

Personal Insolvency Review

Update: June 2025

NOT GOVERNMENT POLICY

All views expressed in this update are preliminary and **do not represent current Government policy**. They are indicative of developing thinking within the Personal Insolvency Review team, and are provided with the aim of allowing everyone who wishes to do so to contribute their voice to policy development in an important part of the UK's insolvency landscape.

We strongly encourage both supporting and dissenting views, to enable future proposals to build on a wide range of expertise and experiences.

Overview and Executive Summary

This update to the Personal Insolvency Review (PIR) covers the Insolvency Service's initial evaluation and conclusions, following workshops held in May 2024 and the independent chairs' reports circulated to stakeholders in August last year. It provides a written summary in several areas that may be familiar from prior discussions, to illustrate the current exploration of options by the Insolvency Service following the conclusions reached in August 2023 within the previous Call for Evidence. The views taken draw directly from the findings of the Call for Evidence; the output of the workshops; and other representations made to the PIR team within the Insolvency Service.

A contemporary personal insolvency regime must fulfil a range of goals: it must provide relief to individuals in problem debt, pursue a fair distribution of payment amongst creditors, and at the same time deal with any misconduct that has taken place. To reflect modern attitudes to debt, as a practical matter of efficient administration of insolvent estates, and in light of the social and economic benefits, there is a prevailing view that the focus of the personal insolvency regime should shift further towards debt relief and a genuine "fresh start" for individuals caught in financial difficulties. In pursuing this the other elements, and creditors' right to repayment where possible, will continue to have an important place within the regime.

The current personal insolvency regime presents a complex set of choices to individuals seeking to deal with their debts, leaving them vulnerable to poor advice and bad outcomes. Such complexity does not add value to the regime. It is unlikely that addressing these issues could be achieved through simple tweaks to the existing processes; we are therefore exploring options for more significant structural reform. One option may be to create a single insolvency process to serve the majority of consumers who need to deal with problem debt, and we are undertaking work to assess the implications if this were to be taken forward. Professional insolvency expertise and additional processes would, regardless, continue to be required for the more complex cases involving significant assets or trading, or where creditors initiate the insolvency.

There is a strong view amongst many stakeholders that debt advice should be made available in advance of insolvency, to enable people to understand their financial position and signpost

them towards the best option to resolve their difficulties. We are exploring the options to embed up-front debt advice within personal insolvency processes.

We have taken note of the concerns and complaints that have been raised about the Individual Voluntary Arrangement (IVA) process in particular. While the PIR cannot replace the immediate actions being taken to respond to these issues, we believe that a more efficient and robust process for consumer debt repayments ought to be achievable in the longer-term future. In the event that a streamlined process is introduced, the current version of IVAs will continue to be required in other circumstances, particularly to assist sole traders who wish to reach a deal with their business creditors.

For historical reasons, the investigation of misconduct is not evenly applied between insolvency processes. To provide assurance that misconduct and fraud will be addressed wherever it may occur, a future regime might use a combination of technology and other sources to identify cases where there is a concern, allowing the Insolvency Service's resources to be applied in the most effective way.

Protecting the dignity of individuals is clearly a significant concern for many stakeholders within the insolvency process, and so will demand care and attention in the design of any options. A modernised insolvency regime should encourage everyone to recognise that taking positive steps to deal with unmanageable debt is responsible, not immoral, behaviour.

The following sections cover certain areas of the regime that we are focusing on. As the ultimate purpose of the review is to resolve as many of the identified issues with the personal insolvency regime as possible, this update is not exhaustive. It does not propose specific solutions: those will be the subject of future consultation.

The chairs' reports from the 2024 workshops can be obtained by emailing the PIR team (see end). They address four aspects of the insolvency regime:

- Routes into insolvency
- Barriers to entry
- Assets and repayment
- Dealing with misconduct

Providing a fresh start

Many of the individuals and organisations who responded to the call for evidence suggested that the existing insolvency regime does not sufficiently prioritise the interests of the insolvent individual compared to the interests of their creditors. This mirrors changing attitudes to debt recovery across society, as the use of credit has become integrated into modern life: there is a growing acceptance that in most cases being unable to repay debts results from unforeseen events rather than immoral or reckless behaviour. The power and information imbalance between institutional lenders and private citizens has come under scrutiny, leading to calls for responsible lending. The introduction of the Consumer Duty by the Financial Conduct Authority in 2023 placed requirements on regulated lenders to support their customers and to identify and address customer vulnerability.

It is natural to suggest that the insolvency regime should reflect the people who use it, and be structured in a way that deals with their insolvency efficiently. The Insolvency Service's own

experiences overseeing bankruptcies and debt relief orders (DROs) support the conclusion that a modern regime should focus on assisting individuals to deal with their problem debt: only a relatively small number of cases have any material assets or show evidence of misconduct. The evidence suggests that, while it is self-evident that an effective insolvency regime cannot dispense with the need to deliver returns to creditors where possible, or the requirement to deal with misconduct, it will be right for the regime to concentrate first and foremost on the process of debt relief.

Our observations:

- In 2024 there were nearly six times as many DROs (where individuals had minimal assets) as bankruptcies, while the low assets in bankruptcies in recent years have meant that only a small number of debtor petition cases (~6%) have been in a position to offer returns to creditors.
- The typical person entering an IVA is now a consumer, with limited assets other than their income.
- 7,997 bankruptcies were commenced in England and Wales in 2023/24.
- A very small number of individuals are found to have committed misconduct or acted in a reckless or culpable manner that required extending the restrictions of bankruptcy: 131 Bankruptcy Restrictions Orders and Undertakings were obtained in 2024/25.

Placing a “fresh start” at the heart of any future regime will reflect not only the evolving attitudes towards debt in society but, as a practical matter, the need effectively to rehabilitate individuals caught in difficult financial circumstances. Although the benefits of debt relief are primarily felt by the individuals concerned and their families, more recent commentary has highlighted the wider impacts of debt and debt relief: including on the affected individual’s demands on healthcare and social welfare systems; their work productivity; and their consumer spending. All of these ultimately feed through to the UK economy and emphasise the need for an effective insolvency regime.

This has been reflected in the views expressed in respected international forums. In 2014, the working group assembled by the World Bank to explore “the Treatment of the Insolvency of Natural Persons” reiterated the logic that a well-structured and efficient regime can both promote productivity and avoid unnecessary waste, supporting individuals to resolve their financial situation and preventing creditors from pursuing debts where no returns are possible. According to the group’s report, the spillover effects of those benefits include, amongst others: “Establishing proper account valuation; Reducing wasteful collection costs and destroyed value in depressed asset sales; Encouraging responsible lending; Concentrating losses on more efficient and effective loss distributors; Reducing social costs of illness, crime and unemployment; Increasing production of taxable income; Maximizing economic activity; Encouraging entrepreneurship; and Enhancing the stability and predictability in the financial system and the economy”.

The Organisation for Economic Co-operation and Development (OECD), examining the importance of a fresh start in the context of entrepreneurship, was clear that the absence of an effective debt relief process will “adversely affect productivity growth by reducing firm entry and experimentation with risky business strategies, as well as the likelihood that non-viable firms exit the market in a timely way”. A similar effect extends to consumer households: an

examination by the International Monetary Fund (IMF) of how household debt affects growth and economic performance suggests that a short-term increase in household debt through access to credit and higher consumption may be economically positive; but where this leads to over-indebtedness and stagnation it can be a source of vulnerability and prolonged recessions. Mechanisms to resolve over-indebtedness are needed if society is to maximise the positive benefits of credit.

This reality is influencing policy and legislative change internationally. The 2019 EU Directive on Preventative Restructuring Frameworks aims to ensure that “honest or over-indebted entrepreneurs can benefit from a full discharge of debt after a reasonable period of time, thereby allowing them a second chance”. Although focused on entrepreneurs, the directive states that the “fresh start” principle should also be applied to consumers in problem debt and advises the application of the same provisions to its Member States’ personal insolvency regimes. The directive was later followed by a detailed recommendation from the EU’s Financial Services User Group to implement harmonised EU consumer insolvency rules that put the fresh start ethos at the centre of insolvency frameworks, so as to benefit from “more efficient allocation of resources, less debt lingering on over-indebted consumers that are unable to properly participate in the economy and higher medium-term productivity growth”.

The debt advice sector in particular has highlighted the value that a fresh start provides to the individual, and it appears that the benefits of debt relief to wider society are considerable. While it has long been accepted that there is limited value to creditors in spending more money (either singly or collectively) to pursue individuals who are unable to repay the money they owe, it can be argued that insolvency processes should allow the individual using them to return to unburdened economic activity as quickly and fully as possible.

The representations made to us (recorded in the summary of responses to the Call for Evidence and the workshop reports) suggest that the current regime does not achieve the degree of fresh start for the individual that modern society would expect. Even so, a subjective judgement is then required as to what constitutes a quick and full return to economic activity, and what is achievable in practice. Taken to an extreme, pursuing the debtor’s rights alone will lead to an unworkable insolvency system. The above therefore implies the need for a pragmatic approach, where a rebalancing of the underlying social contract does not disregard creditors’ interests; and maintains the protections that discourage fraud and abuse.

Numerous papers have been drawn up that capture views of the international community on the importance of dealing effectively with insolvency and the impact that a fresh start can have. Among those we have reviewed are:

[World Bank - Working group for the treatment of the insolvency of natural persons](#)

[OECD - Enhancing insolvency frameworks to support economic renewal](#)

[IMF Global Financial Stability report: Household debt](#)

[EU Directive on Preventative Restructuring Frameworks - 2019/1023 - EN - EUR-Lex](#)

[FSUG opinions 2023 - European Commission](#)

[UNCITRAL Legislative Guide on Insolvency Law](#)

Current insolvency solutions

A significant number of the more detailed complaints that have been raised regarding the personal insolvency regime are rooted in the disparities between the different procedures. This encompasses, for example, certain concerns regarding:

- Limits on entry to different procedures
- Handling of undeclared debts that come to light post entry
- Levels of fees
- Treatment of assets such as motor vehicles
- Marketing and pre-insolvency advice

The differences between the three insolvency procedures create a confusing landscape for a non-expert wishing to manage their debts in a responsible way. While recognising the importance of choice, and believing that the decision to seek debt relief must remain primarily with the individual, we are also conscious that financial distress may negatively affect decision-making. Behavioural studies suggest that it is unsafe to assume that an individual will always have sufficient information and the freedom from pressure necessary to make sound financial decisions.

This will particularly be the case where debt advice is not offered, or is not taken up, or is not impartial. We view the complexity as a significant contributing factor to individuals entering a solution that does not match their needs, and suboptimal outcomes for all parties. Despite the cost of entry and the stigma associated with bankruptcy, a proportion of individuals continue to enter the procedure each year even where they appear to be eligible for a DRO (which may have been the better option under the circumstances). We have noted the [report by Citizens Advice](#) which indicated that approximately one in five people entering an IVA would have been eligible for a DRO, and that 15% had a negative budget. This comes alongside the Insolvency Service's own research into IVAs that raised concerns regarding the entry process and the information that had been provided to prospective clients in many cases.

Feedback given to the Insolvency Service illustrates some of the difficulties that people have experienced:

“I first saw ‘court claims’ and well, I don’t want to look at that. It scares me like we're gonna get in trouble... You’re thinking, am I a criminal and doing something wrong?... I think it might scare a few people off actually.”

“I definitely would have taken more time around it and spoken to more people and used the free help and advice that's out there. I don't know whether I would have picked a different option because I think I was very much led by people who I felt knew best”

“So I would look for an organisation to help me because I wouldn't wanna do it myself. I’d need a step by step guide in a sense that it's easy to walk through”.

“I thought you’d clicked on it and it'd just be a form. Whereas now, they've got loads more stuff you got to read. I don't like it, I wanted there to be a form and I could just send it away”

“I don't think I fully understood the effect it would have on my credit score. I knew it was gonna make it bad, but maybe didn't expect the effect it did have, and the only thing I would maybe do differently was to ask family for help.”

An option focused on simplification of the insolvency regime, at minimum a reduction in the differences between processes, should reduce uncertainty and assist people when they are deciding on the best route to deal with their debts.

The differences between insolvency processes can however be traced to their design. The treatment of motor vehicles in bankruptcy, for example, follows the underlying philosophy that (only) where there are realisable assets, they should be used to pay for the costs of proceedings and to repay creditors; vehicles in DROs can be treated more simply on the understanding that anyone with more than minimal assets will be excluded from the process. In an IVA the treatment of assets is flexible and will be subject to negotiation with creditors. Aligning the insolvency processes is not a straightforward matter of choosing a single approach and applying it across the board: any changes must be considered in light of their impact on the different goals of each process, and how they will affect it.

While we expect that aligning processes will be very difficult, a successful alignment will inevitably raise the question of why separate processes exist at all. For example, aligning payments in bankruptcy and consumer IVAs would erode the argument for creditors to approve the latter. The use of consumer IVAs as a means to avoid bankruptcy already raises questions under the “can pay, will pay” philosophy: if it is both viable and reasonable that an individual can voluntarily choose to make particular payments to their creditors for a certain length of time, there is little justification not to ask them to make the same payments if they are made bankrupt. While simplistic, this line of thinking highlights the need for a settled position as to what constitutes an appropriate level of debt repayment.

It is notable that neither IVAs nor DROs have a clear route for an individual whose IVA fails or whose DRO is revoked to transition to the backstop of bankruptcy. This has been a significant area of dissatisfaction amongst stakeholders and a natural target for improvement. Without a transition, the individual is left unprotected. Creditors are faced with the choice of whether to take separate action to try to enforce their debts, or wait to see if another solution will be put in

place. However, despite the shortfall in the regime, it may not be possible to improve transitions between the insolvency processes without sourcing funding for the bankruptcy.

In a related concern, we note that the insolvency system does not take account of the history of the individual when determining appropriate debt repayments. If an IVA fails at a late stage and leads to a person's bankruptcy, they may spend considerably longer in total repaying the same debts than either process would consider appropriate. Likewise, discharge is determined based on the date that bankruptcy is entered, rather than with an eye to what assets or other matters remain to be dealt with.

In our current assessment the introduction of DROs, and the widespread use of IVAs to deal with consumer debt, have been pragmatic responses to changes in society that have increasingly rendered bankruptcy an expensive and cumbersome means of dealing with consumer insolvencies. Equally, a combination of the range of solutions and their conditions of entry, punitive treatment of key assets, commercial incentive and stigma has led to a significant number of people avoiding debt forgiveness who should have been willing and able to take advantage of it: besides individuals who enter an unsuitable IVA, there are others who find all of the insolvency processes unsuitable for their circumstances, and who rely on creditor forbearance as they continue to struggle with debts that they cannot realistically repay. This has consequent implications for the fairness, efficiency, and reputation of the regime.

Taking into account both the significant benefits in simplification and the difficulty in harmonising the existing insolvency procedures, we believe that significant structural reform is likely to be necessary. We will consider what options are available to achieve this. Structural simplification would be in line with international efforts in recent years, including the EU drive towards efficiency through insolvency harmonisation and a [Bill proposed in the US in 2020](#). As a starting point for this aspect of the work we are considering whether it would be possible to create a single new insolvency procedure that meets the requirements of the majority of people now using the system, and what the benefits and drawbacks of such an approach might be.

Beyond and within the restructuring of the regime, there are several areas of interest, the more significant of which are explored below. Other areas that are not mentioned further in this update but which we consider important to address include the impact of insolvency on the home (both in the context of people who live in rented accommodation, and home owners); and how insolvency can more efficiently deal with individuals engaged in self-employment businesses.

Behavioural studies highlighted in the World Bank working group's review include:

Oren Bar-Gill, Seduction by Plastic, 98 NW. U. L. REV. 1373 (2004)

Saul Schwartz, Personal Bankruptcy Law: A Behavioral Perspective, in CONSUMER BANKRUPTCY IN GLOBAL PERSPECTIVE 61 (Johanna Niemi-Kiesiläinen, Iain Ramsay & William Whitford eds., 2003)

Russell B. Korobkin & Thomas S. Ulen, Law and Behavioral Science: Removing the Rationality Assumption from Law and Economics, 88 CAL. L. REV. 1051 (2000)

Jon D. Hanson & Douglas A. Kysar, Taking Behavioralism Seriously: The Problem of Market Manipulation, 74 N.Y.U. L. REV. 630 (1999)

Christine Jolls, Cass R. Sunstein, and Richard Thaler, A Behavioral Approach to Law and Economics, 50 STANFORD L. REV. 1471 (1998)

We have also noted studies and reviews such as:

[Qiyang Ong, Walter Theseira, and Irene Y H Ng, Reducing debt improves psychological functioning and changes decision-making in the poor](#)

[Annamaria Lusardi & Olivia S. Mitchell, The Economic Importance of Financial Literacy: Theory and Evidence](#)

The above represent only an illustrative sample. The authors of this update are not experts in behavioural science; as with other references to external material, inclusion alone should not be taken as an endorsement or support of any of the authors, papers, methodologies, or conclusions.

Debt advice

Many of the comments on the personal insolvency regime suggested that high quality debt advice is key to achieving the best outcomes for everyone. A trained debt adviser can help someone to sort through the options available to them and decide on a way forward to deal with their debts. Part of the process of providing advice will be establishing the person's income and expenditure, and so will determine whether they are able to repay their debts by following a budget. A debt adviser can help to identify any untapped sources of income that might resolve the situation without resorting to debt write off, and they will ensure that the person understands all of the consequences of insolvency before a decision is taken.

With the advantages that debt advice offers to the individual, the opportunity it provides to signpost other support services, and the assurance it can offer to creditors that there has been an independent review of the circumstances, it is unsurprising that there is significant interest in making debt advice available to more people before they enter insolvency. Once again this interest in advice services is in line with [activity within the EU in the last decade](#). In the UK, a [2023 survey](#) by the Money and Pensions Service (MaPS) revealed that more than eight million people needed debt advice to deal with money they owed, and over 12 million more lived on the edge. Restating the importance of support for people in financially difficult circumstances who are making life changing decisions, the MaPS survey also revealed that less than half (44%) of those who needed advice had obtained it.

The connection between debt advice and debt relief is already seen in DROs in England and Wales, and appears in other jurisdictions: in Scotland, it is only possible to apply for bankruptcy [through an approved money adviser](#); in the US, individuals [must complete credit counselling](#) before filing for bankruptcy; in Canada, [two debt counselling sessions](#) must be completed as part of the bankruptcy process.

We agree that debt advice should be available to people seeking to deal with problem debt, especially prior to committing to an insolvency process with serious financial implications. It is difficult to be prescriptive as to the support or education that might be needed, as this will vary from one person to the next. An approach similar to the one taken in DROs, where an application can only be made through an approved intermediary, could be an attractive model from this perspective: mandating contact with an independent party who can provide support, without specifying particular courses of education or lengthy prerequisites that might not be appropriate for everyone and that would slow or deter applications. Debt advice should, regardless, be freely available and easily accessible to people who need it.

While acknowledging the concerns that the Insolvency Service and others have raised regarding current practice in the IVA market, we have not yet drawn any conclusion as to the source of debt advice. We will continue to explore the available options. There are several principles that could perhaps be applied, regardless of provider: debt advice should reflect the best interests of the individual (creditor interests being protected by the insolvency framework itself); all options to resolve the financial difficulties should be considered equally and fairly; any particular vulnerabilities should be identified and the individual offered appropriate support. Commercial interests (e.g. where the adviser or their firm offers an insolvency process from which they might expect to profit) could conflict with those principles.

Part of the discussion around an increased role for debt advice has centred on whether there should be a single gateway into insolvency. In light of the points above regarding the benefits of simplifying the overall structure of the insolvency regime, and the assistance that debt advice can provide to individuals to find the best way forward, this is a question that may be settled as part of the further development of detailed proposals. It is not yet clear whether imposing a single portal would be helpful or an unnecessary restriction: the answer may depend on what options are available to people seeking to deal with their debts and how debt advice is made available.

Funding debt advice:

Debt advice is not without cost. The [published accounts](#) of the Money and Pensions Service indicate that in 2023/24 MaPS spent £81.6m on direct delivery of debt advice services, including debt relief orders, serving over 600k people.

It is to be expected that the costs of assisting someone in financial difficulty to enter a DRO are higher than average. The MaPS 2023/24 [impact report](#) indicates spending of £6m on its DRO hubs that resulted in 21.9k DROs.

The means of funding the additional debt advice discussed above is a key question for the future development of the review.

Debt repayment

A great deal of current commentary around the personal insolvency regime focuses on the consumer IVA market and the concerns that have been raised, not least by the [Insolvency Service's own research](#) in this area. The Personal Insolvency Review is not (and cannot be) a short-term response to these issues, although those do nevertheless affect our consideration of a future regime.

The workshop report on “Assets and Repayment” highlights not only the tension between providing returns to creditors and rehabilitation of the individual into society, but also the inefficiency of the IVA process for the purpose of consumer debt repayments. Creditor-provided data suggests that IVA fees of thousands of pounds can consume nearly 50% of an individual's contributions in a typical case. In our view this is an indicator of the mismatch between a process that is designed to allow a person operating an insolvent business to reach a deal with their creditors, and the much simpler situation faced by most insolvent consumers.

We have taken note that a more efficient and robust process for consumer debt repayments might not only resolve many of the present concerns, but help to mitigate the three-way conflict between the interests of the individual, repayment of creditors, and the requirement to fund the insolvency regime. We are undertaking further work to explore the options to improve the debt repayment process. This will include consideration of:

- Oversight – and what level of insolvency training and experience would be required to manage a simpler payment plan.
- Approval – whether creditor involvement is the most effective way of ensuring that repayments are correctly calibrated, and what alternatives may exist.
- Variations – how to account efficiently for e.g. changes in income without creating an unnecessary bureaucratic burden.
- Repayments – establishing the right level and duration of repayments, taking into account the tension noted above.
- Fees – ensuring that the administration of the process provides value for money.

Although there are similarities and experience that we will wish to draw from, an insolvency solution that allows for debts that cannot be repaid to be written off would not duplicate the proposal for a Statutory Debt Repayment Plan that has been suspended pending the outcome of the personal insolvency review.

We are aware that despite the long lead in time before any changes can be consulted on or come into effect, this element of our work is likely to be of particular interest to many stakeholders.

Enforcement

Despite declining numbers, bankruptcy remains the defining insolvency process for natural persons in the UK. The DRO and IVA processes are often judged by what they do or do not offer in comparison to that benchmark, and this is particularly stark in the area of investigation of wrongdoing and enforcement against people who have committed misconduct.

The approach in bankruptcy remains at least partly based in the historical notion that people who enter insolvency are demonstrating a moral failing: a person of good character would not have borrowed money in the first place, or else would certainly repay their debts. The view that a

bankrupt must have done something wrong and a robust approach is needed lingers in public consciousness, even if it does not hold up to modern reality. While an assessment is presently conducted based on the information provided up front by the individual and available through other sources, and an interview is only carried out where that is insufficient to establish the situation, the perception remains that the official receiver will intrusively examine the bankrupt person's affairs and that they will be treated with suspicion. That perception is likely compounded by the fact that where indications of misconduct are found, a further investigation may be launched.

This can be contrasted with the approach to DROs, where the expectation is that no further enquiries will be carried out after the initial making of the order. Whereas much the same fact-checking process is present, information-gathering is managed in a voluntary way through the authorised intermediary before the order is made, before being checked against recorded data. People for whom insolvency is not a suitable answer to their financial situation will be guided elsewhere, and the primary consequence in cases where an order is found to have been made incorrectly is the revocation of the DRO. On the face of it the less adversarial approach has significantly reduced the stigma attached to the insolvency process, but the lack of a visible investigation of the individual may contribute to background concerns regarding moral hazard and the need to ensure that the system deters fraud.

In an IVA, the insolvency practitioner acting as nominee will check that the information provided by the individual is an accurate depiction of their financial situation (see [SIP 3.1 | England and Wales](#)). However, the focus is on ensuring that the information is accurate, rather than on investigating any other misconduct that may have occurred. The presumption is that creditors will only negotiate and approve an IVA that is in their commercial interests, making further investigation an unnecessary deterrent to use of the procedure. With the shift in use of IVAs to deal with consumer rather than business debt, creditors may be less involved in examining the events leading up to the IVA than the drafters of the Insolvency Act would have envisaged; and it is accepted that the need for creditor agreement should not unduly prevent an individual's rehabilitation (see the standardisation of terms through the Consumer IVA Protocol, and the Consumer Duty's requirement for financial services firms to act to deliver good customer outcomes). There may now be a greater need for external review to ensure that the process of resolving consumer debts is not abused.

In the context of the calls to place "fresh start" at the heart of the insolvency process, we agree with attendees to the workshop on Investigation and Enforcement that blanket investigation of all cases would be unhelpful and unnecessary, in that it would deter entirely innocent individuals from accessing debt relief. For that same reason, the less confrontational approach to information-gathering currently seen in DROs might be preferred.

This leaves the question of how the personal insolvency regime can provide assurance to both creditors and wider society that there are safeguards to prevent abuse, and that financial misconduct will be dealt with. Again, we note the workshop report which suggested that a combination of technology and other sources might be used to identify cases where there is a concern, allowing the Insolvency Service's resources to be applied effectively. Collective information-sharing between investigative agencies improves the outcomes for creditors and reduce the costs of investigation. While complaints can be an important source of hidden information, it will not be sufficient to rely on complaints alone to target investigations.

Where genuinely necessary information can be gathered in advance in a reliable way, it may not be necessary to subject the majority of individuals who have not committed misconduct to an intrusive investigation into their affairs. There will remain a need for this in cases where the insolvency is initiated by creditors.

Reducing Stigma

In parallel to the question of enforcement, we note the view from the workshop on “Barriers to Entry” that the application of standard restrictions to insolvent individuals is hindering people seeking debt relief. The restrictions are of questionable value as a means of protecting the public or future creditors, when the most effective warning and restriction on obtaining credit comes from the insolvency entries on the individual’s credit reference files. Additional restrictions are difficult to justify once it is fully understood that insolvency is not an indication of an inherent unreliability in financial matters. Placing blanket restrictions on people entering insolvency reinforces the stigma that suggests it is a moral failing. We are inclined to the view that removing any unnecessary restrictions, where there has been no indication of wrongdoing, would help address that stigma without opening the regime to abuse.

The terminology used to refer to debt relief options is also archaic and seen as dissuading people from seeking help. Terms such as bankruptcy and debtor are seen as pejorative. It is evident that where the use of credit is integrated into society, managing insolvency becomes a necessary function of a productive economy. A system which recognises that entering insolvency to deal with unmanageable debt is responsible behaviour rather than a failing would support a healthier society. It is expected that this would empower people to seek earlier interventions, and so limit the harm to themselves and to creditors.

We therefore believe that protecting the dignity of individuals must be a significant consideration within the insolvency process, and is a matter to be treated with care and attention in the design of any modern system. As insolvency can be a stressful and challenging process for anyone to navigate, it is important to ensure that elements which contribute to stigma are only present where necessary for the effective functioning of the regime.

Conclusions

The issues with the insolvency regime that have been highlighted to us would not be easily resolved by tweaking the existing regime. There is an inherent inefficiency in applying processes designed to deal with business insolvencies to consumers; meanwhile, the multiple different processes create confusion and lead to poor outcomes for people using the regime. Potentially helpful changes, such as increasing the use of debt advice and opening up a streamlined process to more people, may not be achievable without the efficiency that can be unlocked through structural change.

We are therefore exploring the options to simplify the personal insolvency regime, with a particular focus on meeting the needs of consumers who make up the majority of insolvencies.

One initial possibility that we will explore is a simpler, single insolvency process for most people seeking to deal with their debts. We expect that this would be modelled primarily on DROs, with the addition of appropriate interventions to deal with any identified assets or misconduct. The insight developed in assessing that single process approach will then assist us in determining the full options for structural change. We note that in the event that a single process does prove desirable and workable in many situations, it nevertheless appears that the existing bankruptcy

and IVA processes will remain valuable in certain cases (where creditors petition for the insolvency, or to assist in the restructuring of sole trader businesses, for example).

We will continue to engage with stakeholders throughout our further work in this area. Any changes to the insolvency regime will require considerable time to develop and implement, and will be the subject of a full formal consultation exercise prior to legislation and implementation.

Comments and contributions

We welcome further views and evidence from everyone with an interest in the personal insolvency regime.

Information can be sent via email to:

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