AICM releases an industry first report into consumer overdue credit trends and practices

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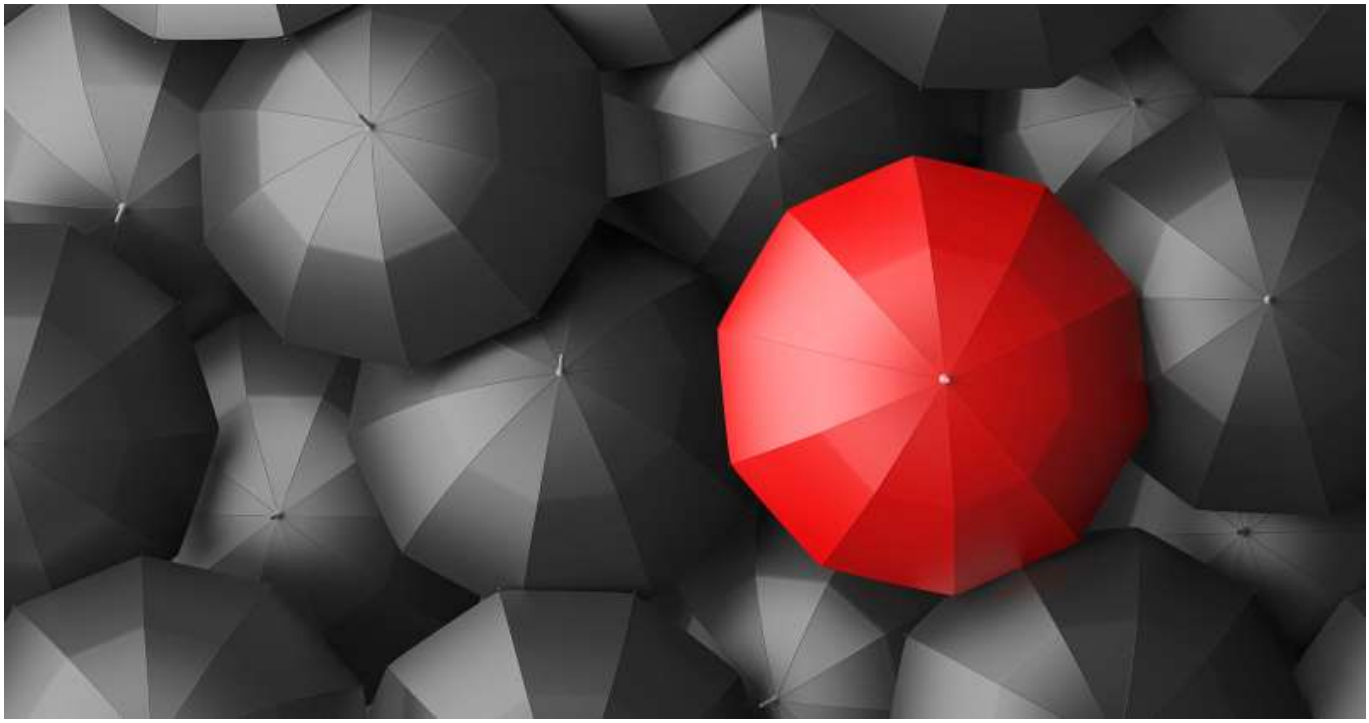

The Australian Institute of Credit Management ("**AICM**") released an industry first Overdue Credit Index Report 2023 ("**the Report**") which analyses levels of overdue credit across a range of financial products in the Australian market.

The Report presents a measure of overdue credit, called the 'Overdue Credit Index', based on aggregate data of reported repayment history for credit accounts across mortgages, credit cards and unsecured personal loans using data provided by Equifax and Illion for the period from 1 July 2019 to 1 August 2022. This index provides transparency around patterns of overdue credit and hardship requests in the Australian market and allows credit managers to express their performance and resourcing relative to a benchmark.

Some of the key trends presented by the indices for overdue mortgages and overdue unsecured credit (credit cards and personal loans) in the Report are summarised below:

- Overdue mortgages sharply feel over the Covid-19 pandemic due to an increased uptake of temporary loan deferrals. There was also a spike in home loan refinancing as a result of general increase in property prices and low interest rates. Overdue mortgages did not increase following the Covid-19 pandemic up to August 2022, however, it is expected to increase in subsequent quarters as regulatory support for temporary loan deferrals end and consumer price and interest rates rise.
- Overdue credit card accounts increased from September 2019 to April 2020 as a result

of a rise in unemployment, a slowing business cycle and demand for credit card debt. However, it fell dramatically from April 2020 to September 2020 when borrowers were able to pay down their credit card debt due to the extended COVID-19 lockdowns and the uptake of temporary loan deferrals. Overdue credit card accounts rose by about one third towards the end of 2020 and has fallen and risen again to just over half the level it was prior to Covid-19 pandemic, possibly due to the impact of the Buy-Now Pay-Later wave and the overall reduced consumer demand for credit cards.
- Personal loan accounts dipped in a similar pattern to mortgage and credit card products during the Covid-19 pandemic. However, unlike overdue mortgages and overdue credit cards, it began to rise consistently in the first half of 2022.
- Mortgage deferrals rose dramatically from pre-pandemic times to the third quarter of 2020, before falling back to pre-pandemic levels in the second quarter of 2021.

The Report also provides insights from interviews with credit professionals and financial counsellors to understand their practices in handling overdue payments and hardship requests.

Some of the key insights from the interview participants are outlined below:

- The level of overdue credit and hardship requests may increase over the next year as a result of increased cost-of-living pressures and the end of temporary hardship and payment deferral arrangements, but only after savings buffers built up by consumers during the COVID-19 period are reduced.
- While credit professionals often deal with overdue payments and customers at various stages of the collections process, hardship requests are complex and require specialist training, skills, and knowledge.
- ‘Self-service’ provision of hardship requests, such as through an online form, may aid consumers in making near-timely payments. Technology such as artificial intelligence may also assist with earlier-stage customer intervention.
- Credit professionals require a high level of empathy and specialised training to cope with potentially distressed customers. Skilled credit professionals are needed to interact with customers in a genuine, open, and respectful way.

The AICM Overdue Credit Index Report 2023 can be accessed here:
https://www.aicm.com.au/member-portal/resourcelibrary/aicm-overdue-credit-index-report-2023/

If you would like more information or advice in relation to insolvency, restructuring or debt recovery law, contact a Principal of the Matthews Folbigg Insolvency, Restructuring & Debt Recovery Group:

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