



Australian Government

Insolvency and Trustee Service Australia

INSOLVENCY AND TRUSTEE SERVICE AUSTRALIA
PROFILES OF DEBTORS 2005

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Introduction

In July 1998, the Insolvency and Trustee Service Australia (ITSA) first published a profile of debtors who became bankrupt or entered into Debt Agreements in the 1997 financial year. Subsequently, the publication was updated in 2002 and 2003.

Profiles of Debtors 2005 provides a fresh update using data from the 2005 calendar year.

The information in this publication relates, essentially, to the socio-economic circumstances of debtors. More general statistical information in relation to bankruptcy is contained in the *Annual Report by the Inspector-General in Bankruptcy on the operation of the Bankruptcy Act*, which can be found on ITSA's web site, www.itsa.gov.au.

Profiles of Debtors 2005 is divided into three sections, namely, Bankruptcies, Debt Agreements (under Part IX of the Bankruptcy Act) and Personal Insolvency Agreements (under Part X of the Bankruptcy Act).

A person can become bankrupt by filing their own debtor's petition with the Official Receiver at an ITSA office or by a sequestration order being made by the Court.

Debt Agreements provide a simple, low cost and flexible alternative to bankruptcy, allowing debtors to reach a legally binding arrangement with their creditors for the settlement of debt. A debtor can enter into a Debt Agreement only if their income, unsecured debts and assets are below the threshold amount as defined in the Bankruptcy Act. The current figures can be obtained from the Current Amounts page on ITSA's web site.

Personal Insolvency Agreements provide a process for debtors to make a proposal to their creditors, which is then voted on by creditors in a formal meeting. Once the proposal is accepted by special resolution, the proposal is binding on the debtor and all creditors. Personal Insolvency Agreement administrations are usually administered by Registered Trustees. The costs of setting up and administering a Personal Insolvency Agreement ordinarily require property of significant value to be available to creditors for it to be cost effective. There are no limits on the level of income, unsecured debt and assets of a debtor who may enter a Personal Insolvency Agreement.

Methodology

Every debtor who becomes bankrupt or proposes a Debt Agreement or a Personal Insolvency Agreement is required to lodge a Statement of Affairs with ITSA. The details required to be provided include the reason for the debtor's financial difficulties.

ITSA records information from the Statement of Affairs on its database. The data that is presented in *Profiles of Debtors 2005* represents a 100% sample of all bankrupts and those debtors who entered into Debt Agreements and Personal Insolvency Agreements in 2005.

Throughout this booklet there are references to statistics applicable to the general Australian population. Those statistics were obtained from various publications of the Australian Bureau of Statistics.

OBSERVATIONS

Some of the observations that can be made from *Profiles of Debtors 2005* are that, since 2003:

- There has been a decrease in the number of low debt and low income persons becoming subject to insolvency administrations;
- The percentage of debtors entering into bankruptcy or Debt Agreements who are unemployed has decreased; and
- Fewer debtors are obtaining information from financial counsellors before becoming bankrupt and more are obtaining information from ITSA.

The following table provides a comparison of some key characteristics of bankrupts, Debt Agreement debtors and Personal Insolvency Agreement debtors.

(The numbers in italics represents the corresponding figures from *Profiles of Debtors 2003*.)

Figure 1

	Bankrupts	Debt Agreement Debtors	Personal Insolvency Agreement Debtors
Number	21 076 <i>21 900</i>	4 803 <i>5 471</i>	218 <i>603</i>
Gender	57% Male <i>55%</i>	54% Male <i>52%</i>	75% Male <i>72%</i>
Employment status	54% Unemployed <i>60%</i>	14% Unemployed <i>25%</i>	28% Unemployed <i>23%</i>
Home ownership	1% <i>1%</i>	4% <i>5%</i>	10% <i>16%</i>
Main source of information	ITSA 32% <i>24%</i>	Debt Agreement 56% Administrator <i>79%</i>	Accountant 23% <i>21%</i>
Income <\$10 000	16% <i>23%</i>	7% <i>10%</i>	19% <i>22%</i>
Assets <\$1 000	87% <i>90%</i>	83% <i>85%</i>	51% <i>66%</i>
Debt <\$10 000	20% <i>27%</i>	22% <i>25%</i>	1

¹ The debt level for Personal Insolvency Agreements is excluded, as a high incidence of non-disclosure of the quantum of debts owed to individual creditors has resulted in the data obtained having little informative value.

Characteristics of those who became bankrupt

SUMMARY OF KEY FINDINGS OF DEBTORS WHO BECAME BANKRUPT

- 16% had an income of less than \$10 000 and 69% had an income of less than \$30 000 during the twelve months prior to their bankruptcy;
- 39% owed less than \$20 000 to their unsecured creditors and 72% owed less than \$50 000;
- Unemployment was the single largest cause of non-business related bankruptcies. Business related bankrupts cited economic conditions affecting their industry as the largest cause of bankruptcy².
- More males became bankrupt than females; and
- 12% of bankrupts had been bankrupt more than once.

Frequency of bankrupts

21 076 people became bankrupt in 2005.

Figure 2: Ratio of Bankrupts to the General Population by State or Territory

	Population	Number of Bankruptcies	Ratio
New South Wales	6 787 800	7 018	1:967
Victoria	5 037 700	4 706	1:1 070
Queensland	3 980 800	5 008	1:795
South Australia	1 544 700	1 971	1:784
Western Australia	2 018 700	1 466	1:1 377
Tasmania	486 000	557	1:873
Northern Territory	203 700	111	1:1 835
Australian Capital Territory	325 800	239	1:1 363
Australia(a)	20 385 200	21 076	1:967

The ratio of bankrupts varies between the states and territories, with South Australia having the highest frequency and the Northern Territory having the lowest. The national ratio of bankrupts is 1 bankrupt per 967 people³ compared to 1 bankruptcy per 911 people in 2003.

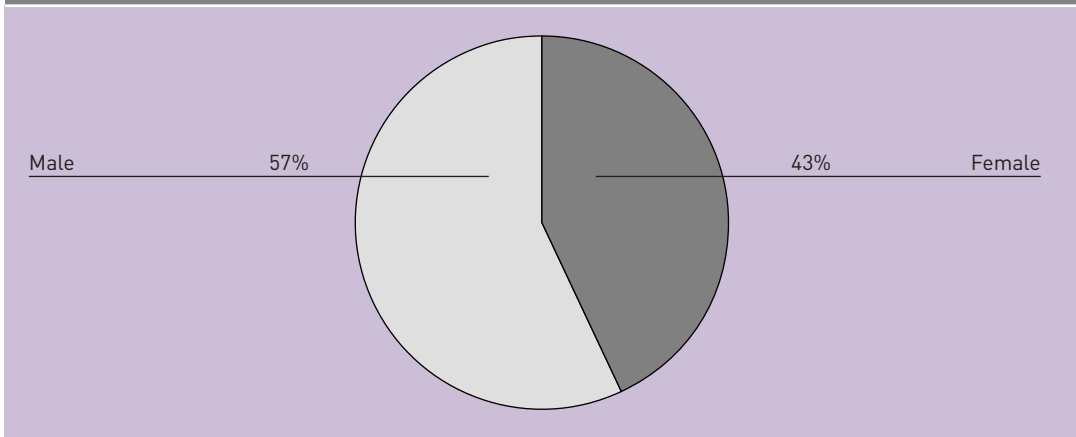
² Bankruptcies are categorised as either business or non-business related. In a 'business bankruptcy' the debtor's insolvency was directly related to the debtor's proprietary interest in a business.

³ National and State population figures are current as at September 2005. Source : Australian Bureau of Statistics, catalogue number 3101.0 - Australian Demographic Statistics, Sep 2005.

Gender

49% of the Australian population is male. However 57% of those who became bankrupt in 2005 were male.

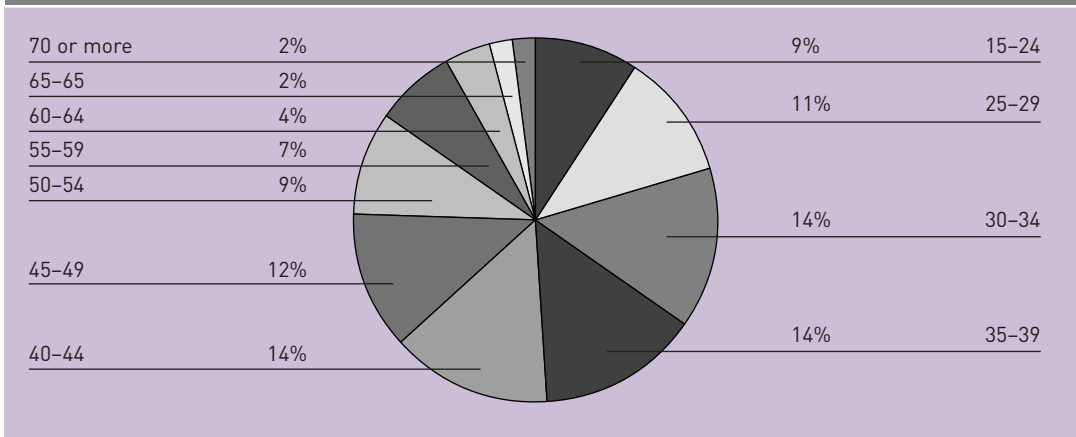
Figure 3: Bankrupts – Gender



Age

The age distribution of bankrupts and the proportion of male to female bankrupts are shown in Figure 4 and Figure 5 respectively.

Figure 4: Bankrupts – Ages



As indicated from the graph, 20% of bankrupts were under the age of 30, 28% were between the ages of 30 and 39 and 52% were over 40. The corresponding population ratios for the general population were 26%, 19% and 56%.

Figure 5: Age – Proportion of Male to Female across Age Group

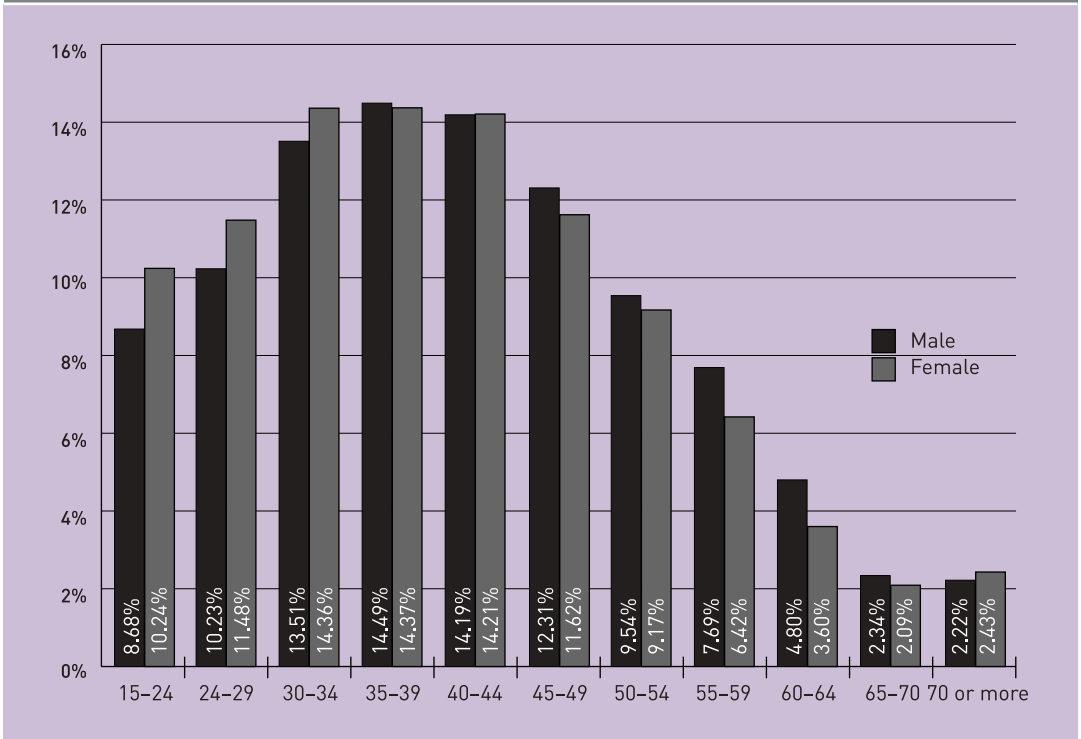
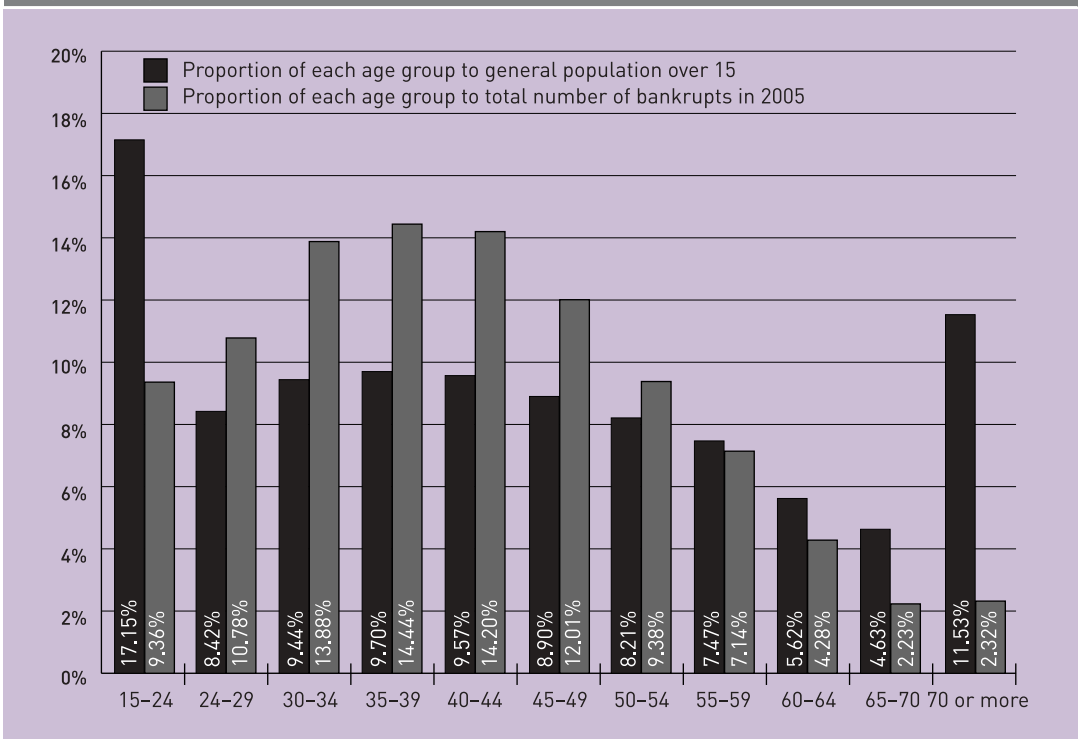


Figure 5 compares the age distribution of bankrupts and the general population in 2005.

Figure 6: Age Comparison of Bankrupts and General Population over 15



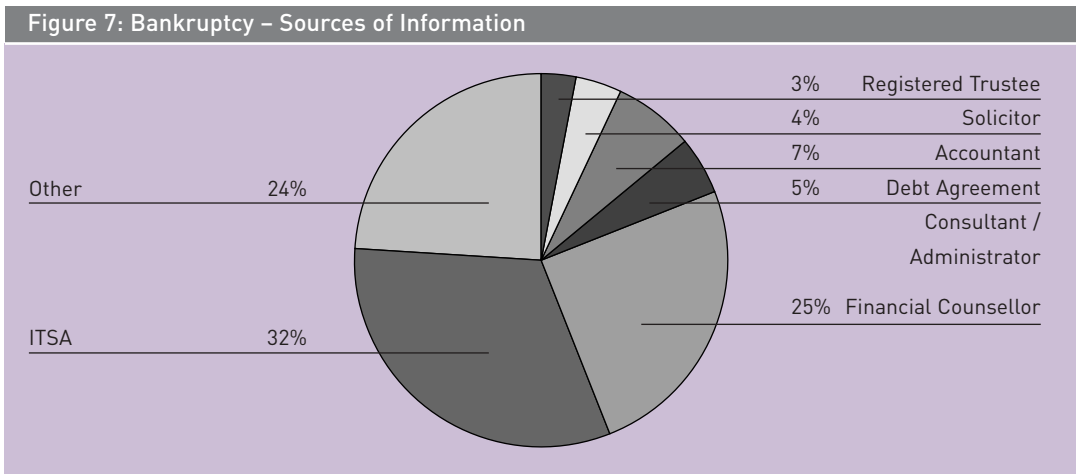
Sources of information about bankruptcy and its alternative

44% of bankrupts obtained advice from professional sources, that include financial counsellors, solicitors, accountants or registered trustees.

These sources are described as 'professional' as they provide advice on bankruptcy and its alternatives as well as assistance to debtors in re-organising their affairs to help them overcome or prevent financial difficulty in the future. Financial counsellors (25%) were the most common 'professional' source of bankruptcy information in 2005. (In 2003, 56% of bankrupts obtained advice from professional sources, with 40% obtaining advice from financial counsellors.)

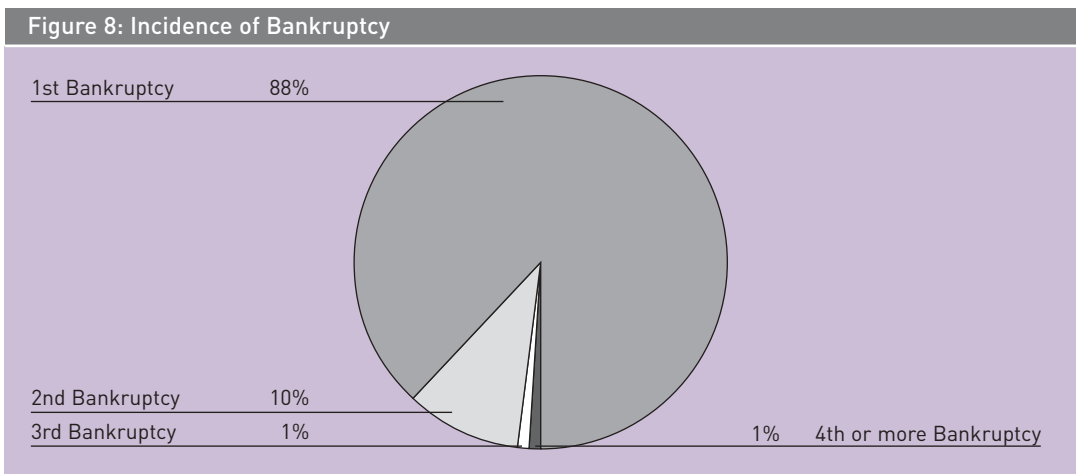
In 2005, 32% of bankrupts advised that they obtained information from ITSA. ITSA provides comprehensive information on bankruptcy, its consequences and alternatives but does not provide any financial counselling or information about budgeting, debt management etc.

24% of bankrupts stated that they did not obtain advice from either professional sources or ITSA.



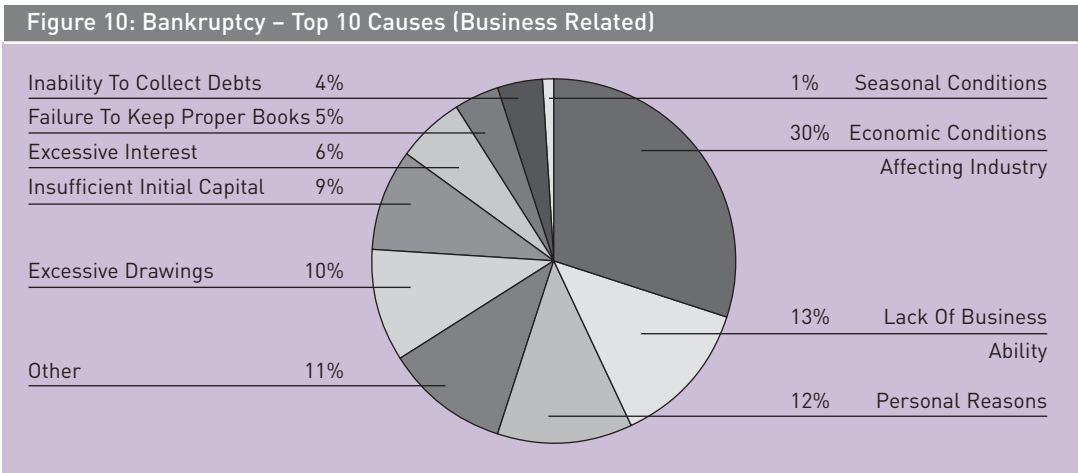
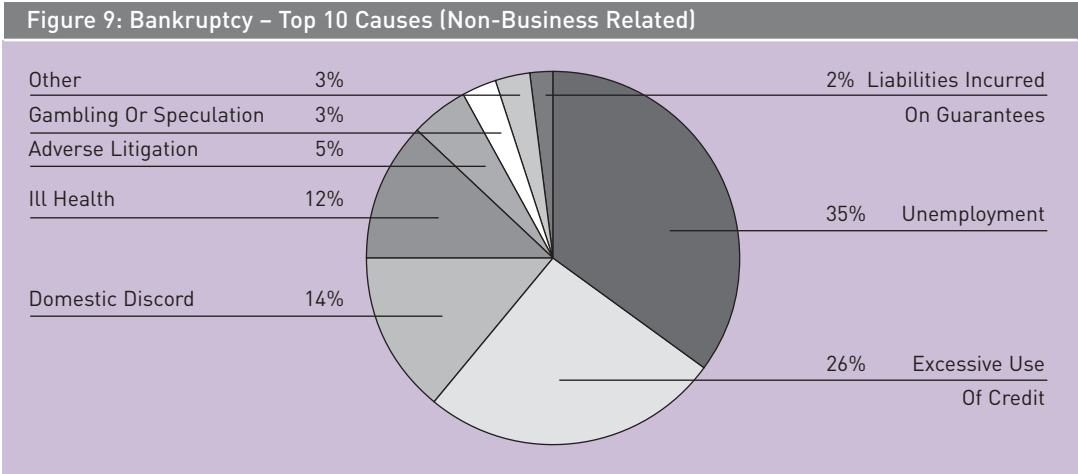
Repeat bankruptcies

Of those who became bankrupt in 2005, 12% had previously been bankrupt more than once and 2% had previously been bankrupt more than twice.



Primary causes of bankruptcy

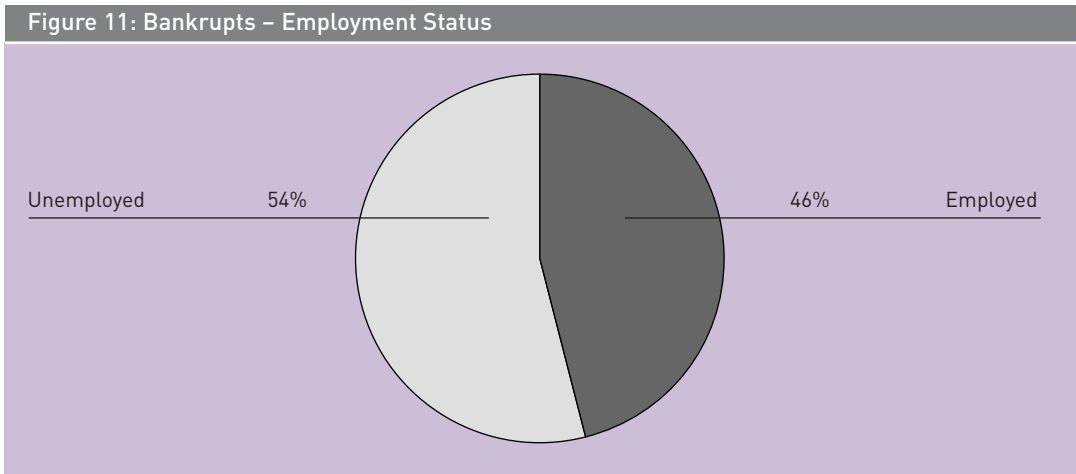
'Unemployment' was stated as the most common cause for non-business bankruptcies and 'economic conditions' was stated as the most frequent cause for business related bankruptcies. Business bankruptcies represented 18% of total bankruptcies in 2005.



Employment status

54% of bankrupts were not employed at the date of bankruptcy (includes unemployed, pensioners, self-funded retirees and those engaged in unpaid 'domestic duties'). 47% of male bankrupts were not employed, while for females the rate was 63%.

The seasonally adjusted unemployment rate for Australia in June 2005 was 5.0% ⁴.

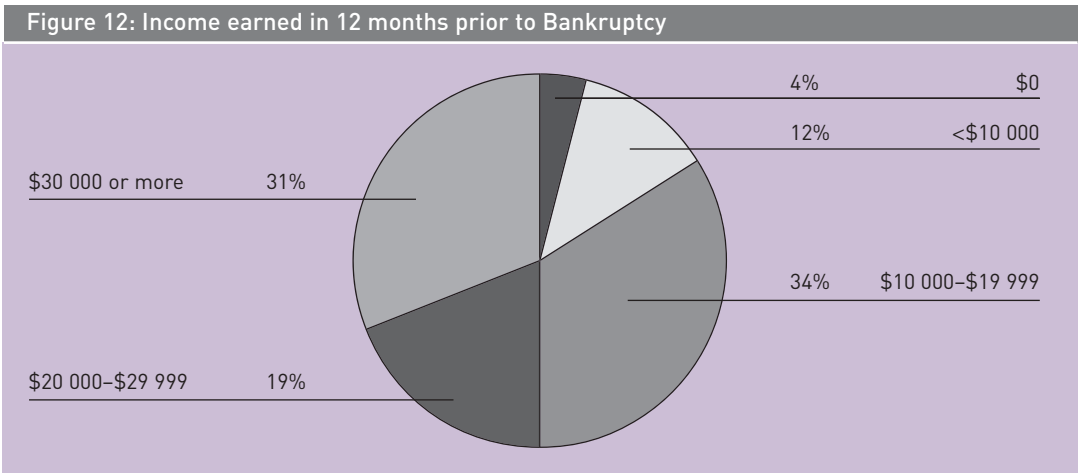


⁴ The unemployment rate, in broad terms, is calculated by representing the number unemployed as a percentage of the labour force rather than of the total population - the labour force comprises persons engaged in employment and those seeking employment. As at June 2005 the seasonally adjusted participation rate was 64.7%. Source : Australian Bureau of Statistics, Catalogue number 6202.0 - Labour Force, Australia, Jul 2005

Income

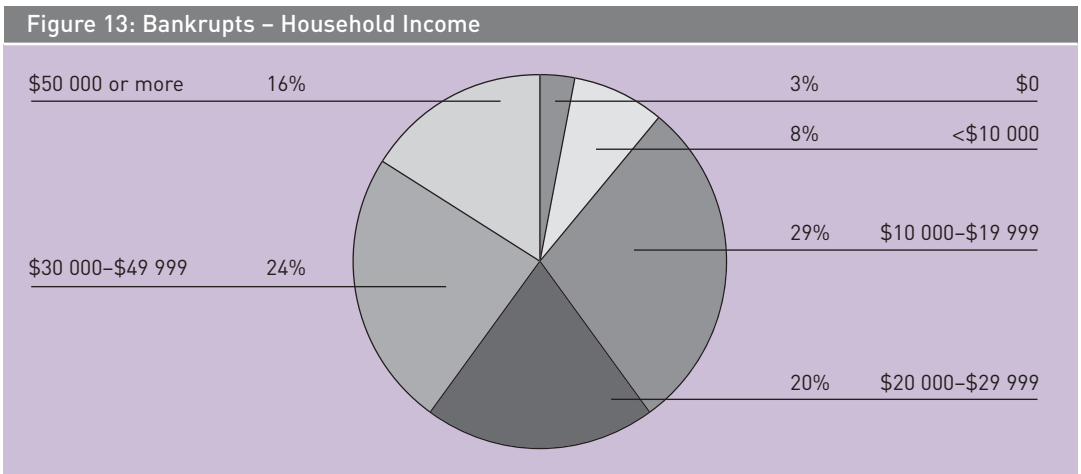
Bankrupts' income

In the twelve month period immediately prior to bankruptcy, 16% of all bankrupts had an income of less than \$10 000, 50% had an income of less than \$20 000, 69% had an less than \$30 000 while 31% had an income of \$30 000 or higher.



Bankrupts' household income

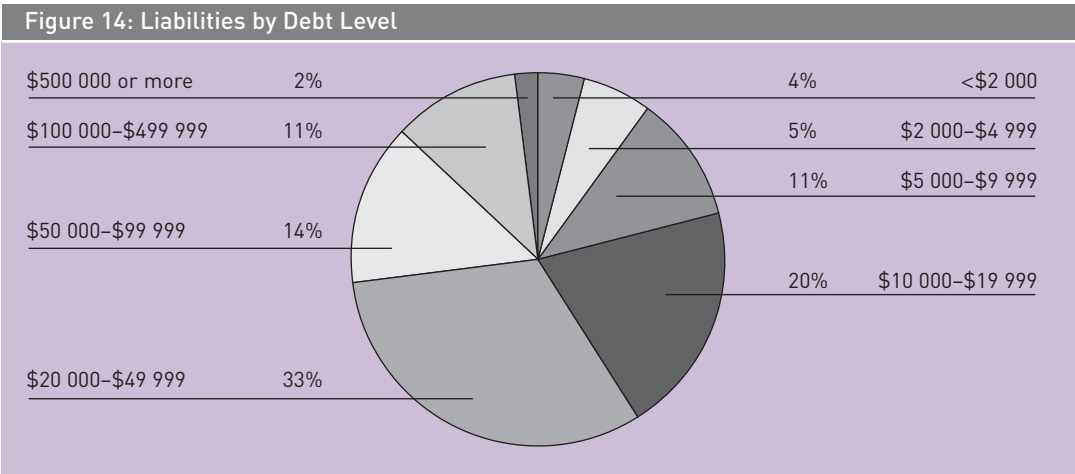
Information is also collected on the debtor's household income from their Statement of Affairs. The proportions of debtors whose disclosed household income was less than \$10 000, less than \$20 000 and less than \$30 000 were 11%, 40% and 60% respectively.



Debt level

Only unsecured debts (debts that are not secured by a mortgage or lien over valuable property) were taken into consideration. Where a bankrupt listed a secured debt, only the amount owing above the estimated value of the security was included.

In 2005, 20% of bankrupts owed creditors less than \$10 000, 40% owed less than \$20 000 and 73% owed less than \$50 000.



Creditors

ITSA classifies creditors as banks, building societies, credit unions, finance companies, State housing, tax, utilities (gas, electricity etc) and 'other'. Creditors identified as 'other' may include trade creditors, store accounts, professional fees, medical bills, school fees, family loans and the like.

In dollar terms, banks accounted for 21% of total debt and finance companies just under 10%. Tax accounted for just over 10% of total debt.

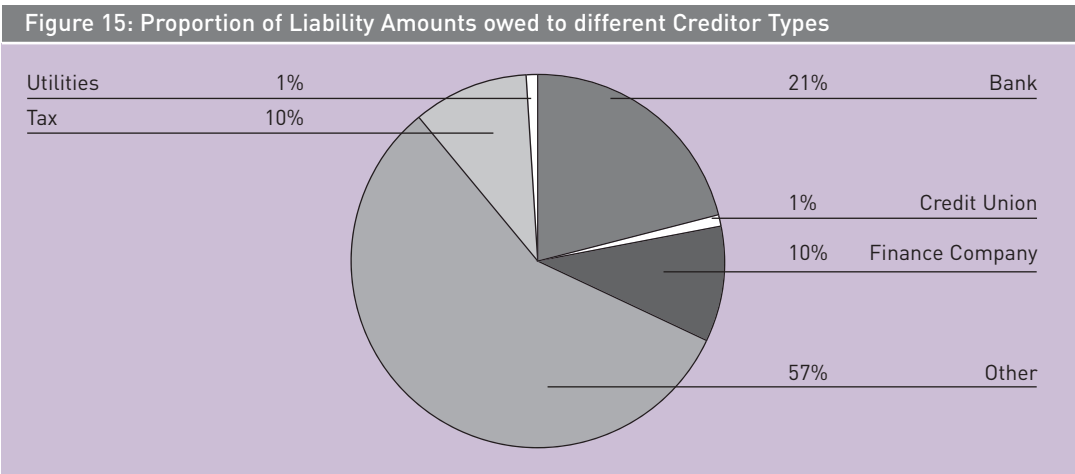
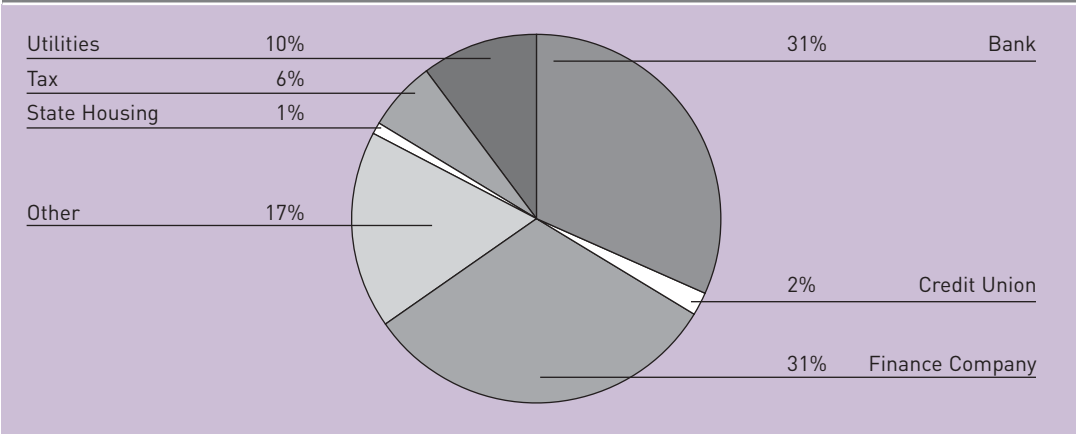
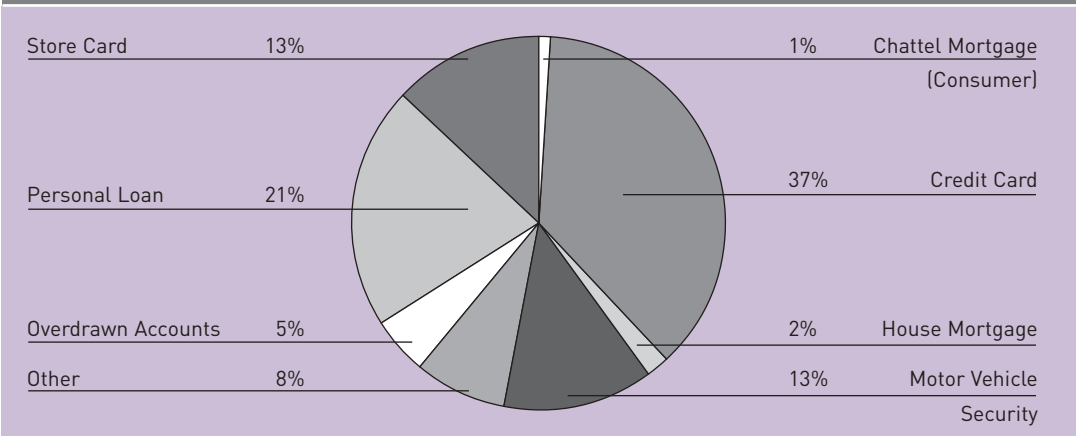


Figure 16: Frequency of Occurrence of each Creditor Category



Those liabilities owed to banks, building societies, credit unions and finance companies were characterised as follows:

Figure 17: Proportion of Liability Amounts owed to different Creditors Subtypes

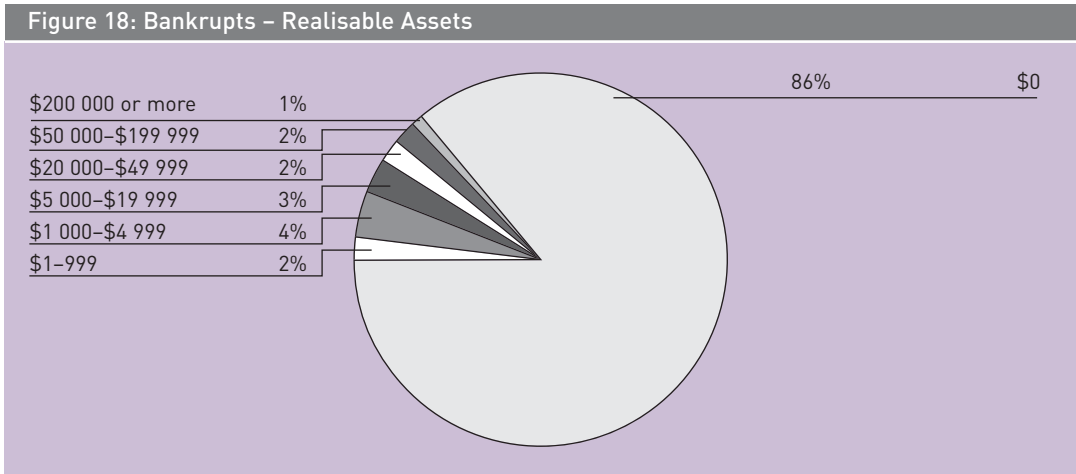


37% were further characterised as credit card debt, followed by 21% characterised as personal loans.

All liability amounts above refer only to the amount of net unsecured debt owed by the debtor.

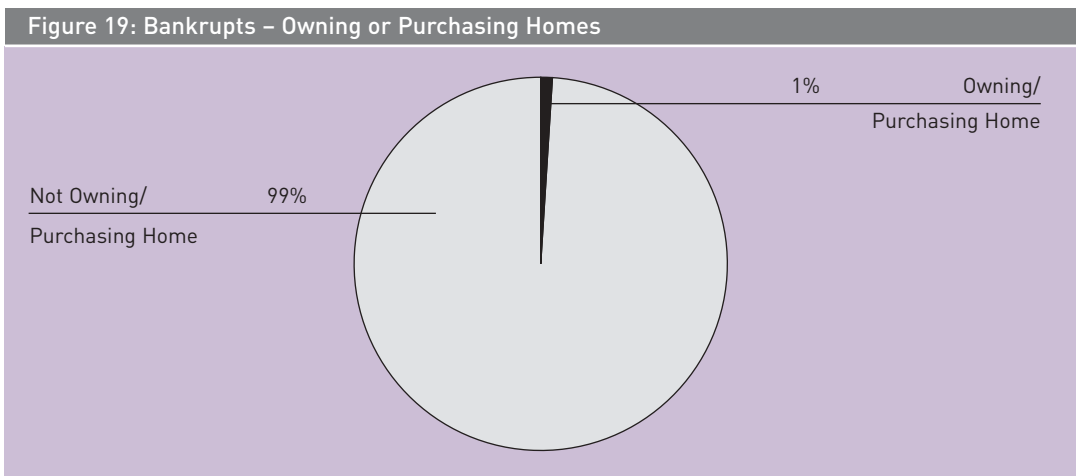
Assets

89% of all bankrupts had 'non divisible' or 'realisable' assets of less than \$1 000⁵.



Home ownership

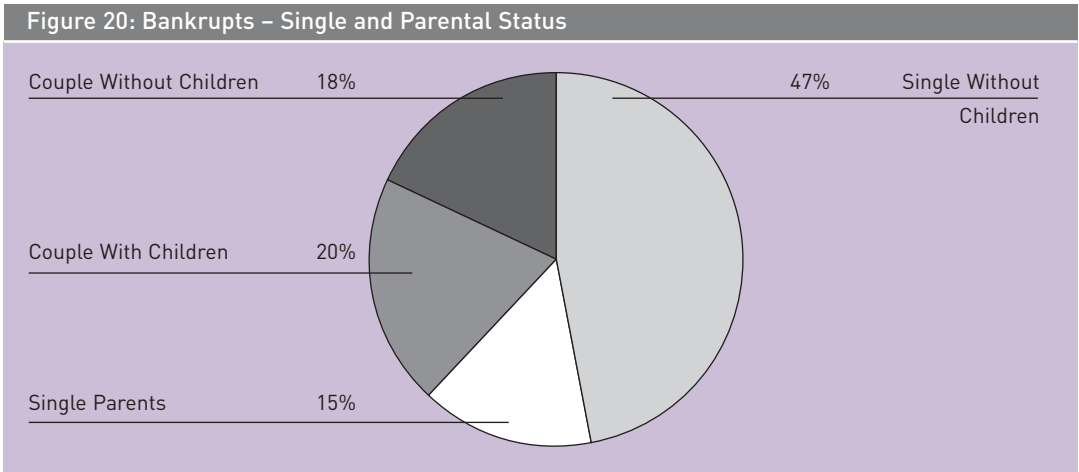
1% of bankrupts were either home owners or in the process of purchasing a home at the date of bankruptcy.



⁵ The Bankruptcy Act provides that some assets are 'non divisible' and may not be seized and sold for the benefit of creditors. Examples include a motor vehicle up to a value of \$6 000 (indexed), normal clothing, household furniture and most superannuation. These 'non-divisible' assets are not taken into account when determining the realisable assets of a debtor entering into bankruptcy, a Debt Agreement or a Personal Insolvency Agreement.

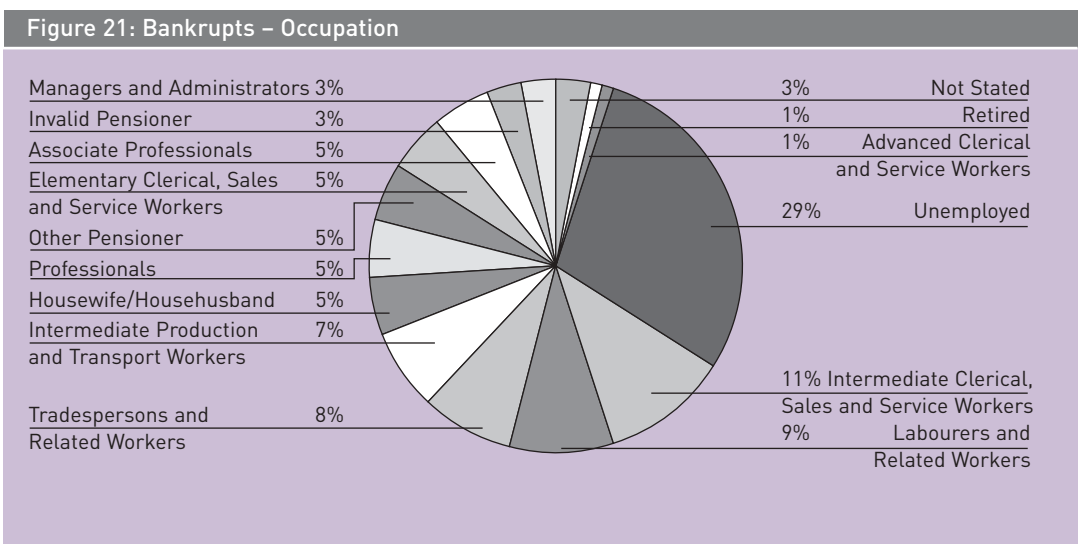
Single and parental status

47% of bankrupts were single without children. This represents the largest group of bankrupts and is followed by couples (i.e. married, de facto or same sex partners) with children and couples without children, at 20% and 18% respectively. Single parents constitute 15% of total bankrupts.



Occupation

The following chart provides details of the occupational status of bankrupts for 2005 by occupational groups⁶. (Note: In *Figure 21* the occupational group 'unemployed' is not the same as unemployed status as shown in *Figure 11*. The unemployed status represents the status at the time of the bankruptcy whereas occupation group relates to their occupation prior to the unemployment status).



⁶The occupational status for bankrupts and insolvents is self-attributed and is subsequently classified by ITSA from information provided by the individual using the Australian Standard Classification of Occupations (ASCO).

Characteristics of those who enter into debt agreements

SUMMARY OF KEY FINDINGS OF DEBTORS WHO ENTERED INTO DEBT AGREEMENTS

- 53% had a gross income of less than \$30 000 in the year prior to entering into the Debt Agreement;
- 48% owed unsecured creditors less than \$20 000, with 17% owing less than \$10 000;
- 'Excessive use of credit', followed by 'unemployment' were the main attributed cause of insolvency; and
- More males entered into Debt Agreements than females.

Frequency of debtors entering into Debt Agreements

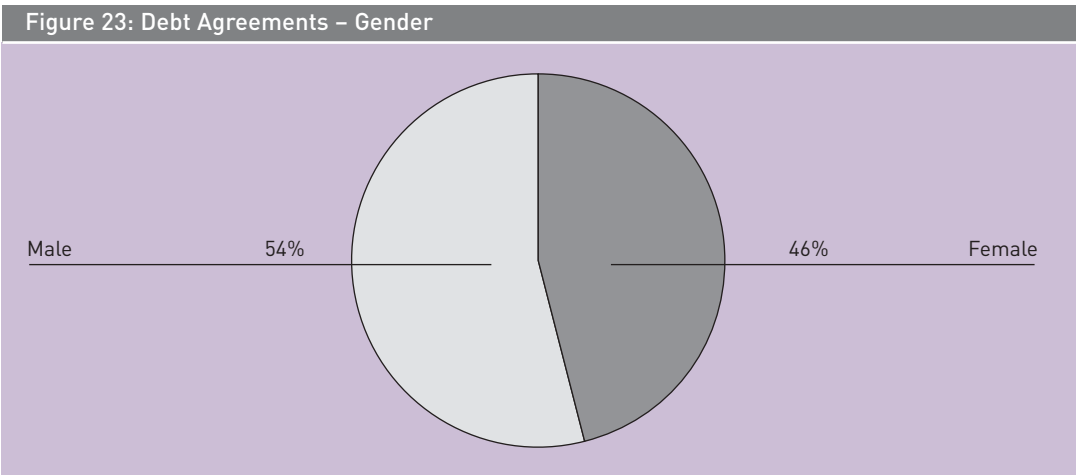
4 771 debtors entered into Debt Agreements in 2005. The ratio of debtors varies between the states and territories as shown in the following map.

Figure 22: Ratio of Debtors to the General Population by State of Territory

	Population	Number of Debt Agreements	Ratio
New South Wales	6 787 800	1 292	1:5 254
Victoria	5 037 700	1 046	1:4 816
Queensland	3 980 800	1 638	1:2 430
South Australia	1 544 700	217	1:7 118
Western Australia	2 018 700	303	1:6 662
Tasmania	486 000	165	1:2 945
Northern Territory	203 700	68	1:2 996
Australian Capital Territory	325 800	42	1:7 757
Australia(a)	20 385 200	4 771	1:4 273

Gender

54% of those who entered into Debt Agreements were male.



Age

The age profile of debtors entering into Debt Agreements in 2005 is shown on the following chart.

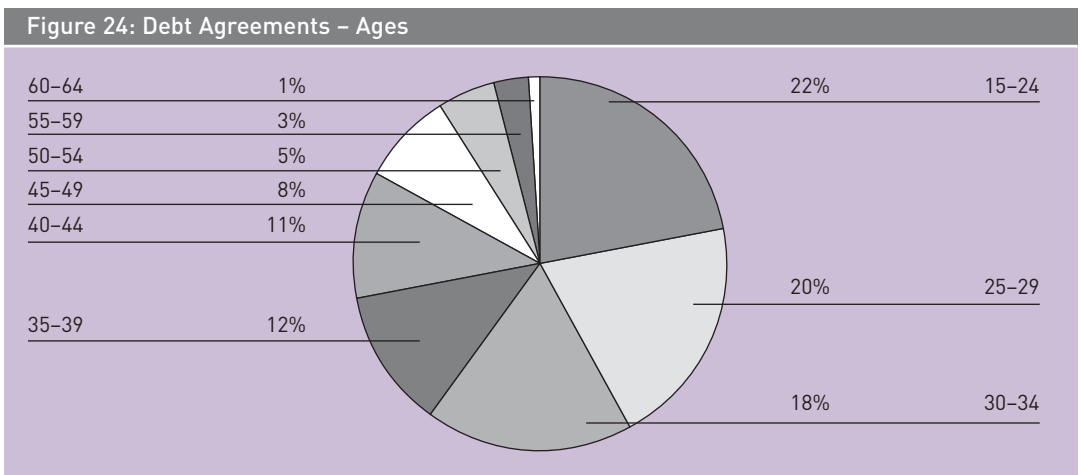


Figure 25: Debt Agreements – Proportion of Male to Female across Age Group

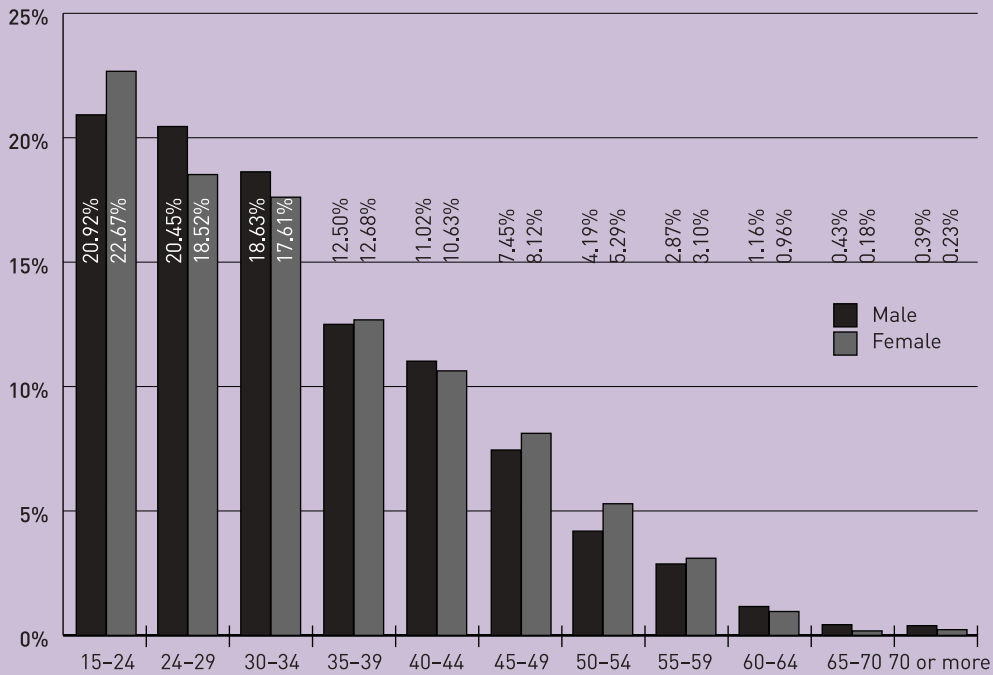
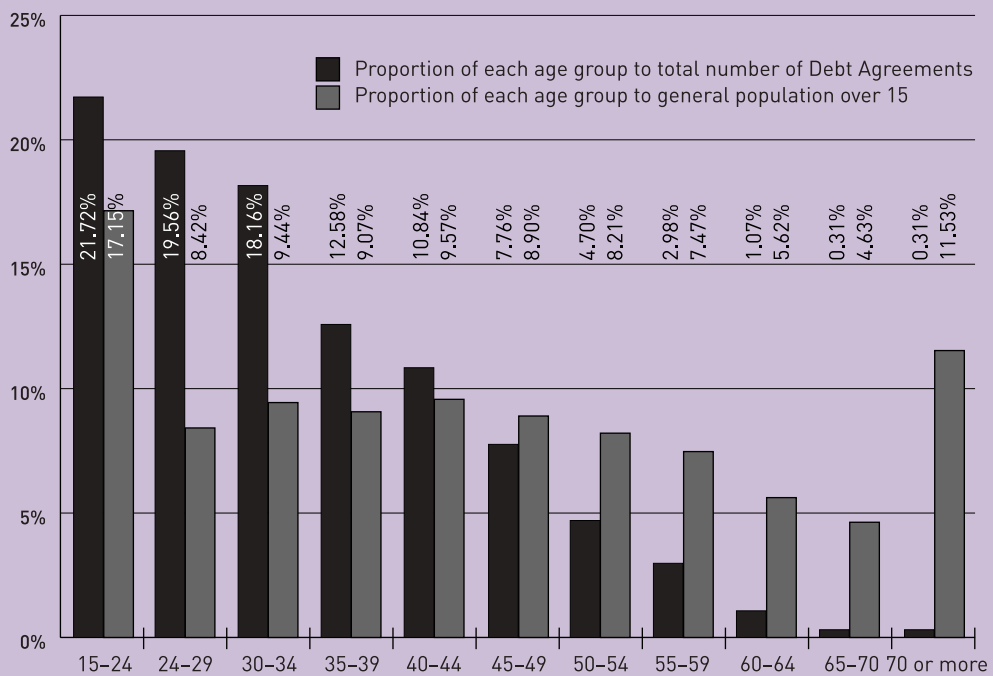


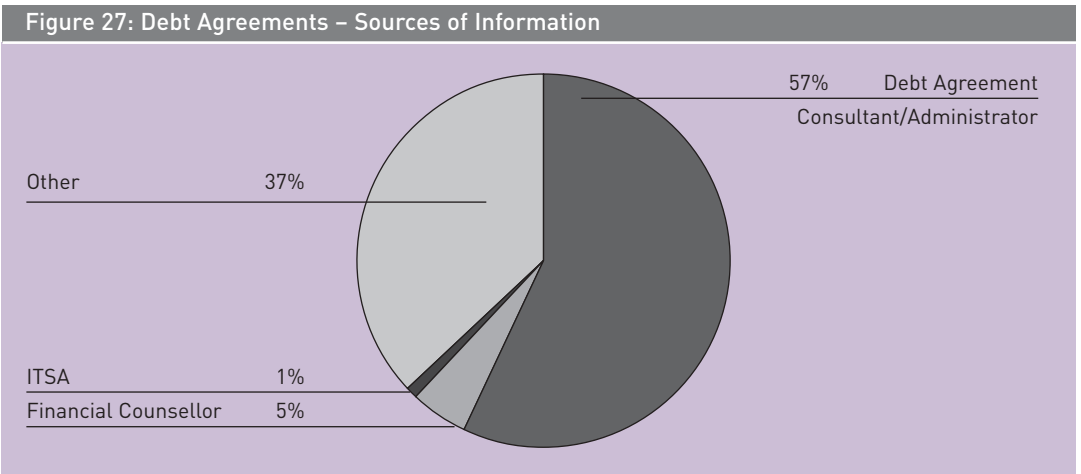
Figure 26: Age Comparison of Debtors and General Population over 15



Of all Debt Agreement debtors, 41% were under the age of 30, 31% were between the ages of 30 and 39 and 28% were over 40. The corresponding population ratios for the general population were 26%, 19% and 56%.

Sources of information

Almost all Debt Agreements are administered by professional administrators (that is, not by the debtor, family friend or creditor). Of those who entered Debt Agreements, 57% received advice from Debt Agreement Administrators.



Primary causes of insolvency

For business related Debt Agreements, 'economic conditions affecting industry' was disclosed as the primary cause of insolvency at 26%, followed by 'excessive drawings' and 'personal reasons' at 16% and 15% respectively. For non-business related Debt Agreements, 'excessive use of credit' was disclosed as the primary cause of insolvency at 40%, followed by 'unemployment' and 'domestic discord' at 36% and 13% respectively.

The frequency of each primary cause of insolvency as disclosed by debtors is as follows:

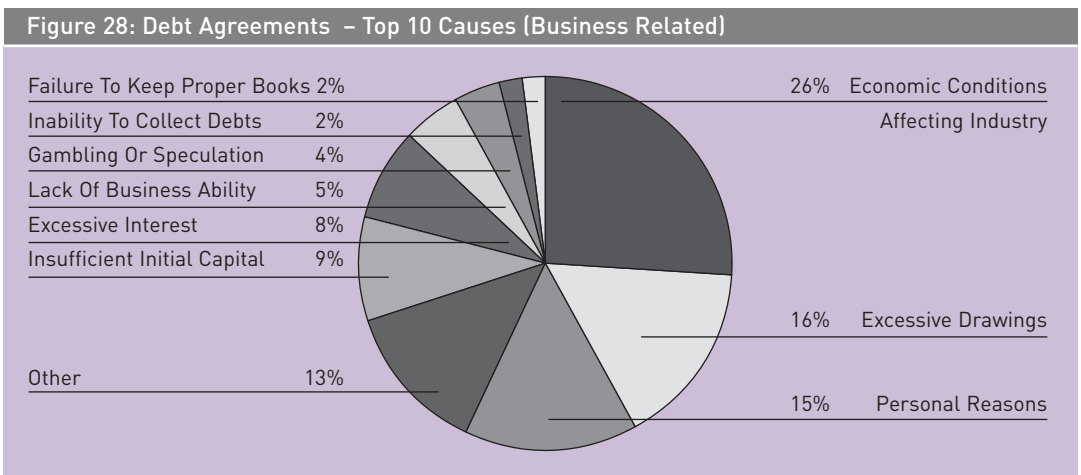
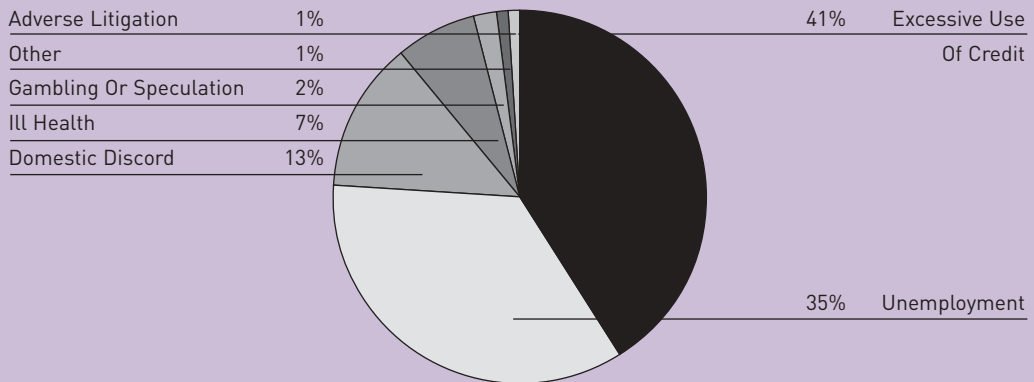


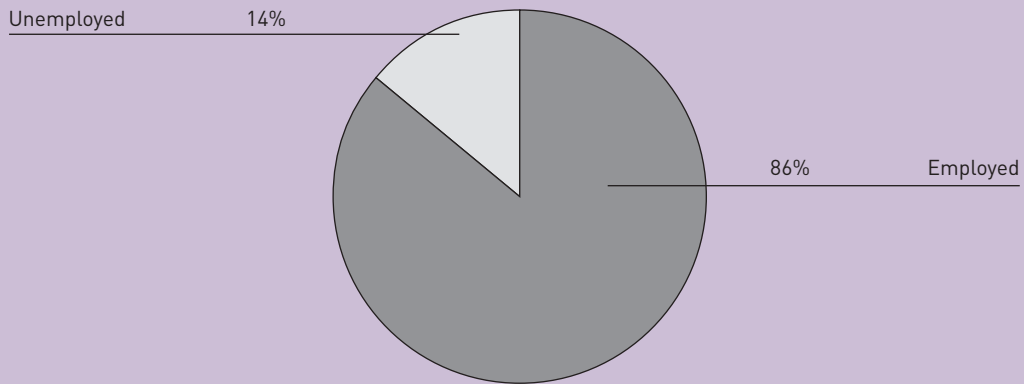
Figure 29: Debt Agreements – Top 10 Causes (Non-Business Related)



Employment status

86% of debtors who entered into a Debt Agreement were employed, compared with 46% of those who became bankrupt.

Figure 30: Debt Agreements – Employment Status

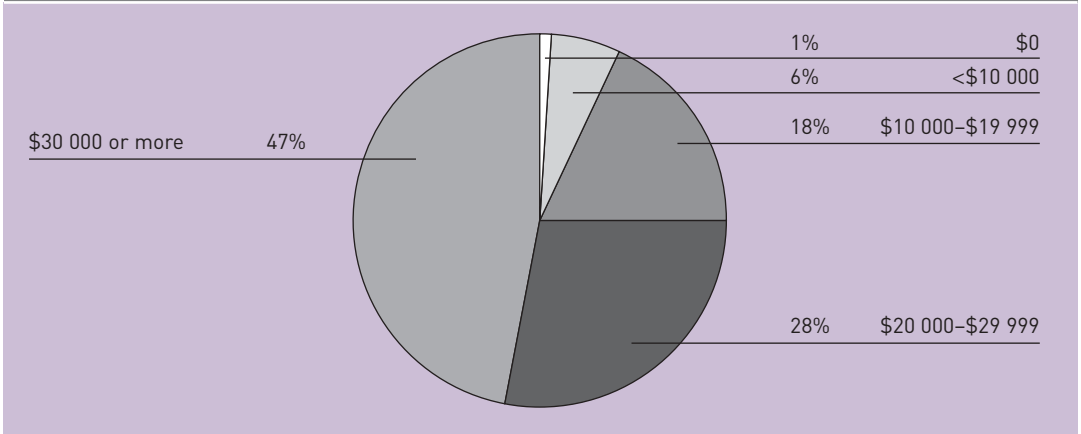


Income

Debtors' income

The after tax income of Debt Agreement debtors must be below \$54 927.60, which equates to an approximate gross income of \$68 825⁷. 7% of debtors had an income under \$10 000 and 25% were under \$20 000. (Note: All references to income relate to gross income unless stated otherwise).

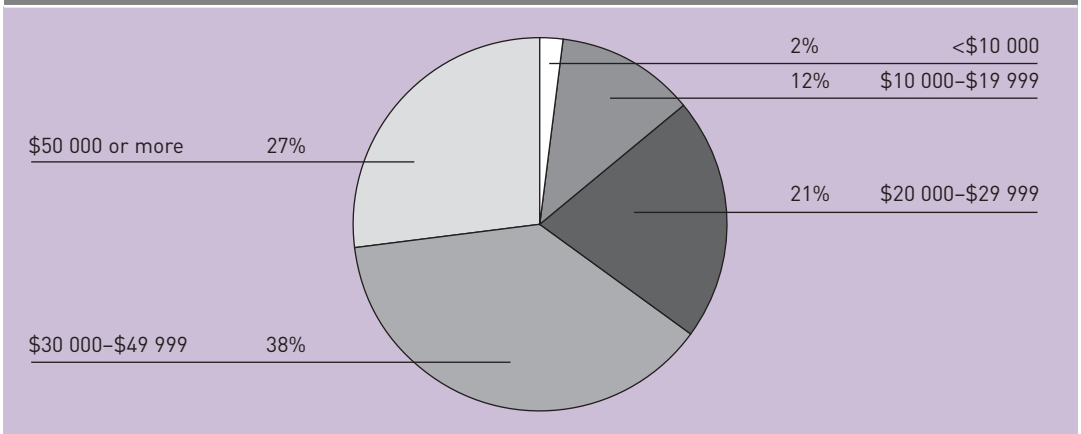
Figure 31: Income earned in 12 months prior to Debt Agreements



Debtors' household income

2% of households with Debt Agreement debtors earned less than \$10 000.

Figure 32: Debt Agreements – Household Income

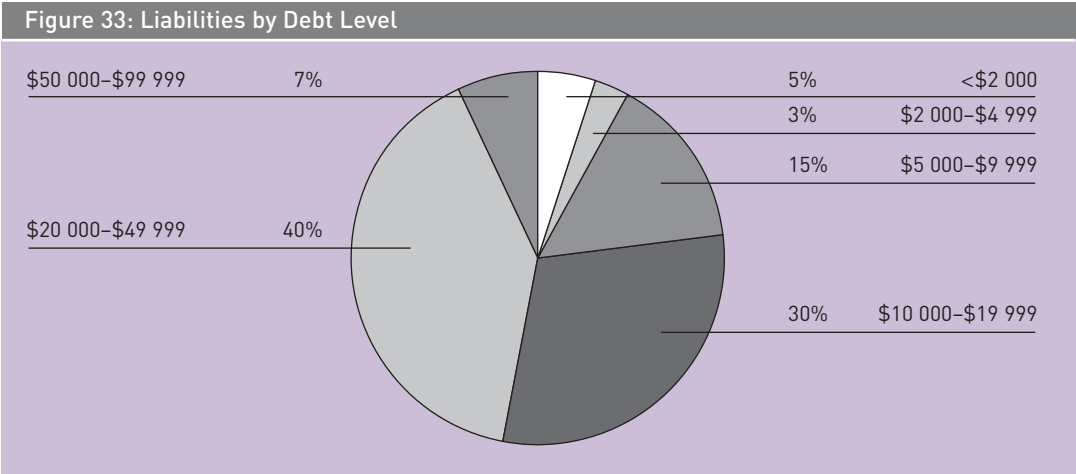


⁷ The income, debt and asset threshold amounts for entry into a Debt Agreement are indexed to CPI. The figures provided are current as at 31 March 2006.

Debt level

Only unsecured debts were taken into consideration. A debtor is not eligible to propose a Debt Agreement if their unsecured debts exceed \$73 236.80⁷.

22% of debtors owed creditors less than \$10 000 and 52% owed less than \$20 000.



Creditors

In dollar terms, banks accounted for 50% of total debt and finance companies 30%. Tax accounted for just under 3% of total debt.

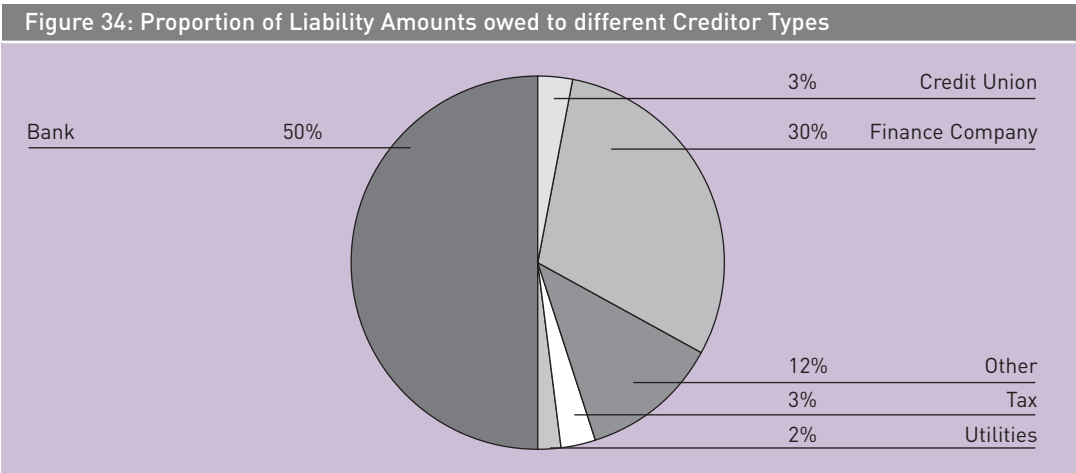
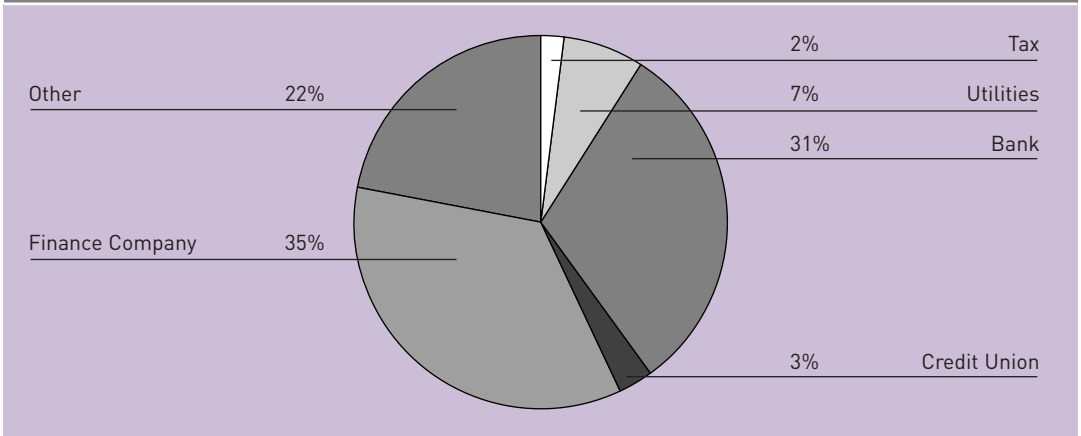
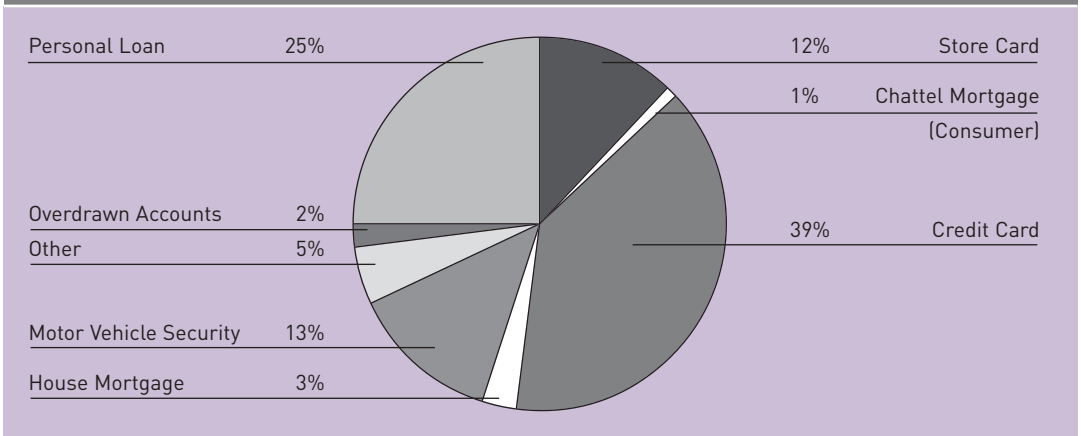


Figure 35: Frequency of Occurrence of each Creditor Category



Those liabilities owed to banks, building societies, credit unions and finance companies were further categorised as follows:

Figure 36: Proportion of Liability Amounts owed to different Creditor Subtypes

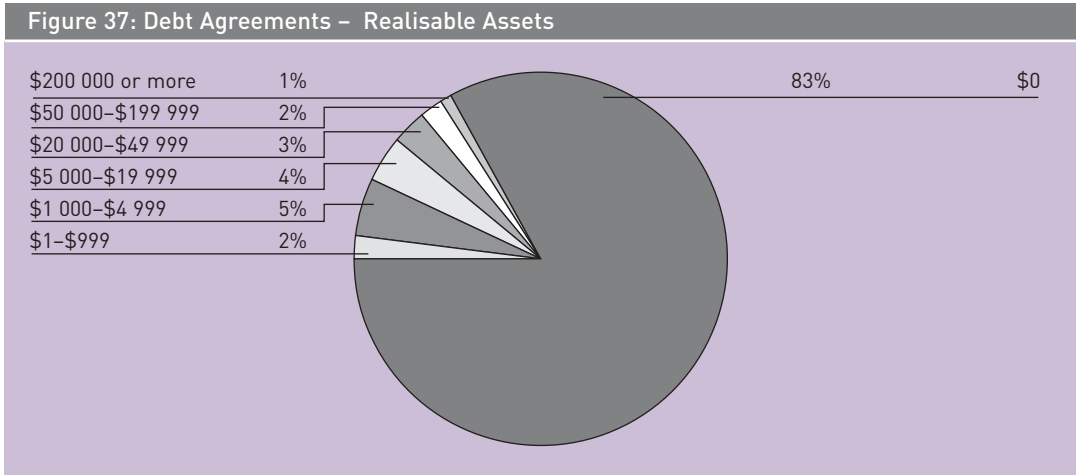


39% by value were characterised as credit card debt, followed by 25% characterised as personal loans.

All liability amounts above refer only to the amount of net unsecured debt owed by the debtor.

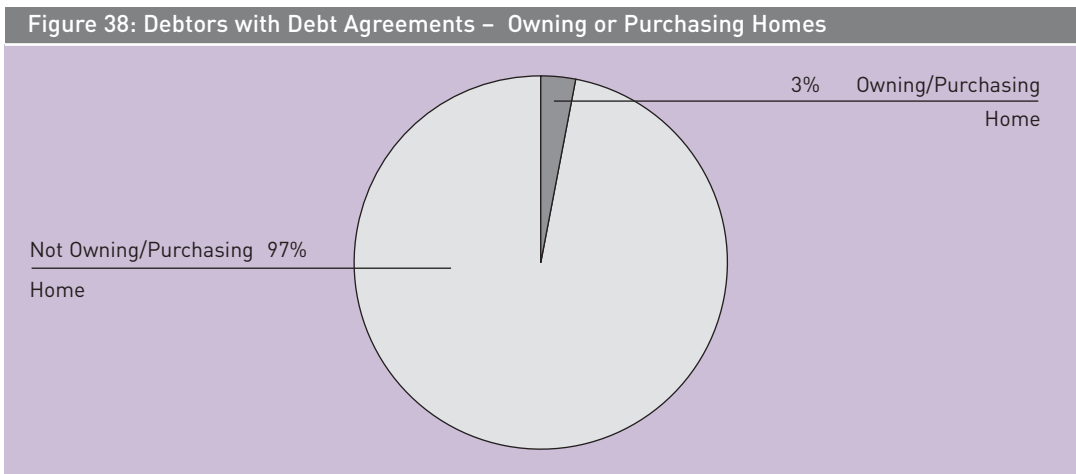
Assets

85% of Debt Agreement debtors had realisable assets less than \$1 000. A debtor is not eligible to propose a Debt Agreement if their realisable assets exceed \$73 236.80⁷.



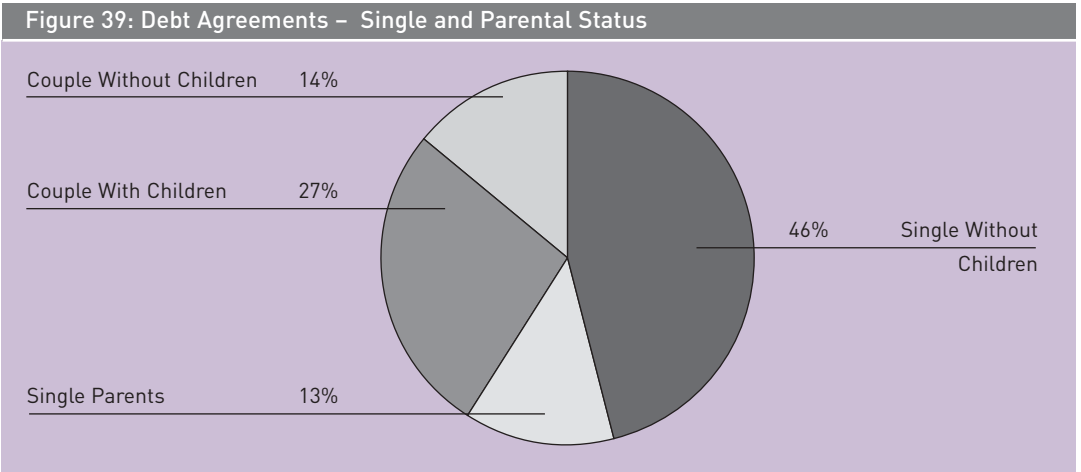
Home ownership

3% of Debt Agreement debtors were either home owners or in the process of purchasing a home at the date of bankruptcy.



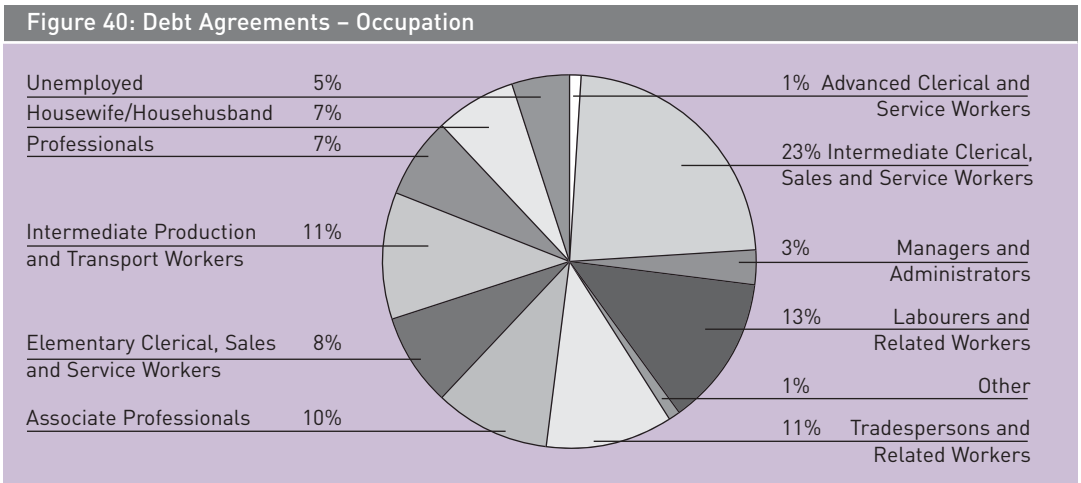
Single and parental status

46% of Debt Agreement debtors were single without children. This represents the largest group and is followed by couples (i.e. married, de facto or same sex partners) with children at 27%, couples without children at 14% and single parents at 13%.



Occupation

The following chart provides details of the occupational status of Debt Agreement debtors for the year 2005 by occupational groups.



Characteristics of those who enter into personal insolvency agreements

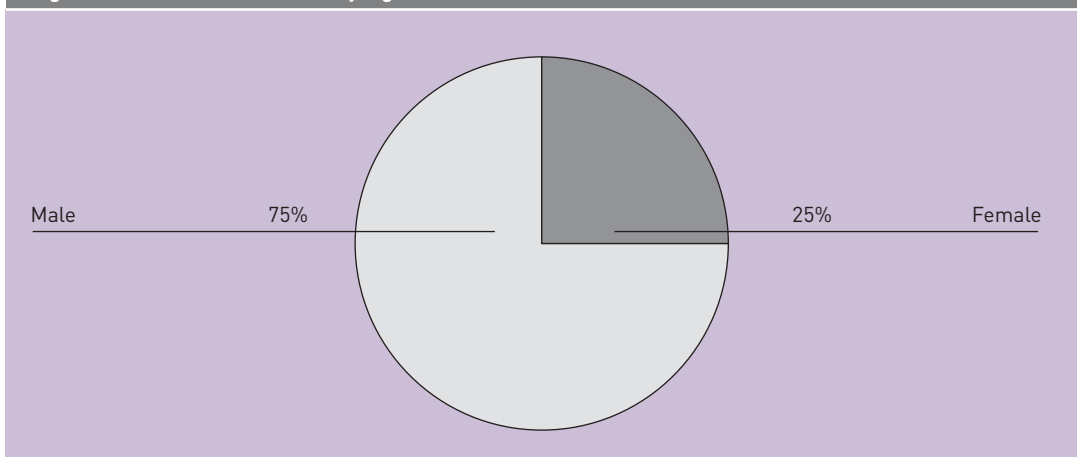
SUMMARY OF KEY FINDINGS OF DEBTORS WHO ENTERED INTO A PERSONAL INSOLVENCY AGREEMENT

- 37% had an income of less than \$30 000 in the year prior to entering into a Personal Insolvency Agreement;
- 'Economic conditions affecting industry' was the main attributed cause of business related insolvencies and 'liabilities incurred on guarantees' was the main attributed cause of non-business related insolvencies; and
- More males entered into Personal Insolvency Agreements than females.

Gender

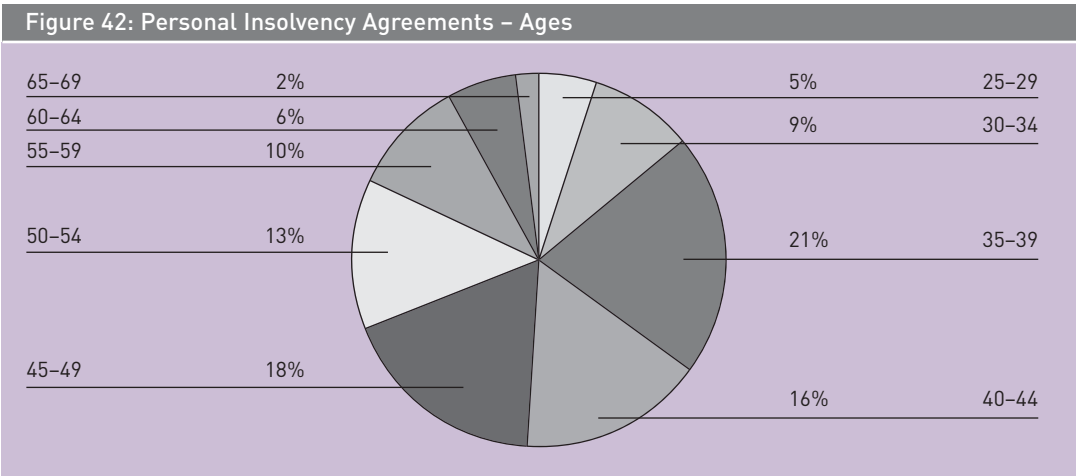
75% of those who entered into Personal Insolvency Agreements were male.

Figure 41: Personal Insolvency Agreements – Gender



Age

The age profile of debtors is shown on the following chart.



Of all Personal Insolvency Agreement debtors, 4% were under the age of 30, 31% were between the ages of 30 and 39 and 64% were over 40. The corresponding population ratios for the general population were 26%, 19% and 56%.

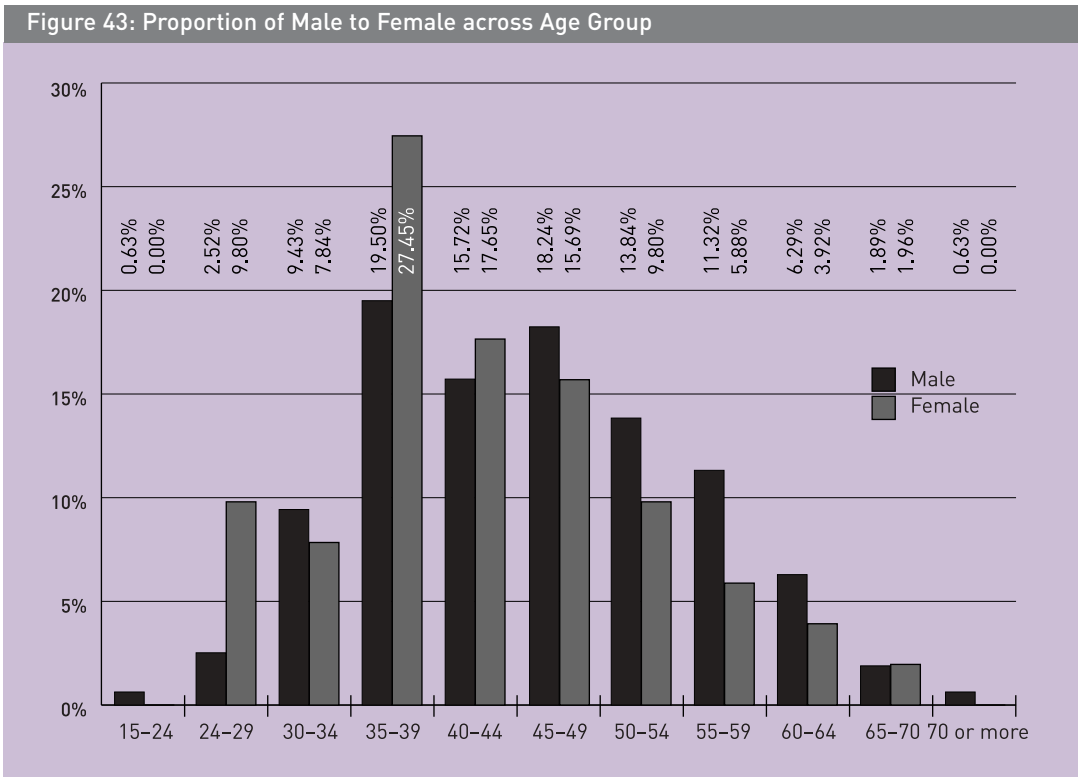
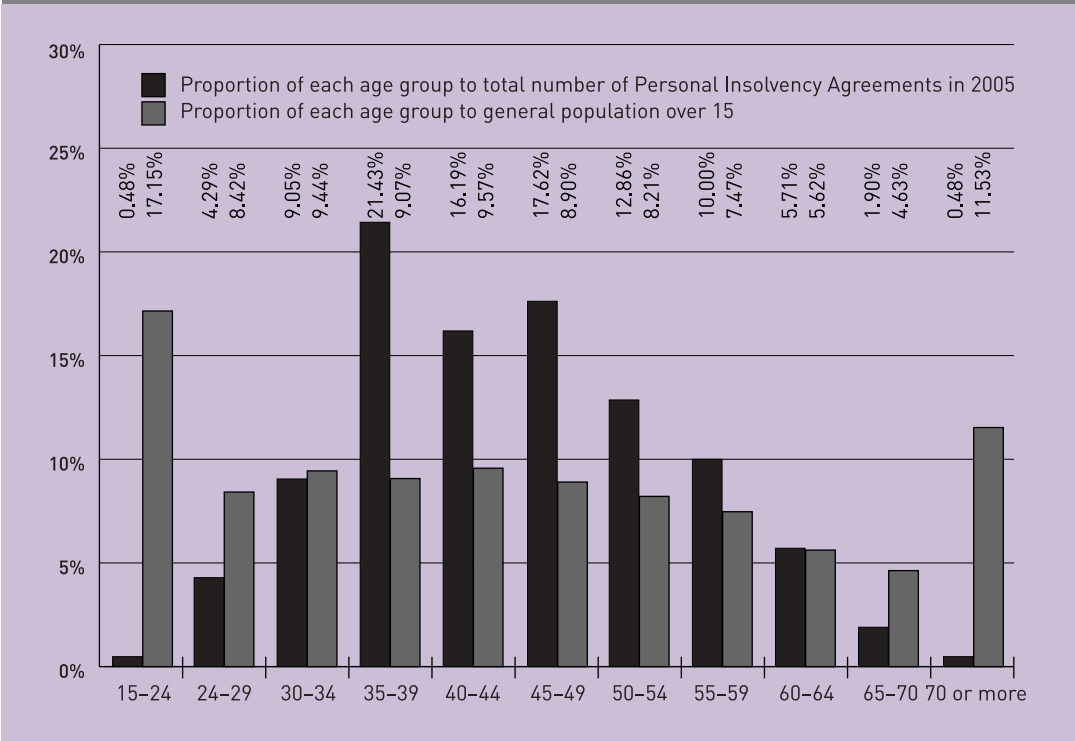


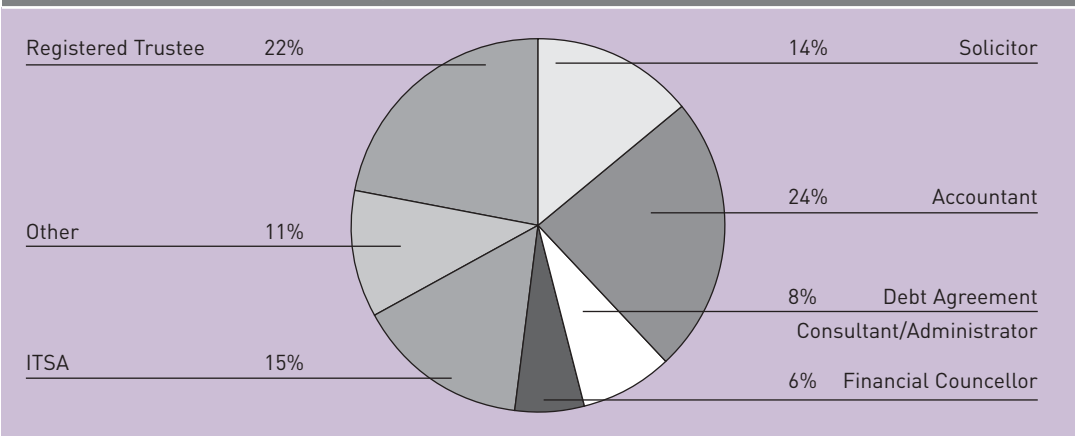
Figure 44: Age Comparison of Debtors and General Population over 15



Sources of information

Of those who entered into Personal Insolvency Agreements, 24% received advice from accountants followed by registered trustees at 22%.

Figure 45: Personal Insolvency Agreements – Sources of Information

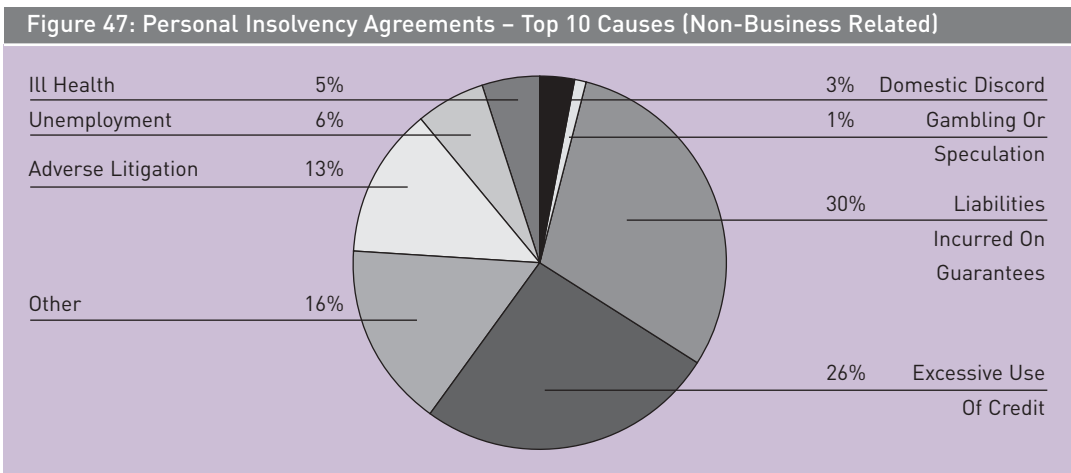
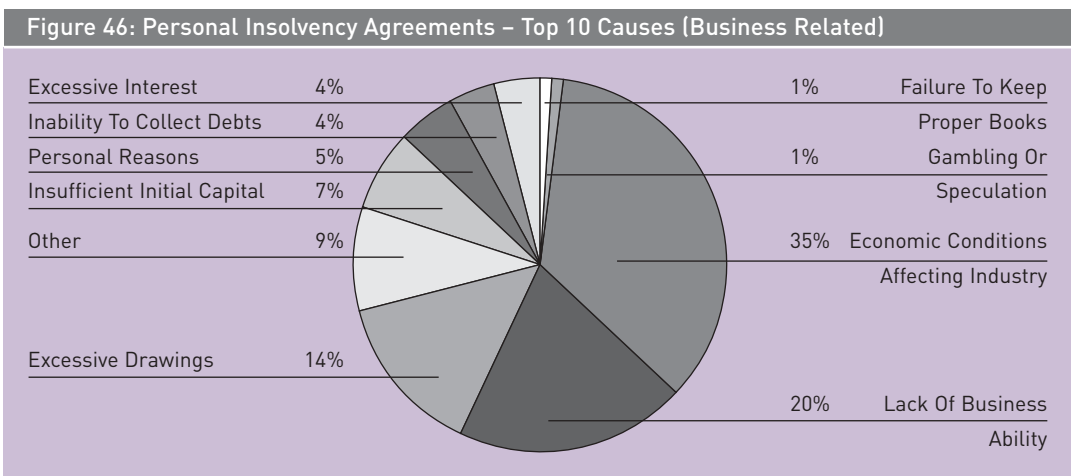


Primary causes of insolvency

For business related Personal Insolvency Agreements, 'economic conditions affecting industry' was disclosed as the primary cause of insolvency at 35%.

For non-business related Personal Insolvency Agreements, 'liabilities incurred on guarantees' was disclosed as the primary cause of insolvency at 30%, followed by 'excessive use of credit' at 26% and 'other' at 16%.

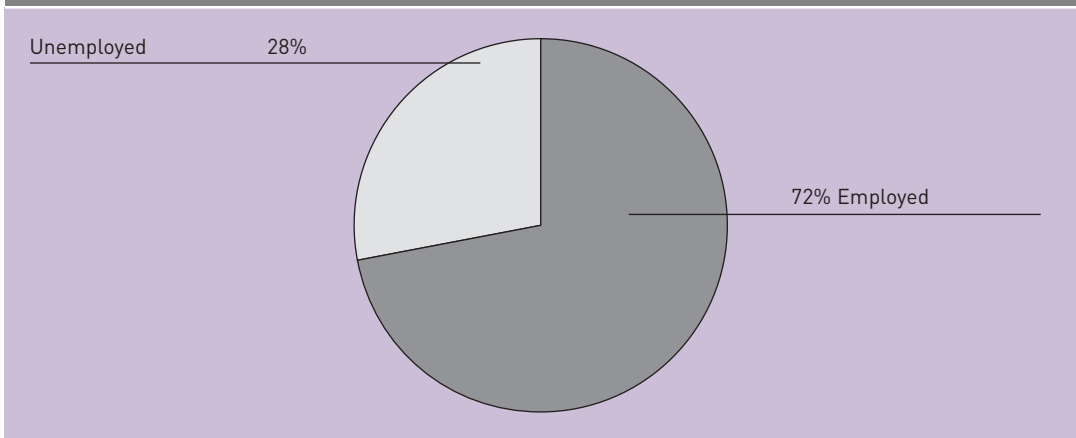
The frequency of each of the primary causes of insolvency as disclosed by Personal Insolvency Agreement debtors is as follows:



Employment status

72% of Personal Insolvency Agreement debtors were employed.

Figure 48: Personal Insolvency Agreements – Employment Status

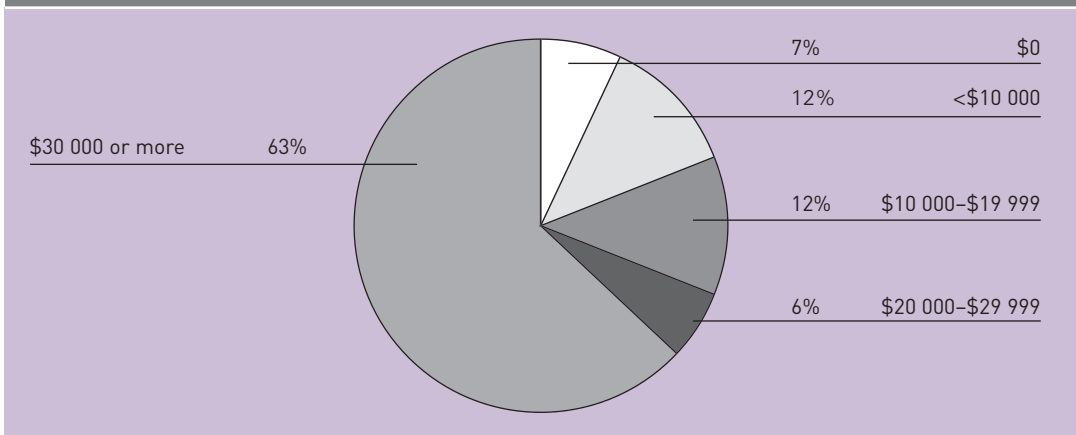


Income

Debtors' income

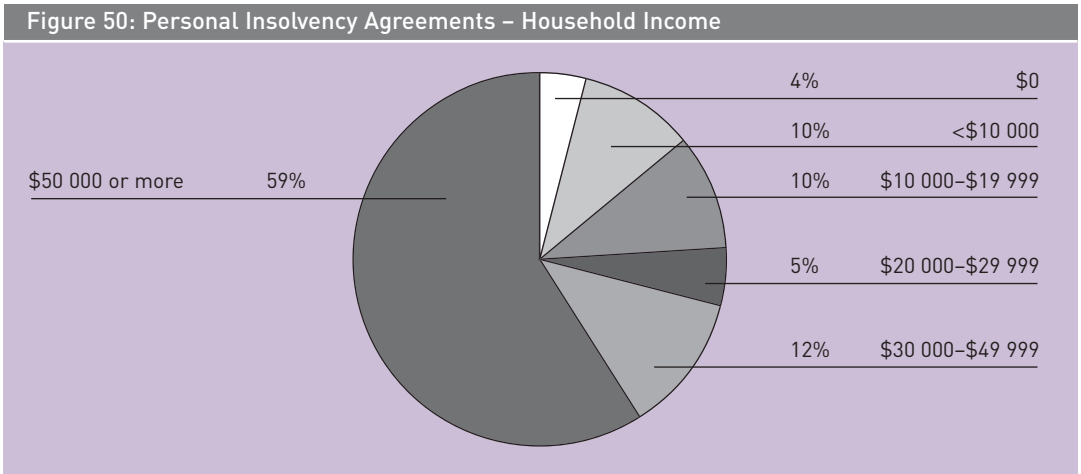
19% of Personal Insolvency Agreement debtors had an income under \$10 000 and 31% were under \$20 000. (Note: All references to income relate to gross income unless stated otherwise).

Figure 49: Income earned in 12 months prior to Personal Insolvency Agreements



Debtors' household income

14% of households with Personal Insolvency Agreement debtors earned less than \$10 000.



Creditors

'Tax' accounted for 14% of creditors by value in Personal Insolvency Agreements and 'banks' for 13%. Finance companies were owed 6% by value. The most common categorisation of creditors was 'other', at 67% in value. Creditors identified as 'other' would include trade creditors, store accounts, professional fees, medical bills, school fees, family loans and the like.

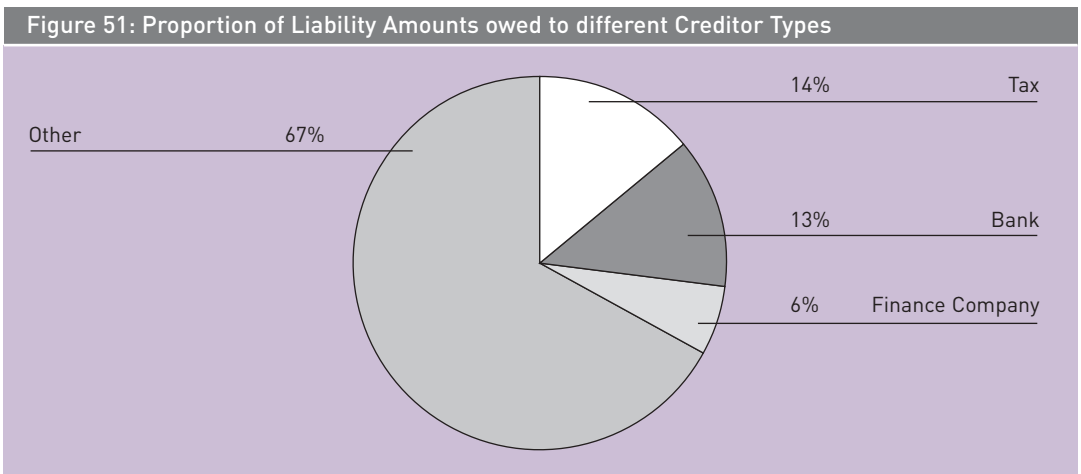
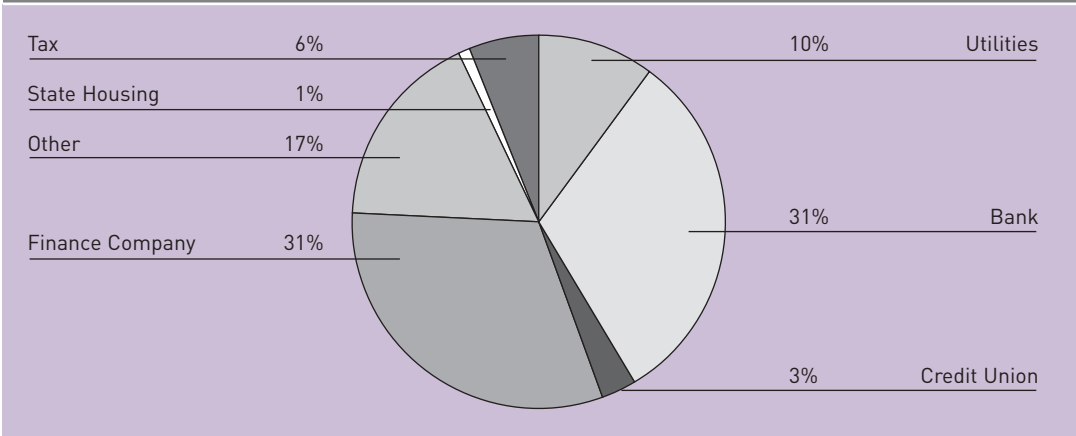
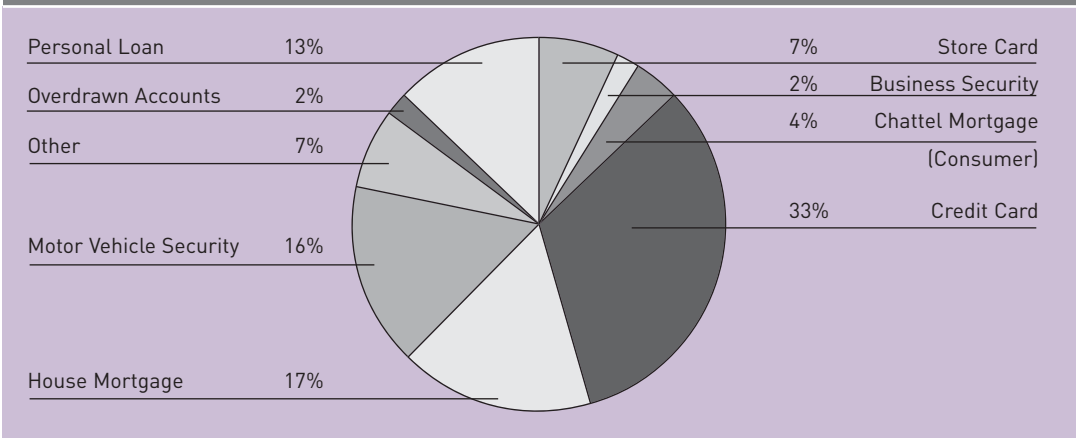


Figure 52: Frequency of Occurrence of each Creditor Category in all Personal Insolvency Agreements



Those liabilities owed to banks, building societies, credit unions and finance companies were further characterised as follows:

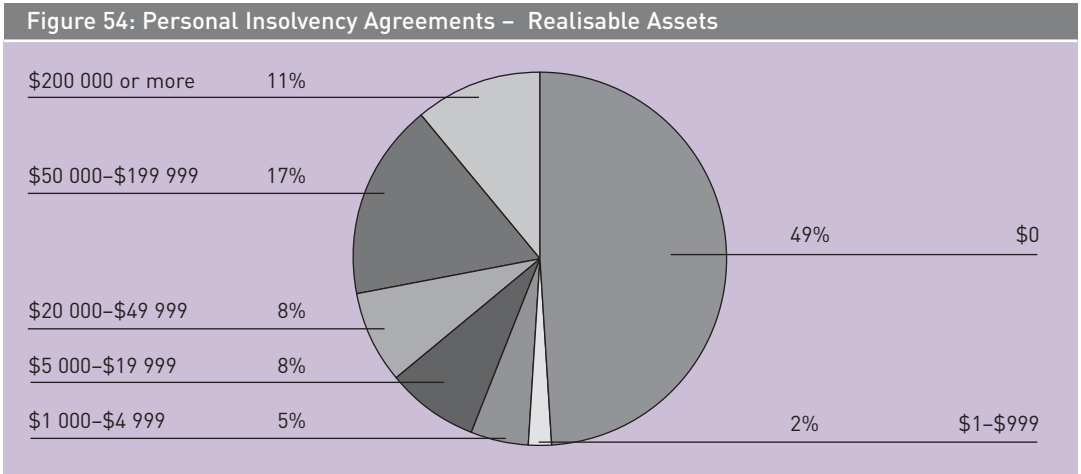
Figure 53: Proportion of Liability Amounts owed to different Creditor Subtypes



All liability amounts above refer only to the amount of net unsecured debt owed by the debtor.

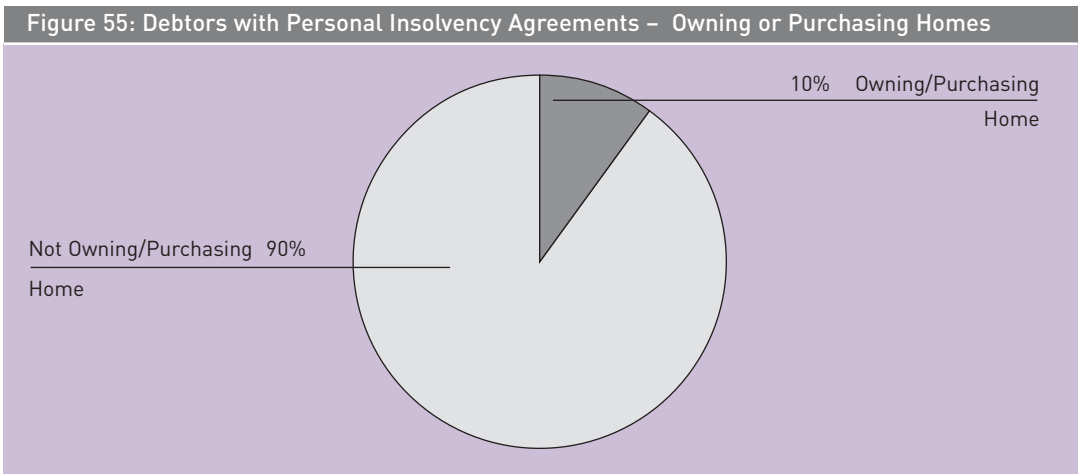
Assets

51% of debtors had realisable assets less than \$1 000.



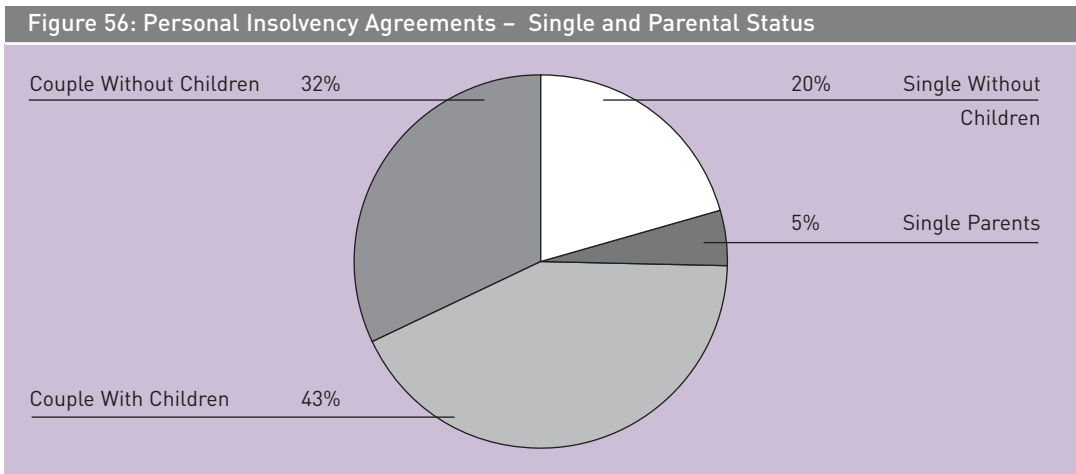
Home ownership

10% of Personal Insolvency Agreement debtors were either home owners or in the process of purchasing a home.



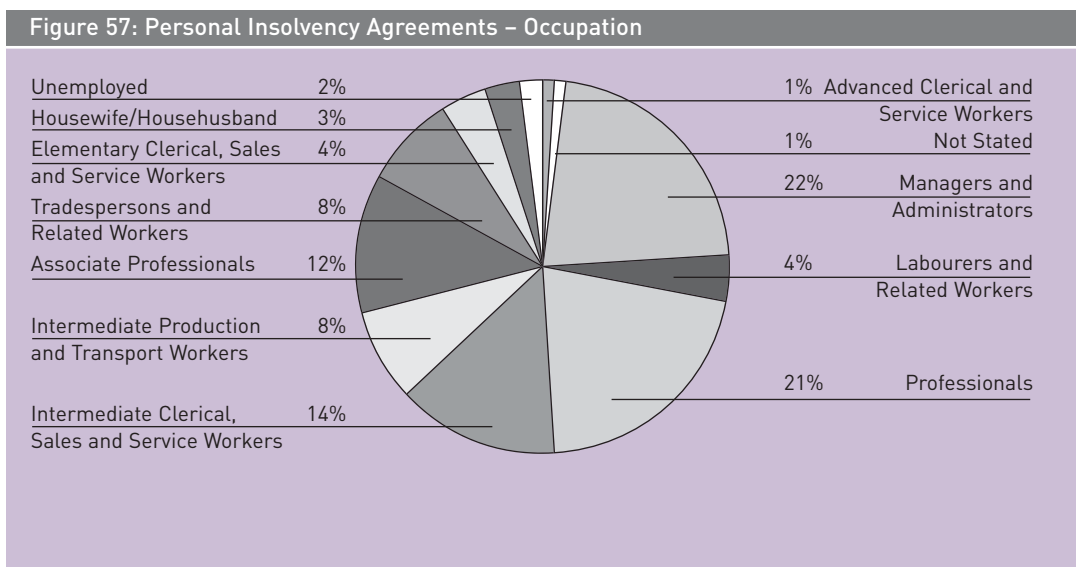
Single and parental status

43% of debtors entering into Personal Insolvency Agreements were couples with children. This represents the largest group followed by couples with no children at 32%, singles with no children at 21% and single parents at 5%.



Occupation

The following chart provides details of the occupational status of Personal Insolvency Agreement debtors for 2005 by occupational groups.



Comparative Rates of Personal Insolvency

In 2005, 0.14% of the total population of Australia became bankrupt or entered into a Debt Agreement or Personal Insolvency Agreement.

Comparisons of Australian personal insolvency rates with those of other jurisdictions can be difficult, due to national differences in insolvency law and statistical methodologies. Figures 58 and 59 set out the rates of personal insolvency in 2005 for a number of jurisdictions in which the types of formal personal insolvency are more readily comparable to those of Australia.

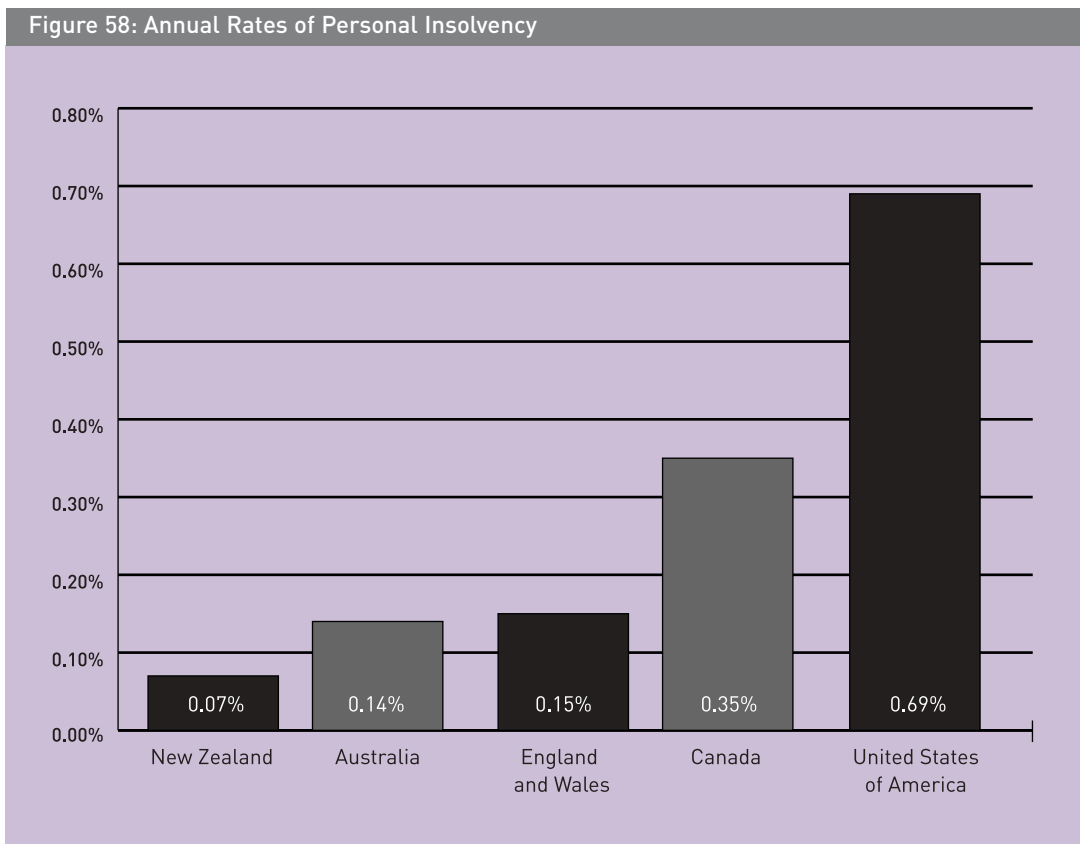


Figure 59: Annual Rates of Personal Insolvency

	Population Estimate	Personal Insolvency Administrations	Rates of Personal Insolvency
New Zealand ¹	4 108 000	2 988	0.07%
Australia ²	20 385 200	27 974	0.14%
England and Wales ³	53 045 600	80 600	0.15%
Canada ⁴	32 270 500	111 807	0.35%
United States of America ⁵	296 410 404	2 039 214	0.69%

¹ Population estimate as at September 2005; Source: www.insolvency.govt.nz and www.stats.govt.nz

² 'Personal Insolvencies' include bankruptcies, Debt Agreements and Personal Insolvency Agreements; National and State population figures are current as at September 2005; Source: Australian Bureau of Statistics, catalogue number 3101.0 - Australian Demographic Statistics, Sep 2005

³ 'Personal Insolvencies' include bankruptcies and individual voluntary arrangements; Population estimate as at Mid 2004; Figures for Northern Ireland and Scotland are excluded as they operate separate personal insolvency regimes and methods of recording and generating insolvency related statistics; Source: www.insolvency.gov.uk and www.statistics.gov.uk

⁴ 'Personal Insolvencies' include business bankruptcies, consumer bankruptcies and proposals; Population estimate as at 1 July 2005; Source: www.strategis.ic.gc.ca and www40.statcan.ca

⁵ The United States Bankruptcy Code provides for common types of insolvency administration for both personal and corporate insolvencies. US statistics on bankruptcy distinguish between business and non-business bankruptcies. The figure provided above is for non-business (or consumer) bankruptcies (which made up 98.11% of bankruptcies in 2005). Those personal insolvencies categorised as business bankruptcies are not included. Population estimate as at 1 July 2005; Source: www.abiworld.org and www.census.gov