AFSA
STATE OF THE PERSONAL INSOLVENCY SYSTEM

January 2023

Australian Government
Australian Financial Security Authority

Introduction

This report complements our annual report and provides a mid-year overview of the state of the personal insolvency system that the Australian Financial Security Authority (AFSA) administers under the *Bankruptcy Act 1966* (the Bankruptcy Act). Insights are sourced from AFSA's compliance program, market surveillance and stakeholder engagements, and are reported in financial years.

Highlights

- Personal insolvency volumes are at historical lows (9,545 in 2021–22) but are expected to revert towards levels observed in 2019 over the next 2 financial years.
- AFSA is elevating its role as a regulatory steward of the credit system to contribute to Australia's social and economic prosperity in the wake of the COVID-19 pandemic.

Current state of the personal insolvency system

Personal insolvency plays an important role in Australia's $3.5 trillion credit system supporting the flow of credit in the economy by allowing people in financial distress to get a fresh start while providing a remedy for those who are owed money.

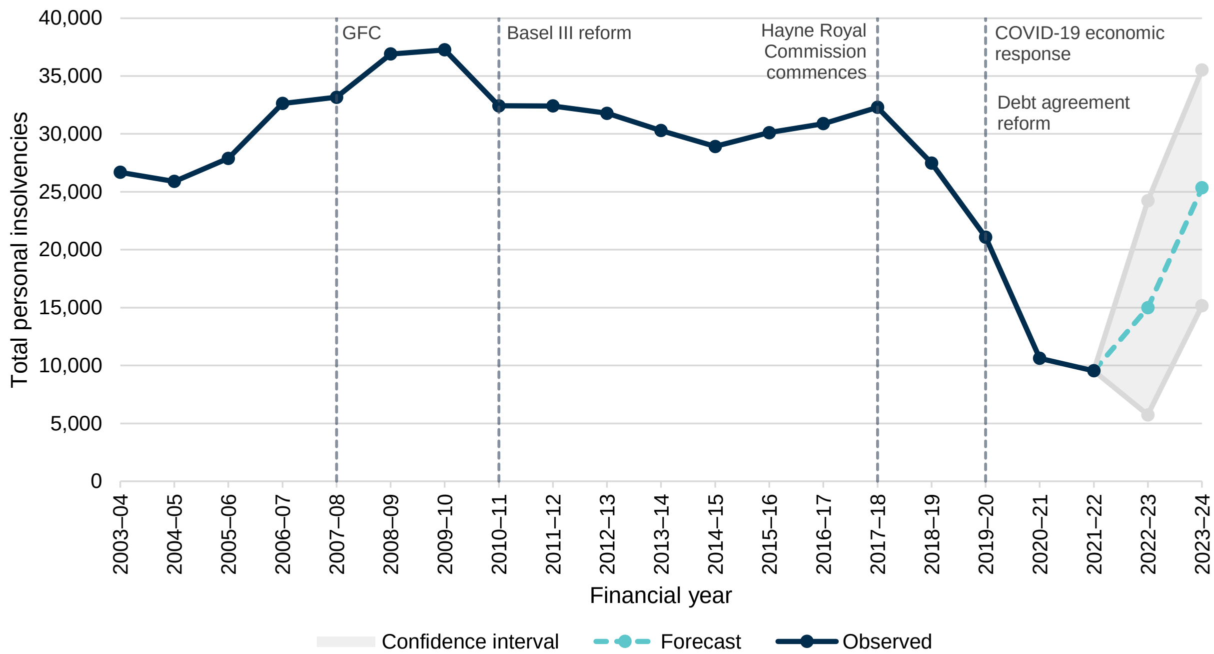
Australian households are currently experiencing financial stress. Unemployment remains low but the risk of insolvency is rising as household saving buffers decline and cost of living pressures increase. Other adverse macroeconomic factors such as rising interest rates, high inflation, ongoing supply chain pressures and rising energy prices will put those vulnerable under more financial stress.

We are broadening our regulatory toolkit to respond to new and emerging harms, combining our regulatory expertise, market surveillance and data analytics to balance the interests of debtors, practitioners and creditors, and deliver firm and fair outcomes for Australians.

Personal insolvency trends

Individuals can enter personal insolvency due to several social, health and economic factors. Over the past 20 years, Australia has averaged over 28,000 personal insolvencies each year. Volumes hit a high of 37,263 in 2009–10, 2 years after the Global Financial Crisis (GFC). Numbers have steadily declined since then, falling to historic lows during 2021–22 following the targeted and collective economic response to the pandemic from industry and government (Figure 1).

Figure 1: Total personal insolvencies by financial year



Source: AFSA

Several factors are associated with the decline in numbers, with multiple significant structural changes occurring in the personal insolvency system over the last 15 years:

- credit lending standards and practices continue to be affected by the Basel III regulations introduced in 2011 following the GFC
- the Hayne Royal Commission influenced further changes to creditor lending and recovery behaviours
- amendments to the Bankruptcy Act changed the eligibility requirements for people to enter into a debt agreement and restricted the length of an agreement
- the response to the COVID-19 pandemic introduced temporary debt relief legislation, government stimulus, debt repayment holidays from industry and other coordinated measures to reduce financial hardship on businesses and individuals.

Personal insolvency volumes are expected to revert towards the 10-year average (25,300 per year) over the next 2 years as the full impact of recent quantitative tightening and other macroeconomic factors hits households. Early 2022–23 data suggests that volumes are tracking moderately below forecasts but remain within expectations given the heightened economic uncertainty (Figure 1). Other factors observed in AFSA's market surveillance will impact the speed of reversion.

Market surveillance

The economic landscape is quickly evolving. As part of our commitment to credit system stewardship, we are stepping up our stakeholder engagement program. Through this program, we observe that:

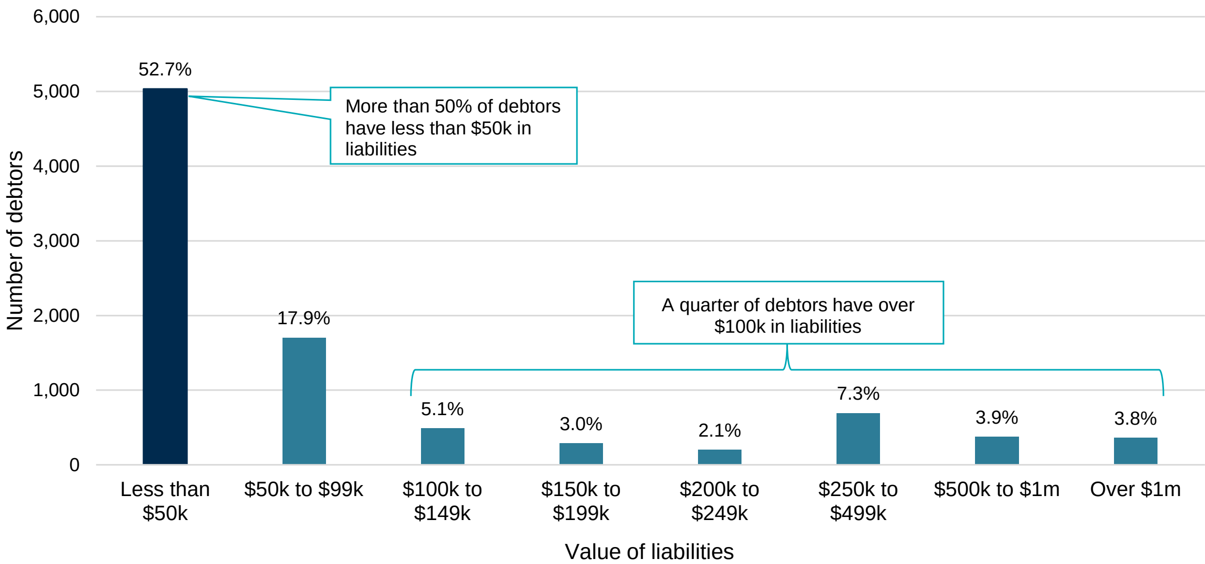
- more people will experience an increase in their mortgage and loan repayments as a number of fixed interest periods come to an end in March–July 2023
- the number of people calling debt helplines to talk through options for credit card and mortgage repayments has moderately increased
- uptake of informal insolvency arrangements has increased (from a low base).

We are concerned about the impact of untrustworthy advisers who operate outside current legislative boundaries and contribute to system misuse. We remain vigilant through our compliance program, using our education and outreach programs to inform debtors, creditors, practitioners and other government agencies when we identify issues outside our regulatory remit.

Regulatory supervision

Across the personal insolvency system, we regulate $17.7 billion in liabilities. The majority of people who entered into personal insolvency during 2021–22 had low levels of debt. Figure 2 shows that most people (52.7%) had less than $50,000 in liabilities, with a quarter of people (25.2%) having debts totalling over $100,000.

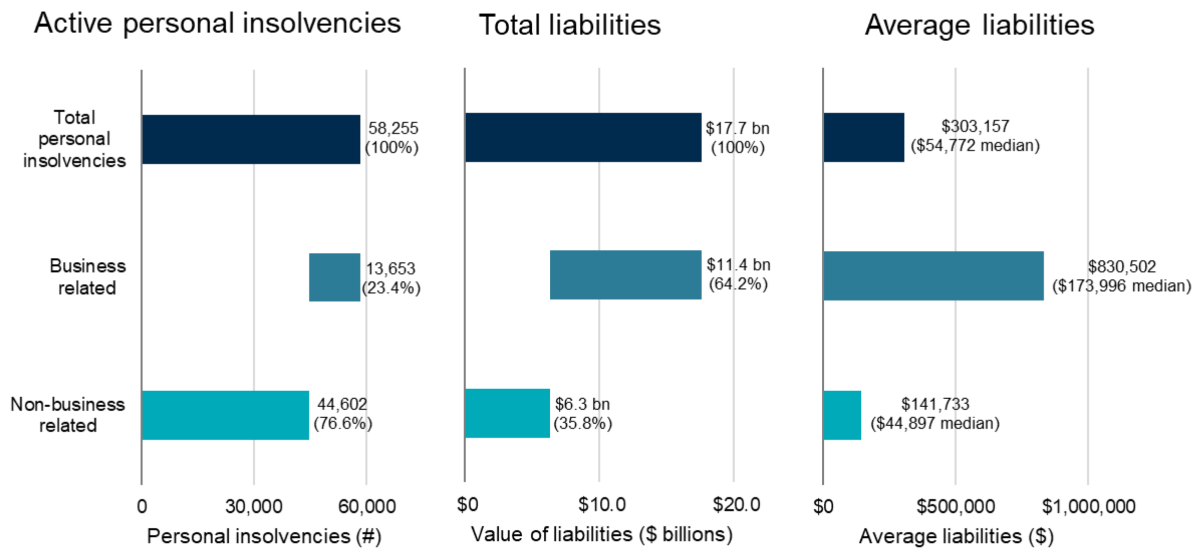
Figure 2: Debtor concentration by liabilities in 2021–22



Note: Percentages don't sum to 100% as some debtors are yet to disclose the value of their liabilities at the time of reporting.
Source: AFSA

Business-related personal insolvencies include insolvent individuals who have operated as sole traders, in partnerships or were directors in companies. As outlined in Figure 3, 23.4% of active personal insolvencies are business-related; however, these insolvencies contribute to nearly two-thirds of total system debt ($11.4 billion). The average debt for a business-related personal insolvency is $830,502 – over 5.8 times larger than a non-business-related personal insolvency ($141,733).

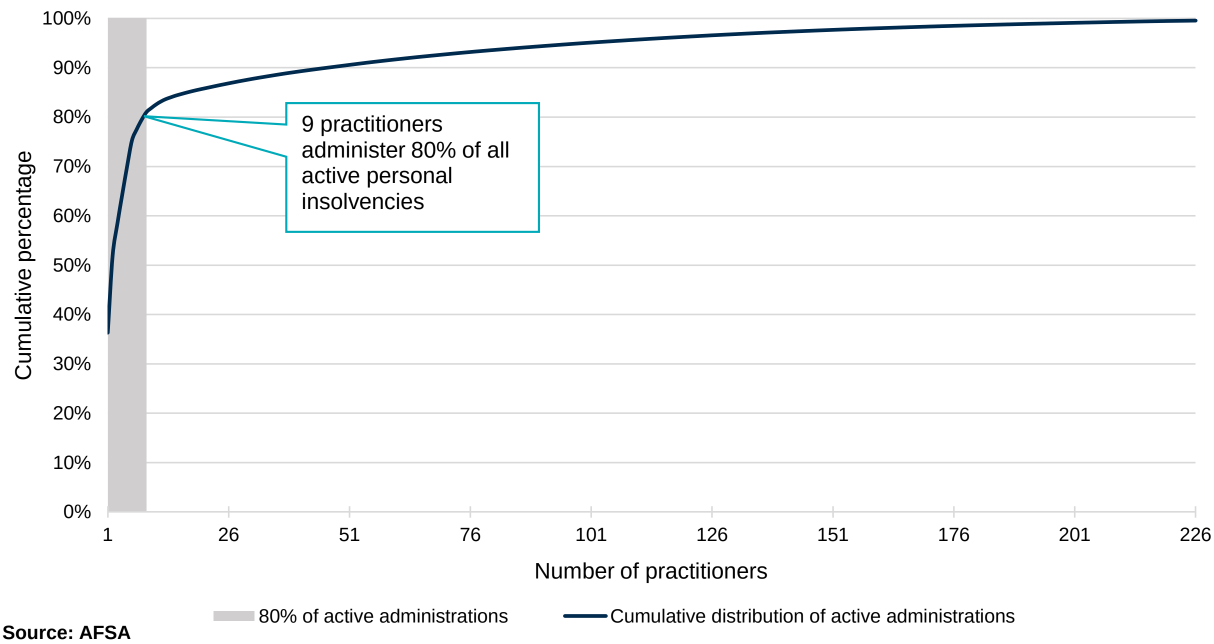
Figure 3: Distribution of debtor liabilities by business-related personal insolvencies



Source: AFSA

The majority of debtor and creditor experiences in the personal insolvency system are highly dependent on the practices and behaviours of a small group of practitioners. In 2021–22, 9 practitioners (including the Official Trustee) were responsible for administering 80% of all active personal insolvencies (Figure 4).

Figure 4: Practitioner concentration by active personal insolvencies in 2021–22

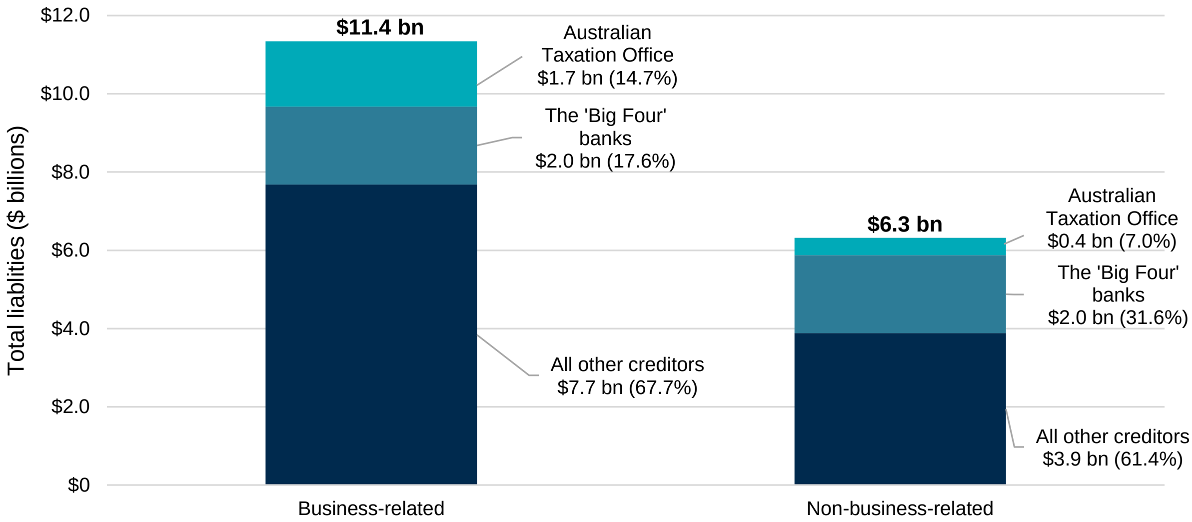


Source: AFSA

AFSA is a risk-based regulator, and we use intelligence and data-driven insights to inform our supervisory intensity. To better focus our compliance and stakeholder engagement programs, we classify practitioners into tiers based on risks factors.

The value of debt in the system is concentrated on a few large creditors, with the Australian Taxation Office and the 'Big Four' banks collectively owed $3.7 billion in business-related and $2.4 billion in non-business-related personal insolvencies (Figure 5). As a result, the recovery and collection behaviours by the Australian Taxation Office and the 'Big Four' banks have a significant impact on system outcomes.

Figure 5: Creditor concentration in active personal insolvencies in 2021–22



Note: The 'Big Four' banks are the Commonweath Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Australia and New Zealand Banking Group Limited

Source: AFSA

Further information

Building a strong credit system for Australia and supporting the flow of credit is AFSA's cornerstone objective for 2023 – and beyond.

By regulating insolvency with a firm and fair approach, AFSA helps individuals obtain a fresh start when in financial distress – while also offering remedies to those who are owed money. With over $17.7 billion in liabilities held within the agency's regulatory oversight, our work is focused on considered and balanced stewardship.

People experiencing financial stress are encouraged to seek support early. Free confidential assistance is available through the National Debt Helpline

AFSA regularly publishes statistics about the personal insolvency system on its website afsa.gov.au/statistics.

- Data in this report is sourced from AFSA's live systems and may not completely reconcile with published statistics on our website. For the official statistics, see our quarterly personal insolvency statistics release.
- As the economy continues to develop, AFSA will closely monitor and publish outlooks when new information becomes available. We release timely provisional statistics on personal insolvencies in Australia to help understand the economic impacts of recent and emerging challenges faced by Australian households. For the provisional statistics, see our monthly personal insolvency statistics release.

For further information about this report, please contact media@afsa.gov.au