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10,000 people a month will go insolvent as debt soars

Another record level is expected, experts fear fraud is on rise

by Gabriel Rozenberg, Economics Reporter

More than 10,000 people a month are expected to declare themselves insolvent this year as a culture of unsustainable debt grows among the "buy now, pay never" generation. Acountancy experts are forecasting a record number of personal insolvencies in the first three months, after a year in which bankruptcies and similar arrangements soared above the 100,000 mark for the first time.

Financial advisers say that the figures point to the emergence of a generation who take debt for granted and for whom bankruptcy has lost its shame. The use of individual voluntary agreements (IVAs), a popular alternative to bankruptcy that protects debtors' homes from automatic repossession, has grown steadily over the past two years and is expected to soar this year.

Grant Thornton, the financial adviser, forecast that 30,000 personal insolvencies would be filed in the first three months of the year, of which a third would be as a result of excessive Christmas spending.

Mike Gerrard, the head of Grant Thornton's personal insolvency practice, said: "Last year, during the period straight after Christmas, when most bills started to hit the doormat, we witnessed the highest-ever amount of people going into personal insolvency. This year things could be even worse."

Some financial experts gave warning that fraud is on the rise, as the use of IVAs grows. Louise Brittain, head of personal insolvency at the chartered accountant Baker Tilly, who specialises in IVA fraud, said: "I have never been so busy."

About 45,000 people entered IVAs last year, double the figure from the previous year, according to estimates from KPMG, the accountants. People applying for IVAs had average debts of £52,000 but had offered to repay an average of only 39 per cent.

A Bank of England survey last month found that the top reasons for people getting into problems with debt were a temporary lack of cash, overspending, higher than expected household bills, unemployment and cuts in overtime pay.