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PRESS RELEASE

UNITED KINGDOM: CORPORATE INSOLVENCIES ARE GOING FROM ZERO TO A HUNDRED AFTER END OF GOVERNMENT SUPPORT MEASURES

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- **In 2022, around 23,400 companies went bankrupt in the UK, causing corporate insolvencies to reach its highest levels since the 2009 Global Financial Crisis.**
- **The rapid rise in insolvencies came after 2 years of low level of insolvencies.**
- **The increase was centralised around smaller companies and has mainly been driven by creditor's voluntary liquidations. Insolvencies in larger companies were still below their 2019 level.**
- **Q1 2023 figures show the number of insolvencies will continue to rise but without being as heavily concentrated around micro & small companies.**
- **In 2023 bankruptcies should have a larger effect on jobs lost as well as liabilities.**

Before 2020: a pre-pandemic world with low insolvencies

In the years leading up to the pandemic, corporate insolvencies had generally been relatively stable with around 16,500 companies going insolvent a year between 2015 and 2019. Meanwhile, the liquidation rate came down further in these years (from 47 to 42 insolvencies per 10,000 active companies) which underlines that corporate insolvencies were relatively low in 2019. They had fallen from a rate of around 250 insolvencies per 10,000 active companies in 1992-93, to around 40 per 10,000 active companies.

This fall in the liquidation rate was for a large part due to the fall in interest rates over the past thirty years. But it was also driven by a better macroeconomic situation in the pre-pandemic period compared to 1992-93 as well as some stronger fundamentals. The net profit margins of listed companies were around 4.3% in 1992-93 and 7.6% in 2017-19.

2020 to 2021: the Government Support Era

2020 was a transformative year with the many government measures to support companies during lockdowns completely altering the normal insolvency dynamics. These schemes such as the furlough schemes, Covid support loans as well as a suspension of lawful trading rules and a moratorium restricting winding up petitions, meant that **the number of corporate insolvencies actually fell dramatically in 2020 (-28%) and remained historically low for the first half of 2021 as well.**

As these schemes were phased-out and support loans had to be repaid along with the end of the moratoriums, corporate insolvencies started to behave more typically. After the end of the suspension of lawful trading rules on 1st July 2021, the number of creditors' voluntary liquidations started coming up quickly. Compulsory liquidations saw an even more significant rise in the number of insolvencies after the final end of the moratorium in February 2022. These insolvencies generally were around 50% more frequent in the immediate months after and were almost 3 times higher after six months.

Corporate insolvencies rose by 11% in 2021 and a further 57% in 2022, meaning they surpassed the pre-pandemic level in 2019 by 26%, the highest amount since 2009. It is important to highlight that **while micro companies made up 73% of insolvencies in 2019, this share rose to 81% in 2022**. When excluding micro companies, corporate insolvencies actually remained 9% lower in 2022 than in 2019. So, while the number of companies going insolvent rose, the consequences of it, such as jobs lost or liabilities affected, were more limited.

2023 and onwards: a well-known but dire landscape

As British companies now find themselves in a post support measures world where corporate insolvencies are once again determined by companies' liquidity, profitability and their ability to meet financial obligations, the situation is familiar but not necessarily easy.

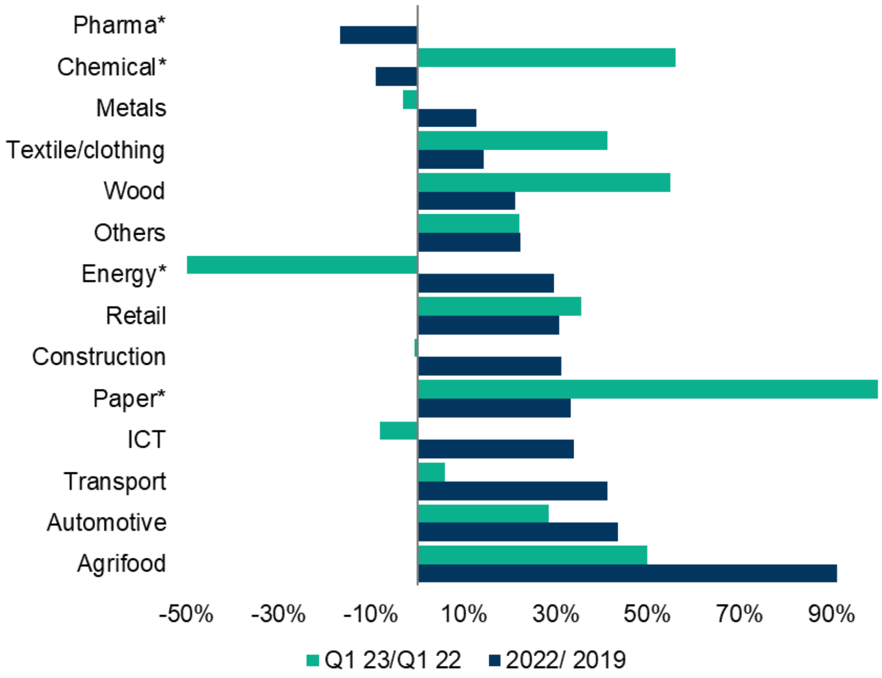
Many companies accumulated significant debt during the lockdowns and this debt will have to be repaid or rolled over during the next few years. **Running costs are also elevated** with energy and other commodities prices as well as wages running high. On top of that, consumers are strapped for cash with their real disposable income falling for a second consecutive year in 2023.

And **this comes at a time where the low interest rate environment that was helping many companies to thrive is ending**. Floating interest rate to private non-financial corporations have gone from averagely 3.1% in 2019 to 6.0% in the first quarter of 2023. And the outlook for the interest rate environment has only deteriorated since the collapse of Silicon Valley Bank in March 2023. Banks were already tightening credit standards for corporates before the collapse and are expected to tighten further over the coming months. This could potentially start a spiral in which rising insolvencies cause restrictive bank lending which in turn hurts companies' viability, thereby resulting in further insolvencies.

Some sectors more exposed to the current trends than others.

Insolvencies in sectors, such as pharmaceuticals and chemicals were still being around their 2019 levels in 2022.
On the contrary, the agri-food sector was hurt by rising costs and unstable supply chains: almost 300 companies went insolvent in 2022, an 83% rise from 2019 and insolvencies grew by +50% in Q1 2023 compared to Q1 2022.
Heavier industries, such as the automotive, transport, energy and construction sector, have equally seen large rises in corporate insolvencies with construction being the sector in which most companies went insolvent in 2022 – around 5,200 companies, a 34% increase from 2019.
When looking at the coming months, companies in sectors such as hospitality, retail and construction indicate that they are in *moderate to severe risk of insolvency* more frequently than the average. Almost one-fifth of companies in hospitality are indicating this, being highly vulnerable to wage and energy price rises as well as changing consumer habits.

Looking at winding up petitions filed and notice of intentions made at a sector level, it points towards further increases in insolvencies across most sectors. Heavier industries such as metals, chemicals and construction will likely see further companies go insolvent. They are operating in a landscape of falling demand, while their costs remain inflated due to the fact that they are energy intensive sectors.



Note: An asterisk (*) indicate less than 125 insolvencies in 2022. Source: Insolvency Service, Coface

COFACE MEDIA RELATIONS
Diana Oros: T +40/374 670 886 - diana.oros@coface.com

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