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R3

Corporate insolvencies likely to rise in 2014, say insolvency practitioners

- Wholesale and retail sector predicted to be hardest hit
- Increase in insolvencies evidence of strengthening economic recovery

Over half (56%) of R3 members who work on corporate insolvency believe the number of corporate insolvencies will increase over the next 12 months, says R3, the insolvency trade body. The prediction ties in with the latest insolvency statistics released this week which showed an increase in corporate insolvencies in the first three months of the year compared with the previous quarter and also compared with the same period the previous year.

Corporate insolvencies have historically peaked during the early stages of an economic recovery. Insolvencies last peaked during the 2008-9 recession before falling away again as the recovery failed to gain ground.

William Ballmann, chair of insolvency trade body R3 in Yorkshire and partner at national law firm Gateley LLP, says: "Sustained economic recovery is very welcome, but many businesses are not out of the woods yet. The early stages of a recovery can be even more difficult for a business to negotiate than a recession.

"As the economy starts to pick up, businesses are exposed to new stresses and strains: cash reserves, exhausted by a recession, begin to run out; creditors can become less patient; businesses can grow

faster than cash flow or supply chains can cope with; and the consequences of failing to invest during a recession can be felt.

"A rise in corporate insolvencies could be seen as confirmation that economic recovery is really underway at last."

Mr Ballmann adds: "It's important to remember though that insolvency is not always the end of the road for businesses: it can provide an opportunity to rescue parts of the business and so save jobs."

Sixty-eight per cent of corporate insolvency practitioners say that the wholesale and retail sector is in their top three sectors that could be hardest hit by insolvencies during 2014, followed by hotels and restaurants (57%), construction (47%), manufacturing (26%), and transport and haulage (23%).

Corporate insolvencies have been much lower than expected since the recession thanks to low interest rates, the failure of the recovery to gain momentum quickly, and unusual levels of creditor forbearance.

Mr Ballmann says: "Many businesses that would have become insolvent in a 'typical' recovery have been kept afloat by an unusual set of circumstances. Some of these businesses will have taken advantage of these circumstances to sort themselves out financially, but others are still vulnerable.

"The delayed recovery means there probably won't be as big of an increase in corporate insolvencies in this recovery as there usually is, but we are likely to see some sort of rise. A rise in interest rates before the end of the year would also almost certainly have an impact on insolvency numbers."

November 2013 R3 research found that 166,000 businesses were negotiating payment terms with their creditors, 103,000 businesses were only paying the interest, and 96,000 said an interest rate rise would mean they would be unable to pay their debts.

In 2012, the insolvency profession helped rescue approximately 6,000 businesses and helped save an estimated 761,000 jobs (R3/ComRes research).

It was announced on 29 April that there had been an increase in corporate insolvencies with statistics for January to March 2014 showing that the number of company liquidations rose by 4.8% compared with October to December 2013, and by 4.9% compared with January to March 2013.

Ends

Photo shows: William Ballmann, chair of insolvency trade body R3 in Yorkshire and partner at national law firm Gateley LLP

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Notes to editors (R3):

- R3 is the trade body for Insolvency Professionals, and represents 97% of the UK's Insolvency Practitioners.

- R3 comments on a wide variety of personal and corporate insolvency issues. Contact the press office, or see www.r3.org.uk for further information.
- R3 promotes best practice for professionals working with financially troubled individuals and businesses; all R3 members are regulated by one of nine recognised professional bodies.
- R3 stands for 'Rescue, Recovery, and Renewal' and is also known as the Association of Business Recovery Professionals.
- ComRes interviewed 293 R3 members online between 9th December 2013 and 17th January 2014. 275 of those surveyed work on corporate insolvency. ComRes is a member of the British Polling Council and abides by its rules (www.britishpollingcouncil.org). This commits us to the highest standards of transparency.
- Data tables are available on the ComRes website, www.comres.co.uk