The possibilities of reforming Czech insolvency law

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Duration of insolvency proceedings, costs for proceedings and yields from proceedings (2011)

Country	Duration (years)	Costs (% of yield)	Yield (%of investment)
CR	3,2	17	56,0
OECD (average)	1,7	9	68,2
Finland	0,9	4	89,1
Germany	1,2	8	53,8
Italy	1,8	22	61,1
Poland	3,0	15	31,5
SR	4,0	18	54,3
Sweden	2,0	9	75,8
GB	1,0	8	88,9
USA	1,5	7	81,5

Source: Doing Business 2012,
http://data.worldbank.org/indicator/IC.ISV.DURS?page=1

Duration of proceedings and yield for creditors from proceedings following declaration of a debtor's bankruptcy in the CR

Year	Duration of an insolvency proceeding (in years)	Creditor's yield from debtor's bankruptcy (% of claim)
2002	9,2	15,4
2003	9,2	15,4
2004	9,2	16,8
2005	9,2	17,8
2006	9,2	18,5
2007	6,5	21,3
2008	6,5	20,9
2009	6,5	20,9
2010	3,2	55,9
2011	3,2	56,0

Duration of a commercial lawsuit in the amount of days from filing to court ruling

Year	CR	Netherlands	New Zealand	Germany
2002	663	534	232	403
2003	663	534	232	403
2004	653	534	220	394
2005	653	514	220	394
2006	653	514	220	394
2007	653	514	216	394
2008	653	514	216	394
2009	611	514	216	394
2010	611	514	216	394
2011	611	514	216	394

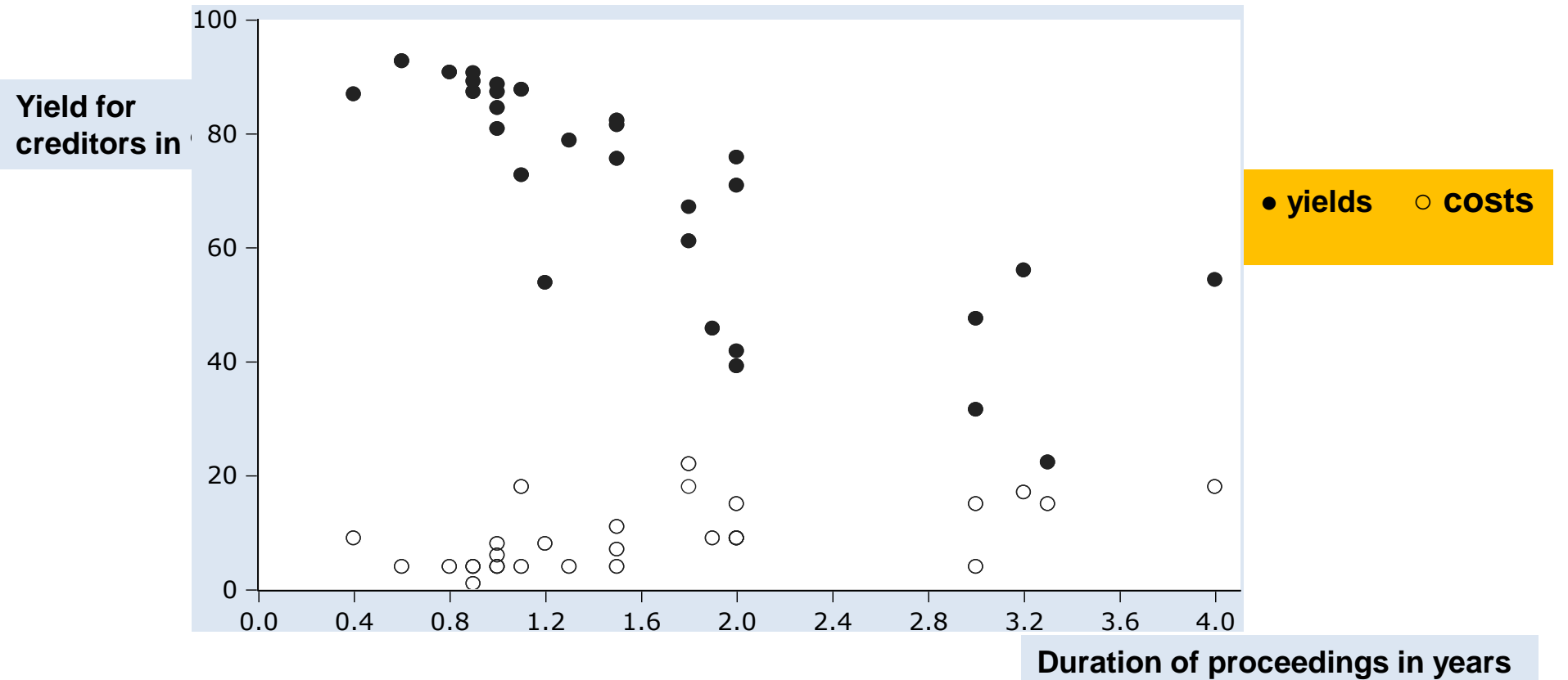In OECD countries the average is 518 days

Proposals rejected on the grounds of insufficient debtor property in comparison with other cases

Year	Proposals rejected on the grounds of insufficient property	Declared bankruptcies	Approved reorganisations (compensation)
2003	627	1719	9
2004	889	1435	6
2005	1159	1230	6
2006	1536	1238	7
2007	1986	1104	11
2008	668	651	6
2009	1768	1660	14
2010	1571	1948	19
2011	1441	2229	17

Source: Ministry of Justice CR, http://www.insolvencni-zakon.cz/

Costs and yields from insolvency proceedings according to the length of these proceedings in OECD countries in 2011

Yield for creditors in

100

80

60

40

20

0

● **yields**   ○ **costs**

0.0   0.4   0.8   1.2   1.6   2.0   2.4   2.8   3.2   3.6   4.0

Duration of proceedings in years

1. We can clearly see the *inverse proportion* between the costs and the length of an insolvency proceeding, i.e. with the increase of the length of the insolvency proceedings the profit for creditors decreases.

2. Note the *direct proportion* between the costs and the length of an insolvency proceeding, i.e as the length of the insolvency proceedings increase, so do creditors' costs.

The results of a regress analysis of the yields from insolvency proceedings according to costs and length thereof in 2011 in OECD countries

Variable	Parameter	Standard deviation	t-statistics	Significance level
Dependent variable : YIELDS				
Number of observations: 29				
C	101,6195	5,805968	17,50260	0,0000
LENGTH	-8,665793	3,627907	-2,388648	0,0245
COSTS	-1,947001	0,570290	-3,414055	0,0021
R^2	0,606550	R^2-adjusted		0,576285
F-statistics	20,04107	significance level		0,000005
DW stat.	1,835923			

Source: World Bank, IFC (2012), author's calculation

$$yields = 101,62 - 8,67 length - 1,95\ costs$$

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When the duration of insolvency proceedings is increased by one year, the yields are decreased by about 9 percentage points, and increased costs by one percentage point decrease yields by about 2 percentage points.

Conclusion:

1. Minimize the length of insolvency procedures.

2. Arrange for business subjects declare their insolvency in time, when there is still some property for creditors' satisfaction. Minimize rejection of insolvency proposals on the grounds of insufficient property.

Narrow the definition of insolvency in the Insolvency Act.
Implement tougher financial and criminal sanction for statutory bodies in cases where insolvency proposals are rejected on the grounds of insufficient property.

3. Decrease the duration of commercial lawsuits, thereby improving the process for individual collection of claims.

Comparison of statistic parameters - 2010 vs. 2008-2009

Observed parameter	2010	2008-2009
Number of permitted reorganisations	19	20
Debtors under the test of size	3	1
Debtor insolvency proposals	9	18
Moratorium	3*	2*
Present filing of insolvency proposal and proposal for reorganisation	3	7
Creditor decisions and manner of settlement	12	14
Limiting of debtor's dispositional authority	10	3
Conversions to bankruptcy	5	4

*0 before filing of insolvency proposal

Source: Richter, T. (2011): Reorganizace povolené v třetím roce účinnosti InsZ: základní empirická pozorování a náčrt trendů, *Ekonomika a management*, číslo 3, ročník 2011, Vysoká škola ekonomická, 2011