March update

# Insolvency Market Trends

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

## 30% increase in personal insolvencies in Q1

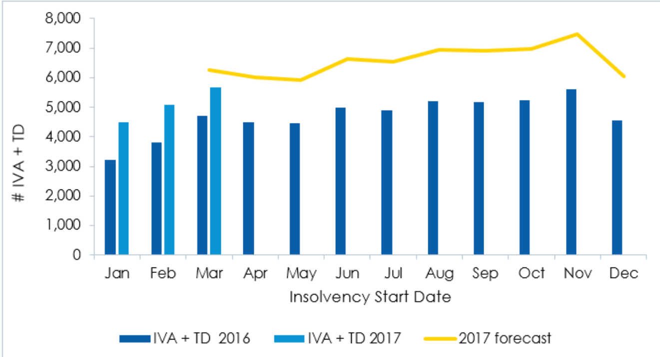
As forecast in last month's Insolvency Market Trends new IVA and Trust Deed volumes continue to grow significantly. Final numbers for February show 5,076 new IVAs and Trust Deeds, an increase of 1,268 or 33% on the same period in 2016. Indicative numbers (Insolvency Service data is subject to a lag) for March show 5,661 new IVAs and Trust Deeds, an increase of 21% on the same month in 2016.

Overall in the first quarter of 2017 we have seen a 30% increase in new IVAs and Trust Deeds with 15,235 recorded. This is a change to the seasonal trends we have seen over a number of years; typically we see a more gradual build up in volumes through the quarter, after the Christmas holiday season.

We continue see a number of key dynamics driving volumes including:

- Increasing consumer demand for debt solutions as the cost household essentials like food, utilities and travel rises, and wage growth stagnates.
- Changing debt advice models (following the FCA authorisation process for debt management) pushing more consumers to insolvency solutions.
- Increasing marketing by debt solutions.

2017/2016 volumes comparison (fig. 1)




2017/2017 volumes and percentage change (fig. 2)

| | January | February | March | Total |
|---|---|---|---|---|
| 2017 | 4,498 | 5,076 | 5,661 | 15,235 |
| 2016 | 3,205 | 3,808 | 4,694 | 11,707 |
| Difference | 1,293 | 1,268 | 967 | 3,528 |
| Percentage change | 40% | 33% | 21% | 30% |
| Working days | 21 | 20 | 23 | |
| Average per working day | 214 | 253 | 246 | |

## Length of IVAs extending by 12 months or more

As consumer affordability is squeezed, IVAs are increasingly being extended to enable consumers to return to creditors the dividends agreed at the start of the insolvency.
Our review of a sample of annual reports, variations, account level reviews and held interviews with Insolvency Practitioners indicated that there were four key reasons why IVA durations were longer than five years. It is important to note that these extension scenarios are not exclusive. Cases can undergo more than one extension, and in some instances multiple reasons for extension were running concurrently.

### Why extend?

1. Challenges with equity release

c65% of the sampled cases had been extended by 12 months or more due to the consumer being unable to release equity mainly driven by limited access to re-mortgage products for insolvent consumers. Currently only a very small number of specialist mortgage providers offer products to this group, and they are normally more expensive than mainstream products.

2. Income reduction

c60% had seen one or more instances of income-shock. Income reduction was driven by changes of circumstances including: the birth of a child, family breakdown, ill-health and redundancy. Although levels of redundancy are currently flat with an average c115,000 redundancies per quarter in 2016 economic conditions including Brexit may see an increase in redundancies through 2017and 2018.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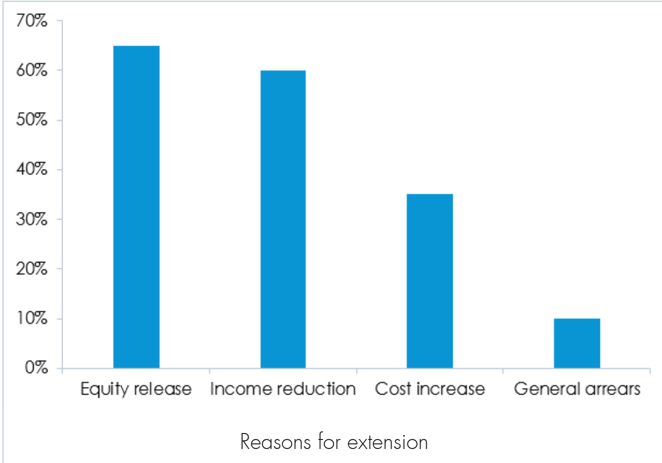
### 3. Household cost increases

c35% had seen a significant increase in costs that meant the individual's ability to pay had fallen either permanently or temporarily, with an extension utilised to ensure the impact to the proposed dividend was reduced/mitigated. The most common cause by far was the birth of a child.

### 4. Missed payments

<10% had an extension due to 'general arrears' and/or failure to comply with terms and conditions of the IVA. General arrears are defined as not having a specific cause, but accrued because the customer was generally falling behind their current payment plan. Extensions were also granted to give the customer more time to comply with terms and conditions of the IVA, chiefly completing I&E reviews or providing evidence of a re-mortgage attempts.

Extending IVA length – reasons (fig. 3)




## Summary

As volumes of IVAs and Trust Deeds continue to rise as a result of, in part, affordability challenges for consumers as costs increase and wage growth stagnates, the number of IVA and Trust Deed extensions will also rise. This is particularly prevalent for near and sub-prime consumers. This will require greater focus from creditors to balance fair consumer and creditor outcomes.

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