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United Kingdom: Corporate insolvencies are going from zero to a hundred after end of government support measures

EXECUTIVE SUMMARY

In 2022, around 23,400 companies went bankrupt in the United Kingdom, causing corporate insolvencies to reach its highest levels since the 2009 Global Financial Crisis "GFC". This rapid rise in insolvencies came after two years of a noticeably low level of insolvencies, thanks to active government support measures after the COVID-19 pandemic ("pandemic"). The government support measures and temporary changes in insolvency proceedings completely turned previous dynamics of economic activity and insolvencies upside down, and the subsequent dramatic increase in insolvencies in 2022 have made headlines in domestic and international news.

The current corporate insolvency situation in the United Kingdom is, however, more complex than these headlines. It is true that corporate insolvencies rose from their pandemic lows to the highest level in a decade – 26% higher than in 2019. However, this increase was centralised around smaller companies and has mainly been driven by a specific type of insolvency proceeding : creditor's voluntary liquidations.

In absolute numbers, corporate insolvencies were high in 2022, yet comparing this to the number of active companies in the United Kingdom, the relative number of companies that went insolvent in 2022 was still low compared with past decades. Moreover, companies that went insolvent in 2022 were still predominantly micro companies whereas insolvencies in larger companies were still below their 2019 level.

Yet, indications from the first quarter of 2023 are so far showing that it might be the first full year in which insolvencies will behave more conventionally. Early signs from actual insolvencies and winding up petitions (WUPs) filed in Q1 2023, point towards at the very least a first half-year with insolvencies continuing to rise. However, unlike 2022, this will not be as heavily concentrated around micro- and small companies, which means that these bankruptcies will have a larger effect on jobs lost as well as liabilities affected.

Overall, this year will be a difficult one for companies that have to act in a world with still elevated cost lower demand, high interest rates and tightening credit standards from their banks, especially after the turmoil seen in the banking sector in March 2023, following the collapse of Silicon Valley Bank.