The rise and rise of personal insolvency

With financial headlines frequently focusing on tales of business insolvency, the story of personal bankruptcy is often overlooked.

Yet the spectre of crushing personal debt continues to wreak widespread havoc across broad sections of Australian society.

Recent data from the Australian Financial Security Authority (AFSA) reveals that the total number of personal insolvencies nationally hit 8,177 in the 2018 June quarter – up by 7.4 per cent from the same time last year. Significantly, this was the fourth consecutive year-on-year increase. Total personal insolvencies rose in all states and territories except Victoria, reaching record highs in the Northern Territory (95) and Western Australia (1,046).

Jirsch Sutherland Partner Malcolm Howell says he's not surprised by the large increase, adding that a range of factors are contributing to increased personal insolvency levels in Australia.

Malcolm Howell

"It's a culmination of things but credit card debt is a major factor," he explains. "While once we used to see credit card debts of $5,000 or $10,000, it's now not uncommon for me to handle bankruptcies involving people with four or five different cards, each of them having a debt between $20,000 and $30,000 in some cases."

He says the combination of easy access to cards (often by society's most vulnerable) and unscrupulous credit facilitators, is proving to be a devastating mix.

"It appears that credit cards are being offered to people that shouldn't be extended credit," Malcolm says, adding that he often sees business owners using credit cards to pay for growing business debts, many of whom already owe the ATO significant sums. "We also see credit cards provided to young people starting their careers with little or no assets behind them and low income. These types of credit card holders are definite risk categories.

"Cards are so accessible now and people can get them easily. And there are so many predators out there who'll offer great deals to people. Even if it's only $1000 or $2000 – it's the start of the cycle, because often they'll end up getting other credit cards to fund further expenses."

But the problem, he says, has deeper triggers. Economic downturns and population shift are also causes of personal insolvency, especially in rural areas where communities and businesses struggle to remain viable.

"You do see a lot of pressures in rural areas, where industry may be dropping off a lot," he explains. "As people from the country want to move to the city, there's been a downfall in the number of businesses operating. Therefore, personal bankruptcies start to occur because people can no longer pay their bills."

Malcolm also says a widespread lack of willingness among the younger generation to continue the legacy of long-established family businesses is playing a role.

"The youth of today don't have the same inclination to follow in their parents footsteps and take over family businesses," he says. "These days, that business just gets liquidated and people lose their jobs. This can then lead many into personal debt issues. I think this aspect of it is happening everywhere. In rural areas particularly, it hits them hard."

When it comes to combating the epidemic of personal insolvency, he believes a range of measures is necessary.

"Unless we do something to pump money into areas that are feeling the pinch, and certainly the stats suggest that they're rural areas in particular, it's going to get worse," he says. "We also need to educate people more about the effects of taking credit, the penalties of which can be potentially huge. This is often one of the things that puts pressure on people, which then leads them into more debt."