UK business failures forecast to spike at 33%
- New Atradius Insolvency Forecast -

UK business insolvencies are set to rise 33% on pre-pandemic levels, reveals new economic research by trade credit insurer Atradius.

Contrary to initial expectations, the new Atradius Insolvency Forecast reports UK business insolvencies declined 27% in 2020 as a result of fiscal support schemes and anti-bankruptcy measures. As these measures continued in 2021, buffering businesses from the impact of the pandemic, insolvency rates have been kept artificially low. However, as fiscal support schemes are withdrawn, Atradius expects the long-awaited surge in insolvencies to be on the horizon, peaking in 2022.

The Insolvency Forecast warns UK business failures will begin to rise in H2 2021, resulting in a year-on-year increase of 7%. In 2022, annual insolvencies are forecast to spike by as much as 70% year on year. Analysis by Atradius economists of the latest forecast against a baseline insolvency level in 2019 reveals UK insolvencies will be 33% higher in 2022 than they were pre-pandemic – one of the highest rates in the world. Only Italy has a higher cumulative insolvency rate with a forecast increase of 34%, followed by the UK and Australia with a forecast increase of 33%.

On a macroeconomic scale, Atradius forecasts global insolvencies will rise 33% year on year in 2022 after two years of decline. Global insolvencies fell by 14% in 2020 and by a modest 1% in 2021, despite the world economy being plunged into recession. This is a significant downward adjustment to earlier forecasts, suggesting that fiscal support packages have been particularly effective. However, Atradius warns that the sharp decreases in most countries also suggest potentially many so-called ‘zombie’ companies have been created whose financial situation is too weak to survive once economic circumstances return to normal. These zombie firms may be able to buy themselves time by running down their cash but Atradius economists expect them to materialise into bankruptcies within the four quarters of fiscal support ending.

In the report, Atradius details that the surge in insolvencies is shaped by three forces. First is the delayed effect of bankruptcies that would have occurred in 2020 in the absence of fiscal schemes and changes to insolvency proceedings. Secondly, the phasing out of support schemes is expected to trigger an increase of insolvencies towards ‘normal’ pre-pandemic levels. The third force is the elasticity of insolvencies to GDP changes, which has been effectively suspended throughout the pandemic to date.

Damien Dawson, Southern Regional Manager, of Atradius UK, commented: “It is simple economics that insolvencies come hand in hand with economic recession which was inevitable as global economies recoiled as the pandemic hit. However, governments worldwide were quick to break this correlation and support businesses through the hardest trading period since the Great Depression. As the economy rebounds and support schemes are gradually withdrawn, the escalation of insolvencies is, unfortunately, inescapable.

“The most important thing businesses can do now is to be prepared. In such an uncertain and potentially volatile trading environment, information is critical. Businesses must build up comprehensive insights into buyers and their ability to pay, through real-time monitoring alongside a robust credit management strategy, flexibility to adapt should warning signs arise and non-payment protection. All of this is part and parcel of what trade credit insurance provides.

"The good news from Atradius is that we are underwriting higher cover levels proportionate to the level of trade now than prior to the pandemic. As a trade partner, Atradius supports businesses throughout every step of the journey; identifying new opportunities, managing risk and providing protection from the detrimental impact of non-payment helping businesses stay one step ahead no matter what the future brings."

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