Government proposes strengthening insolvency regulation

The Government has today set out new proposals to reform and simplify regulation of the insolvency sector.

Key changes set out in the consultation include:

- establishing a single independent regulator to sit within the Insolvency Service, replacing the current four Recognised Professional Bodies
- extending regulation to firms that offer insolvency services, as the current regime only covers individual Insolvency Practitioners
- create a public register of all individuals and firms that offer insolvency services
- create a system of compensation and redress

These changes will help strengthen and modernise the regulatory regime which has been in place for over 30 years and needs reform in order be able to keep pace with developments in the insolvency market.

The reforms will ensure a robust and proportionate regulatory regime which enhances consistency, improves transparency and, importantly, will also regulate firms that offer insolvency services rather than just individual Insolvency Practitioners.

Regulation at firm level would see the insolvency sector brought into line with other sectors such as audit and the legal professions. The vast majority of firms offering insolvency services are not expected to face increased costs, unless there are instances of wrongdoing.

Business Minister Lord Callanan said:

> The proper functioning of the insolvency regime is vitally important to support business investment and growth and to provide a safety net for individuals in severe financial difficulty.
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> Those most impacted by insolvency need confidence in the professionals involved, and the UK regime has a strong reputation for delivering the best outcomes possible when an insolvency occurs. In order to maintain that confidence, the regulatory regime must keep pace with the times and these proposals to introduce an independent regulator will strengthen the regime and deliver greater transparency, accountability and protection for creditors, investors and consumers.

The Insolvency Service is currently responsible for oversight of regulation of the Recognised Professional Bodies (RBPs), which are responsible for regulation of individual IPs.

Following a Call for Evidence, the Insolvency Service has found that the current framework is disproportionately complex, with 4 membership bodies and government all involved in regulating fewer than 1,600 individuals.

This approach has led to weaknesses in the regulatory system as the market has evolved over recent decades. As well as a lack of regulation of firms undertaking insolvency work, the current system also lacks transparency and has inconsistencies, with different bodies making information available in different formats.

The Government is also proposing a public register which will clearly show all individuals and firms that are authorised to provide insolvency services, together with whether that individual or firm has previously been sanctioned by the regulator.

In addition, where there has been a mistake or wrongdoing by an IP or firm offering insolvency services, which has adversely affected one or more parties involved in the proceedings, there will be a new formal mechanism that will allow for compensation to be paid if appropriate.

The consultation will run until 25 March 2022.

Notes to editors

The proposed changes would apply to England, Scotland and Wales. Insolvency, including regulation of insolvency, is a transferred function in Northern Ireland, although there is close alignment of the insolvency and regulatory frameworks between Great Britain and Northern Ireland.

The full consultation for reforming insolvency regulation can be found here

Contact Press Office

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