



The Insolvency  
Service

# Guide to Insolvency Statistics

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# 1. Introduction

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This document aims to provide a comprehensive guide to insolvency, focusing on concepts and definitions used in statistics published by the Insolvency Service. The areas covered in this guide are:

- high-level descriptions of the types of insolvency which apply to companies and people;
- the data recorded and any associated data quality issues; and
- legislation coming into effect in the period covered by the statistics, which may affect comparisons over time.

Further information on statistics published by the Insolvency Service can be found in:

- the [Statement of Administrative Sources](#), which provides information on the operational datasets used to compile the statistics;
- the [Statement on Quality Strategy, Principles and Processes](#), which states what users of the statistics can expect for each dimension of quality;
- the [Revisions Policy](#), which sets out the Insolvency Service's policy for planned and unplanned revisions to the data; and
- the [Data Quality Assurance and Audit Arrangements](#), which document the data quality procedures which apply to each stage of the production of the statistics.

The Insolvency Service welcomes feedback on this guide. Please send comments to [statistics@insolvency.gsi.gov.uk](mailto:statistics@insolvency.gsi.gov.uk)

# 2. Company insolvency in the United Kingdom

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## 2.1 Introduction

This section relates to the United Kingdom. In the main, company insolvency is the same across the United Kingdom, but differences in Scotland and Northern Ireland have been identified where appropriate.

Company insolvency applies to **incorporated companies (including limited liability partnerships)** – a specific legal form of business that is registered at [Companies House](#). Company insolvency (being unable to pay creditors the money they are owed) can be dealt with through a variety of legal processes, including liquidation (which results in the company ceasing to exist); or through company rescue procedures such as administration.

The Insolvency Statistics cover five formal insolvency procedures: compulsory liquidation; creditors' voluntary liquidation; administration; company voluntary arrangement; and receivership.

Data on compulsory liquidations in England and Wales are sourced from administrative records of the Insolvency Service, which manages the case administration process, though responsibility sometimes passes to licensed insolvency practitioners.

Data on compulsory liquidations in Northern Ireland are sourced from administrative records of the [Department of Enterprise, Trade and Investment in Northern Ireland](#). Data on other company insolvencies are sourced from Companies House, which is required by law to be notified of all company insolvencies.

### 2.1.1 Types of company insolvency

**Liquidation** is a legal process in which a liquidator is appointed to 'wind up' the affairs of a limited company. The purpose of liquidation is to sell the company's assets and distribute the proceeds to its creditors. At the end of the process, the company is dissolved – it ceases to exist. There are two main types of liquidation procedure.

- **Compulsory liquidation** – the court makes a winding-up order on the application of a creditor, shareholder or director.
- **Creditors' voluntary liquidation (CVL)** – shareholders of a company can themselves pass a resolution that the company be wound up voluntarily.

In either case they are said to have been **wound up**. A third type of winding up, members' voluntary liquidation (MVL), is not included because it does not involve insolvency – all debts are paid in full. [Companies House](#) produces statistics on MVLs.

**Administration** is when a licensed insolvency practitioner, 'the administrator', is appointed to manage a company's affairs with a view towards achieving certain statutory objectives. The primary objective of administration is the rescue of the company as a going concern, or if this is not possible the administrator will try to achieve a better result for creditors than would be likely if the company were to be wound up. Finally, if neither of these can be achieved, the administrator will seek to

realise company property in order to make payments to one or more secured (and in some cases preferential) creditors.

**Company voluntary arrangements (CVAs)** are also designed as a mechanism for business rescue. They are a voluntary means of repaying creditors some or all of what they are owed. Once approved by 75% or more of creditors, the arrangement is binding on all creditors (although secured creditors retain their security rights). CVAs are supervised by licensed insolvency practitioners.

**Administrative receivership** is where a creditor with a floating charge (often a bank) appoints a licensed insolvency practitioner to recover the money it is owed. There are other types of (non-insolvency) receivership appointments, for example under the Law of Property Act 1925.

The methodology for counting receiverships has changed – before 2000 Q1, all types of receivership are included in the statistics as it is not possible to distinguish between insolvent and non-insolvent receivership appointments, so these figures should be treated with caution (see section 2.3.2). Currently the vast majority of receivership appointments are of the non-insolvency type, but only insolvent receiverships are counted in the statistics.

Companies can be in more than one type of insolvency at the same time (for example receivership and CVA), or can move from one form to another (for example administration to CVL).

## 2.2 Compulsory liquidation

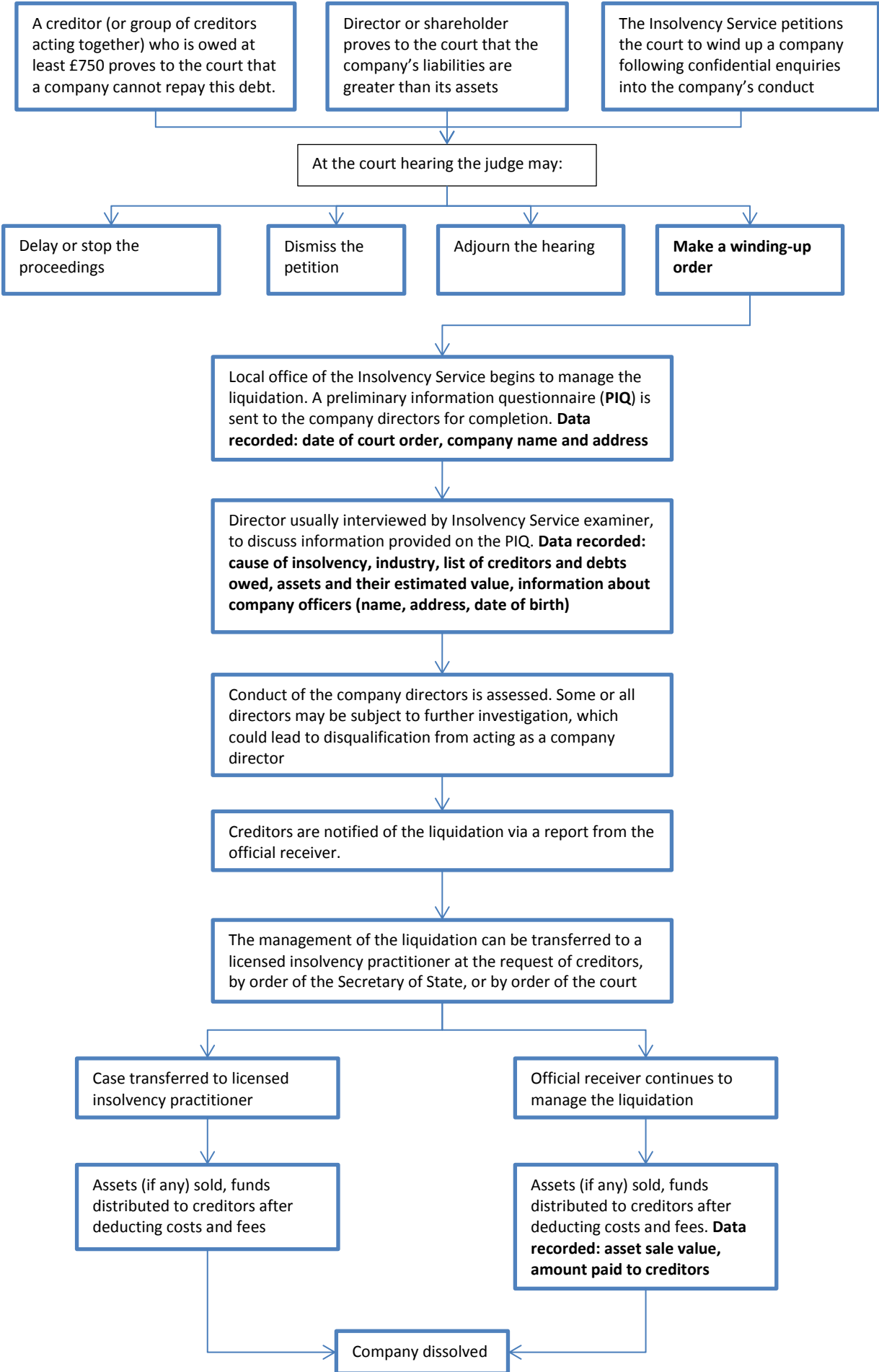
### 2.2.1 Overview

Compulsory liquidation commences on the making of a compulsory winding-up order by the court. Its purpose is to collect the company's assets and distribute them to its creditors. Winding-up orders are usually made on the petition of a creditor, shareholder or director, but a petition can also be presented by the Secretary of State for Business, Innovation and Skills, or by the Financial Conduct Authority, on the grounds of public interest.

Once a winding-up order is made, a liquidator will manage the case – either the official receiver (an officer of the court) or a licensed insolvency practitioner (IP). The company's assets are sold by the liquidator, who distributes the proceeds to creditors after the fees and costs of the liquidation are deducted. Once this is completed, the company is dissolved (ceases to exist).

A simplified summary of the compulsory liquidation process in England and Wales is summarised in Figure 1 below.

**Figure 1: Compulsory liquidation process in England and Wales**



## 2.2.2 Key data recorded by the Insolvency Service about compulsory liquidations

**The event of liquidation:** the Insolvency Service receives information from the court when the winding-up petition is first presented, and when the court order is made. The Insolvency Service is notified of all compulsory liquidations in England and Wales, so numbers of these cases recorded in the *Insolvency Statistics* should be complete. The date of the court order is used in compiling the statistics, as opposed to the date the information is received from the court or entered onto ISCIS (the Insolvency Service's electronic case management system). On occasion, information is received from the court after the cut-off period for extracting data for the quarterly publication; late information is usually captured when the statistics are revised. However, as data for any April to March period is 'locked down' the following July, any information on compulsory liquidations received after this date are not captured in the *Insolvency Statistics*.

**Industry Sector:** the PIQ records the type of work carried out by the company. The examiner selects an industry code based on the 2003 Standard Industrial Classification codings.<sup>1</sup> This information is used in the *Insolvency Statistics*, but is not complete: in some cases, industry is recorded as "unknown". In 2013, 31% of companies entering compulsory liquidation had their industry classified as "unknown", and the quality of data which is positively recorded relies on information being correctly entered into ISCIS.

Changes to the industry classification used on ISCIS were made between Q3 and Q4 of 2006. As a result of this change, current industry breakdowns are not consistent with those for the earlier period.

**Cause of insolvency:** the official receiver has a statutory duty to investigate the cause of failure of a company in compulsory liquidation. The PIQ asks for the reason why the company became insolvent, in the director's own words. Based on this information and/or the interview (if held), the examiner records the cause of insolvency, using a coding frame (for example "excessive borrowing", "failure to deal with tax affairs", "loss of market", "bad debts" and so on). This information is not currently considered suitable for use in Official Statistics.

**Assets:** all assets (the liquidation estate) vest in (become the responsibility of) the liquidator in order that they can be realised (sold); the director is required to disclose all assets. The director makes an estimate of the value of each of their assets, which is recorded on ISCIS. Separately, the examiner records estimates of the realisable value (likely sale price) of each asset. Both of these estimates are subjective, and are often recorded to the nearest round number, or as zero.

When assets are sold, the realised amount (actual sale price) is recorded. In most cases, there are little or no assets in the estate, but for those cases with substantial assets (such as property) it can take a long time – sometimes several years – to complete the sale of assets. And where an IP (rather than the official receiver) is the liquidator, information on realised amounts is not recorded against individual assets on ISCIS.

The value of assets in compulsory liquidation is not currently considered suitable for use in Official Statistics.

**Debts and creditors:** the director lists the company's known creditors and the estimated amount owed to each in the PIQ. If an interview takes place, this is discussed with the examiner. The official

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<sup>1</sup> The harmonised standard for industry classifications is currently the 2007 Standard Industrial Classification. The Insolvency Service's administrative systems do not currently support this standard.

receiver sends a report to creditors which lists the debts owed, often grouped by type of debt. Creditors are asked if they wish to make a claim on the estate (wish to share in the money recovered from selling assets). To do this, creditors send a proof of debt to the liquidator. The amount of debt claimed is recorded for each creditor, which may be different from the amount estimated by the director (who may, for example, have not included any interest payments). However, in most compulsory liquidations, there is no distribution to creditors because there are little or no assets in the estate. It is common, therefore, for creditors not to make a claim.

The value of debts in compulsory liquidation is not currently considered suitable for use in Official Statistics.

### **2.2.3 Legislative changes and other factors affecting compulsory liquidations**

Compulsory liquidation is dealt with under the Insolvency Act 1986. A quarterly time series of compulsory liquidations in England and Wales is available from 1960.

### **2.2.4 Differences in Scotland and Northern Ireland**

The process in Northern Ireland is similar to England and Wales, and is dealt with under the Insolvency (Northern Ireland) Order 1989. Data are sourced from the [Department of Enterprise, Trade and Investment in Northern Ireland](#).

In Scotland, compulsory liquidation is dealt with under the Insolvency Act 1986. The Accountant in Bankruptcy (AiB) is responsible for recording information about company liquidations in Scotland on the [register of insolvencies](#). It does not itself act as liquidator: all compulsory liquidations are administered by licensed insolvency practitioners. Data are sourced from Companies House.

## **2.3 Other forms of company insolvency**

### **2.3.1 Overview**

All other forms of company insolvency (see section 2.1.1) are administered by licensed insolvency practitioners.

By law, company insolvencies must be reported to [Companies House](#), which maintains the Register of Companies and updates it with information about insolvency. (All compulsory liquidations are also reported to Companies House, but the Insolvency Service uses its own administrative data to produce statistics on these cases.)

The insolvency practitioner provides Companies House with certain statutory documents, such as:

- The event of insolvency;
- Appointment of insolvency practitioner (including changes or additions);
- A Statement of Affairs (detailing among other things the company's assets, liabilities and circumstances of the insolvency);
- Regular progress reports;
- The end of the insolvency (for example exit from administration, dissolution, end of a CVA);

Receipt of the documents is recorded by Companies House on its database, and the documents are scanned and stored in their database. The type of form and the date received are recorded on the system, but in most cases the content of the form is not input on the database - one exception is the name and address of the insolvency practitioner(s) administering the insolvency.



This means that much of the data about company insolvency – such as debts, assets and payments to creditors – is not accessible other than by downloading and viewing individual documents.

### **2.3.2 Legislative changes and other factors affecting other company insolvencies**

The methodology for producing company insolvencies has changed following a consultation in 2015. A time series using the new methodology is available back to 2000 and comparisons before and after this point should be treated with caution. In particular:

- CVLs may have been under-counted under the old methodology, which counted a specific form filed at Companies House which is not always submitted at the beginning of an insolvency;
- Administrations were sometimes counted more than once under the old methodology, because the appointment of additional or replacement administrators was counted as a new insolvency;
- Receiverships were sometimes counted more than once under the old methodology, because the appointment of additional or replacement receivers was counted as a new insolvency; and
- Receivership statistics from 2000 onwards now only relate to administrative receiverships, excluding other forms of receivership that are not insolvencies.

CVLs are dealt with under the Insolvency Act 1986. A time series of CVLs in England and Wales is available back to 1960.

Administrative Receiverships are dealt with under the Insolvency Act 1986. However, before 2000Q1 the Insolvency Statistics also include other types of receivership appointments, for example under the Law of Property Act 1985. Under the old methodology, because the same statutory documentation is used for all receivership appointments, it is not possible to break them down into different types before 2000. A time series of receivership appointments (inclusive of non-insolvency appointments) in England and Wales is available back to 1987. A time series of administrative receiverships is available back to 2000. A time series of non-insolvent receiverships is not available.

CVAs and Administration Orders are dealt with under the Insolvency Act 1986, and a time series for these cases in England and Wales is available back to 1987.

The Enterprise Act 2002 introduced revisions to the corporate administration procedures, replacing Part II of the Insolvency Act 1986 with Schedule B1. These include the introduction of additional entry routes into administration that do not require the making of an administration order and a streamlined process for Administrations whereby a company can in some circumstances be dissolved without recourse to liquidation. Administrations under the Enterprise Act have been included in the Insolvency Statistics since 2003 Q3, and almost immediately the number of Administration Orders each quarter fell to zero.

Since the changes under the Enterprise Act, it has also been possible to identify when companies move from administration into CVL. These are excluded from the headline figure for CVLs in the Insolvency Statistics, as they do not represent a “new” insolvency. They are however included in a separate table for completeness, and are used to calculate the total liquidation rate.

The Enterprise Act also restricted the appointment of administrative receivers to companies where floating charges were created before September 2003, and to eight types of corporate insolvency.<sup>2</sup> Before the change, the number of receivership appointments each quarter was much higher than the number of Administration Orders; after the change, the number of Administrations under the Enterprise Act almost immediately exceeded the number of receivership appointments.

### **2.3.3 Differences in Scotland and Northern Ireland**

In Scotland, policy on administrations and CVAs is reserved to the UK Government, and the procedures in Scotland are therefore the same as those in England and Wales, subject to subtle differences stemming from a different legal system in Scotland. The Scottish Government has devolved responsibility for policy and recording information about CVLs and receiverships in the same way as for compulsory liquidations (see section 2.2.4).

In Northern Ireland, administrations, administrative receiverships and CVAs are dealt with under the Insolvency (Northern Ireland) Order 1989, and the Insolvency (Northern Ireland) Order 2005 made similar provisions for administration to those in England and Wales. Data on administrations, administrative receiverships, CVAs and CVLs following administration are only available back to Q4 2009, because the company register for Northern Ireland merged with that for Great Britain in October 2009.

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<sup>2</sup> Insolvency Act 1986, Sections 72B to 72GA.

# 3. Individual insolvency in England and Wales

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## 3.1 Introduction

This section relates to **England and Wales only**, as there are important differences in Scotland and Northern Ireland, as described in section 4.

Individual insolvency applies to **people**, rather than companies, who have had problems with debt and have entered a formal insolvency procedure. There are other ways for individuals to deal with their debts, for example [debt management plans](#) or other informal agreements, but no official statistics are currently collected regarding these.

The Insolvency Statistics cover three formal insolvency procedures:<sup>3</sup> **bankruptcies** and **debt relief orders** (both of which involve the individual being discharged from their debts, usually 12 months after the start of insolvency), and **individual voluntary arrangements** (which involve binding agreements whereby creditors are paid some or all of what they are owed, usually over a period of 5-6 years).

Data on individual insolvencies in England and Wales comes from ISCIS, the Insolvency Service's electronic case management system.

## 3.2 Bankruptcy

### 3.2.1 Overview

[Bankruptcy](#) is a form of debt relief available to anyone who is unable to pay their debts. A bankruptcy order is made either:

- by the Adjudicator (for people applying for their own bankruptcy from 6 April 2016)
- by the court (for those petitioning to make someone else bankrupt from 6 April 2016, and for all bankruptcy petitions presented prior to this date).

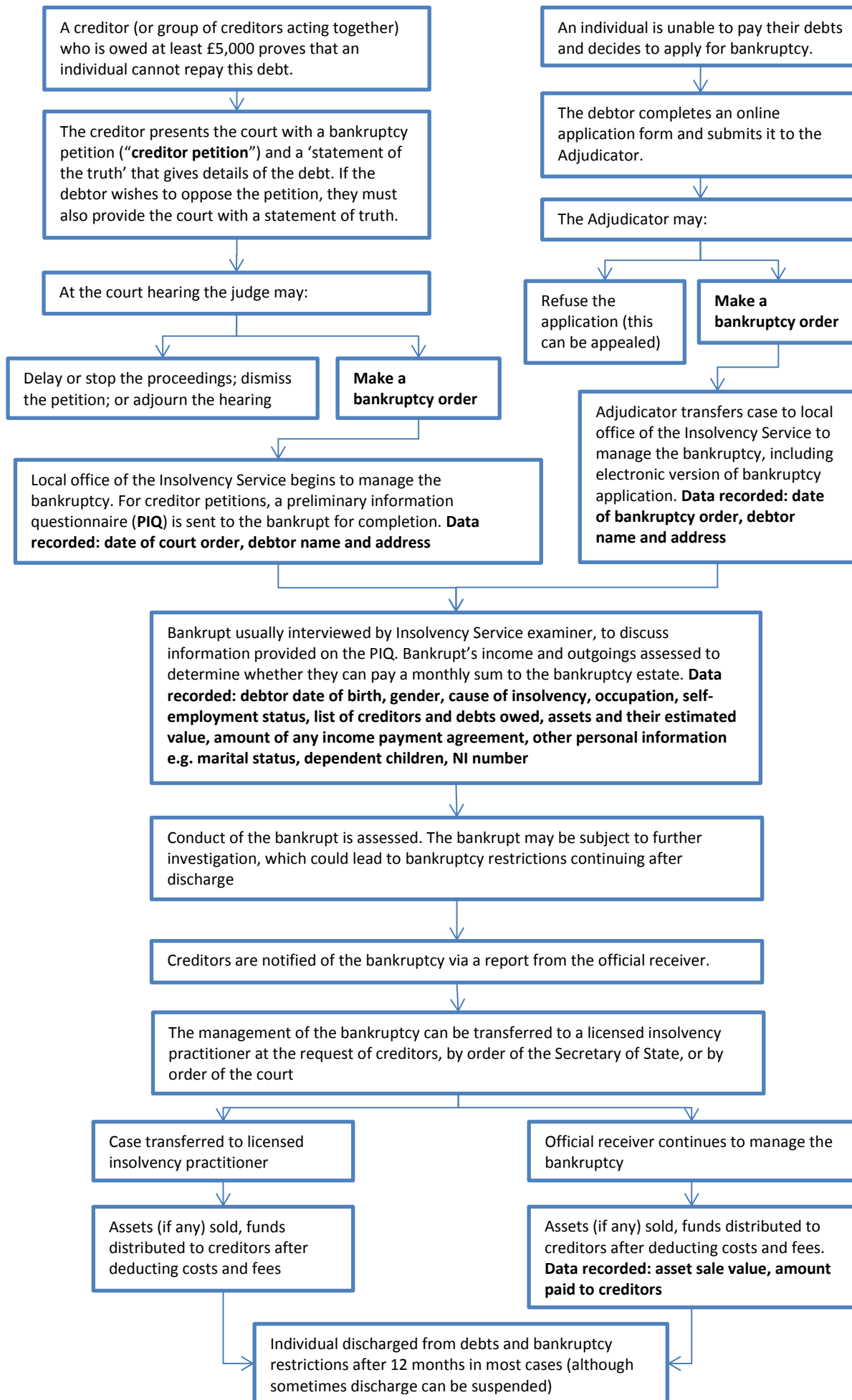
Following this, a trustee will manage the bankruptcy – either the official receiver (an officer of the court) or a licensed insolvency practitioner (IP). Assets (with some exceptions) owned by the bankrupt at the date of the bankruptcy order are sold by the trustee, who distributes the proceeds to creditors after the fees and costs of the bankruptcy are deducted. Individuals are discharged (released) from debts and [bankruptcy restrictions](#) usually 12 months after the bankruptcy order is made.

A simplified summary of the bankruptcy process is summarised in Figure 2 below.

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<sup>3</sup> Deeds of Arrangement are another form of individual insolvency, but are very rarely used. Deeds are described further in section 3.4.

**Figure 2: Bankruptcy process in England and Wales (effective 6 April 2016)**



### 3.2.2 Key data recorded by the Insolvency Service about bankruptcy

**The event of bankruptcy:** the Insolvency Service receives information from the court when the bankruptcy petition is first presented, and when the court order is made. For debtor applications from 6 April 2016, the Insolvency Service receives information when the application is made. It is a legal requirement for the Insolvency Service to be notified of all bankruptcies in England and Wales, so numbers of bankruptcies recorded in the *Insolvency Statistics* should be complete. The date of the bankruptcy order is used in compiling the statistics, as opposed to the date the information is received from the court or Adjudicator or entered onto ISCIS. On occasion, information is received from the court after the cut-off period for extracting data for the quarterly publication; late information is usually captured when the statistics are revised. However, as data for any April to March period is finalised the following July, any information on bankruptcy orders received after this date are not captured in the *Insolvency Statistics*.

**Personal information about the bankrupt:** the electronic bankruptcy application (EBA) or preliminary information questionnaire (PIQ) includes information on: the bankrupt's name, address, date of birth, gender, national insurance number, marital status, employment status, number and ages of all in the bankrupt's household (including dependents). The information in the EBA/PIQ is generally assumed to be true, but if the bankrupt is interviewed the examiner has the opportunity to verify this information.

- Information about address, gender and date of birth are used for Official Statistics, but are not fully complete. This can be because the bankrupt fails to complete their EBA/PIQ and/or attend interview, or the information is not recorded on ISCIS for other reasons. In 2013, 0.4% of bankruptcies had unknown address data; 3.2% had unknown date of birth, and 0.7% had unknown gender.
- Other personal information is not currently used for Official Statistics, but is likely to have similar issues with completeness.

**Employment status and industry:** the EBA/PIQ records whether the bankrupt is employed, self-employed or unemployed. This information is recorded differently on ISCIS in an "occupation" field, specifying whether the bankrupt is a company director, housewife/husband, retired, student and so on. This information is not currently used for Official Statistics, and the information is not stored in the data warehousing facility from which data for the official statistics are extracted.

The examiner records separately whether the bankrupt is self-employed, and selects an industry code based on the 2003 Standard Industrial Classification codings<sup>4</sup>. This information is entered on a separate part of ISCIS, and there is no validation rule which compares this information with the "occupation" field above. This information is used in the *Insolvency Statistics*, but is not complete: in some cases, trading status is recorded as "non-surrender" (the bankrupt does not provide the information) or "unknown". In 2013, where bankrupts were identified as being self-employed, less than 0.1% of self-employed bankrupts had their industry classified as "unknown", so these data are almost complete; however the quality of these data rely on information being correctly entered into ISCIS.

Changes in the way self-employment is recorded on ISCIS were made between Q3 and Q4 of 2006, including a change to the industry classification used. As a result of this change, the level and

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<sup>4</sup> The harmonised standard for industry classifications is currently the 2007 Standard Industrial Classification. The Insolvency Service's administrative systems do not currently support this standard.

proportion these account for of total bankruptcies should not be considered consistent with that for the earlier period.

**Cause of insolvency:** the EBA/PIQ asks for the reason why the individual became bankrupt, in the bankrupt's own words. Based on this information and/or the interview (if held), the examiner records the cause of insolvency, using a coding frame (for example "living beyond means", "failure to deal with tax affairs", "loss of employment", "loss/significant reduction in household income" and so on). This information is not currently considered suitable for use in Official Statistics. Sometimes, the individual does not cooperate with the bankruptcy process, and so the cause of insolvency is recorded as "non-surrender"; in 2013, about 3% of cases were recorded in this way. A further 3% of individuals had an "unknown" cause of insolvency recorded.

**Assets:** most assets (the bankruptcy estate) vest in (become the responsibility of) the trustee in order that they can be realised (sold). The bankrupt is required to disclose all assets. Some assets, for example household items and clothing, or tools of the bankrupt's trade, are treated as exempt from the bankruptcy estate. The bankrupt makes an estimate of the value of each of their assets, which is recorded on ISCIS. Separately, the examiner records estimates of the realisable value (likely sale price) of each asset. Both of these estimates are subjective, and are often recorded to the nearest round number, or as zero.

When assets are sold, the realised amount (actual sale price) is recorded. In most cases, there are little or no assets in the bankruptcy estate, but for those cases with substantial assets (such as property) it can take a long time – sometimes several years – to complete the sale of assets. And where an IP (rather than the official receiver) is the trustee in bankruptcy, information on realised amounts is not recorded against individual assets on ISCIS.

The value of assets in bankruptcy is not currently considered suitable for use in Official Statistics..

**Debts and creditors:** the bankrupt lists their known creditors and the estimated amount owed to each in the EBA/PIQ. If an interview takes place, this is discussed with the examiner. The official receiver sends a report to creditors which lists the debts owed, often grouped by type of debt (for example 'credit cards', 'debts to family' and so on). Creditors are asked if they wish to make a claim on the bankruptcy estate (wish to share in the money recovered from selling assets). To do this, creditors send a proof of debt to the trustee. The amount of debt claimed is recorded for each creditor, which may be different from the amount estimated by the bankrupt (who may, for example, have not included any interest payments). However, in most bankruptcies, there is no distribution to creditors because there are little or no assets in the bankruptcy estate. It is common, therefore, for creditors not to make a claim and for this information to be left blank.

The value of debts in bankruptcy is not currently considered suitable for use in Official Statistics..

**Income payments:** Bankrupts who can make reasonable contributions to their debts are required to do so under an income payments agreement (IPA). If they do not agree, the official receiver or trustee in the bankruptcy will apply to court for an income payments order (IPO). IPA or IPO payments come from surplus income – money left over from income after reasonable living expenses have been deducted. An IPA or IPO will normally be payable for 36 months, but can sometimes be agreed for one-off payments.

The number of bankruptcies which result in an IPA or IPO is currently included in the *Insolvency Statistics*, and should be complete. The cash value of IPAs and IPOs is not currently included.

### 3.2.3 Legislative changes and other factors affecting bankruptcies

At present, bankruptcy is mostly dealt with under the Insolvency Act 1986, which replaced the Bankruptcy Act 1914. A quarterly time series of bankruptcies in England and Wales is available from 1960. Income payment orders were introduced under the 1986 Act.

The Enterprise Act 2002 reduced the bankruptcy discharge period from three years to one, and introduced early discharge (since repealed) for eligible cases. It also introduced Bankruptcy Restriction Orders (BROs) and Bankruptcy Restriction Undertakings (BRUs), which impose certain restrictions on bankrupts for between 2 and 15 years, if they have been reckless or dishonest. Income payment agreements were also introduced under this Act.

The Tribunals, Courts and Enforcement Act 2007 introduced a new route into individual insolvency called the debt relief order (DRO), which came into effect from 6 April 2009. It is likely that some individuals with a DRO would have become bankrupt, if DROs had not been introduced – thereby reducing the number of bankruptcies.

The Enterprise and Regulatory Reform Act 2013 included provision to change the process by which an individual may apply for their own bankruptcy, by using an administrative rather than court process, and using electronic application. A new office of the Adjudicator would determine whether or not to make a bankruptcy order on the basis of the application. These proposals are scheduled to be introduced from April 2016 and are expected to increase the number of debtor petition bankruptcies. This Act also repealed early discharge for bankrupts.

On 1 October 2015 [the Insolvency Proceedings \(Monetary Limits\) \(Amendment\) Order 2015](#) introduced changes to the eligibility criteria for debt relief orders. This was expected to decrease the number of bankruptcies and increase the number of debt relief orders. Further information is in section 3.3.3.

Also on 1 October 2015 the [Insolvency Act 1986 \(Amendment\) Order 2015](#) introduced changes to the creditor petition limit for bankruptcies. Changes mean that a creditor (or group of creditors acting together) must now be owed a minimum of £5,000 to petition for bankruptcy, compared to the past limit of £750. This is expected to decrease the number of creditor petition bankruptcies.

From 6 April 2016, debtor bankruptcy petitions will no longer be made to the courts; instead, applications will be submitted online via the central UK Government website, <https://www.gov.uk/>, to an adjudicator within the Insolvency Service.

The fee to submit an online application for bankruptcy is £130 (the previous fee was £180). Applicants, or someone on their behalf, will be able to pay online or in cash and will also be able to pay in instalments (online only). This change in process and fees may affect the number of bankruptcies.

## 3.3 Debt relief order (DRO)

### 3.3.1 Overview

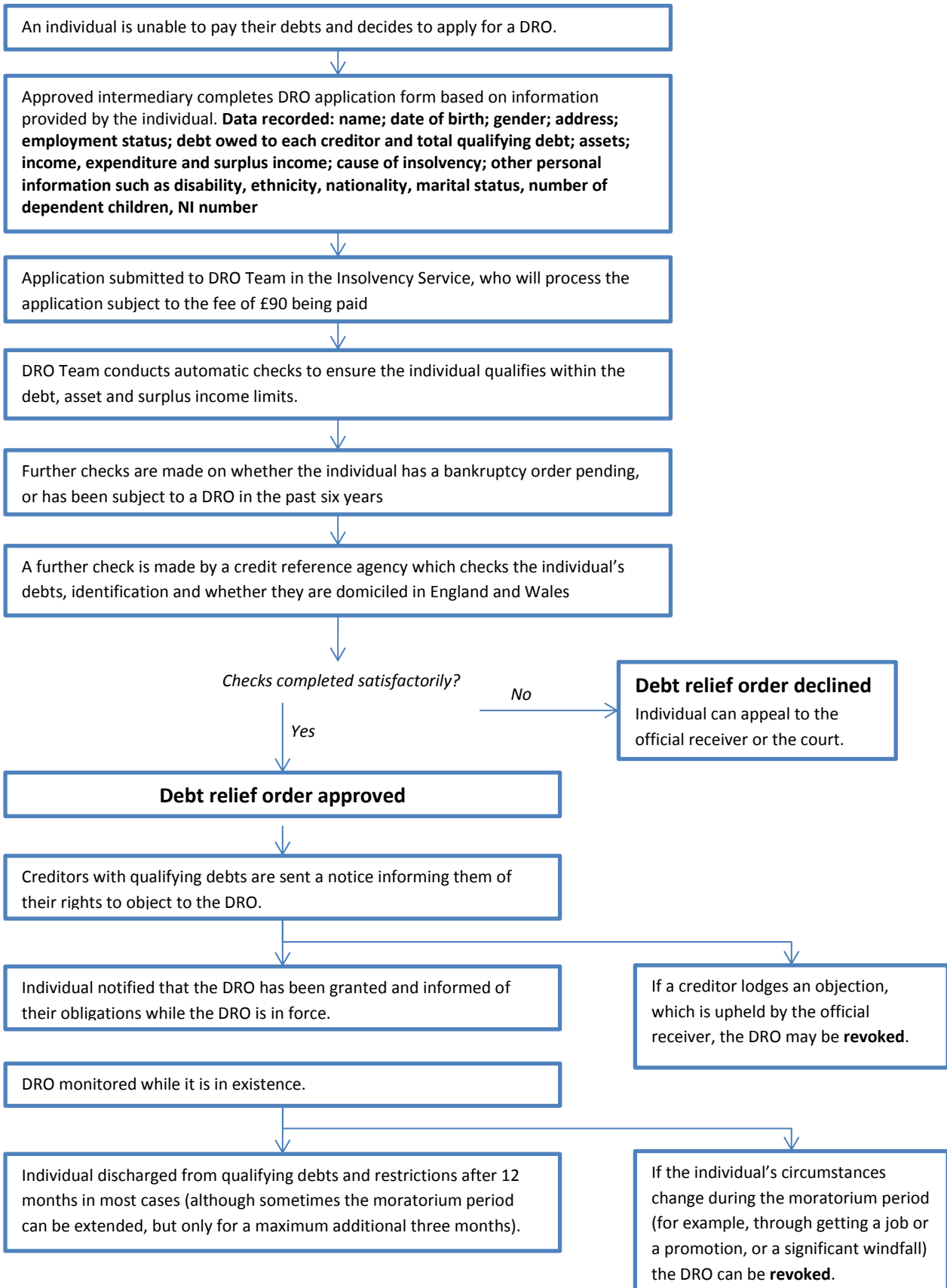
[Debt relief orders](#) are a form of debt relief currently available to those who have qualifying debts totalling up to £20,000, assets of under £1,000 (excluding a car worth no more than £1,000 and certain personal belongings and household items), and less than £50 in surplus income per month.

A DRO provides 12 months' protection from creditor action (the "moratorium period") unless a creditor gets leave of the court. After this period, the debts are discharged. However, in contrast to bankruptcy, it is only the scheduled qualifying debts that are discharged at the end of the moratorium period. Some debts are excluded from a DRO (such as student loans, child support and maintenance, and criminal fines) and individuals are still liable to pay these after discharge.

DROs are an administrative rather than a court procedure. Individuals enter the web-based DRO application system through an approved intermediary (a trained debt advisor). The intermediary discusses the individual's financial position, and completes the DRO application on behalf of the individual before submitting it to the Insolvency Service's DRO team. The official receiver decides whether or not to grant the DRO. A simplified summary of the DRO process is summarised in Figure 3 below.



**Figure 3: Debt relief order process in England and Wales**



### 3.3.2 Key data recorded by the Insolvency Service about DROs

**The event of the DRO:** the outcome of all DRO applications is decided by the official receiver in charge of the Insolvency Service's DRO Team. The decision whether to grant the DRO, and the date of the DRO, is recorded on ISCIS immediately. The number of DROs recorded in the *Insolvency Statistics* is a complete record of all DROs in England and Wales.

**Personal information about the individual:** the approved intermediary records a range of personal information when completing the DRO application.

- Information on date of birth, gender, and address are currently used for Official Statistics. Data on gender and date of birth were 100% complete in 2013. Address details were complete for all individuals granted a DRO in 2013, but the postcode recorded did not match the [National Statistics Postcode Lookup](#) in 0.3% of cases.
- Information on disability, ethnicity, national identity, marital/same sex civil partnership status, number of dependent children and NI number is not currently used for Official Statistics. [Harmonised standards](#) are used for ethnicity, national identity and marital/same sex civil partnership status. Harmonised standards are not used to collect information on disability; instead individuals are asked whether they are registered disabled, and one of a number of categories of impairment is recorded.

**Employment status:** this is not currently used for Official Statistics. Harmonised standards are not used to collect this information; instead individuals are asked whether they are employed, unemployed, self employed, retired, housewife/husband (inc. caring for dependents) and so on.

**Assets:** this information is collected to assess eligibility for a DRO, but is not currently used for Official Statistics. The approved intermediary records data on any cash or other assets the individual has, including details of any car.

**Debts and creditors:** this information is collected to assess eligibility for a DRO, but is not currently used for Official Statistics. The approved intermediary records data on debts owed to each creditor. This is verified by the Insolvency Service through checking against an external credit reference agency's records (though each credit reference agency's records for a given individual may not be complete); and by writing to all creditors whose debts are included in the DRO (detailing how they may object to the approval of the DRO).

**Income and expenditure:** this information is collected to assess eligibility for a DRO, but is not currently used for Official Statistics. In the majority of cases the approved intermediary completes the [Common Financial Statement](#), a form which records detailed information on all income and expenditure. 'Trigger figures' are used for certain elements of expenditure (such as housekeeping) to check that expenditure is reasonable given the size and composition of the individual's household. At the end of the form, the amount of surplus income is calculated.

### 3.3.3 Legislative changes and other factors affecting DROs

The Tribunals, Courts and Enforcement Act 2007 introduced DROs, which came into effect from 6 April 2009. Numbers of DROs rose rapidly during the first 12 months of operation, which will affect year-on-year comparisons in numbers from 2009 to 2010, and 2010 to 2011. In April 2011 a change was introduced to the legislation to allow those who have built up value in a pension scheme to apply for debt relief under these provisions.

The Insolvency Proceedings (Monetary Limits) (Amendment) Order 2015 introduced changes to the eligibility criteria for debt relief orders, effective 1 October 2015. The upper limit for scheduled qualifying debts increased from £15,000 to £20,000, and the upper limit for assets (excluding a car) increased from £300 to £1,000. This change has resulted in an increase of the number of DROs, and has likely lowered the number of bankruptcies.

## 3.4 Individual voluntary arrangement (IVA)

### 3.4.1 Overview

[Individual voluntary arrangements](#) are a means of repaying creditors some or all of what they are owed over a period of time. IVAs are set up by licensed insolvency practitioners, who discuss each individual's income, expenditure, debts and assets; and make a proposal to the individual's creditors. If 75% (by value of debts) or more of creditors approve the proposal, the agreement is binding on all. The court is notified of the creditors' decision and the IVA is supervised by the insolvency practitioner.

Insolvency practitioners are required to notify the Insolvency Service of all new IVAs that have been approved under their supervision, and of certain events as they occur. A simplified summary of the IVA process is shown in Figure 4 below.

**Figure 1: Individual voluntary arrangement process in England and Wales**

An individual is unable to pay their debts and decides to apply for an IVA.

Individual discusses their finances and repayment options with insolvency practitioner

Creditors vote on IVA proposal

If the proposal is accepted by creditors, the IVA becomes legally binding and the court appoints the IP as supervisor. **Data recorded: debtor name, address, date of birth; IVA approval date IVA, Insolvency Service notification date, IVA registration date, details of the insolvency practitioner**

Individual makes monthly payments

Insolvency practitioner notifies Insolvency Service of a change in status. **Data recorded: IVA status, date of status change**

### 3.4.2 Key data recorded by the Insolvency Service about IVAs

**The event of the IVA:** the Insolvency Service receives information from insolvency practitioners when an IVA has been approved. It is a legal requirement for the Insolvency Service to be notified of all IVAs in England and Wales, so numbers recorded in the *Insolvency Statistics* should be complete. The date that the IVA was registered is used in compiling the statistics, as opposed to the date the IVA was approved. This is because there can often be a delay of some weeks between approval and registration, so using this method reduces the need for large revisions to the data.

**Personal information about the individual:** the insolvency practitioner records basic personal information when notifying the Insolvency Service. Information on date of birth, gender, and address are currently used for Official Statistics. In 2013, data on gender was missing in 0.04% of cases, and date of birth in 0.12% of cases. Address details were either missing or did not match the [National Statistics Postcode Lookup](#) in 0.49% of cases.

**Change of the IVA's status:** the insolvency practitioner notifies the Insolvency Service if the IVA's status changes, and the date of the change. This information is currently used for Official Statistics. The status can be one of the following:

- current: where the arrangement is continuing;
- completed: where the supervisor has issued a certificate ("the completion certificate") stating that the debtor has complied with their obligations under the arrangement;
- terminated (failed): where the supervisor has issued a certificate ("Certificate of Termination") ending the arrangement because of the debtor's failure to keep to the terms of the arrangement; and
- revoked / suspended: where an application has been made to challenge the decision of a meeting approving an IVA, the court may revoke or suspend the approval or call for further meetings to be held. Notification of such action should be forwarded to the Secretary of State within 7 days of the making of the order.

**Details of the IVA:** other than some limited personal information about the individual and certain key dates about the IVA, insolvency practitioners are not required to provide data. This means the Insolvency Service **does not** hold information about, for example:

- the amount of debt (total, or amount owed to each creditor);
- the expected length of the IVA;
- the value of monthly repayments;
- the insolvency practitioner's fees;
- the outcome of annual reviews; and
- whether the IVA was compliant with the IVA Protocol (see below).

### 3.4.3 Legislative changes and other factors affecting IVAs

IVAs are dealt with under the Insolvency Act 1986, and a time series is available back to 1987.

IVAs were originally intended as a means for self-employed individuals to deal with their debts while still being able to run their business, but over time insolvency practitioners have marketed IVAs to consumers as a way to deal with (for example) credit card debt.

There was a rapid increase in the number of IVAs between 2004 and 2006, which coincided with high levels of advertising by IVA providers. In response to concerns raised, the Insolvency Service led the

development of a voluntary agreement aimed at encouraging best practice and streamlining the process for straightforward consumer IVAs. This "[IVA Protocol](#)" has been in effect since February 2008 and was updated in January 2014.

IVAs have effectively replaced **Deeds of Arrangement**, which are still available but are used very rarely: the last recorded deed was registered in Q2 2004. Deeds of Arrangement are another statutory insolvency procedure involving an agreement with creditors. Only those creditors who vote in favour of the deed are bound by its terms; dissenting creditors can still pursue other enforcement actions to recover their debts.

# 4. Individual insolvency in Scotland and Northern Ireland

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Legislation and policy on individual insolvency in Scotland and Northern Ireland is different to that for England and Wales. In Northern Ireland, individual insolvency is broadly comparable to England and Wales, but changes in legislation and policy occurred on different dates. In Scotland, while the policy aims are similar, the individual insolvency framework operates differently and so numbers are not comparable to England and Wales, or to Northern Ireland (particularly if broken down by the type of insolvency).

## 4.1 Individual insolvency in Scotland

### 4.1.1 Overview

Insolvent individuals in Scotland are dealt with under the Bankruptcy (Scotland) Act 1985, as amended by the Bankruptcy (Scotland) Act 1993 and the Bankruptcy and Diligence etc. (Scotland) Act 2007. There are two types of individual insolvency in Scotland:

- **sequestration**, which fulfils much the same role as bankruptcy in England and Wales
- **protected trust deeds (PTDs)**, which are voluntary arrangements fulfilling a similar role to IVAs in England and Wales.

These forms of insolvency are set up and administered differently to their analogues in England and Wales – there are different entry criteria, fees and lengths of repayment. Further information about individual insolvency in Scotland can be found on the [Accountant in Bankruptcy's website](#).

### 4.1.2 Legislative changes and other factors affecting individual insolvency in Scotland

In April 2008, provisions in the 2007 Act commenced, which offered a new route into sequestration for individuals with **low income and low assets (LILA)**. The numbers of sequestrations increased immediately as a result of this change, so comparison of data after Q2 2008 with that before should bear this change in mind.

In November 2013, the Protected Trust Deeds (Scotland) Regulations 2013 introduced a number of changes to PTDs, including a requirement to pay 48 monthly contributions, rather than 36. Prior to these regulations, both sequestrations and PTDs involved a 36 month contribution period. This meant that between 28 November 2013 (when these regulations came into force) and 1 April 2015, a debtor may have chosen bankruptcy over a PTD as this would have resulted in having to pay fewer contributions. This may have been a factor in the decline in the number of PTDs in 2014.

The Bankruptcy and Debt Advice (Scotland) Act 2014 introduced a new 'Minimal Asset Procedure' (MAP) route into sequestration, replacing the previous Low Income Low Asset (LILA) route from 1 April 2015. MAP is only available to individuals who meet certain criteria, for example, that they have been receiving income-related benefits for at least 6 months or have been assessed, using the Common Financial Tool, as being unable to pay a contribution towards their bankruptcy. The individual's debt must be between £1,500 and £17,000 to qualify for MAP.

The 2014 Act also changed the contribution period for sequestration, increasing it from 36 months to 48 months, bringing it into line with the change introduced in 2013 for PTDs.

The Scottish Government has promoted the use of debt payment programmes under the [Debt Arrangement Scheme](#). These are not formal insolvencies, but are binding agreements with creditors to repay debts in full over an agreed period.

## 4.2 Individual insolvency in Northern Ireland

Individual insolvency in Northern Ireland operates in much the same way as in England and Wales, but under different legislation:

- The Insolvency (Northern Ireland) Order 1989
- The Insolvency (Northern Ireland) Order 2005 (which implemented similar changes to bankruptcy procedures as the Enterprise Act 2002 introduced in England and Wales)
- The Debt Relief Act (Northern Ireland) 2010, which introduced DROs in Northern Ireland from 30 June 2011.

Further Information about individual insolvency in Northern Ireland can be found at the [Department of Enterprise, Trade and Investment website](#).



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