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A once in a generation cost of living increase is set to drive demand for insolvency solutions

We've all been hearing about the rising cost of living recently. This once in a generation increase looks set to impact everyone in the UK, particularly following the post-Covid and post-Brexit effects on everyday finance. Right now, the conflict in Ukraine is predicted to make things even tougher. In the insolvency market Creditors and Insolvency Practitioners (IPs) are already beginning to see the economic effect on customer affordability.

So, as this situation is likely to impact the insolvency sector for months if not years ahead, we wanted to highlight the facts behind what is incontrovertibly true; we are facing the impact of a **cost of living increase not seen for a generation.**

Let's consider the significant increases in the cost of living

Inflation to rise to
8%

The Bank of Englands view is that inflation will reach 8% in spring and perhaps even higher later this year [1].

Petrol prices rise
60%
since 2020

The RAC reported record petrol and diesel prices with motorists possibly paying £1.60 per litre very soon, compared to just over £1 a litre in Q2 2020[3].

Energy bills up by
54%
from April

An increase of about £600 for an average annual utility bill. This follows on the back of an increase in October 2021, when prices went up by an average of £139 for those on default tariffs.

Interest rates rise to
0.75%

In February 2022, the UK Government raised the UK base rate (Bank Rate) from 0.25% to 0.5%.

Increase in NI contributions
1.25%

National Insurance (NI) will rise by 1.25% for both employers and employees by April 6 – a £14 billion tax rise.

End of furlough

Fewer people were impacted by the end of furlough than had previously been predicted.

Of the 1.1 million employees still furloughed when the job retention scheme closed at the end of September,

88%

were in employment by the following month[9].

Unemployment forecasts, however, seem fairly stable across 2022-2023 at around

4% [10]

The long-term impact of the end of the UK government's Job Retention Scheme is yet to be fully understood. A third of UK small businesses are planning to make staff redundant over the next few months, as they themselves deal with rising costs in their supply chain and struggle to repay debts amassed during the pandemic[2].

The following graphic shows a how prices have increased across different sectors:

All areas of daily life have seen price rises in the last year

	The rise in cost compared with last December %	Average weekly spend of the poorest 10th of households
Transport	12.1%	£22.80
Furniture, household items and upkeeps	7.4	£13.30
Restaurants and hotels	6	£16
Education	4.5	No data available
Food and non-alcoholic drinks	4.2	£35
Clothes and footwear	4.2	£8.70
Alcoholic beverages and tobacco	4	£8.80
Housing, water, electricity, gas and fuels	4	£58.60
Recreation and culture	3	£31
Health	2.4	£4.30
Miscellaneous goods and services	1.7	£19.90
Communication	0.8	£10.40

Source: Guardian article – February 2022

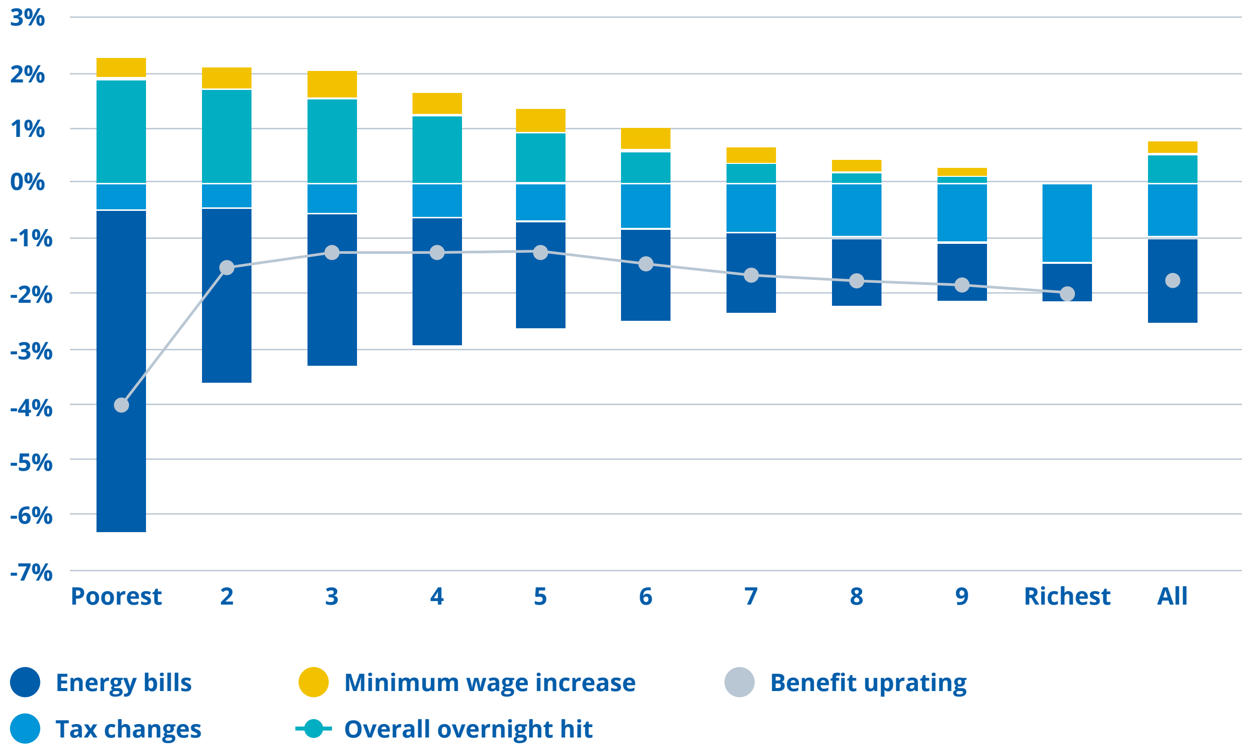
Guardian graphic source: ONS. Inflation for the 12 month to December 2021. Average weekly spend is for financial year ending 2020. Data for average spending on education is suppressed as there are less than 10 households reporting education expenditure.

Every income group's disposable income will be reduced

Huge pressure on disposable income is looming for consumers. This is particularly so for those already with an IVA, and is the case despite an increase of up to 3.1% rise in benefits due in April this year. Clearly, some people will be impacted more than others.

As the following graphic shows, the net reduction in disposable income grows markedly towards the poorest end of society.

Net reduction in disposable income



Source: Tony Blair Institute for Global Change

Interest rate rises will impact one third of UK adults who have a mortgage[4]

- The average UK homeowner on a variable rate will have to pay another £552 a year[6].
- 1.5 million fixed-rate deals will expire this year and will be impacted by the rise. Almost two million homeowners on a tracker mortgage or standard variable rate have already seen an immediate impact[5].
- At the same time, average rental prices have risen by 2%[11].

Looking specifically at IVA customers

£93

The average monthly energy bill for an IVA customer

£141

The average monthly disposable income for an IVA customer

£50

Rise in energy costs for an average IVA customer is expected

The impact on the debt industry

So what does all of this mean for the debt industry? Clearly, such profound increases in the cost of living is likely to bring significant challenges to the debt landscape, where we expect to see an increase in volumes, variations and breakages in payment arrangements.

Factoring in the impacts of the energy price rises alone:

81%

of customers with an IVA would be eligible for a variation[8]

- A 15% change in disposable income is the trigger for an Insolvency Practitioner (IP) to call a variation meeting to reassess a consumer's circumstances. As it's likely the original repayments agreed within a consumer's original IVA agreement will no longer be affordable, this will require new repayments terms to be negotiated.
- Due to the shift towards low-value IVA cases in the past 5 years, a huge majority of cases (81%) would be eligible to reassess their repayments via a variation meeting if they experienced an energy price rise of 54%[8].

50%

of customers with an IVA would be eligible for a DRO[8]

- A consumer could become eligible for a Debt Relief Order (DRO) instead of an IVA as a result of a reduced disposable income. The maximum disposable income for a DRO is £75.
- If all consumers on The Insolvency Exchange (better known as TIX) experienced a 54% rise in their energy bills, over half would become eligible for a DRO[8].

7%

increase in IVA volumes expected[8]

- Those that were able to afford debt repayments may find themselves in a situation where they can no longer meet those repayments and choose insolvency instead. By the end of Q4 2022 we expect IVAs and DROs to increase year on year by 7%,, but they could increase by as much as 11%[8].

Summary

2022 will see significant pressure on consumer affordability for all income groups. The cost of living increases will drive more consumers into debt and ultimately into insolvency solutions. Many of those with an insolvency solution will find it difficult to meet their repayment obligations.

For IPs and DCAs, it's critical to ensure your processes and capacity are geared up for the potentially significant increase in insolvency activity – notably those variations in the short term and the creation of new proposals in the mid to long term.

Also more important than ever will be reviewing and voting on cases to ensure fair customer treatment, as well as ensuring you are correctly represented.

How TDX Group can help

With fresh pressures likely to come from all quarters, our vision – to make the debt industry better, and to make it better for everyone – has never had such value.

For example, through the Insolvency Exchange (TIX), we provide a comprehensive managed service for personal insolvency. This ensures creditors are represented and ensures customers are treated fairly, and as well as maximising collections potential.

As a fully managed service, TIX handles all paperwork, administration and variation of IVA and Trust Deed cases. As 2022 progresses, and the workloads increase, the value of this service could prove significant.

Throughout this turbulent period, we will also be actively working – as part of the IVA Standing Committee – to review potential adaptations in the short term to ensure the viability of IVAs.

With a heritage of pioneering a fair, flexible and sustainable approach, we are working closely with the IP market and our creditor clients to ensure IVAs are sustainable and fair for all parties.

Our experienced team continues to ensure that any consumer going into an IVA is in the right debt solution for their personal circumstances against the rapidly changing market.

At the same time, we'll be intelligently harnessing powerful and unparalleled data and analytics to support better informed decisions. Our market-leading management information (MI) provides in-depth insight into Insolvency Portfolios to help track, benchmark and forecast performance and allows us to continually remove barriers to payments.

So, while the debt industry will be facing often unprecedented challenges in the near future, you can be reassured that you have at your side a team that not only understands your challenges, but has both your and your customers' best interests at heart.

Sources

[1] Bank of England – February 2022

[2] EY research as published in the Guardian – December 2021

[3] RAC Research – February 2022

[4] English Housing Survey as published in the BBC article – February 2022

[5] UK Finance published in the BBC article – February 2022

[6] Daily Mail – February 2022

[7] Ofgem research as published in the Guardian – February 2022

[8] TDX Group Insolvency Analysis 2022

[9] Resolution Foundation: Post-furlough blues – published November 2021

[10] HM Treasury Forecasts for the UK Economy – February 2022

[11] ONS statistics in the 12 months to January 2022