

Kim, Seajin

Working Paper

Australian money advice and debt management system

UNRISD Working Paper, No. 2023-03

Provided in Cooperation with:

United Nations Research Institute for Social Development (UNRISD), Geneva

Suggested Citation: Kim, Seajin (2023) : Australian money advice and debt management system, UNRISD Working Paper, No. 2023-03, United Nations Research Institute for Social Development (UNRISD), Geneva

This Version is available at:

<https://hdl.handle.net/10419/278331>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Australian Money Advice and Debt Management System

Research team of the Association for Supporting
the SDGs for the United Nations (ASD)*

January 2023

This scoping paper is prepared for the development of a future project on personal and household debts under UNRISD's Alternative Economies for Transformation Programme (2021–2025) and is coordinated by the following partner organizations: The Credit Counseling and Recovery Service (CCRS) and the Association for Supporting the SDGs for the United Nations (ASD).

* Gyeongmin Park, Seajin Kim, Hyeyoung Kang, Heather Lee.

UNRISD working papers are posted online to stimulate discussion and to raise critical comments.

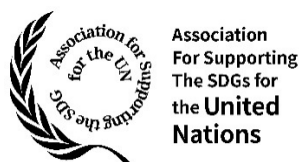


The United Nations Research Institute for Social Development (UNRISD) is an autonomous research institute within the UN system that undertakes multidisciplinary research and policy analysis on the social dimensions of contemporary development issues. Through our work, we aim to ensure that social equity, inclusion and justice are central to development thinking, policy and practice.

UNRISD, Palais des Nations
1211 Geneva 10, Switzerland
Tel: +41 (0)22 9173060
info.unrisd@un.org
www.unrisd.org

Copyright © United Nations Research Institute for Social Development (UNRISD)

This is not a formal UNRISD publication. The responsibility for opinions expressed in signed studies rests solely with their author(s), and availability on the UNRISD website (www.unrisd.org) does not constitute an endorsement by UNRISD of the opinions expressed in them. No publication or distribution of these papers is permitted without the prior authorization of the author(s), except for personal use.



This scoping paper is prepared for the development of a future project on personal and household debts under UNRISD's Alternative Economies for Transformation Programme (2021–2025) and is coordinated by the following partner organizations: The Credit Counseling and Recovery Service (CCRS) and the Association for Supporting the SDGs for the United Nations (ASD).

Abstract

In Australia, financial hardship caused by over-indebtedness is no longer only experienced by the most vulnerable social group but is now prevalent among the general population. This scoping paper analyses the money advice and debt management system in Australia with emphasis on their effectiveness. First, money advice is divided into debt counselling and financial advice services. Public organizations and government departments responsible for money advice are assessed in terms of their role, approach, brief history, interrelationship and impact on people. Second, debt management options and responsible institutions are investigated in detail. Less is known about the impacts of different debt management options since little research is currently available. Therefore, this scoping paper concludes that while preventative, curative and rehabilitative measures are available for Australian debtors, interaction among stakeholders within the system must expand together along with the publication of an evaluation of the country's financial service landscape.

Contents

Abstract.....	i
Background	1
1. Money Advice: Federal, national model	2
2. Debt management: Network system	6
2.1. Responsible Institutions	6
2.2. Debt Management Options.....	7
3. Concluding Remark	12
Bibliography.....	14
Annex 1.....	15

Background

Australia witnessed a widespread reliance on consumer credit in the late 20th century. Consequently, it brought about an unprecedented increase in the personal and household over-indebtedness which results in high levels of poverty and financial stress.

Provision of financial services associated with “money advice and debt management” (see Figure 1) such as financial advice, debt counselling and debt management began to be introduced for households in financial difficulty from the public and private sectors. As a preventive measure toward personal debt, the Australian Government is taking a holistic view to support the national financial capability through the delivery of large-scale initiatives associated with financial services for personal money and debt management. Although there is considerable private sector involvement from financial service providers, it is notable that public organizations are the representative providers of most financial services associated with money advice and debt management in Australia.

The relationship between money advice and debt management is of much importance to understanding the overall structure of financial services in Australia (see Figure 1). To some extent, the two dimensions can be seen as working well in tandem. Involvement of money advice services in debt management processes can be witnessed in the initial stages during option comparison and information seeking. Once debt management options begin, however, involvement of money advice services in all stages of the debt management process largely appears to completely cease. Although whether money advice is required during debt management is still in debate, the argument that more protection and assistance for consumers must be arranged in a complex market environment increasingly gains traction.

Figure 1. Structure of Financial Services in Australia



Source: Figure created by author

A key characteristic of financial service associated with debt management in Australia follows a *network system*. Regarding debt management, four independent public organizations constituting this network, Australian Financial Security Authority (AFSA), Australian Securities & Investments Commission (ASIC), Australian Financial Complaints Authority (AFCA) and Community Legal Centres Australia (CLC), provide services by specialists, aiming at providing a systemic solution for financial difficulties through different options such as debt relief or discharge.

Regarding money advice service, a key characteristic is its federal or national model. The Financial Counselling Australia (FCA), a non-profit organization with expertise in the concrete service area, is responsible for the provision of debt counselling and associated financial services.

In the case of Australia, evidence on the impacts of financial services is rather scarce or limited to studies over the short term. Most were related to the impacts of money advice services in which cases identified improvements such as psychological wellbeing, health issues, monetary involvement, avoidance of bankruptcy or legal actions and usage of public services. Moreover, rather than deriving quantitative measurements from the clients of financial services, existing data rely on case studies and survey results. Therefore, it is difficult to conclude that there were significant improvements as a result of individuals accessing financial services.

1. Money Advice: Federal, national model

According to the Senate Economics References Committee in the Senate Inquiry into Hardship, several factors in the market contribute to a person entering into debt and affect ways those in debt require debt counselling services. The market, including financial services and products, energy, and telecommunications, is increasingly becoming more complicated and diverse. As a result, for consumers without high-level knowledge on personal or household financial management it is challenging to make rational choices. Aggravating the problem is the asymmetry of power and information in market transactions due to changing markets and technological improvements (Sylvan 2019). Moreover, predatory products, services, and practices, such as consumer leases and payday loans, contribute to unmanageable debt. Providers of such financial services present significant risk of financial hardship to people due to their illegal or unethical behaviors towards low-income consumers. Other causal factors can be unexpected life events or financial vulnerability which can impact income or access to finances.

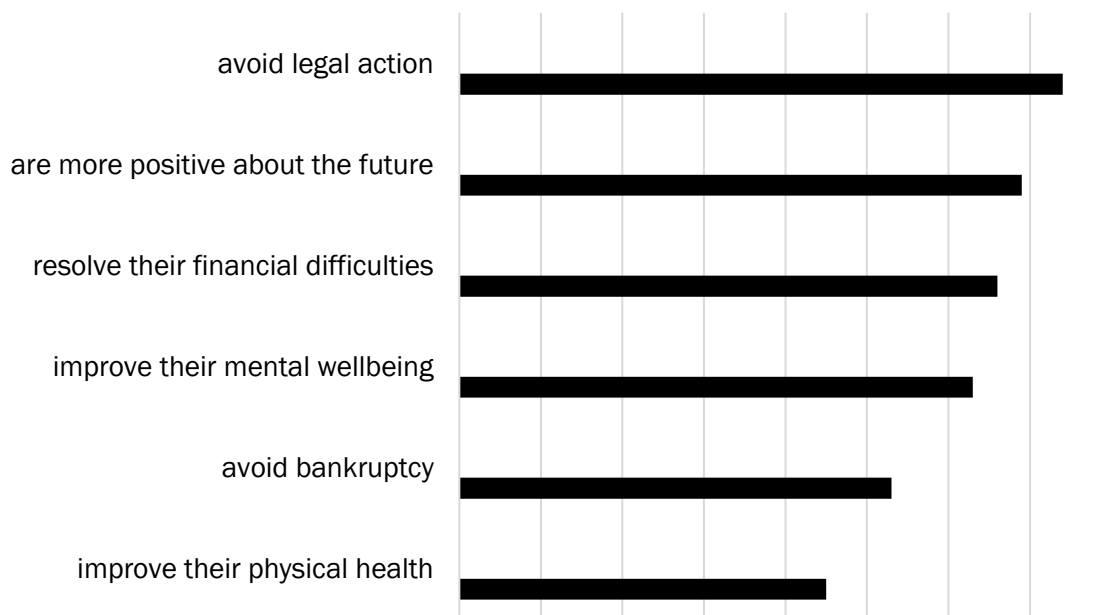
In Australia, the provision of *debt counselling* categorized as one of money service is public service coordinated/led by a federated organization. The service developed from the late 1970s and 1980s with the upsurge in the use of consumer credit. In the early stage of service development, however, consumer protection in the finance industry was limited and the government policy focused on tightening credit legislation that might deprive the lower income groups of obtaining credit at all.

Stronger consumer protection began to be recognized as a necessity when other advanced countries began introducing new regulations to supervise the volume of credit and to regulate down payments and interest rates. In this context, the Financial Counsellors' Association of Australia (later renamed as *Financial Counselling Australia (FCA)* in 2011), *national organization of financial counselling* profession was established as a response to growing personal debt and unfair practices affecting consumers in 1984. As a not-for-profit organization, it works to improve hardship processes for people in financial difficulty and to increase access to financial counselling. As of writing, the FCA has seven state and territory financial counselling associations as its members, supporting more than 800 financial counsellors nationwide.

Financial counsellors are qualified professionals who provide information, advice, and advocacy to people in financial difficulty. Their services are non-judgmental, free, independent, and confidential. Financial counsellors are based in community organizations throughout Australia, from large charities to smaller community centres, as well as local government agencies. Financial counsellors have specific knowledge about credit, bankruptcy and debt collection laws, concession frameworks and industry hardship practices. They're also trained in negotiation and counselling and offer emotional support and a place to talk for those in financial difficulty. Specialized areas of counselling covered by FCA are problems associated with gambling, payday lending, consumer leases and the building of a savings buffer. An interesting characteristic of financial counsellors in Australia is financial counsellors are exempt from licensing requirements¹. These include the provision of services free of charge, membership in a financial counselling association and the completion of training for adequate skills and knowledge. In other words, they can provide free, confidential, and independent counselling and advocacy services that help people in financial difficulty without strict restriction.

Debt counselling services indeed have many benefits. With timely intervention, individuals can recover in times of financial hardship through assistance in financial management, negotiations with service providers and interactions with other entities. According to the FCA, in January 2018, approximately 120,000 clients were assisted with face-to-face services (per year) and 160,000 calls were responded per annum through the *National Debt Helpline* (national phone service coordinated by FCA under the 1800 007 007 number and complemented by the NDH website). In May 2019, the FCA found an effective and positively measurable outcomes from financial counselling, more specifically debt counselling. It was reported that among those that received financial counselling, 66% resolved financial difficulties; 74% avoided legal action; 53% avoided bankruptcy; 63% experienced improvements in their mental wellbeing; 45% improved their physical health; there was a cost-benefit of 5 AUD (Australian Dollars) return for every 1 AUD invested (*Figure 2*).

¹ Australian financial services license Legislative Instrument 2017/792 (2017), National Consumer Credit Protection Regulations 2010

Figure 2. How effective is financial counselling?

Source: Figure modified by author. Data from FCA

Although there is a lack of recent studies on the impact of financial counselling, the monetary benefits of resolving financial difficulties have been quantified in the past. According to a document review developed by the Australian Workplace Innovation and Social Research Centre (WiSeR) and The Wyatt Trust, in the 2012/13 financial year², clients in South Australia declared an average debt reduction of 1,560 AUD. The same review also found an average debt of 15,162 AUD was waived interest payments for three months as a result of financial counsellors negotiating with an average debt waive of 4,723 AUD. Furthermore, debtors accessed a charitable grant (associated at most times with a referral service such as a financial counselling service) of 400 AUD on average to pay for bills, fines or debts.

Apart from these measurable impacts, the benefits of financial counselling include the provision of value or broader positive impacts on society as a whole. Advice and support assisted individuals experiencing financial hardship in both direct (relieving the debt and other monetary issues) and indirect (physical, psychological, behavioral, and social) ways. For instance, some research based on survey found improvements in financial literacy, resulting in better ability to make informed money management judgements and decisions, and stabilized housing (Mahmoudi 2014). Another interesting finding is the increased access to Centrepay, the Australian Government's bill-paying service which ensures the payment of core expenses, reduced the likelihood of accumulated debt associated with delayed or non-payment (Mahmoudi 2014). Customers experiencing financial stress due to the payments to banks, telecommunications, energy and other financial services, frequently accessed financial counselling which assisted individuals in managing, repaying or contributing towards bills and debt. As a result, the industry benefits from continued revenue and maintains a good relationship with its

² Cost Benefit Analysis of the Wyatt Trust funded financial counselling service. The benefits can be viewed as the costs that are avoided in the presence of the financial counselling service that would have become debts in the absence of the service (Mahmoudi 2014).

customers. Finally, for the government, financial counselling contributes to the reduction in social costs associated with financial hardship such as the usage of other social services and supports.

Case Studies

Case 1: Repayments/Contributions towards bills and debt

Mr and Mrs Deng had never sought help in the past, from any service and it was evident their financial literacy skills were very poor. Mr and Mrs Deng had debts totaling some \$22,000 with an immediate concern being the utility accounts with the threat of water disconnection.

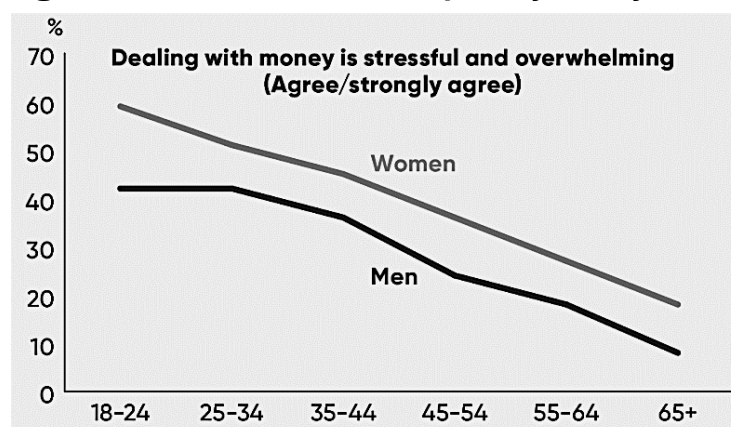
A financial counsellor immediately contacted creditors and a 28-day moratorium was arranged on all debts. Further meetings with the couple resulted in the completion of budgets and future money plans. Eventually, the financial counsellor had the overall debt reduced to \$6,000, with a waiver of future interest and fees.

Mr and Mrs Deng are now making regular payments over a longer term and are able to manage their money for the first time in their lives. Their children are also benefiting from the new financial management skills of their parents.

Source: Financial Counselling: It makes a difference. FCA 2016

Another important dimension of money advice services is the delivery of *financial advice*. As part of the overall financial wellbeing and financial resilience landscape, the Australian government supports the financial capability of people, to improve their skills in managing money and making informed decisions. This is promoted through the National Financial Capability Strategy. The government reported their findings from the National Financial Capability Survey 2021 that 17% of Australians are not very confident or not confident at all about their ability to hit a financial goal and many, particularly the young and women, found dealing with money stressful and overwhelming (*Figure 3*).

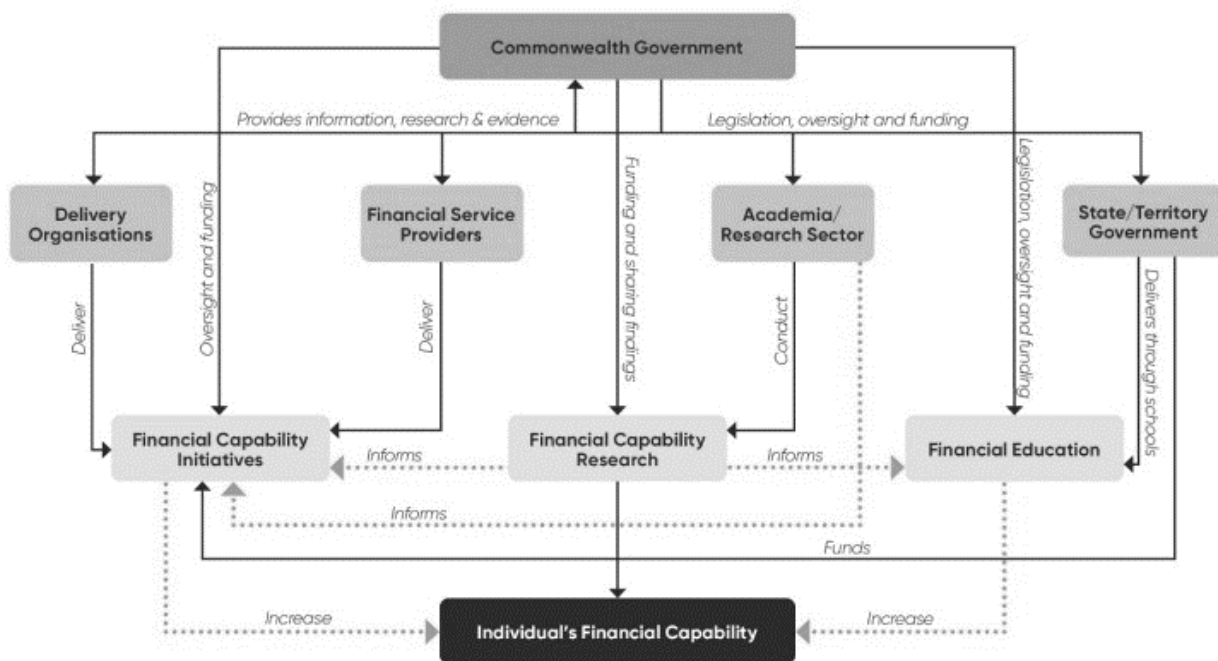
Figure 3. National Financial Capability Survey 2021



Source: The Australian Government the Treasury

Thus, the latest strategy for 2022 aims to raise public awareness of the current financial capability barriers as well as to encourage the dissemination of available information, tools, and support to make individuals more adept at navigating an increasingly complex financial world³. Through its size and capacity, the government works with the financial capability community (e.g. state and territory governments, academia, financial service providers, not-for-profit organizations and charities) to develop and deliver initiatives such as financial education, promoting financial capability services and providing information about available services, delivering financial information resources and coordinating the teaching of financial capability concepts through the school systems (*Figure 4*).

Figure 4. Structure of the national financial capability system



Source: The Australian Government the Treasury

2. Debt management: Network system

2.1. Responsible Institutions

Different institutions provide personal insolvency services in Australia. These institutions are arranged in a network structure to deliver a common objective service - debt management of individuals in financial difficulty. The *Australian Financial Security Authority (AFSA)* is an executive agency in the Attorney-General's portfolio, providing specialist advice on bankruptcy and personal property securities. The organization provides information to debtors on options to deal with unmanageable debt, assesses and registers bankruptcy, debt agreements and personal insolvency agreement applications from debtors and registered court-ordered insolvency administrations. In 2020-21, AFSA received approximately \$100 million in funding, of which \$53.5 million was government appropriation and \$3.7 million was a departmental capital

³ National Financial Capability Strategy 2022, Australian Government

appropriation for AFSA's insolvency program. The administered income from insolvency fees and charges in 2021 reached \$52.5 million, a decrease from the year before (\$61.4 million). This was caused by a significant decline in personal insolvency volumes, which has led to reduced workload and therefore lower-than-expected expenditure on employees and suppliers. The Regulation and Enforcement Division of AFSA operates independently, discharging the regulatory and review responsibilities of the Inspector-General in Bankruptcy⁴ under the Bankruptcy Act. The Bankruptcy Act regulates Australia's personal insolvency system and provides a framework to allow individuals in severe financial stress to discharge unmanageable debts while providing services for the realization of a debtor's available assets for distribution to affected creditors. The enforcement function is responsible for investigating all alleged offences under the Bankruptcy Act and preparing briefs for prosecution.

Australian Securities & Investments Commission (ASIC), an independent Australian Government body, is Australia's integrated corporate, markets, financial services, and consumer credit regulator. The organization was set up by the Australian Securities and Investments Commission Act 2001 (ASIC Act). It operates the *Moneysmart* website to increase the financial well-being of Australians by providing money management strategies, raise awareness of risks involved in using credit, and provide general investing information with a range of calculators and resources helping consumers to safely navigate the financial services market.

The *Australian Financial Complaints Authority (AFCA)* is a free, fair, and independent dispute resolution scheme (also referred to as an ombudsman service). It deals with complaints about financial products and services. It offers an alternative to tribunals and courts in disputes between consumers and financial firms. AFCA can make binding decisions on the financial firm involved in a complaint such as awarding compensation for losses suffered from their error or inappropriate conduct.

Community Legal Centres Australia (CLC) are independent, not-for-profit, community-based organizations that provide indirect legal assistance to the public by representing and supporting 170 and more legal centres across Australia. Community legal centres provide general legal assistance for free in a range of areas including credit and debt. Legal advice may include a support for the settlement of dispute on inaccurate credit default listing or a help to understand legal obligations with respect to payday loans or making debt repayments.

2.2. Debt Management Options

Different personal insolvency options are available for debtors to manage their debts. These include four formal options under the Bankruptcy Act 1966⁵ and other options engaging creditors.

⁴ AFSA's Chief Executive is also appointed as the Inspector-General in Bankruptcy and is responsible for the general administration of the Bankruptcy Act.

⁵ The Commonwealth legislation that provides for bankruptcy, consisting of Part IX (debt agreements), Part X (personal insolvency agreements), and Part XI (deceased estate administrations).

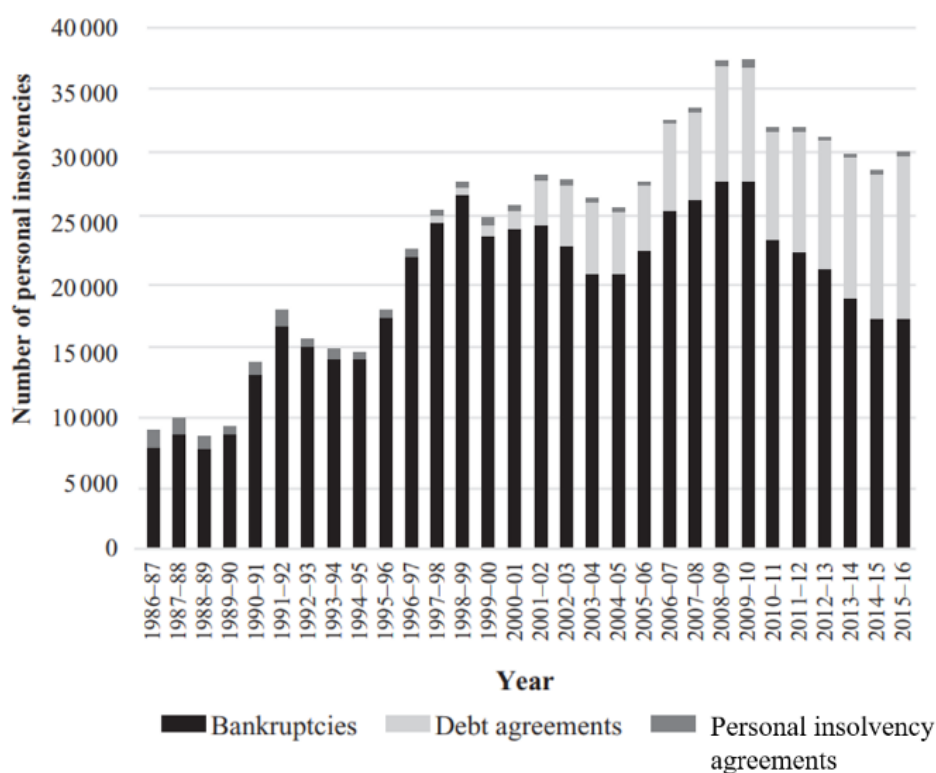
Table 1. Comparison of the Debt Management Options

Option	Description	Consequences
Temporary Debt Protection (TDP)	Provision of protection for 21 days from unsecured creditors taking enforcement action to negotiate and restructure finance	<ul style="list-style-type: none"> • Not recorded on the NPII
Bankruptcy	Legal process where debtors are declared unable to pay debts and provided relief	<ul style="list-style-type: none"> • Permanent record on the NPII • Appointed a trustee • Income, employment and business affected • 3 years and 1 day of bankruptcy • Ability to travel abroad affected • Taking/Continuing legal action may be affected • Ability to obtain future credit may be affected
Debt Agreement	Legally binding agreement between debtor and creditors that arranges to settle debts	<ul style="list-style-type: none"> • Recorded on the NPII for a certain period • Nominate a debt agreement administrator • Business affected • Not all debt released • Ability to obtain future credit may be affected
Personal Insolvency Agreement (PIA)	Legally binding agreement between debtor and creditors involving the appointment of a trustee to control debtor's property and to make alternative payment offers to creditors	<ul style="list-style-type: none"> • Permanent record on the NPII • Unable to control property without consent from controlling trustee • Unable to manage a corporation • Consequences depend on the terms of the agreement
Hardship Variation	Changing the terms of a loan to make debt easier to manage due to financial hardship	<ul style="list-style-type: none"> • Denial of request for hardship variation may lead to a dispute resolution process

Source: Table created by author. Data from AFSA

An overview of personal insolvency in Australia illustrates that the personal insolvency options available in Australia such as bankruptcies, debt agreements and other agreements were used more frequently between 1986-87 and 2009-10 (*Figure 5*).

Figure 5. Changes in the number of personal insolvencies in Australia

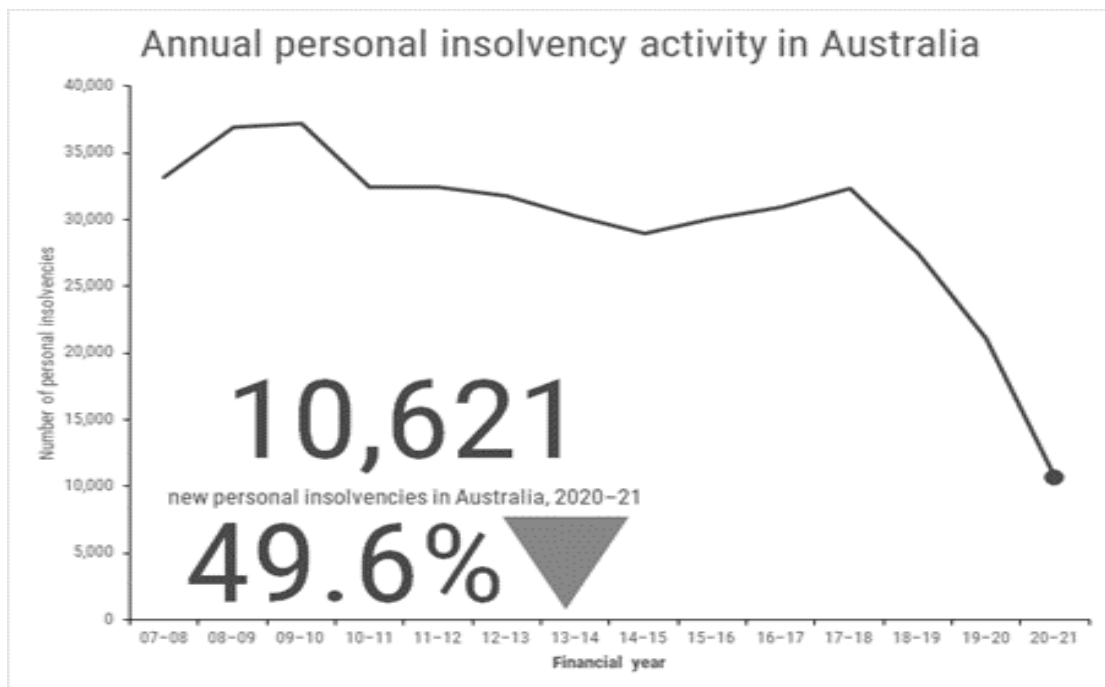


Source: Figure modified by author. Data from AFSA⁶

The change in the total number of insolvencies over that period constitutes a fourfold increase, but since 2009-10, the number has been declining (Bromberg 2018). Based on the provisional data, although personal insolvency still affects a small proportion of the population, its incidence has increased since the 1980s. Between 1986 and 2016, the incidence of bankruptcy increased from around 0.05% to 0.07% of the Australian population, while the increase in personal insolvency has been more significant: from 0.05% to 0.12%. According to AFSA annual statistics of personal insolvency activities by financial year in Australia, total personal insolvencies fell by 49.6% in 2020-21 (total of 10,621 new personal insolvencies) compared to 2019-20. Falls were witnessed throughout the nation, in all states and territories (*Figure 6*).

⁶ AFSA, Time Series, <https://www.afsa.gov.au/statistics/time-series>

Figure 6. Annual statistics (AFSA, 2020-21)



Source: AFSA⁷

Temporary Debt Protection (TDP) is a measure in which creditors should not take enforcement action for a period of time (21 days). During this time, the debtor may negotiate an affordable payment plan with their creditor or restructure finances. Records of TDP do not appear on the National Personal Insolvency Index (NPII)⁸.

Bankruptcy is a legal process where a debtor formally declares their inability to pay debts. As a result, a debtor is released from most debts and receives relief and rebounds from financial difficulty. The duration of bankruptcy is normally 3 years and 1 day. Bankruptcy may be voluntarily applied by a debtor (voluntary bankruptcy) through completion and submission of a Bankruptcy Form or lodged by a creditor through a court process (sequestration order). To apply for bankruptcy, a debtor must provide all details on personal finance including income, assets, debts and business and company or trust involvement. AFSA then receives the Bankruptcy Form and reviews, examines, and confirms the acceptability of the bankruptcy application. A recent review of the Bankruptcy legal system permanently increased the threshold from \$5,000 to \$10,000 in January 2021. This change is due to the increase in the value of money and debt levels, and possibly a result of concerns about the use of bankruptcy proceedings to pursue small debts without reducing the general availability of credit in the economy (Ali et al., 2017). There are serious impacts as a consequence of bankruptcy. The most significant is the appointment of a *bankruptcy trustee* (a person/body who manages bankruptcy) who is either registered or an Official Trustee of ASFA. A bankrupt is obligated to provide details of debts,

⁷ <https://www.afsa.gov.au/about-us/about-our-site/copyright>

⁸ A searchable electronic record of all personal insolvency administrations that can be accessed by the public for a fee in Australia.

income, and assets to their trustee to manage bankruptcy. The trustee can then claim and sell these assets to repay money to creditors excluding ordinary household goods, tools, and vehicles. In addition, the bankrupt may need to make compulsory payments to their trustee if their income exceeds a certain amount as contained in section 139S of the Bankruptcy Act 1966. Other consequences include legal restrictions on employment and the running of a business, difficulty travelling overseas without permission, permanent records on the NPII and impacts on the ability to obtain future credit. According to AFSA, there were 6,792 bankruptcies in 2020-21, a 46.7% fall compared to the previous year. It was reported that there were falls in all states and territories.

According to the research by Paul Ali (2017), the Australian bankruptcy system does have its critics. Bankruptcy is widely regarded as a means of rehabilitation for debtors in severe financial hardship. However, some criticize the Australian legislation for failing to function as a comprehensive or fail-safe means of financial rehabilitation. They argue that the Bankruptcy Act 1966 makes no reference to debtor rehabilitation as the legislation is not framed in terms of rehabilitation or even debtor welfare. Compared to the bankruptcy system in Australia, recent jurisdictions, including the US, Canada, and UK, are increasing debtor rehabilitation as an explicit objective of the bankruptcy law. Based on the consensus that debt discharge is not, on its own, sufficient to ensure debtor rehabilitation, the US and Canada system has been altered to require debtors to participate in financial counselling programs. These programs ensure that debtors construct a budget and avoid unnecessary expenditure, providing a highly individualized form of debtor rehabilitation in which their attitudes and consumption habits are improved. Similarly in the UK, the 'Bankruptcy Restriction Order' was introduced, reducing the duration of bankruptcy and the stigma associated with bankruptcy and improving access to credit after discharge. These reforms recognized that institutional lending practices play a significant role in debtors' financial rehabilitation. The Australian system however lacks such considerations that the central objective of the bankruptcy law should be to address debtor rehabilitation or the long-term impact of bankruptcy upon individuals. At the same time, leading authorities fail to elaborate on the relationship between discharge and the debtor's long-term prospects.

The third option is a *debt agreement*⁹, a legally binding agreement between debtors and creditors that settle most debts. To enter into a debt agreement, the debtor must contact a debt agreement administrator¹⁰ who will then submit a proposal on behalf of the debtor to AFSA. A debt agreement allows the debtor to make an agreement with the creditor to pay an affordable amount of money over a period of time (maximum of three to five years). Once payment of the agreed amount is made, the debt has been paid and the agreement ends. As an alternative to bankruptcy, a debt agreement benefits both creditors and debtors. For creditors, they receive more money than when the debtor is bankrupt. For debtors, a debt agreement releases them from most unsecured debts and limit the period of their debt records on the NPII. Since its introduction in 1996, it has been reported that the number of debt agreements in Australia is increasing as these agreements do not carry the same stigma associated with bankruptcy (Bromberg 2018). However, to apply for a debt agreement, a debtor must first meet AFSA's

⁹ Introduced in December 1996 through Bankruptcy Legislation Amendment Act 1996

¹⁰ May only be a Registered Debt Agreement Administrator, a Registered Trustee or the Official Trustee.

eligibility criteria and there could be certain debts that the debt agreement does not cover. The AFSA annual statistics for 2020-21 reported a 54.2% fall in debt agreements (3,731 cases) in 2020-21 compared to 2019-20 in all states and territories.

The final formal option is a *personal insolvency agreement (PIA)*, which is another legally binding agreement option a debtor can make with their creditors. To enter into a PIA, the debtor appoints a controlling trustee to take control of their property and recommend and assist in the making and voting of an offer/proposal to the creditors. Through a PIA, the debtor pays part or all their debts by instalments or a lump sum. The eligibility to apply for a PIA and its coverage is less strict compared to a debt agreement and most obligations depend on the terms of the agreement with the creditors. However, in a personal insolvency agreement, the controlling trustee is in charge of a debtor's property, which means that the debtor must agree that the trustee manages their personal property. Other consequences of a PIA include the obligation to assist trustees by providing information and documentation upon request, a permanent record of the PIA on the NPII, recording on the credit file for five years or longer and the inability to manage a firm. AFSA annual statistics for personal insolvency in the financial year 2020-21 reported a 46.7% fall in personal insolvency agreements in Australia compared to the year before. There were only 89 personal insolvency agreements in 2020-21 of which falls were reported in all states and territories.

In addition to the four formal options above, debtor can also negotiate with the creditor to make adjustments such as extending the time to pay the debt, lowering the interest rate and reducing the number of penalties charged. A *hardship variation* is a change to the terms of a loan, due to financial hardship, to make the loan easier to manage. The variation could benefit the debtor as it gives more time to pay, or temporarily pause or reduce repayments. To apply for a hardship variation, debtor can contact the lender's 'hardship officer' by phone or in writing and request changes in the loan payment due to financial hardship. It is required by law for lenders and debt collectors to consider hardship variation requests when debtor is experiencing financial hardship. When failed to reach an agreement, debtor has the right to start a dispute resolution process with AFCA.

3. Concluding Remark

Personal and household over-indebtedness in Australia is a serious social problem trapping people in a vicious cycle of financial hardship. Its causes are diverse ranging from unfavorable market environments to predatory services. Especially at risk are low-income groups, who are financially vulnerable and access to finance is limited. The money advice service in Australia is identified as a federal, national model. As a peak body, FCA manages the nationwide financial counselling services and is responsible for improving the financial environment for those in difficulty. Meanwhile, the government coordinates the provision of financial advice, which is easily overlooked in most countries. As a preventative approach toward personal debt, financial advice improves the financial capability of Australians and ensures their financial well-being in the long term. As for debt management, AFSA, ASIC, AFCA and CLC are structured in a network system to deliver personal insolvency processes. Overall, good practices in the

Australian financial system are: the availability of voluntary alternatives to statutory procedures¹¹ and the provision of financial services free (or almost free) of charge. However, more money advice involvement in the personal insolvency system is needed and evaluations of impact should improve in both quantity and quality and incorporated into the service or system development.

¹¹ Voluntary initiatives are also supported by public sector in various ways. One of the examples is to institutionalize voluntary initiative as a special corporation supported by law such as South Korea's CCRS which began as a voluntary organization in 2000 but became a special corporation under the "Microfinance Support Act" enforced on September 23, 2016, to promote stable lives and balanced development of the society. For details of CCRS, please see the Annex 1.

Bibliography

- Australian Government. 2022. National Financial Capability Strategy 2022. February.
- Betty Weule. The History of Financial Counselling in Australia Early Beginnings (unpublished but available on the FCA website
<https://www.dropbox.com/s/h6cscq92bl5mhrp/Betty%20Weule%20The%20History%20of%20Financial%20Counselling%20in%20Australia.pdf?dl=0>).
- Financial Counselling Australia(FCA). October 2016. Financial Counselling: It makes a difference. A collection of financial counselling case studies from across Australia.
- Lev Bromberg, Ian Ramsay & Paul Ali. 2018. The Vulnerability of Older Australians in Bankruptcy: Insights from an Empirical Study. The Adelaide Law Review.
- Louise Sylvan. March 2019. The Countervailing Power: Review of the coordination and funding for financial counselling services across Australia.
- Parvin Mahmoudi, Ann-Louise Hordacre & John Spoehr. February 2014. Paying it forward: Cost benefit analysis of The Wyatt Trust funded financial counselling services. Adelaide: Australian Workplace Innovation and Social Research Centre, The University of Adelaide.
- Paul Ali, Lucinda O'Brien & Ian Ramsay. 2015. 'Short a Few Quid': Bankruptcy Stigma in Contemporary Australia. UNSW Law Journal.
- Paul Ali, Lucinda O'Brien & Ian Ramsay. 2017. Bankruptcy and Debtor Rehabilitation: An Australian Empirical Study. Melbourne University Law Review.
- Commonwealth of Australia. "I can't pay my debts." Accessed 12 August 2022.
<https://www.afsa.gov.au/insolvency/cant-pay-my-debts>
- Financial Counselling Australia. Accessed 12 August 2022.
<https://www.financialcounsellingaustralia.org.au/>
- Moneysmart. "Managing debt" Accessed 12 August 2022.
<https://moneysmart.gov.au/managing-debt>

Annex 1

Credit Counseling and Recovery Service (CCRS)

Models and Outcomes

The Credit Counselling and Recovery Service (CCRS) was launched as a voluntary organization on October 1, 2000, to ease socioeconomic instability caused by the increase in the number of delinquents after the IMF financial crisis and was re-launched as a non-profit corporation on November 1, 2003. Since then, it has been converted into a special corporation under the "Microfinance Support Act" enforced on September 23, 2016, to promote stable lives and balanced development of the society. CCRS provides linked counseling services such as credit education to prevent the recurrence of debt problems while also creating practical economic recoveries for individual debtors.

The main tasks of CCRS consist of personal debt management, personal rehabilitation, bankruptcy support, microfinancing, credit education, linked counseling service, and credit welfare consulting. Among them, the most significant is debt management, which includes a personal workout, free workout system and expedited debt management.

The Korean debt management system is largely divided into two categories; a public debt management system operated by the court that includes ▲personal rehabilitation and ▲personal bankruptcy system. In addition, there is a private(out-of-court) debt management system operated by CCRS, such as ▲expedited debt management ▲free workout ▲personal workout. Private (out-of-court) systems available to debtors are divided into three categories depending on the period of delinquency.

First of all, if the delinquency period is less than 30 days, the “*expedited debt management*” system can be used. For debtors who are expected to accumulate overdue payments, the system postpones the debt repayment schedule for a certain period and extends it for up to 10 years. There is no principal reduction or exemption, overdue interest is reduced, and the contracted interest rate is applied to the interest rate during the repayment period, with an upper limit of 15% per annum (credit card 10%). “*Free workout*” is a system that is applicable to a debtor with a long overdue period and can be used if the period is less than 90 days. Likewise, there is no principal reduction, yet, the overdue interest is reduced, and the interest rate is lowered to 30-70% of the contracted interest rate depending on one’s repayment capacity. In addition, the upper limit of the adjusted interest rate is limited to 8% per annum. Also, the repayment period will be extended up to 10 years (35 years for collateral debt). The “*Personal workout*” system is available for debtors holding long-term overdue for a period of more than 90 days. Unlike the above two systems, personal workouts can waive up to 70% of the principal. In addition, it is possible to consolidate debts for nearly 10 years and repay them for a long time. However, the debtor must have the ability to earn more than the minimum cost of living or to repay adjusted debts.

CCRS provides help for people not only with debt problems but also when comprehensive support is needed in various fields such as welfare, self-support, and finance. Until now, CCRS has been mainly focusing on solving debt problems but now it also provides extensive counseling services through cooperation with mental health welfare centers, community self-sufficiency centers, and local working-class financial companies to support people's recovery. In addition, CCRS provides customized social security services to heavy debtors through links with local governments and seeks support for debtors' quick recoveries. In December 2020, the Korea Social Security Information Service, an organization affiliated with the Ministry of Health and Welfare, introduced a "credit recovery and welfare-linked service" that connects local welfare service users with debt management if needed.

Efforts to improve the convenience of customers in using the service are diverse, including 24-hour telephone connection with counselors, the introduction of chatbot counseling, the launch of dedicated applications, the installation of paperless systems, and the concentration of credit education headquarters. In particular, a special repayment delay period was provided to debtors who were unable to pay their debts for six months during COVID-19, therefore allowing 139,197 of the 154,779 (about 90%) applicants to apply through online channels without waiting for a long time. In addition, the introduction of remote online credit education resulted in the number of people receiving education to increase to 3.68 million in 2019, 4.81 million in 2020, and 5.09 million in November 2021 (about a 19.1% increase compared to the year 2020).

The digital innovation model of CCRS provided stable services even after COVID-19 and for the first time, a Korean public institution's official written statement was officially recognized by the UN Commission for Social Development (UNCSD).

With poverty and the widening income gap emerging as social problems due to unemployment and a decrease in household income during COVID-19, the CCRS microfinancing model has been recognized as a leading model for a sustainable society. Based on such results, in December 2021, the UNRISD (United Nations Research Institute for Social Development), a research institute directly under the UN Economic and Social Council, signed a joint research agreement on "Creating sustainable society through K-microfinance and alternative economy models" to establish a global credit safety net and a righteous transition model.

Strengths compared to the international community

Based on desk research, the policies of CCRS have been analysed in comparison with other countries in the international society. The following 4 factors can be shown as the strengths of CCRS.

- Customized debt adjustment for each stage of delinquency
- Length of debt repayment
- Fast procedure and convenient accessibility
- Customized policy (Vulnerable and young generation)

Customized debt adjustment for each stage of delinquency

CCRS has a tight debt adjustment system from pre-delivery debtors to non-reimbursable debtors by dividing the private (our-of-court) debt adjustment system into rapid debt adjustment, pre-workout, and personal workout according to the debtor's delinquency period. In 2019, CCRS amended and completed the existing blind spot, which was the support system for pre-delay debtors and vulnerable debtors without repayment ability. In addition, a pre-workout system was established for debtors with a delinquency period of less than 1-3 months, considering that it is necessary to adjust the heavy debt before it becomes serious (2009). Through the segmentation model for each delinquency stage, it is possible to present customized solutions according to the degree of delinquency, and it has the advantage of being able to take proactive responses before the debt problem intensifies.

Length of debt repayment

Most countries except the UK (5-10 years) have a short repayment period. The repayment period of CCRS is as a long period to secure the debtor's repayment capacity by adjusting the monthly payment to a relatively low level. According to desk research, monthly payments to income can play a decisive role in the success of debt adjustment, and it is a great strength in that it can positively affect the debtor's social integration by setting a long maximum repayment period.

Fast procedure and convenient accessibility

CCRS has renewed its online counseling environment for users who have difficulty visiting the integrated support center due to living or other personal reasons. They have established a 24-hour non-face-to-face counseling process through mobile applications and chatbot systems, and is promoting digital innovation in various aspects. In addition, only 50,000 won is required (application fee), which is a lower fee than other countries, with that you pursue a quick decision and implementation without any additional cost. The application process and preparation documents are relatively simple, and the applications can be made immediately after one's visit, and the same can be done through the internet.

Customized policy (Vulnerable and young generation)

The system implements a special reduction or exemption system that exempts the remaining debts if the minimum repayment will be confirmed for those who are vulnerable and lack the ability to make their repayments. It strengthened its role as a social protection net by operating a special reduction system for the socially vulnerable, including basic living recipients and pension recipients for the disabled, senior citizens aged 70 or older with income and property below a certain amount, and long-term minor delinquents who have been overdue for more than 10 years. In the case of the young generation, it provides support for college students and unemployed young people under the age of 34 who have been delinquent in debt of financial companies for more than three months, such as debt reduction and debt repay deferment until employment based on personal workout standards.

Compatibility with the international community

Detailed phases of delinquency

Among the five countries that conducted the analysis, the UK, France, Germany, the United States, and Japan did not explicitly classify differentiated systems according to the number of overdue days. In France, the *Commission de Surendettement* determines the eligibility in consideration of the level and type of debt and the applicant's good faith when applying for debt adjustment, and considers the debtor's property in designing a repayment plan. In the case of the UK, it is also reviewing the type and size of debt. By applying the CCRS policy, it is expected that many countries will also be able to increase efficiency by reducing information asymmetry among financial consumers and provide customized solutions if debtors are classified according to the number of overdue days and explicitly informed on the website. In addition, it is believed that each country will be able to reduce blind spots that are not sufficiently supported by existing systems and policies through the segmentation model, and enhance the effect of strengthening the preventive function before the debt problem deepens.

Adjustment of debt repayment period

Currently, many countries are applying a short debt repayment period. Among the countries that were analyzed, the repayment extension period of Japan's private debt adjustment system, voluntary adjustment, was the shortest at 3 years in principle, and the U.S. (3-5 years) and Germany (3-6 years), was found to be quite short compared to that of CCRS. France also shortened the deadline for extending the repayment of the private debt adjustment system from eight years to seven years in 2016. It is expected that the debtor's repayment period can be sufficiently extended if necessary by applying the new restoration policy to lower the debt adjustment failure rate and promote the debtor's rehabilitation and protection.

Processing period for private debt adjustment procedures

Since the debt adjustment application process is complicated, in many cases, it is difficult for individuals to apply on their own, so they often request and apply to other organizations other than the debt adjustment support organizations. In that case, considerably long procedures and times are required. In the case of France, in order to submit an application to the *Commission de Surendettement*, a separate credit counseling agency is sometimes used, and it is possible to apply online. Yet, the procedure is quite complicated, taking up to six months of verification after submitting the document. By applying digital framework and tools of CCRS such as the online chatbot systems 24 hours a day during 365 days, it may enable other countries to increase accessibility to users and enhance their procedural convenience.