



## Economics

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# THE BANKRUPTCY REPORT

August 12, 2013

## The Changing Composition of Insolvencies

by Benjamin Tal

After reaching an all-time high of 6 per 1,000 of the adult population during the recession, the number of personal insolvencies in Canada has fallen back to its prerecession level of roughly 4 per 1,000 (Chart 1). On a year-over-year basis, insolvencies are still falling by close to 4% on a smoothed 3-month moving average basis, while on a cumulative basis they are down by 3% during the year ending April 2013, relative to the same period in the previous year (Chart 2).

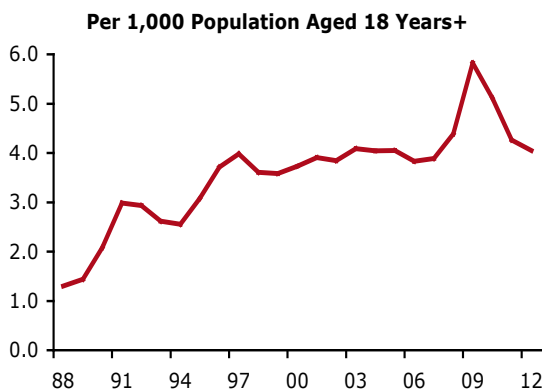
This trend, however, masks two different trajectories of the two components that compose the insolvency rate. The number of personal bankruptcies, the first component, is now falling by 7.4% on a smoothed year-over-year basis and is also down by more

than 7% on a cumulative basis. However, the second component, the number of proposals (a situation in which a consumer negotiates to repay only a portion of his/her debt) is, in fact, rising (Chart 3). Note that while proposals rose alongside bankruptcies during the recession, they stayed up during the recovery (Chart 4).

In the past, the growth in the number of proposals was of little importance given its relatively small size. That, however, is changing. The opposing trajectories of proposals and bankruptcies have led to a situation in which proposals now account for no less than 40% of total insolvencies (Chart 5).

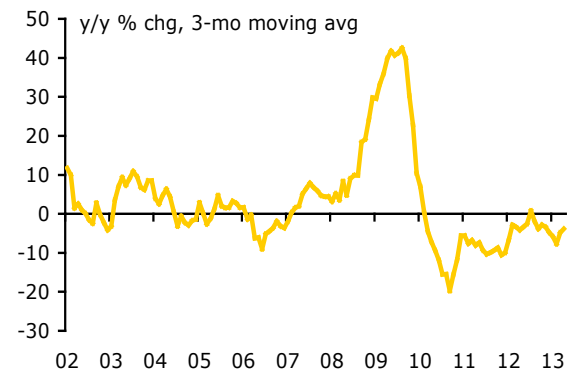
By province, the share of proposals in total insolvencies is the highest in Ontario (over 50%) followed by Alberta (Chart 6).

Chart 1  
Personal Insolvency Rate—  
Back to Pre-Recession Level



Source: Office of the Superintendent of Bankruptcy Canada, Statistics Canada, CIBC

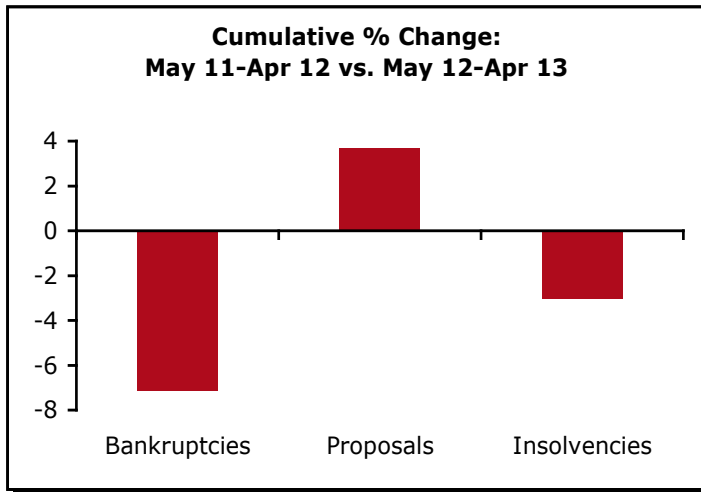
Chart 2  
Personal Insolvencies



Source: Office of the Superintendent of Bankruptcy Canada, CIBC

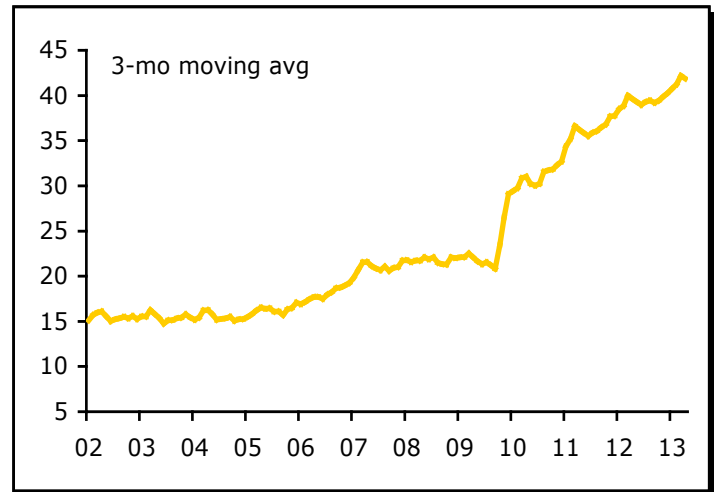
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Chart 3  
Rising Proposals Offset Falling Bankruptcies



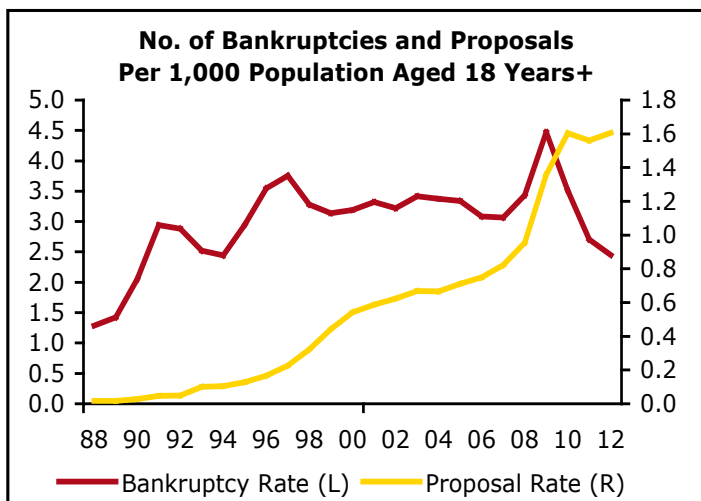
Source: Office of the Superintendent of Bankruptcy Canada, CIBC

Chart 5  
Rising Share of Proposals in Insolvencies



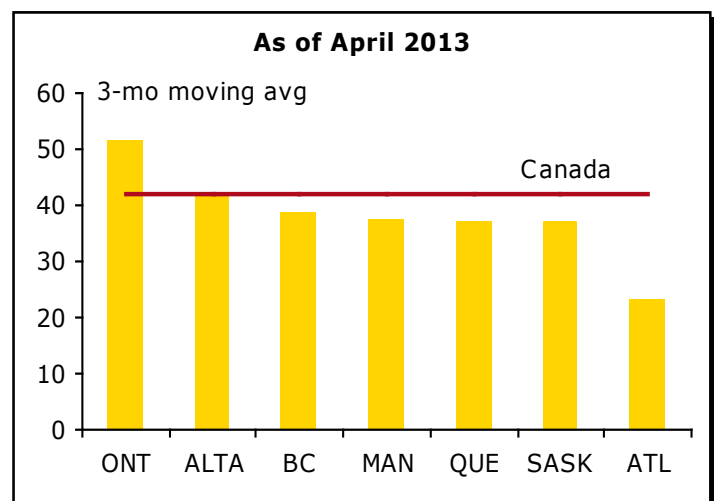
Source: Office of the Superintendent of Bankruptcy Canada, CIBC

Chart 4  
Bankruptcies and Proposals—Diverging Trends



Source: Office of the Superintendent of Bankruptcy Canada, Statistics Canada, CIBC

Chart 6  
Share of Proposals in Insolvencies by Province



Source: Office of the Superintendent of Bankruptcy Canada, CIBC

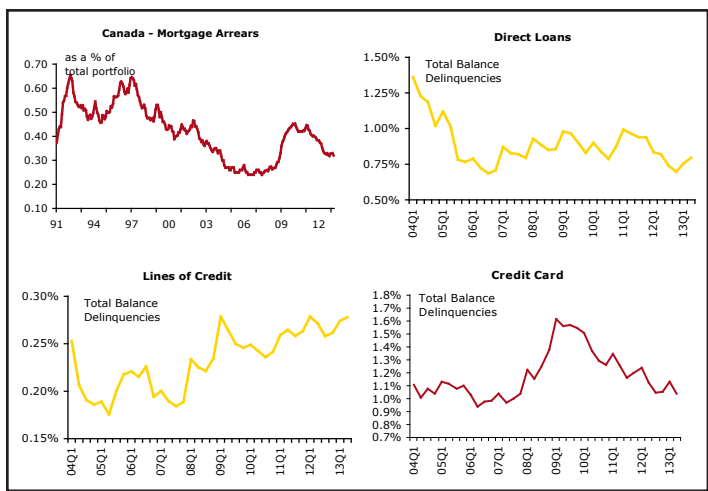
This is largely due to changes to the Bankruptcy Insolvency Act (BIA) in 2008, with the most significant modification being the increase in the limit of the size of non-mortgage debt for qualifying for a proposal from \$75,000 to \$250,000—making proposals more attractive relative to the bankruptcy route.

Looking deeper into what is in the pipeline, by focusing on trends in major delinquencies of various credit products, reveals differing trajectories. After rising during the recession, the rate of mortgage arrears has been

trending downward in the past few years, but recently has stabilized at a rate close to 10 points higher than seen before the recession. Delinquencies in the credit cards market have been trending downward over the past few years, reflecting in part a transfer of risk to lines of credit which, in turn, have seen rising delinquency rates (Chart 7).

With the labour market slowing to a pace not seen since the recession, and the quality of employment projected to soften due to soft performance in sectors such as public

Chart 7  
Major Delinquencies by Product



Source: Equifax Canada, CBA, CIBC

administration and construction, the likelihood is that the insolvency rate will stabilize at its current level or even start edging higher in the coming year or so due to the lag between labour market performance and changes in insolvencies.

Further out, when the next recession hits, the increased availability of the softer option of proposals should result in a higher peak insolvency rate.

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