Australia’s personal insolvency system expected to surge; those with small savings buffers to bear the brunt

Date : March 26, 2024

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In October 2023 the Australian Financial Security Authority (AFSA) released a "State of the Personal Insolvency System Report” current to 31 August 2023. The report focused on two key areas, namely the current state of the personal insolvency system in Australia, and the regulatory focus of AFSA in managing the system under the *Bankruptcy Act 1966* (Cth).

The report predicts that due to the cost of living crisis currently faced by Australian households and individuals, annual personal insolvency volumes are expected to rise in the next two years, by 23% in 2023-24 to around 12,250 and by a further 20% in 2024-2025 to around 14,750. It should be remembered that during COVID-19 personal insolvency numbers hit record lows, and were in decline even before that, so in part this increase is only partly increasing personal insolvency numbers towards historic (pre-COVID) averages. This figure anticipated in August 2023 also is belied somewhat by more current figures released in late January 2024 (for the December 2023 quarter) showing a decrease in personal insolvencies for that quarter, although

the December quarter is traditionally quieter in personal insolvency.

The report suggests that during the last few years a higher percentage of debtors with small savings buffers have been forced into insolvency with statistics highlighting a 5% increase in this cohort from the pre-COVID period of 16%-21%.

The Australian Taxation Office and the big ‘4’ banks account for 32% or $4.5 billion of the value of debt in the personal insolvency system. AFSA’s reports suggests it will increase its engagement with creditors outside this group as well, to ensure it takes a collective view of the system and to capture emerging trends.

AFSA’s report suggests its future focus will be on increasing regulatory supervision, being “constructively tough, and administering stronger enforcement outcomes” to combat the misuse of the personal insolvency system. This is evidenced by the prosecution of 91 persons in 2022-23 with a total of 174 charges. 117 of those charges were proven.

The team at Matthews Folbigg Lawyers are specialist practitioners in personal insolvency and have dealt for both registered trustees and individuals and creditors affect by personal insolvency matters.

Read the AFSA report here.

See AFSA’s report on the December 2023 quarter insolvency numbers here.

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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