View from the UK: An upward trend?

Colin Haig, Immediate Past President of R3, the insolvency and restructuring trade body, looks at insolvency trends in England and Wales

Insolvencies in England and Wales are on the rise according to the Insolvency Service. Numbers are surpassing pre-pandemic levels after two years in which they did not reflect the scale of the challenges faced by businesses, individuals and the economy following the pandemic.

The data from the Insolvency Service shows corporate insolvencies were 112% higher in Q1 of this year (4,869) than in Q1 2021 (2,309) and 17.1% higher than in Q1 2019 (4,182).

The main driver of the increase is a rise in Company Voluntary Liquidations – with Q1's figures the highest seen since the records first began in 1960 – while Q1 of this year also saw compulsory liquidation numbers increase, although this increase was not to pre-pandemic levels. Meanwhile, administration numbers have also risen back to 2020 levels over the last quarter, but are still nowhere near what they were before the pandemic.

A multitude of factors

What is behind this increase? Well, it is fair to say the business climate is a challenging one right now. After two years of trading through a pandemic, firms are now having to deal with the sharp rise in the costs of fuel and energy – as well as staff requests for wage increases. The main driver of these requests for increased pay is the surge in inflation, which has happened at a point where many were hoping for a return to pre-pandemic levels of trading. As a result, the spending boom many were hoping for has not happened and businesses are facing increased costs as well as flatlining revenue.

It is also worth noting that the last of the Government's COVID-19 support measures ended before Christmas. Although these have played a critical part in supporting businesses through the economic effects of the pandemic, they could not remain in place indefinitely. With the final remaining measures ending, businesses are finding themselves under increased pressure to pay creditors, staff and suppliers at a time when revenue levels have yet to recover from the pandemic.

Personal insolvencies: A pre-pandemic state

Personal insolvency numbers for the first four months of this year are nearly as high as they were at the start of 2019. A closer look at the data shows that, while overall process numbers are back to 2019 levels, the balance of personal insolvency processes has changed. Bankruptcy numbers are now significantly lower than before COVID-19 and from the peak of the pandemic, while Debt Relief Order (DRO) numbers are also lower than in April 2019, but have increased compared to 2021's figures.

The main reason for this year-on-year increase in DROs is the changes to the eligibility criteria which were introduced in June 2021. It was predicted numbers would rise in the latter half of last year because of this change, but the increase appears to be continuing into this year as well. What is driving the personal insolvency increase? Well, much like with corporate insolvencies, a combination of the economic aftereffects of the pandemic and the increased cost of living is the main reason behind the rise in numbers. As prices have increased, wages have not kept pace with inflation, which has meant there are a large number of people who are struggling to cover their outgoings and worried about their personal finances and whether they will have enough money every month.

A trend or a spike?

Around 6,000 fewer companies and more than 15,000 fewer individuals have entered an insolvency process over the last two years compared to 2018 and 2019. This suggests there are potentially a number of insolvency cases that would have happened but for the Government's support measures. As a result, it is likely we will see insolvency numbers increase in the short to medium term, but when this will be – and whether it will be a sharp rise or a slower one – is harder to call.

As inflation continues to rise, the next Quarter Day draws closer, and if consumers remain reluctant to spend, there is a high probability the next six months will be busy ones for the profession – especially if those who are suffering from financial distress make a sensible choice and seek advice before they become insolvent. ■

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