

Call to seek help early as avalanche of bankruptcies looms



Malcolm Howell, Jirsch Sutherland Partner

The number of Australians entering into personal insolvency is rising, with COVID-19 a key contributing factor. The country is also facing a potential avalanche of insolvencies once the government relief measures expire, says bankruptcy trustee and Jirsch Sutherland Partner Malcolm Howell.

According to the latest [Australian Financial Security Authority](#) (AFSA) figures, the average number of people entering into personal insolvency each fortnight between July 1, 2019 and March 22, 2020 was 844. However, between March 23 and April 5, this average rose to 1019 – 21 per cent higher than the fortnightly average. Where AFSA could identify the industry, the most common industry was “other services”.

Over the March 23-April 5 fortnight, 252 of those who entered into bankruptcy were involved in a business. While construction was the most common industry for people in this scenario, accommodation and food services recorded the largest increase: from 15 to 24.

“We’re likely to see a significant increase in business-related personal insolvencies as a result of the economic impact of COVID-19,” says Howell. “A lot of small-business owners often use personal finances for business borrowings – including using their homes as a guarantee – which makes them vulnerable at a time like this.”

Howell says that the insolvency industry is bracing for a wave of personal insolvencies six to nine months down the track and that the Federal Government initiatives around bankruptcy will “buy people time to get their affairs in order”.

In an attempt to assist individuals, the Government is temporarily increasing the minimum amount of debt required for creditors to initiate bankruptcy proceedings against a debtor from \$5000 to \$20,000. The timeframe the debtor has to respond to a bankruptcy notice will also be temporarily extended from 21 days to six months.

“Individuals and business owners will have more breathing space thanks to these changes to Australia’s insolvency laws,” Howell says. “But it doesn’t mean they should put off seeking advice if they find themselves experiencing financial stress. Our message remains the same: seek advice early. The relaxed insolvency laws mean you have six months to decide what the best solution is.”

Howell adds bankruptcy isn’t something to be ashamed or scared of: “It’s a result of circumstances and sometimes it’s the only way to recover and to maintain your mental health and wellbeing, and that of your family,” he says. “Financial pressures affect everybody in the family, not just the individual concerned.”