Date: 01 February 2013

R3 comments on Q4 Insolvency Service Statistics

Personal Insolvency levels fall

Robert Adamson, chair of R3 in Yorkshire and northern head of restructuring services for Mazars, comments:

"Total individual insolvencies in 2012 are down 8% from 2011 figures, while bankruptcy orders have fallen 24% year on year which is encouraging, however, this should not be taken as an indication that people are prosperous and financially secure. There remains a vast majority of individuals who are still struggling with their personal finances. This is evidenced by consumer spending falling as people continue to prioritize paying down their debt.

"Individuals typically petition for bankruptcy because of credit card and bank debt that they cannot repay however in recent times we have seen more manageable repayment plans put in place by lenders. This has allowed indebted individuals to pay off their debts over a longer period of time instead of entering formal insolvency. If lenders were to become more aggressive in their pursuit of debts owed it is likely that we will see more individuals becoming insolvent.

"Stagnating wages and rising living costs continue to push household budgets to breaking point, causing debt concern to be rife amongst the UK population. R3 research shows that six in ten (59%) worry about their current levels of debt, while nearly half of the British population (47%) struggle to make it to payday each month, with rising food and fuel costs being the main reasons behind their struggle. Of those who struggle to payday, 67 per cent blame rising food costs while 58 per cent blame rising fuel costs for this.

"In addition, many other people, outside of these official figures, are likely to be in an informal insolvency procedure such a debt management plan or have resorted to taking out a payday loan to make ends meet. R3's research has revealed 5 million adults say they are likely to seek a payday loan in the next six months; an increase on 3.5 million adults at the end of 2011."

Decreasing levels of corporate insolvency

"Following the shrinking economic output in the latest GDP figures, and fears of a triple dip recession, today's drop in corporate insolvencies is a welcome sign. Year on year, the total number of Company Liquidations in 2012 has fallen 4% from 2011, and administrations are down 12%. Corporate insolvency rates remain historically low, especially when contrasted with previous recessions.

"However, these figures do not take into account the size and impact of the businesses that fall into insolvency. In 2012 we saw some high profile retail casualties including Comet, La Senza, Game and Clinton Cards. The biggest 12 retail insolvencies accounted for over 1,700 store closures and 26,500 jobs. That is over a fifth of the total redundancies resulting from insolvency in a year.

"R3 research shows there are now 160,000 zombie businesses in the UK, that is businesses only able to pay the interest on their debt but not the debt itself. Zombie businesses have remained in distress for some time, they are unable to invest or expand, but are nonetheless being kept alive by lenient creditors and low interest rates. Whilst low insolvency rates are good for employment, this stagnation does tie up capital that could be used for other, healthier businesses. We may need to have an honest and realistic assessment of when resuscitation of zombies is impossible, and take action accordingly if we are going to secure long-term growth."

- Ends –

Photo shows: Robert Adamson, chair of R3 in Yorkshire and northern head of restructuring services for Mazars.

Notes to editors:

- R3 is the trade body for Insolvency Professionals, and is made up of 97% of the UK's Insolvency Practitioners.
- 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. Website www.r3.org.uk

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