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R3

Q1 2017 insolvency statistics – R3 comments

Commenting on the Q1 2017 England & Wales insolvency statistics (published this morning by the Insolvency Service), Adrian Berry, chair of R3 in Yorkshire and restructuring partner at Deloitte LLP, says:

Corporate insolvencies

- Corporate insolvency numbers are not easily comparable to Q4 2016: insolvency numbers in that quarter were distorted by 1,796 connected companies entering insolvency procedures at the same time.
- Excluding these companies, corporate insolvencies rose 4.5% from Q4 2016 to Q1 2017 and are 5.3% higher than this time last year.

“Having been flat last year and having fallen slowly from a post-financial crisis peak before that, corporate insolvency numbers are starting to move up again.

“Low interest rates, creditor forbearance, and a growing economy mean insolvency numbers are still close to record lows but the past year and a bit has been much more challenging for businesses.

“The pound’s fall in value since last year’s referendum will have hurt importers, while many of the currency hedges that protected larger companies in the immediate aftermath of the referendum will have begun to unwind at the start of the year.

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Tel: 01423 569 999
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“Other challenges include the introduction of the National Living Wage and the rollout of pension auto-enrolment to smaller firms. More obstacles lie in wait, too. The rates changes – despite some last minute alterations – could hurt businesses in London and the South East, for example.

“It’s worth noting, however, that insolvencies usually rise in the first three months of the calendar year as many companies come to the end of their financial year and have to make some difficult decisions.

“Insolvency numbers should be watched closely over the next year to see whether recent rises are just a blip or the start of a new upwards trend.”

Personal Insolvencies

- Personal insolvencies rose 6.7% from Q4 2016 to Q1 2017 and are 15.7% higher than this time last year.

“The personal insolvency increase has been driven by further rises in Individual Voluntary Arrangement numbers – which is more of an indication of easier access to IVAs than increasing financial problems – but it’s notable that bankruptcies have begun ticking up a little.

“Rising bankruptcies are perhaps a better indicator of worsening debt problems as access is less flexible – although the introduction of an online application process in April 2016 has made things simpler for people in debt. Bankruptcies are often triggered by someone’s own company failing, over-spending, job loss, or wage reductions, or relationship breakdowns.

“Although borrowing rates remain at record lows, rising inflation and slowing real wage growth will be limiting people’s financial room for manoeuvre.

“Compared to where insolvency numbers were a few years ago, personal insolvency rates are still low and the recent bankruptcy rises have been very small. However, a continued gradual upwards shift may be a sign that the post-recession return of high levels of consumer borrowing and spending is starting to reach its limits.

“The increase in IVA numbers is harder to assess. It may be down to increased insolvencies but it is just as likely to be because IVA providers have made it easier for insolvent individuals to set up an IVA, or because people have been switching from a non-statutory debt management plan to the statutory insolvency regime.

“It should be remembered that the statutory insolvency numbers do not give the full picture of personal insolvency in England & Wales. There are potentially hundreds of thousands of people in non-statutory debt management plans, but unfortunately, there are no official statistics on these. Better information would give us a better understanding of the personal insolvency landscape. A register of debt management plans would be a good step forward.”