December update

Insolvency Market Trends

The latest insolvency market trends, data and insight brought to you by TDX Group

Review of 2017

New personal insolvencies have risen significantly

As forecast by TDX Group at the start of 2017, personal insolvencies grew significantly in 2017. With full year numbers still to be confirmed new Individual Voluntary Arrangements (IVAs) and Trust Deeds (TDs) in 2017 are on track to be almost 30% higher than 2016.

We continue to see the drivers for growth as:

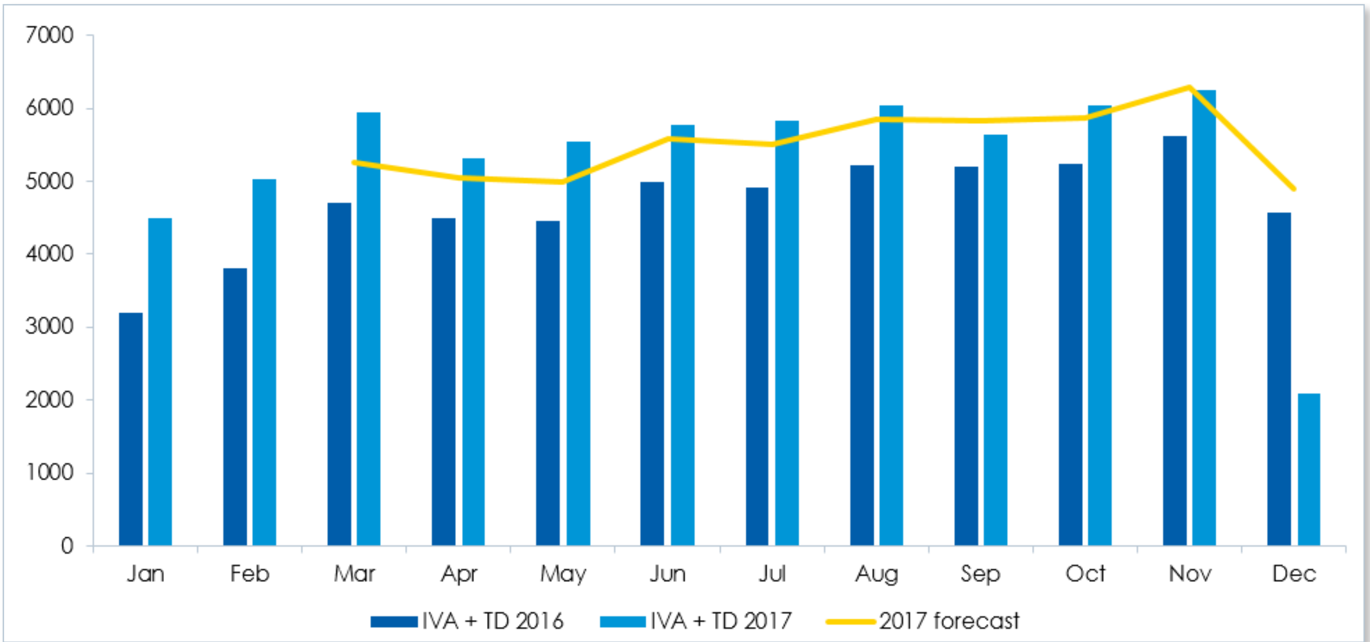
- A roll through of people who have significantly increased their unsecured borrowing in recent years using personal insolvency to manage their problem debt.
- The fallout from FCA authorisation of Debt Management Plan (DMP) providers which has seen a contraction in this market and a greater likelihood of personal insolvency recommendations to people to manage problem debt – as the DMP market has got smaller the demand is being met by personal insolvency providers.
- Increased marketing by commercial personal insolvency providers.
- Ongoing affordability pressures on people as a result of inflation, low wage growth and interest rate rises.

Consumers becoming financially unsecured younger than ever

Through 2017 there has been a significant increase in the number of news articles around consumer debt, over indebtedness and personal insolvencies.

With the recent interest rates, and the likely additional pressure this will bring to people managing their debts the subject of problem debt will continue to see focus over the medium term. A review of data from The Insolvency Exchange (TIX) has confirmed three key trends.

2017 / 2016 volumes comparison (fig. 1)

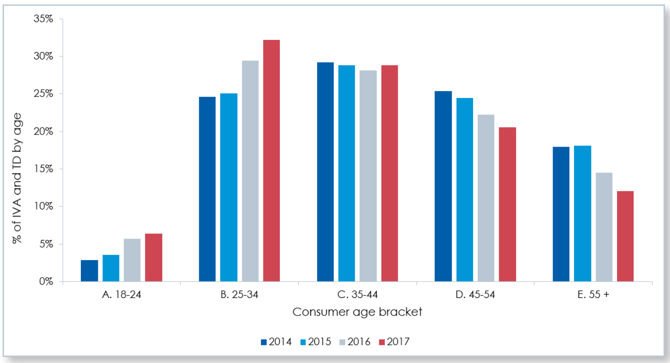


Source: The Insolvency Service. c4-8 week lag in reporting.

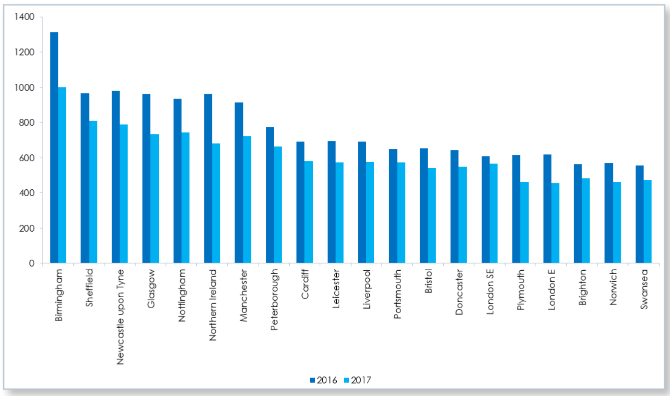
1. Under 35s make up ~40% of all new IVAs

The proportion of under 35s entering IVAs has seen a noticeable increase in 2016 and 2017, now making up c40% of all cases compared to 27% in 2014. This increase is countered by a significant decrease in over 55s, who now only make up 12% of all cases. The split by consumer age is consistent across the firms (Insolvency Practitioners (IPs)) suggesting this is consumer driven rather than led by IP marketing.

Consumer age profile entering IVA and TD 2014-2017 (fig. 2)



IVAs and Trust Deeds by region (fig.3)



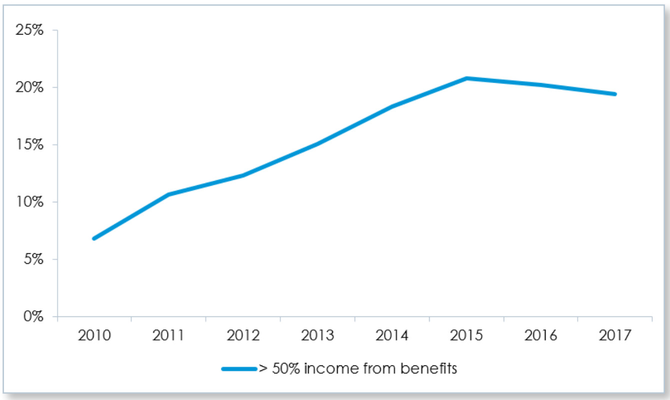
2. No changes in city hotspots

New IVAs by region remain consistent through 2016 and 2017 with Birmingham, Sheffield, Newcastle upon Tyne, Glasgow and Nottingham making up the top five cities.

3. Those in IVAs have become increasingly reliant on benefits

The sources of income in new IVAs has changed significantly. In 2010 7% had more than 50% of income made up of benefits rising to 19% in 2017. With a peak of 21% in 2015, the recent fall is likely a result of changes in benefits rather than a consumer driven change.

> 50% income from benefits (fig. 4)



Conclusion

As the volume of personal insolvencies particularly IVAs and TDs continue to rise consumers and creditors need greater certainty that they will receive fair outcomes from personal insolvency. There is a requirement for enhanced regulation of personal insolvency provider firms. DMP providers are currently regulated by the Financial Conduct Authority (FCA). Personal insolvency isn't regulated by the FCA with regulation covered through Recognised Professional Bodies (RPBs) authorised by The Insolvency Service (IS). The Insolvency Practitioners Association (IPA) have announced a higher tier of regulation which is currently being rolled out to larger insolvency firms. This is a good first step but momentum must be maintained so that all parties subject to personal insolvency have trust in the process and are receiving fair outcomes.

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