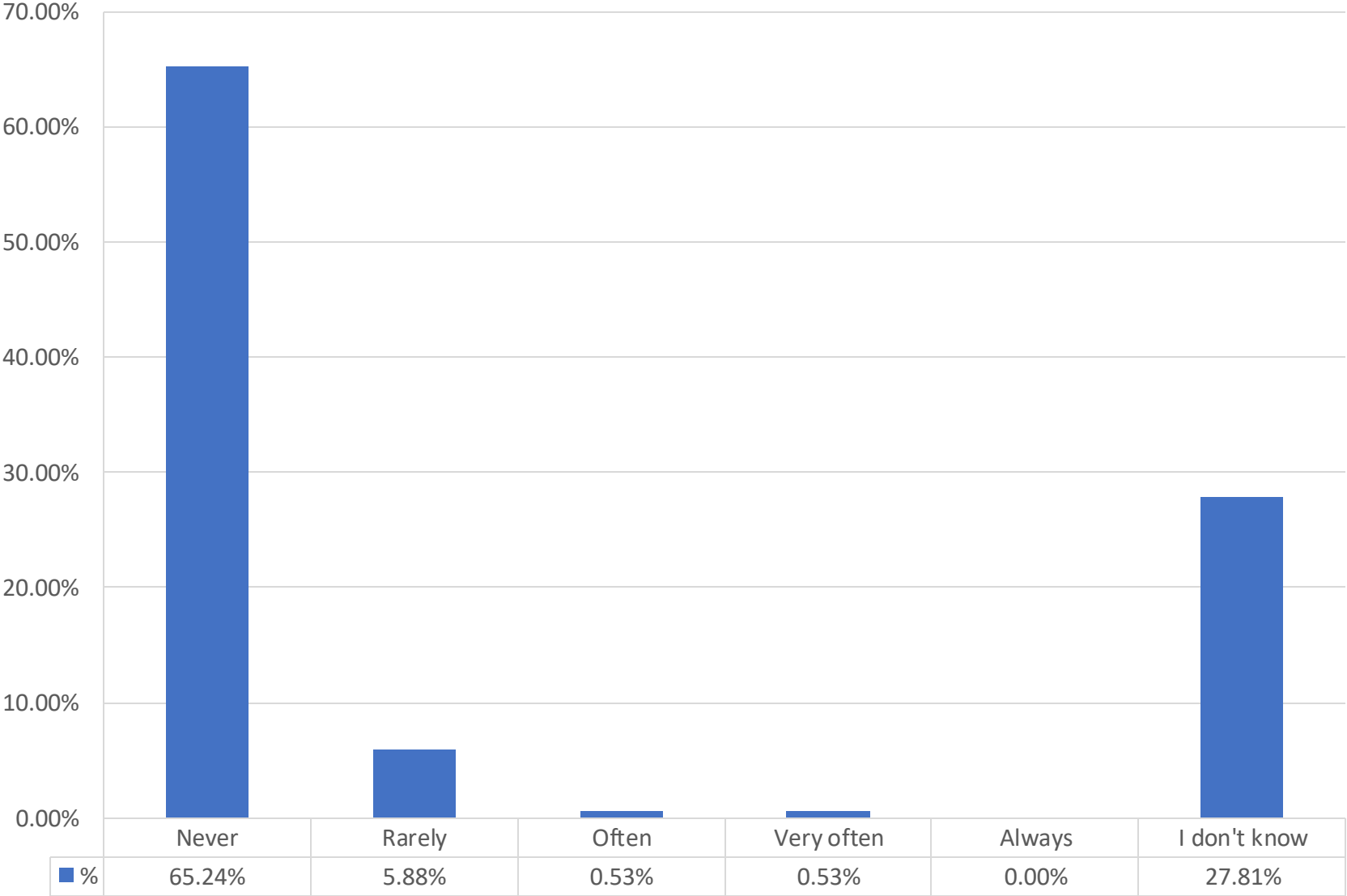
Q10 - Directive 2011/7/EU and the law of 18 April 2004 on payment periods and interest on arrears, as amended, give creditors the right, when they are paid late, to claim **flat-rate compensation** of EUR 40 per invoice for recovery costs, in addition to late interest. Do you claim this flat-rate compensation when you are paid late?

- 70% of companies surveyed never claim the flat-fee compensation for late payment

#	Q10 - Directive 2011/7/EU and the law of 18 April 2004 on payment periods and interest on arrears, as amended, give creditors the right, when they are paid late, to claim flat-rate compensation of EUR 40 per invoice for recovery costs, in addition to late interest. Do you claim this flat-rate compensation when you are paid late?	Percentage
1	Never	70.74%
2	Rarely	18.62%
3	Often	3.72%
4	Very often	1.60%
5	Always	2.66%
6	Other	2.66%

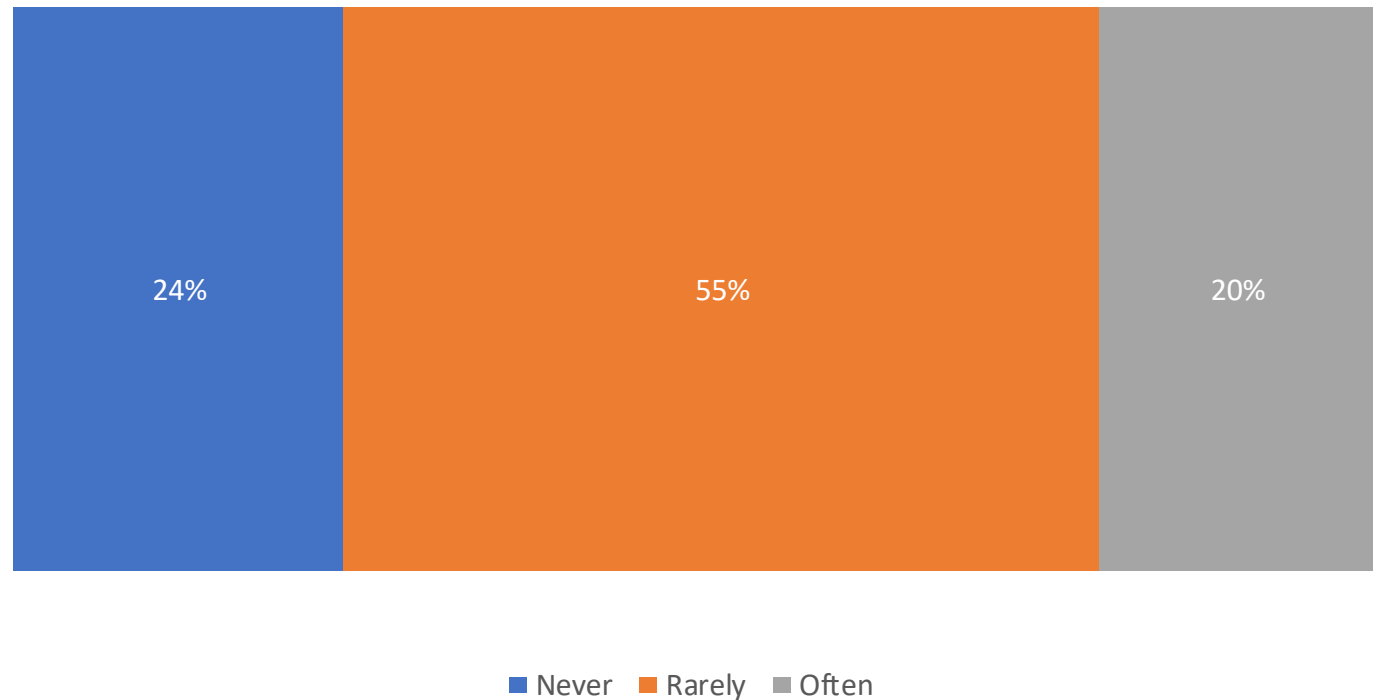
Q11 - When the **public authorities** pay you late, do you receive automatically payment of late interest and **flat-fee compensation** of EUR 40 (i.e. without having to claim them)?

65% of companies surveyed stated that they never receive payment of late interest and compensation



Q12 - Have you ever had a **dispute** with another company (customer/public authority) due to late payment?

55% of companies surveyed believe that they "Rarely" have a dispute with another company (customer/public authority) due to late payment.



Conclusion

Late payments represent a pervasive issue impacting a substantial majority of Luxembourg-based enterprises. This issue goes beyond business-to-business (B2B) transactions and extends to interactions with the public sector.

The primary motivation behind enterprises' willingness to accept late payment lies in their commitment to customer retention and the safeguarding of their competitive positioning in the market. As such, maintaining good commercial relationship is an imperative cornerstone for corporate success.

Late payments do not only threaten the business continuity but also jeopardize the prospective growth of the companies business and their overall investments.

While the Luxembourg law of 18 April 2004, transposing the existing Directive 2011/7/EU give creditors the right, to apply late interest on their invoices and request a flat-fee compensation, in practice, companies very often choose not to exercise such rights.