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Financial Literacy in Queensland: Bankruptcy Trends and Government Initiatives

Financial literacy allows an individual to make informed and confident decisions about matters involving budgeting, saving, spending, banking, borrowing, investing, planning for the future and the use of financial services and products such as superannuation and insurance.

This Research Brief examines:

- *the regulation of bankruptcy and alternatives to bankruptcy under the* Bankruptcy Act 1966 *(Cth);*
- *trends in personal insolvencies;*
- *the main causes of personal insolvencies;*
- *occupational profiles and key characteristics of debtors who become bankrupt or enter into bankruptcy alternatives;*
- *a recent survey of adult financial literacy in Australia;*
- *issues associated with the current high levels of household debt, relationship debt and youth debt; and*
- *Commonwealth and Queensland Government initiatives targeted at improving financial literacy.*

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CONTENTS

EXECUTIVE SUMMARY

Financial literacy allows an individual to make informed and confident decisions about matters involving budgeting, saving, spending, banking, borrowing, investing, planning for the future and the use of financial services and products such as superannuation and insurance.

The *Bankruptcy Act 1966* (Cth) governs bankruptcy (**pages 2-9**) and formal alternatives to bankruptcy such as Part IX debt agreements (**pages 10-11**) and personal insolvency agreements (previously Part X arrangements) (**pages 11-13**).

Statistics for bankruptcies and the alternatives mentioned above are the ultimate reflection of low levels of financial literacy (**pages 13-16**).

There are a range of causes for both business (**page 17**) and non-business (**pages 17-18**) related personal insolvencies, with economic conditions being the leading cause of business bankruptcies and unemployment being the leading cause of non-business bankruptcies.

Different occupational groups dominate the profile of individuals in the various forms of personal insolvency, with unemployed people constituting the largest group of bankrupts; intermediate clerical, sales and service workers forming the largest group of debtors entering into Part IX debt agreements and managers and administrators being the largest group of debtors entering into Part X arrangements (**pages 18-19**). The statistics also indicate a number of key characteristics of debtors who become bankrupt or who enter into Part IX debt agreements or Part X arrangements (**pages 19-20**).

In May 2003, the ANZ Bank released a report into the financial literacy levels of adult Australians. The report indicates that differences in financial literacy levels exist for different population groups and in terms of different financial products. People with lower levels of formal education, income and savings, and those who are unemployed, unskilled or not in the workforce, together with people at both ends of the age spectrum generally have lower financial literacy levels. All population groups have a lower level of understanding of superannuation than other financial services and products (**pages 21-24**).

Some social issues of current concern, which may reflect financial literacy levels in the community, include the high levels of household debt (**pages 25-26**), relationship debt (particularly ‘third party guarantees’) (**pages 26-27**) and the levels of youth debt (**pages 27-28**).

Commonwealth Government initiatives relevant to financial literacy include a consumer and financial literacy taskforce (**pages 28-31**) and a financial literacy in schools discussion paper and other initiatives of the Australian Securities & Investments Commission (**pages 32-35**).

Queensland Government initiatives to improve financial literacy are generally implemented by the Office of Fair Trading. The Office for Women also recently commenced pilot financial planning workshops for women (**pages 35-37**).

1 INTRODUCTION

Financial literacy is "the ability to make informed judgements and to take effective decisions regarding the use and management of money". It allows an individual to decide, with knowledge and confidence, matters involving budgeting, saving, spending, banking, borrowing, investing, planning for the future and the use of financial services and products such as superannuation and insurance.[1]

An individual's own circumstances will govern how financially literate they need to be.[2] A basic level of financial literacy is, however, required by all consumers to allow for the selection of appropriate financial products and services (especially considering the range and complexity of choices now available); avoid 'scams', aggressive marketing and other abusive practices; and handle, in the best possible way, any financial difficulties that might arise.

Research shows that people with low levels of formal education and no occupation, unskilled workers and non-workers, people with lower income and savings levels, job seekers and groups at each end of the age spectrum (18 to 24 years and over 70 years) have the lowest levels of financial literacy.[3]

Recently, for the ninth successive quarter, Australian households spent more than they earned. In the previous 171 quarters, households spent less than they earned.[4] 40% of Australians believe that they will forever be in debt.[5]

Apart from the currently high levels of household debt, concern has also been expressed regarding the widespread misunderstanding, or lack of recognition, of the potential problems associated with 'relationship debt' (particularly third party guarantees), and the prevalence of debt amongst young people.

The ultimate reflection of low levels of financial literacy is in personal insolvency statistics for bankruptcies and other arrangements under the *Bankruptcy Act 1966* (Cth). These figures do not, however, account for the family breakdowns, hardship, stress and other consequences associated with poor financial management.

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1 *ANZ Survey of Adult Financial Literacy in Australia*, Final Report, May 2003, pp 1-2.

2 'Three Rs plus financial literacy', *Sydney Morning Herald*, 6 November 2004.

3 *ANZ Survey of Adult Financial Literacy in Australia*.

4 Tim Colebatch, 'Spending boom goes overseas', *Age*, 2 September 2004.

5 Lorna Edwards, 'Financially illiterate? Try spending less', *Age*, 22 July 2004.

2 BANKRUPTCY AND ALTERNATIVES TO BANKRUPTCY

The *Bankruptcy Act 1966* (Cth) ('the Act') governs bankruptcy and formal alternatives to bankruptcy such as 'Part IX debt agreements' and 'personal insolvency agreements' (previously 'Part X arrangements').[6]

2.1 BANKRUPTCY

Bankruptcy "is a process whereby people who are not able to pay their debts either agree or are forced to give up their assets and control of their finances in exchange for protection from legal action by their creditors".[7]

A debtor may become bankrupt voluntarily (by presenting a 'debtor's petition' to the Official Receiver), or involuntarily (when a court, upon the petition of a creditor, makes a 'sequestration order' against the debtor's estate). The vast majority of bankruptcies are voluntary.

The Federal Court and the Federal Magistrates Court have concurrent jurisdiction in bankruptcy matters (s 27).

There are no income, asset or debt limits for bankruptcy. Bankruptcy is a process which is usually for the benefit of unsecured creditors; the position of secured creditors is generally governed by the terms of the relevant security instrument.

2.1.1 Voluntary Bankruptcy – 'Debtor's Petition'

To become bankrupt voluntarily, a debtor must lodge the following documents with the Insolvency and Trustee Service Australia ('ITSA'):[8]

- a debtor's petition[9] (this is an application to become bankrupt);

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6 Part X arrangements were recently replaced by personal insolvency agreements under the *Bankruptcy Legislation Amendment Act 2004* (Cth).

7 http://www.federalcourt.gov.au/litigants/bankruptcy/b_bankruptcy_intro.html.

8 ITSA is the government agency responsible for the administration and regulation of the personal insolvency system in Australia. For the ITSA website, see http://www.itsa.gov.au.

9 Debtor's petition, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/About%20Us->Publications->New%20Statutory%20Forms%20Document/$FILE/Form_06.doc?OpenElement. For debtors' petitions generally, see Part IV, Division 3 of the Act.

- a statement of affairs[10] (this document identifies the debtor and provides information on his or her income, assets, liabilities and business dealings. The information is used by the trustee in the administration of the debtor's estate. Some of the information also forms part of a public record which is available for public inspection); and
- acknowledgment that the debtor has received and read the prescribed information booklet[11] (which discusses alternatives to, and the consequences of, bankruptcy).

Within one day of lodgement, ITSA will decide whether to accept the debtor's petition. The limited circumstances in which a debtor's petition may be rejected include if ITSA considers that the debtor is able to pay their debts within a reasonable time and:

- has previously been bankrupt (on their own petition) three or more times, or once in the last five years; or
- is unwilling to pay one or more creditors or creditors in general (s 55(3AA)).

If a debtor's petition is accepted:

- the debtor becomes bankrupt within one day and is given an 'administration number';
- ITSA records the debtor's bankruptcy on the National Personal Insolvency Index ('NPII');[12] and
- a trustee will administer the bankruptcy (ITSA will be the trustee, unless a registered trustee chosen by the debtor has consented to be trustee).

The debtor's assets, income and debts must be disclosed to the trustee. The trustee will:

- advise creditors of the bankruptcy and provide them with a summary of the debtor's statement of affairs;
- sell the debtor's 'divisible assets'; and

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10 Statement of affairs, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/About%20Us->Publications->New%20Statutory%20Forms%20Document/$FILE/Form_03.doc?OpenElement.

11 Prescribed information booklet, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/Bankruptcy->PI%20Document/$FILE/PIBookletJan04.pdf?OpenElement.

12 The NPII records the debtor's name (including any previous names and aliases), address, date of birth and occupation. This information remains on the index, which is a public record, forever.

- assess the debtor for income contribution, which may have to be paid for the benefit of creditors.

As a result of the bankruptcy, the debtor will not have to keep paying most of their debts and will be released from certain debts when they are discharged from the bankruptcy. Some debts must still, however, be paid[13] and debts incurred after bankruptcy are the bankrupt's responsibility.

2.1.2 Involuntary Bankruptcy – 'Creditor's Petition'

A creditor may apply to the Federal Court or the Federal Magistrates Court to make a person bankrupt. If the requirements for a creditor's petition[14] are met, the debtor may then be made bankrupt by a 'sequestration order' of the court (s 43) and must provide a statement of their affairs (s 54).

For a creditor's petition to be presented, the creditor or creditors must be owed at least $2,000 by the debtor. The creditor must also have evidence of an 'act of bankruptcy' committed by the debtor within the six months prior to the presentation of the petition (s 44).

The most common act of bankruptcy relied on by creditors is a failure by debtors to comply with a bankruptcy notice[15] (s 40(1)(g)). Other acts of bankruptcy include where:

- the debtor makes an assignment or conveyance of property for the benefit of creditors generally;
- a transaction has occurred (e.g. conveyance of property, creation of a charge, making of a payment or the incurring of an obligation) which would be void as against the trustee if the debtor was bankrupt;
- the debtor departs or remains out of Australia, departs from his or her dwelling place or usual place of business, otherwise absents himself or herself, or begins to 'keep house' with the intent to defeat or delay his or her creditors;
- execution has been issued against the debtor and property has been sold by the sheriff or is returned unsatisfied;

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[13] These include accumulated HECS debts, fines for breaches of the law, debts arising from fraud, student assistance/supplement loans and maintenance and child support payments.

[14] For creditors' petitions generally, see Part IV, Division 2 of the Act.

[15] A bankruptcy notice requires payment of a debt of at least $2,000 to the creditor within 21 days, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/About%20Us->Publications->Current%20Statutory%20Forms%20Document/$FILE/form_01.doc?OpenElement.

- the debtor presents a debtor's petition or a declaration of intention to present a debtor's petition;
- the debtor fails to do certain things; or
- the debtor give notice to any of his or her creditors of suspension of payment of his or her debts (s 40).

The trustee who administers the bankruptcy is chosen by the creditor who makes the debtor bankrupt.

2.1.3 Effects of Bankruptcy on Unsecured Creditors

Bankruptcy affects unsecured creditors by:[16]

- preventing them taking any remedy against the person or property of the bankrupt;
- preventing them commencing or progressing any legal proceedings against the bankrupt, including stopping any recovery action by a sheriff or bailiff;
- preventing them being paid by the bankrupt; and
- allowing them to lodge a proof of debt[17] with the trustee and participate in any dividends.

Unsecured creditors should refrain from contacting a debtor once they have been made bankrupt. Creditors may still, however, pursue other people in relation to the bankrupts debts, most notably joint debtors or guarantors.

2.1.4 Role of the Trustee

The trustee is responsible for:

- notifying the debtor's creditors of the bankruptcy;
- determining whether the estate includes property that can be realised to pay a dividend to creditors;
- reporting to creditors within three months of the bankruptcy on the likelihood of the creditors receiving a dividend;
- providing information about the administration of the estate to creditors;

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16 For the effects of bankruptcy on property and proceedings, see Part IV, Division 4 of the Act.

17 Proof of debt, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/About%20Us->Publications->New%20Statutory%20Forms%20Document/$FILE/Form_08.doc?OpenElement.

- determining whether the bankrupt has made transfers of property that are void against the trustee (e.g. the transfer of a house to a spouse within five years prior to bankruptcy);
- taking appropriate steps to recover property for the benefit of the estate;
- taking whatever action is practicable to try to ensure that the bankrupt discharges all of his or her duties under the Act;
- considering whether the bankrupt has committed any offences against the Act, and referring evidence of such offences to the relevant authorities;
- administering the estate as efficiently as possible by avoiding unnecessary expense; and
- exercising powers and performing functions in a commercially sound way (s 19(1)).

2.1.5 Property available to Creditors

Upon bankruptcy, the debtor's property vests automatically in the trustee (s 58(1)). This includes any property that the bankrupt owns, buys or receives (except income that is earned) during bankruptcy. The property that is available to the creditors also includes any property the trustee recovers from entities controlled by the bankrupt, money recovered from creditors who have received certain payments from the bankrupt's property in particular timeframes, and property which is recovered as a result of transactions which are void against the trustee.

Divisible Assets

'Divisible assets' are assets or property which can legally be sold by the trustee and include the following (whether overseas or in Australia, and in the debtor's or another person's possession):[18]

- houses, apartments, land, farm and business premises (including leases);
- cars, trucks, motorbikes, vans, caravans, trailers, boats and aircraft;
- shares and other investments;
- money with deposit taking organisations (e.g. banks);
- tax refunds for income earned prior to the bankruptcy;
- antiques, collectables and jewellery;
- businesses and business assets, including goodwill, stock, equipment, machinery, vehicles, fixtures and fittings and an interest in a partnership;

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[18] ITSA, *Assets – What happens to my assets if I go bankrupt?*, Information Pamphlet, January 2004, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/Bankruptcy->Pamphlet%20Documents/$FILE/Assets04.pdf?OpenElement.

- money that is owed to the debtor;
- leaseholds, franchises, licenses and patents;
- livestock and farming crops;
- a right to commence or continue legal proceedings/action;
- a right as a beneficiary in a deceased estate under certain circumstances; and
- lottery winnings and other competition prizes.

Exempt Assets

'Exempt assets', which do not vest in the trustee and which the debtor is entitled to keep, include:

- property held by the bankrupt in trust for another person;
- most ordinary household or personal items (e.g. clothes, linen, sufficient furniture, kitchen appliances and equipment, a television, video recorder, stereo, washing machine and items mainly for the use of children or students in the house);
- personal property of a sentimental nature (e.g. sporting, cultural, military or academic awards);
- tools used to earn an income, of a value up to an indexed amount (currently $3,000);
- vehicles used mainly for transport, with a combined value up to an indexed amount (currently $5,900);
- superannuation and life assurance policies, of a value up to an indexed amount;
- compensation for a personal injury or in respect of the death of a spouse or family member;
- assets bought with protected monies (e.g. with personal compensation); and
- certain re-establishment grants to farmers (s 116(2)).

2.1.6 Obligations during Bankruptcy

During a bankruptcy, the bankrupt must cooperate with the trustee; advise the trustee of any changes of name, address or affairs; disclose all their assets and any items of value acquired during the bankruptcy; disclose all income that they have or receive before discharge; attend an interview or examination as and when required; and obtain the trustee's written permission to leave Australia (which is granted in only limited circumstances).

A bankrupt is also prohibited from entering into certain transactions above approximately $4,100 without advising the other party that he or she is an undischarged bankrupt (s 269). These transactions include obtaining credit; buying goods or services by cheque or promissory note; entering into a hire-purchase agreement, hire or leasing agreement; obtaining goods or services by promising to pay; and obtaining money by promising to supply goods or services.

An undischarged bankrupt who is in business and trades under a name other than his or her own must also disclose their bankruptcy to every person they deal with.

2.1.7 Discharge from Bankruptcy

Generally, a person is automatically discharged from bankruptcy three years after their statement of affairs was lodged (s 149).

In some circumstances, a bankruptcy may be extended to either five or eight years if the trustee lodges an objection to discharge. This may occur if the bankrupt has not cooperated with the trustee or if there has been some misconduct (ss 149A and 149D).

In limited cases, a bankruptcy may be annulled. These include if the bankrupt's debts are paid in full (s 153A) or if a court is satisfied that a sequestration order should not have been made or that a debtor's petition should not have been presented or accepted (s 153B).

2.1.8 Practical Consequences of Bankruptcy

A person faces serious practical consequences as a result of their bankruptcy. ITSA recommends that bankruptcy should be chosen only after considering every alternative. It has been reported that 44% of people who go bankrupt do not seek professional advice, possibly resulting in some ill-informed decision making.[19]

Some of the consequences of bankruptcy include:

- impacts on the person's credit rating – their name is on the NPII forever (even after the bankruptcy has been discharged) and lenders may limit the person's ability to borrow money or buy things on credit;
- experiencing difficulties in finding rental accommodation or having services connected without paying a bond;
- experiencing difficulties in finding or renewing insurance;
- banks not allowing the person to operate an account, or restricting how the account is used; and

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19 Alex Tilbury, 'Website help for bankrupts', *Courier Mail*, 30 June 2004, p 36.

- much of the information in the documents that are lodged being open to public search.

Although a person may continue to conduct a business while they are an undischarged bankrupt, they must, as mentioned above, disclose their bankruptcy if they trade under an assumed name or business name.

Discharged and undischarged bankrupts often find that their employment opportunities are affected, particularly in positions of responsibility, that involve money or that require a high degree of honesty or a licence. They may also be either excluded from some holding, or require permission of the court to hold, certain positions.

2.2 ALTERNATIVES TO BANKRUPTCY

Alternatives to bankruptcy:

- reaching an informal arrangement with creditors;
- seeking temporary relief from creditors;
- entering into a Part IX debt agreement; or
- entering into a personal insolvency agreement (previously known as a Part X arrangement).

In pursuing these alternatives, it is important to remember that some actions may be an act of bankruptcy upon which a creditor's petition could be presented.

2.2.1 Informal Arrangements

An informal arrangement involves a debtor discussing their situation with their creditors with the aim of renegotiating their debts, varying the terms of a credit contract, extending payment times or having the creditors agree to a lesser sum.

A difficulty with this approach is that the agreement may later be cancelled. It also relates only to those creditors who agree to the arrangement.

2.2.2 Temporary Relief

A debtor who is being pressured for repayment, but who needs time to consider their options, may lodge a declaration of intention to present a debtor's petition[20] with ITSA. This will prevent a bailiff, sheriff or creditors taking action to recover debts for seven days.

Only one declaration may be lodged every 12 months.

2.2.3 Part IX Debt Agreements

Part IX debt agreements were introduced in 1996 as a low-cost alternative to bankruptcy for debtors on low incomes and with relatively low levels of assets and debts. Debt agreements involve creditors agreeing to accept something less than full payment of the debts owing to them.

A debt agreement which is accepted is legally binding and will release the debtor from their debts.

To propose a debt agreement, the debtor must be insolvent (unable to pay their debts) and must not have:

- been a bankrupt, had a debt agreement or given an authority for his or her affairs to be dealt with under Part X of the Act in the previous ten years;
- unsecured debts of more than about $71,500 (this amount is indexed);
- assets that would be divisible among creditors of more than about $71,500 (this amount is indexed); and
- an after-tax income for the next 12 months that is expected to exceed about $54,000 (this amount is indexed).

A debt agreement involves the debtor:

- completing a debt agreement statement of affairs and proposal[21] with the best offer they can afford (this is lodged with ITSA together with an acknowledgement of having received and read the prescribed information booklet); and
- obtaining the written consent of an administrator.

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20 For declarations of intention to present a debtor's petition generally, see Part IV, Division 2A of the Act; http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/About%20Us->Publications->New%20Statutory%20Forms%20Document/$FILE/Form_05.doc?OpenElement.

21 Debt agreement statement of affairs and proposal, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/About%20Us->Publications->New%20Statutory%20Forms%20Document/$FILE/Form_17.doc?OpenElement.

A debt agreement may take the form of:

- periodic payments from income to creditors;
- a lump sum payment to creditors;
- the sale of particular property to pay creditors;
- a delay to repayments for a set period of time; or
- payment of an amount less than the full amount of the debts, in finalisation of the debts.

Creditors then consider the proposal and whether it should be accepted. This must occur within 25 working days of the proposal being accepted for processing by ITSA. The proposal is accepted if it is agreed to by a majority in number, and at least 75% in value, of the creditors who vote for the proposal.

A debt agreement will be recorded on the NPII forever, together with its acceptance or rejection.

2.2.4 Personal Insolvency Agreements (previously Part X Arrangements)

Part X previously provided for deeds of arrangement, deeds of assignment and compositions. A Federal Government review of the Act in 2002 found that Part X was open to abuse, with creditors having poor access to information, the procedures for the arrangements being to complex and the trustees who were implementing the arrangements often providing a poor service.[22]

Part X now provides for 'personal insolvency agreements',[23] which are intended to be simpler and more transparent. Importantly, they must be accepted by creditors and include information about any relationships between the debtors and the trustee or creditors.[24]

A debtor must be insolvent to propose a personal insolvency agreement; however there are no income, asset or debt levels restricting the debtors who may enter into a personal insolvency agreement.

Under the personal insolvency agreement provisions, a debtor may authorise a registered trustee, solicitor or the Official Trustee to:

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22 Copy of review report, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/Reform->Reviews->Reviews%20Documents/$FILE/final%20report%202-%20part%20x%20review.doc?OpenElement.

23 Personal insolvency agreements were inserted by the *Bankruptcy Legislation Amendment Act 2004* (Cth).

24 John Kavanagh, 'Broken-hearted', *Business Review Weekly*, vol. 26(20), 27 May 2004, p 70.

- to take control of the debtor’s property (this charges the debtor’s property with their unsecured debts and any amount by which their secured debts exceed the value of the secured property); and
- call a meeting of their creditors.

The debtor must complete a statement of their affairs, a controlling trustee authority and trustee declaration,[25] their proposed personal insolvency agreement and a personal insolvency agreement proposal checklist.[26]

A personal insolvency agreement must:

- identify the debtor’s property that is available to pay creditors, how the property is to be dealt with and the order in which the proceeds of realising such property are to be distributed among creditors;
- identify the debtor’s income that is available to pay creditors’ claims, how the income is to be dealt with and the order in which the income is to be distributed among creditors;
- specify the extent (if any) to which the debtor is to be released from his or her provable debts;
- specify the conditions (if any) for the agreement to come into operation;
- specify arrangements for termination of the agreement;
- specify whether or not the ‘antecedent transactions’ provisions of the Act apply to the debtor;
- make provision for a person(s) to be trustee(s) of the agreement; and
- state that the debtor will sign such instruments and generally do all such acts and things as are required by the agreement.

The controlling trustee must prepare a report stating whether it is their belief that the creditors’ interests would be better served by accepting the debtor’s proposal or by the bankruptcy of the debtor.

At a meeting of creditors (held within 25 working days after the trustee’s consent or approval is given), which the debtor must attend, the creditors may by special resolution require the debtor to sign a personal insolvency agreement, specifying the provisions to be included in the agreement, or present a debtor’s petition.

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[25] Controlling trustee authority and trustee declaration, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/About%20Us->Publications->New%20Statutory%20Forms%20Document/$FILE/Form_13.doc?OpenElement.

[26] Personal insolvency agreement proposal checklist, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/About%20Us->Publications->New%20Statutory%20Forms%20Document/$FILE/PIA_Proposal%20Checklist.doc?OpenElement.

A personal insolvency agreement will be binding on all the creditors of the debtor and will be recorded on the NPII forever.

3 TRENDS IN PERSONAL INSOLVENCIES

The number of bankruptcies in 2003/04 was 9.5% lower than that in 2002/03, and the lowest since 1995/96. The number of new Part IX debt agreements, however, increased by 21%.

Overall, the number of administrations under the Act (comprising bankruptcies, Part IX debt agreements and Part X arrangements) in 2003/04 was 5% lower than in 2002/03.

Business related bankruptcies represented 20% of all bankruptcies in 2003/04, compared to 18% in 2002/03.

3.1 LONG TERM TRENDS

Figures published by ITSA on the number of bankruptcies, Part IX debt agreements and Part X arrangements in Australia, and for Queensland, from the 1986/87 to 2003/04 are shown in the table below.[27]

In relation to Australia overall, the figures indicate that over this period the number of:

- bankruptcies significantly increased, with noticeable increases in the early and mid-late 1990s;
- Part IX debt agreements have significantly increased since their introduction in late December 1996; and
- Part X arrangements have significantly decreased.

The Queensland figures generally reflect the national trends. Particular concern, however, has been raised regarding the popularity of Part IX debt agreements in Queensland.[28] For example, in 2002/03, 41% of debt agreements were entered into in Queensland, and 34% were entered into in Queensland in 2003/04. It has been suggested that the popularity of debt agreements in Queensland may be due to their

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27 These statistics may be accessed from the 'Statistical Overview' page of the ITSA website, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/statistics->statistical+overview->statistical+overview?opendocument.

28 Liam Walsh, 'Debtors sign up before checking', *Courier Mail*, 3 November 2003, p 8.

promotion and the prevalence of 'debt agreement administrators' in the State.[29] In 2003, one in every 1,848 Queenslanders entered into a debt agreement, which was the highest rate in Australia. The national rate was one per 3,645 people. The Australian Capital Territory had the lowest rate (one per 13,442 people).[30]

Bankruptcies

	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
Qld	1744 (23%)	1799 (21%)	1407 (19%)	1591 (19%)	2460 (19%)	2914 (17%)	2501 (17%)	2593 (18%)	2736 (19%)
Total	7534	8504	7435	8552	13091	16780	14852	14166	14132
	1995/96	**1996/97**	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Qld	3867 (22%)	5386 (25%)	6305 (26%)	6992 (27%)	6054 (26%)	6520 (27%)	6505 (27%)	5796 (26%)	4814 (23%)
Total	17324	21846	24408	26378	23373	23902	24114	22639	20497

Part IX Debt Agreements

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Qld	6 (13%)	29 (8%)	88 (18%)	199 (25%)	348 (28%)	1177 (36%)	1801 (41%)	1841 (34%)
Total	47	369	480	802	1223	3258	4445	5382

Part X Arrangements

	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
Qld	129 (11%)	193 (15%)	128 (16%)	59 (11%)	77 (10%)	97 (10%)	89 (11%)	88 (13%)	98 (18%)
Total	1227	1285	795	561	805	953	792	673	539
	1995/96	**1996/97**	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Qld	114 (21%)	102 (23%)	162 (38%)	121 (25%)	157 (39%)	187 (46%)	110 (36%)	84 (33%)	55 (31%)
Total	552	439	427	492	406	409	313	251	175

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29 Liam Walsh, 'Debtors sign up before checking'.

30 ITSA, *Profiles of Debtors 2003*, p 17.

3.2 RECENT QUARTERLY FIGURES ON BANKRUPTCIES

In 2003/04, 24% of all bankruptcies occurred in Queensland. In 2003, Tasmania had the highest frequency of bankruptcies (one per 606 people) and the Northern Territory had the lowest (one per 1552 people). The rate in Queensland was one per 713 people, which was above the national average of one per 911 people.[31]

The following table below shows the number of bankruptcies in each Australian jurisdiction for the last seven quarters.[32]

	Jan-Mar 2003	**Apr-Jun 2003**	**Jul-Sep 2003**	**Oct-Dec 2003**	**Jan-Mar 2004**	**Apr-Jun 2004**	**Jul-Sep 2004**
NSW	1556	1564	1537	1367	1586	1481	1574
ACT	154	132	138	146	150	168	215
VIC	1107	1150	1020	1081	1023	1114	1159
QLD	**1460**	**1426**	**1229**	**1153**	**1205**	**1227**	**1122**
SA	582	573	581	497	530	517	581
NT	31	22	19	23	31	19	20
WA	552	509	521	421	527	486	383
TAS	230	253	206	186	170	137	147
Total	**5672**	**5629**	**5251**	**4874**	**5222**	**5149**	**5201**

Business bankruptcies[33] accounted for 19% of all bankruptcies in Australia in 2003/04, and 23% of all bankruptcies in Queensland. ITSA has noted, however, that over the longer term, business related bankruptcies in Australia have fallen from 30% in 1988/89 to 17% in 2001/02, whereas non-business related bankruptcies have increased from 71% to 83%.[34]

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31 ITSA, *Profiles of Debtors 2003*, p 7.

32 These statistics may be accessed from the ‘Quarterly Statistics’ page of the ITSA website, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/statistics->quarterly+statistics->quarterly+statistics?opendocument.

33 A business bankruptcy occurs where the individual’s bankruptcy directly relates to his or her proprietary interest in a business.

34 ITSA, *Profiles of Debtors 2003*, p 14.

The following tables show the number of business and non-business related bankruptcies over the last seven quarters.[35]

Business Related Bankruptcies

	Jan-Mar 2003	Apr-Jun 2003	Jul-Sep 2003	Oct-Dec 2003	Jan-Mar 2004	Apr-Jun 2004	Jul-Sep 2004
NSW	275	237	275	313	280	317	345
ACT	23	27	15	21	19	29	30
VIC	157	184	175	223	171	231	229
QLD	**285**	**279**	**249**	**283**	**233**	**321**	**313**
SA	62	62	69	82	66	66	85
NT	6	4	7	5	2	4	5
WA	95	112	117	70	88	100	73
TAS	26	34	24	21	11	17	20
Total	**929**	**939**	**931**	**1018**	**870**	**1085**	**1100**

Non-Business Related Bankruptcies

	Jan-Mar 2003	Apr-Jun 2003	Jul-Sep 2003	Oct-Dec 2003	Jan-Mar 2004	Apr-Jun 2004	July-Sep 2004
NSW	1281	1327	1262	1054	1306	1164	1229
ACT	131	105	123	125	131	139	185
VIC	950	966	845	858	852	883	930
QLD	**1175**	**1147**	**980**	**870**	**972**	**906**	**809**
SA	520	511	512	415	464	451	496
NT	25	18	12	18	29	15	15
WA	457	397	404	351	439	386	310
TAS	204	219	182	165	159	120	127
Total	**4743**	**4690**	**4320**	**3856**	**4352**	**4064**	**4101**

[35] These statistics may be accessed from the 'Business Statistics' page of the ITSA website, http://www.itsa.gov.au/dir228/itsaweb.nsf/docindex/statistics->business+statistics->business+statistics?opendocument.

4 CHARACTERISTICS OF PERSONAL INSOLVENCIES

4.1 CAUSES

The causes of business and non-business related personal insolvencies in 2003 are set out in the tables below.[36]

Unemployment is the significantly leading cause of non-business related personal insolvencies, particularly in the younger age groups. The excessive use of credit, and domestic discord, are also key causes for those aged 25-44 years.[37]

Business Related Personal Insolvencies

Cause	Bankruptcy	Part IX Debt Agreement	Part X Arrangement
Economic conditions affecting industry	30%	19%	38%
Lack of business ability	13%	6%	12%
Personal reasons	10%	25%	7%
Insufficient initial capital	10%	4%	5%
Excessive drawings	9%	4%	5%
Excessive interest	5%	6%	4%
Inability to collect debts	5%	3%	10%
Failure to keep proper books	3%	2%	2%
Seasonal conditions	3%	2%	5%
Other	12%	29%	12%

Non-Business Related Personal Insolvencies

Cause	Bankruptcy	Part IX Debt Agreement	Part X Arrangement
Unemployment	37%	44%	16%

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36 ITSA, *Profiles of Debtors 2003*.

37 ITSA, *Profiles of Debtors 2003*.

Cause	Bankruptcy	Part IX Debt Agreement	Part X Arrangement
Excessive use of credit	23%	28%	21%
Domestic discord	15%	14%	6%
Ill health	11%	6%	5%
Adverse litigation	6%	1%	12%
Gambling/Speculation	3%	2%	2%
Liabilities incurred on guarantees	3%	1%	26%
Other	2%	4%	12%

4.2 OCCUPATIONAL PROFILE

The following table sets out the occupational profile of individuals in personal insolvencies in 2003.[38]

Occupation	Bankruptcy	Part IX Debt Agreement	Part X Arrangement
Unemployed	25.21%	7.70%	4.15%
Intermediate clerical, sales and service	9.56%	20.71%	8.97%
Labourers and related	8.85%	13.71%	2.82%
Other pensioners	8.15%	3.55%	0.66%
Tradespersons and related	7.87%	10.69%	10.63%
Intermediate production and transport	6.95%	10.67%	5.65%
Home duties	5.46%	5.98%	1.83%
Associate professionals	5.35%	6.98%	10.13%
Professionals	5.23%	6.29%	17.77%
Elementary clerical, sales and service	5.03%	8.24%	2.33%
Invalid pensioners	4.57%	1.13%	-
Managers and	3.19%	2.16%	18.27%

38 ITSA, *Profiles of Debtors 2003*.

administrators			
Uncodeable	2.47%	0.12%	14.95%
Advanced clerical and services	0.92%	1.61%	1.66%
Retired	0.59%	0.04%	0.17%
Student	0.61%	0.42%	-

4.3 KEY CHARACTERISTICS OF DEBTORS

The key characteristics (essentially socio-economic) of debtors who became bankrupt, or who entered into Part IX debt agreements or Part X arrangements, in 2003 are summarised below.[39]

4.3.1 Debtors who Become Bankrupt

- 23% had an income less than $10,000, 59% had an income less than $20,000 and 78% had an income less than $30,000 in the twelve months prior to bankruptcy.

- 68% were from households which earned less than $30,000 (compared to a national median household income in the 2001 census of $39,000).

- 27% owed less than $10,000 to their unsecured creditors, 50% owed less than $20,000 and 78% owed less than $50,000 (it is interesting to note that, at the lower end, 4% owed less than $2,000 and at the higher end, 11% owed more than $100,000 and 2% owed more than $500,000).

- Unemployment was the main cause of non-business related bankruptcies, whereas business related bankruptcies were mainly due to the effects of economic conditions on the particular business.

- 60% of bankrupts were not employed[40] at the date of their bankruptcy (compared to a seasonally adjusted rate of 6.2% applied for the general population).

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39 These characteristics are summarised from the information provided in ITSA, *Profiles of Debtors 2003*.

40 This includes those who were unemployed, retired, on pensions or engaged in domestic duties.

- More males became bankrupt than females (55% of bankrupts were males, whereas 49% of the population is male).
- 12% of bankrupts had been bankrupt before; 1% had been bankrupt more than twice before.
- Nearly 90% of bankrupts had realisable assets of less than $1,000.
- 1% of bankrupts were either homeowners or in the process of purchasing a home at the date of their bankruptcy.
- 44% of bankrupts were single with no children.

4.3.2 Debtors who Enter into Part IX Debt Agreements

- 10% had an income less than $10,000 and 34% had an income less than $20,000 in the twelve months prior to bankruptcy.
- 5% were from households which earned less than $10,000, 20% from households which earned less than $20,000 and 83% from households which earned less than $50,000.
- 25% owed less than $10,000 to their unsecured creditors, and 61% owed less than $20,000.
- 77% were employed (reflecting the nature of debt agreements and that many debtors make regular periodic payments).
- 52% were male.
- 85% had realisable assets of less than $1,000.
- 5% were either homeowners or in the process of purchasing a home.
- 40% were single with no children.

4.3.3 Debtors who Enter into Part X Arrangements

- 22% had an income less than $10,000 and 34% had an income less than $20,000 in the twelve months prior to bankruptcy.
- 21% were from households which earned less than $10,000, 32% from households which earned less than $30,000 and 52% from households which earned less than $50,000.
- 25% owed less than $10,000 to their unsecured creditors, and 61% owed less than $20,000.
- 77% were employed.
- 72% were male.
- 66% had realisable assets of less than $1,000.
- 16% were either homeowners or in the process of purchasing a home.

- 43% were in a relationship or were part of a couple with children.

5 SURVEY OF ADULT FINANCIAL LITERACY IN AUSTRALIA

In May 2003, the ANZ Bank released a report into the financial literacy[41] levels of adult Australians.[42] Overall, differences in financial literacy levels were found for various population groups and in terms of different financial products. For example, people with lower levels of formal education had lower financial literacy, and all population groups had less understanding of superannuation products than of basic banking.

5.1 OVERVIEW

The key findings of the report were that:[43]

- Australia has a high level of 'banking inclusion', with 97% of surveyed people having an everyday bank account.
- 80% of surveyed people felt 'well informed' when making financial decisions.
- Around 90% of surveyed people knew how to use the more common payment methods such as ATMs, cheques, EFTPOS and credit cards.
- 98% of surveyed people understood that prioritising needs was necessary to balancing income and expenditure within financial capacity, and most could suggest appropriate strategies for dealing with a drop in income.
- There was a good understanding of some of the basics of superannuation (97% of surveyed people were aware that their employers are required to make superannuation contributions on their behalf, and 91% understood that they could make additional superannuation contributions).

Although 98% of surveyed people understood the importance of prioritising needs to balance income and expenditure, and 67% tried to save regularly, 16% spent all

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41 'Financial literacy' was explained in the report in terms of people being able to make informed and confident decisions regarding all aspects of their budgeting, saving and spending and their use of financial services and products, from basic banking to borrowing, investing and planning for the future (p 1). The term is defined as "the ability to make informed judgements and to take effective decisions regarding the use and management of money" (p 2).

42 *ANZ Survey of Adult Financial Literacy in Australia*, Final Report, May 2003, http://www.parliament.qld.gov.au/ConcordDocs/E04/E040622LP09.PDF.

43 *ANZ Survey of Adult Financial Literacy in Australia*, pp 3-4.

of their income as soon as they received it and 26% had problems setting money aside for major financial outlays.[44]

Only 5% of surveyed people experienced no difficulties in dealing with their finances, and only 14% did not feel the need for further education in this respect. The most common difficulties that were indicated were controlling behaviours/budgeting (21%), confusing paperwork (17%) and not earning enough money (17%). The most common educational needs that were identified were in relation to investing (47%), superannuation (20%), budgeting (15%) and taxation (10%).[45]

The main financial skills, services and products that consumers have difficulties with are superannuation, investment fundamentals, retirement planning, understanding financial records, knowledge of fees and charges and the use of newer payment methods.

5.2 SUPERANNUATION

In terms of superannuation, the report found that only about 37% of people have determined how much they needed to save for their retirement. Of people over 35 years of age with insufficient retirement savings, 40% believe that they will be living at least as comfortably in retirement as they presently are. There was also limited awareness of the fees, charges and taxes related to superannuation.[46]

Although 50% of surveyed people considered that their superannuation would be adequate for their retirement, this was said to be a fallacy. The report found that many people have a "false sense of security" regarding their superannuation.[47]

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44 *ANZ Survey of Adult Financial Literacy in Australia*, pp 9-10.

45 *ANZ Survey of Adult Financial Literacy in Australia*, pp 10-11.

46 *ANZ Survey of Adult Financial Literacy in Australia*, pp 7, 36-38.

47 *ANZ Survey of Adult Financial Literacy in Australia*, p 37. See also the Select Committee on Superannuation report released in July 2003 which recommends an increase in Government efforts to educate the general population about the importance of planning for retirement. (Australian Government. Senate Select Committee for Superannuation, *Planning for Retirement*, July 2003, http://www.parliament.qld.gov.au/ConcordDocs/E03/E030828LP05.PDF) and an Investment and Financial Services Association paper which notes that education, information and quality advice are crucial to Australians achieving their expectations of their retirement income (Investment and Financial Services Association Limited, *Retirement Incomes and Long Term Savings – Living Well in an Ageing Society*, http://www.ifsa.com.au/IFSAWeb/attach.nsf/Attachments/Publications~Retirment+incomes+de

5.3 FINANCIAL LITERACY OF KEY DEMOGRAPHIC GROUPS

The report provides the following summary of the financial literacy of key demographic groups. For each group, the table shows the proportion of the group at each literacy level (quintile).[48]

Demographic Group	Levels 1-2 (lowest literacy) (%)	Levels 3-4 (%)	Levels 5-6 (%)	Levels 7-8 (%)	Levels 9-10 (highest literacy) (%)
Female	24	22	21	18	15
Male	15	18	20	22	25
Education < Year 10	42	19	20	11	8
Tertiary degree	8	16	20	24	32
Seeking employment	32	18	21	18	12
Student	29	14	20	20	17
Home Duties	25	24	20	19	12
Retired	27	20	18	16	19
Semi-skilled	28	26	21	16	8
Unskilled	40	21	21	12	7
Professional	5	14	15	24	41
Owners (including small business and farm owners)	13	14	19	25	28
Other white collar	14	20	19	23	25
Language other than English spoken at home	25	19	20	19	17
Single, living alone	26	21	19	16	17
Single, living in shared household	27	22	21	18	12
Single parent	26	24	23	14	13
Couple, children at home	16	20	21	22	21
Couple, no children at home	14	16	20	22	27

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sires+&+drivers~2003_0814_Retirement+Income_Living+well+in+an+ageing+society_purple+book/$File/2003_0814_Retirement+Income_purple+book.pdf).

48 *ANZ Survey of Adult Financial Literacy in Australia*, pp 5-6.

Demographic Group	Levels 1-2 (lowest literacy) (%)	Levels 3-4 (%)	Levels 5-6 (%)	Levels 7-8 (%)	Levels 9-10 (highest literacy) (%)
Aged 18-24	31	20	22	16	10
Aged 45-59	13	19	20	22	27
Aged 70 and over	31	23	19	13	14
Renting	29	22	22	15	12
Capital City	19	20	20	20	22
Country area	21	20	21	21	17
Average gross annual personal income	$25,140	$34,270	$36,550	$42,010	$56,100
Average gross annual household income	$38,600	$52,170	$55,300	$63,870	$78,180
Average current value of home	$252,790	$277,820	$285,670	$319,390	$375,740
Average savings (inc. super but excl. value of home)	$46,240	$88,280	$100,400	$136,300	$243,530
Average mortgage debt (for mortgage holders)	$113,600	$119,380	$131,680	$162,340	$222,610
Average non-mortgage debt	$12,460	$16,980	$14,100	$15,200	$26,290

The table shows that:

- individuals with lower levels of formal education are significantly more likely to have lower levels of financial literacy, while those with higher levels of formal education are more likely to have higher levels of financial literacy;
- individuals with lower levels of income are significantly more likely to have lower levels of financial literacy, as are casuals, students, retirees and those participating in home duties. In comparison, people with higher levels of personal and household income, who are more likely to be in full-time employment and in white collar or professional occupations, are significantly more likely to have higher levels of financial literacy;
- people with low levels of financial literacy are likely to have lower than average levels of debts and savings and lower usage of financial services and products;
- people aged under 24 years, and those aged over 70, are more likely to have lower levels of financial literacy; and

- single people are significantly more likely to have lower levels of financial literacy than those in a couple relationship.

6 SELECTED AREAS OF CURRENT CONCERN

Low levels of financial literacy impact on individuals in different ways and may be reflected in a broad range of social issues.

Some selected areas of current concern include:

- the high levels of household debt;
- relationship debt (particularly 'third party guarantees'); and
- levels of youth debt.

6.1 HOUSEHOLD DEBT

Economists have expressed concern about the growth in household debt in Australia, which has now reached approximately 150% of annual household income.[49] Despite relatively low interest rates, the proportion of income used for interest payments is also at record levels, and is higher than when rates reached 17% in the 1980s. Saving rates are also currently -2.3%, compared to the 1960s when the rate was 15%.[50]

Federal Treasury figures recently showed Australia's private debt at $384 billion, or $19,140 for every Australia. This was a 10% increase on the previous year.[51]

A component of household debt worth considering is credit card debt. Australians owe approximately $27 billion on their credit card, with $19 billion of that debt

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49 Some articles on household debt include Ian Macfarlane, 'Do Australian households borrow too much?', *Reserve Bank of Australia Bulletin*, April 2003, pp 7-16 (address to The Sydney Institute); 'Household debt: what the data show', *Reserve Bank of Australia Bulletin*, March 2003, pp 1-11; The Australia Institute, Clive Hamilton, *Overconsumption in Australia – the rise of the middle-class battler*, Discussion Paper No. 49, November 2002; Reserve Bank of Australia, Gianni La Cava and John Simon, *A Tale of Two Surveys: Household Debt and Financial Constraints in Australia*, Research Discussion Paper 2003-08, July 2003; University of Melbourne, Melbourne Institute of Applied Economic and Social Research, *The Structure and Distribution of Household Wealth in Australia*, Working Paper No. 12/04, July 2004.

50 Matt Wade, 'We're richer than ever – on the house', *Sydney Morning Herald*, 14 October 2004. Also see John McCarthy, 'Household debt level among nation's lowest', *Courier Mail*, 1 December 2004, p 6.

51 Matt Wade, 'We're richer than ever – on the house'.

interest-bearing.[52] The number of credit card accounts in Australia has doubled over the last 10 years, to just over 11 million. The average household credit card debt is just over $6,400[53] and the average personal balance is around $2,500.[54] Credit related bankruptcies have doubled since 1999.[55]

More recently, household credit growth has slowed, but the Reserve Bank has warned that it remains a risk to the domestic economy.[56]

The figures on household debt should, however, be balanced with the reported increased wealth of Australians. In June 2004, the combined wealth of Australians reached a record $5 trillion, which was a doubling in the past seven years and an 18% increase on the previous year. This equates to approximately $250,000 for every Australian, compared with approximately $126,000 in mid-1997. In the past year, wealth was estimated to have increased almost 16%, after adjustment for inflation, principally due to increases in house prices and the strong sharemarket.[57]

6.2 RELATIONSHIP DEBT

'Relationship debt' occurs when someone gets involved with another person's debt based on their emotions or a relationship.[58] Typically, relationship debt arises between couples, parents and their children, and other family members. Often, the involvement is in the form of one party to the relationship guaranteeing the debts of the other party ('third party guarantee').

A recent study highlighted the following characteristics of third party guarantees:[59]

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52 Fiona Guthrie, 'Debt is our drug and credit pushers are to blame', *Courier Mail*, 5 July 2004.

53 Adam Harvey and Jim Dickins, 'Credit addiction ruins families', *Sunday Mail*, 30 May 2004, p 96.

54 Leon Gettler, 'Average Debt is $35,000', *Age*, 1 April 2004.

55 Adam Harvey and Jim Dickins, 'Credit addiction ruins families'.

56 CCH Australia Limited, 'Household credit growth still a risk to Aust economy: RBA', *News Headlines*, 23 September 2004.

57 Matt Wade, 'We're richer than ever – on the house'; 'Australians are richer than ever', *Courier Mail*, 14 October 2004.

58 Hon M Keech MP, Minister for Tourism, Fair Trading and Wine Industry Development, 'Till debt do us part', *Ministerial Media Statement*, 11 August 2004.

59 Jenni Millbank and Jenny Lovric, 'Darling, please sign this form – relationship debt and guarantees', *Alternative Law Journal*, 28(6), December 2003. Also see Law Reform

- most are undertaken to support small business borrowings, particularly for family businesses over which the guarantor has little control or receives no benefit;
- many are provided by the female spouse of the borrower, who often has no formal role in the business that the borrowings are for;
- very few males guarantee the debts of their spouse;
- older people, often parents of the borrower, also comprise a large number of third party guarantors;
- where a male does provide a third party guarantee, it is usually for an adult child;
- culture and ethnicity play a part in a person agreeing to provide a guarantee, particularly in cultures with strong family bonds and where there is a sense of obligation to do so;
- some female spouses agree to become a co-borrower or guarantor on the pretence that this is the only way their partner will secure the loan. In more worrying circumstances, they do so for fear of the consequences of refusing to (which may be due to economic dependence, violence or threats);
- third party guarantors often misunderstand, or are misinformed about, the legal and factual aspects of the transaction; and
- most third party guarantors trust that the borrower will 'do the right thing'.

A concern with third party guarantees is that the guarantor is often not aware that their obligations under the guarantee will continue even if the relationship ends (and for a long time after the relationship ends) and that they may be responsible for the full amount of the debt, not just half. Further, depending on the terms of the guarantee, the guarantor may be guaranteeing not just the immediate borrowings but also all future money that is loaned by the lender to the borrower (this occurs under what are known as 'all moneys' clauses).

In addition to small family businesses, third party guarantees are also common for car loans, mobile phones, utility accounts and credit cards.[60]

6.3 YOUTH DEBT

A recent CPA Australia survey indicated that the average debt for youth aged between 18 and 24 years was around $21,500, and that 58% of youth had already

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Commission of New South Wales, Jenny Lovric and Jenni Millbank, *Darling, please sign this form: a report on the practice of third party guarantees in New South Wales*, Research Report 11 (2003), http://www.lawlink.nsw.gov.au/lrc.nsf/pages/rr11toc.

60 Renae Robinson, 'Beware sexually transmitted debt', *Sunday Mail*, 31 October 2004, p 93.

faced bad experiences with debt. Over half own credit cards with an average debt of $1,500 to $3,000, around one quarter have personal loans averaging $8,000 to $10,000 and 21% are facing an average $1,500 mobile phone debt. Around 18% have a loan from family or friends, and nearly one third face a HECS debt, averaging $11,200.[61]

In November 2003, the New South Wales Office of Fair trading released a research report on youth debt (12 to 24 years).[62] The report recognises young people's indebtedness due to inadequate financial literacy and a susceptibility to marketing and sales techniques. Nearly 25% of youth have experienced problematic debt. The influences on young people's debt levels were said to include the credit mentality of 'have now, pay later', peer group pressure to 'conform', the availability of credit and a lack of financial management skills. The sources of debt which pose greatest risk to young people include credit cards and mobile phones, car finance and expenses, fines, debt to family and friends, HECS and (to a lesser extent) drugs, gambling, rent arrears and Centrelink debt.

7 COMMONWEALTH GOVERNMENT INITIATIVES

7.1 CONSUMER AND FINANCIAL LITERACY TASKFORCE

In February 2004, the Australian Government established a 15 member National Consumer and Financial Literacy Taskforce, chaired by Mr Paul Clitheroe, to:

- identify and evaluate current consumer and financial literacy programs in Australia;
- identify any gaps or ways of working more effectively; and
- develop a national strategy to improve the levels of consumer and financial literacy in Australia (which will reduce poverty, increase economic opportunity, bolster national savings and provide for well-informed consumers).

The strategy will be the first of its kind in Australia and will provide consumer and financial education across public, private and community sectors. In establishing the taskforce, the Government was recognising that a key to economic prosperity was improving the financial skills and education of all Australians. The

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61 CCH Australia Limited, 'CPA Australia warns youth about debt', *News Headlines*, 23 July 2004.

62 New South Wales. Office of Fair Trading, *Youth Debt*, Research Report, November 2003, http://www.fairtrading.nsw.gov.au/pdfs/corporate/youthdebtreportnov03.pdf.

Government also acknowledged that low levels of financial literacy are a barrier to consumer awareness and informed participation in the financial system.[63]

Although the taskforce has examined all age groups and stages of life, it particularly focussed on improving financial education and information for school children.

Key outcomes for the taskforce are for all Australians to:

- possess literacy and numeracy skills;
- have an ability to budget and save;
- be knowledgeable about investing, borrowing and spending;
- have risk management abilities and market awareness; and
- understand their rights and responsibilities as consumers.

7.1.1 Discussion Paper

In June 2004, the taskforce released a discussion paper for public consultation.[64] The discussion paper identified and evaluated existing consumer and financial literacy information and programs in Australia, and the services provided by the public, private and community sectors. A series of public meetings followed the release of the discussion paper.

In evaluating current programs and services, the taskforce considered:[65]

- the availability and adequacy of financial education and information in schools;
- the availability of financial information in the wider community, particularly the capacity of Australians to understand and manage credit risk;

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63 Senator, the Hon H Coonan, Minister for Revenue and the Assistant Treasurer, 'Skilled people are the key to success', *Press Release*, 23 February 2004, http://assistant.treasurer.gov.au/atr/content/pressreleases/2004/007.asp.

64 Australian Government. Consumer and Financial Literacy Taskforce, *Australian Consumers and Money*, Discussion Paper, June 2004, http://www.cfltaskforce.treasury.gov.au/content/_download/DiscussionPaper/Full_Version_no_cover.pdf (full version), http://www.cfltaskforce.treasury.gov.au/content/_download/DiscussionPaper/Summary.pdf (consumer version).

65 Australian Government. Consumer and Financial Literacy Taskforce, Terms of Reference, http://www.cfltaskforce.treasury.gov.au/content/terms.asp?NavID=2.

- the availability of financial information and education to maximise superannuation and retirement savings;
- the extent to which the foundation skills of current low-skilled and mature-aged adults can be improved;
- enhancing awareness of the importance of saving, and better communicating the need for a focus on retirement savings;
- any gaps or overlaps in current financial literacy and consumer education programs by public, private and community sector organisations;
- the linkages between public, private and community sector organisations in the provision of financial information and products, and the contribution of key financial stakeholders;
- the variety of multi-media and traditional communication tools used to disseminate consumer and financial literacy information; and
- consumer interest and motivation in seeking out consumer and financial literacy information.

The taskforce also proposed a 'consumer behaviour model'[66] to better understand the factors that contribute to consumer decision-making and allow information providers to better appreciate the needs, backgrounds and motivations of consumers.

The discussion paper notes different events at the various stages of life (primary and secondary school children, young adults, adults, pre-retirees and retirees) which impact differently on finances. It also highlights unexpected events, such as health problems, natural disasters, relationship problems, unemployment, inheriting money or making a windfall, bankruptcy and debt problems.[67]

7.1.2 Findings

The taskforce found that:

- Lack of information is not the issue, with more than 700 consumer information initiatives currently being produced by over 100 public, private and community sector organisations in Australia. This leaves consumers feeling confused. A large proportion of this information is not known, properly targeted or used by Australian consumers.
- There is duplication and inefficiency in the provision of information to Australian consumers, through the absence of a formal network for

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[66] *Australian Consumers and Money*, Discussion Paper, p 9.

[67] *Australian Consumers and Money*, Discussion Paper, pp 32-33.

information providers to communicate with each other and a national information strategy on key consumer issues. There is also no on-going research on consumer decision-making or evaluation of the effectiveness of the various information programs and regulatory initiatives.

7.1.3 Preliminary Recommendations

In formulating its recommendations, the taskforce drew heavily on international research and expertise to determine what has worked best in other countries. Overwhelmingly, the taskforce has identified a need for consistency in the approach to consumer and financial literacy.

The taskforce has stated that financial literacy needs to become part of Australian culture in the same way that Australians know to 'slip, slop, slap' when at the beach or to wear a seatbelt when driving.[68]

The taskforce has recommended that a new coordinating body be established to:

- commission and conduct ongoing research to determine the main consumer problems, together with the factors that contribute to those problems;
- assess how effective governments, businesses and community groups have been in addressing these problems;
- facilitate an ongoing social marketing campaign, similar to the 'slip, slop, slap' campaign mentioned above, to embed a key consumer financial literacy message within the Australian culture;
- provide a clearinghouse website for all consumer information material in Australia, which would be a powerful resource for both consumers and consumer intermediaries;
- work with schools to facilitate greater take-up of consumer and financial literacy in the school curriculum;
- work with public, private and community sector organisations to assist consumers with the information they require at different life stages; and
- get organisations to work together on issues in a manner most suitable to consumers.

Establishing this body is the key recommendation of a number of preliminary recommendations that the taskforce has formulated to date.

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68 *Australian Consumers and Money*, Discussion Paper (consumer summary version, 'where do we start' page).

7.2 AUSTRALIAN SECURITIES & INVESTMENTS COMMISSION

7.2.1 Financial Literacy Discussion Paper

In May 2003, following the release of the ANZ survey of adult financial literacy in Australia, then Chairman of Australian Securities & Investments Commission ('ASIC'), Mr David Knott, called for a national partnership of stakeholders to improve financial literacy levels across Australia. In particular, focus was drawn on the need to foster more widespread and comprehensive teaching of financial literacy in schools, and develop financial literacy resources which are specifically designed for the school environment and curriculum.

ASIC commissioned a 'curriculum map' of the current opportunities for financial literacy education in Australian secondary schools, together with a stocktake of the resources available for such programs. It considered models for improving financial literacy in schools, examining successful models in the United Kingdom and the United States of America which involve establishing independent bodies made up of representatives from regulators and the financial, education and community sectors.[69]

Financial Literacy in Schools Discussion Paper

In June 2003, ASIC released a discussion paper entitled *Financial Literacy in Schools*[70] which examines the existing levels of financial literacy education in Australian secondary schools, and options for improving those levels.

The aims of the discussion paper were to:[71]

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69 Australian Securities & Investments Commission, 'ASIC Chairman calls for action on financial literacy problems', *Media Release*, 2 May 2003, http://asic.gov.au/asic/ASIC_PUB.NSF/byid/5279031A3BD471FCCA256D190083B61E?opendocument.

70 Australian Securities & Investments Commission, 'ASIC calls for financial literacy education in schools', *Media Release*, 30 June 2003, http://asic.gov.au/asic/ASIC_PUB.NSF/byid/935A194F34EF2AEDCA256D55000920D0?opendocument. Australian Securities & Investments Commission, 'Financial Literacy in Schools', *Discussion Paper*, June 2003, http://asic.gov.au/asic/pdflib.nsf/LookupByFileName/FinLit_schools_DP.pdf/$file/FinLit_schools_DP.pdf.

71 *Financial Literacy in Schools*, p 3.

- disseminate the results of the research commissioned by ASIC on the current status of financial literacy education in Australian secondary schools;
- examine the nature of financial literacy education in schools in the United Kingdom, United States of America and New Zealand;
- make proposals about curriculum, resource development and/or institutional support to promote better financial literacy levels in Australian schools; and
- promote discussion, and hopefully agreement, about a coordinated way to progress and support teaching for financial literacy in schools.

Current Position

The research underlying the discussion paper found that, although there are opportunities for financial literacy education in all jurisdictions, not all students are exposed to such teaching and no students are exposed to the full range of issues associated with financial literacy. Financial literacy is not a formal course of study in any jurisdiction, and there is no systematic approach to its teaching. There are opportunities in the curriculum for financial literacy education, and these opportunities are currently under-utilised.

The research also found that there is a need for more up-to-date teaching resources to support financial literacy education.

The discussion paper proposes approaches to improving financial literacy education which work within the existing curriculum and key learning areas, rather than establishing whole new teaching streams. It also states that these approaches will need to be supported by initiatives (such as teaching resources), professional development for teachers, financial literacy competencies and measures to raise awareness about financial literacy.

The discussion paper considers efforts that have been made in the United Kingdom, United States and New Zealand to incorporate some form of personal finance education into the school curriculum.[72]

Financial Literacy Institution

The discussion paper proposes an independent financial literacy institution ('FLI') with representatives from the financial services industry, government and education and community sectors. The FLI will strengthen and embed financial literacy education in secondary schools and be a focus for the coordinated

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72 *Financial Literacy in Schools*, pp 32-37.

development of resources, training and research. Similar bodies[73] have already been established in the United Kingdom ('pfeg' - Personal Finance Education Group)[74] and the United States ('Jumpstart').[75]

ASIC has also stated that there are strong arguments for the FLI to have a mandate beyond financial literacy in schools, so that it can also assist those adults with the greatest financial literacy needs.

Importance of Key Stakeholders

The discussion paper recognises the importance of teachers, principals, teacher associations, parents and carers, the financial services industry and the community to the success of the project and the achievement of its aims.

Goals of the Project

The long-term goals of the project are:[76]

- for every school-leaver to have the necessary basic financial skills to become confident and informed consumers in their work and personal lives;
- to help education jurisdictions across Australia enhance existing financial literacy education programs in schools, with particular emphasis on Years 8, 9 and 10;
- to see a range of up-to-date, relevant and stimulating teacher resources to support financial literacy education;
- to develop a coordinated approach to the supply and sharing of information on financial literacy for teachers across Australia; and
- promote teacher training and professional development courses to support effective financial literacy education.

7.2.2 Comic for Young Consumers

In June 2004, ASIC released a new comic, *To the Max*,[77] which is aimed at helping young people (particularly those aged between 14 and 18) adopt good financial habits.

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[73] For a discussion of these bodies see *Financial Literacy in Schools*, pp 38-43.

[74] pfeg website http://www.pfeg.org/.

[75] Jumpstart website, http://www.jumpstart.org/.

[76] *Financial Literacy in Schools*, p 15.

The comic addresses financial problems commonly faced by young people including mobile phone debts, credit cards, car finance and insurance.[78] It also provides practical tips on avoiding financial pitfalls and where to seek advice in the event of experiencing financial difficulties.

7.2.3 Website for Young Adults

ASIC has dedicated a page on its 'FIDO' consumer website to young adults.[79]

The page contains information on a range of issues, including:

- facts and tips on banking, insurance, superannuation and investment;
- budgeting, cutting costs and increasing savings;
- credit and credit cards;
- mobile phone bills;
- car finance;
- account fees and charges;
- direct debits;
- scams and rip-offs;
- financial advice; and
- money problems.

8 QUEENSLAND GOVERNMENT INITIATIVES

Queensland Government initiatives to improve financial literacy are generally implemented by the Office of Fair Trading. Some of the current initiatives include:

- the 'Buy Smart' competition for primary and secondary school students, which involves students researching a fair trading issue and delivering a consumer awareness message;[80]

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77 http://asic.gov.au/asic/pdflib.nsf/LookupByFileName/To_the_Max.pdf/$file/To_the_Max.pdf.

78 Australian Securities & Investments Commission, 'Teaching young dogs old tricks: 'To the Max' – ASIC's new comic for young consumers', *Media Release*, 11 June 2004.

79 http://asic.gov.au/fido/fido.nsf/byheadline/Young+Investor?openDocument.

80 Hon M Keech MP, Minister for Tourism, Fair Trading and Wine Industry Development, 'Never too young to Buy Smart', *Ministerial Media Statement*, 11 November 2004.

- the '$hop $mart' campaign, which provides consumers with tips on issues such as refunds, budgeting, lay-bys, the use of credit and the effects of impulse shopping;
- the *Get out there! A survival guide for young adults*[81] publication, which is aimed at school-leavers and contains information on budgeting, credit, banking, financial services, scams, lay-bys, refunds, internet shopping, mobile phones and buying insurance;
- the *Good Credit Guide*,[82] which contains information on a range of issues including consumer credit, credit law, the wise use of credit, interest free offers, payday lending, finance brokers and credit records. This guide is part of the 'Control Your Credit' campaign launched by the Queensland Government in April 2004, in recognition of the high levels of household debt and the results of the ANZ research discussed in Part 5 of this Research Brief;[83]
- the *Consumerwise*[84] publication, launched in June 2004, which provides consumers with information on everyday transactions and how to avoid scams. The issues covered include refunds, lay-bys, smart shopping, interest-free offers, buying various items (real estate, motor vehicles, computers, mobile phones), shopping from home, purchasing various services, recognising and avoiding scams, banking, credit, insurance, product safety and information for seniors; and
- pages on the Office of Fair Trading website which contain tips on buying certain items and information on family breakdown and debt, budget planning, credit ratings, finance brokers, managing debt, harassment from creditors, payday lenders, using credit wisely, credit law and scams. Other pages provide information specifically for young people on buying cars, computers and mobiles; rental accommodation; lay-bys and refunds; internet shopping and credit.

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81 The publication may be accessed at http://www.fairtrading.qld.gov.au/oft/oftweb.nsf/AllDocs/RWPAAC4EB46C6FD45DF4A256B440031977C?OpenDocument&L1=Publications.

82 Queensland. Office of Fair Trading, *Good Credit Guide*, November 2002, http://www.fairtrading.qld.gov.au/oft/oftweb.nsf/AllDocs/11110EB6A38065854A256C7C001A9285/$File/Good%20Credit%20Guide.pdf.

83 Hon M Keech MP, Minister for Tourism, Fair Trading and Wine Industry Development, 'Credit info to improve consumer behaviour', *Ministerial Media Statement*, 20 April 2004.

84 Queensland. Office of Fair Trading, *Consumerwise*, June 2004, http://www.fairtrading.qld.gov.au/OFT/OFTWeb.nsf/AllDocs/E157DA99210618AC4A256EAD001D739B/$File/Consumerwise_full%20document.pdf.

The Office of Fair Trading also recently announced a partnership with Education Queensland to teach financial literacy to secondary school students. The campaign specifically targets students in years 10 and 11, and involves the production of new resources for the middle school years of grades 7, 8 and 9.[85]

The Office for Women commenced pilot financial planning workshops ('Economy Wise + Budget Smart') in October 2004. These workshops target women in six regional centres (Dysart, Hervey Bay, Kingaroy, Warwick, Yeppoon and Cairns), with the possibility of further sessions being held in 2005. Topics covered by the workshops include budgeting, saving, debt management, investment, superannuation, credit cards and financial planning.[86]

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85 Hon M Keech MP, Minister for Tourism, Fair Trading and Wine Industry Development, 'Financial literacy for students', *Ministerial Media Statement*, 22 July 2004.

86 Hon D Boyle MP, Minister for Environment, Local Government, Planning and Women, 'Money workshops give women nest egg know-how', *Ministerial Media Statement*, 15 October 2004; 'Huge demand for financial workshops in Cairns', *Ministerial Media Statement*, 24 September 2004.

APPENDIX A – MINISTERIAL MEDIA STATEMENTS

Hon. Margaret Keech MP, Minister for Tourism, Fair Trading and Wine Industry Development

11 November 2004

Never too young to Buy Smart

The Beattie Government is creating a growing army of young, educated consumers with this year's Buy Smart competition receiving record entries from students across the State.

Fair Trading Minister Margaret Keech said the competition for primary and secondary school students had recorded a 20% increase in entries since its inception in 2002.

"We received a record number of 310 entries from almost 500 students this year, a testament to the growing consumer awareness among our young Queenslanders," Mrs Keech said at a presentation ceremony at Parliament.

"Buy Smart is designed to increase young people's knowledge and understanding of fair trading issues such as buying a mobile phone, budgeting, credit cards and refunds and warranties.

"Students are asked to research a fair trading topic and create a relevant and fun way of delivering their consumer awareness message.

"As a condition of entry, students must present their message to their classmates, so not only do the entrants gain increased consumer awareness, but they spread the word to their classmates.

"Entries were judged on creativity and quality, ability to communicate a consumer message, and suitability and effectiveness for their peers."

Mrs Keech said young Queenslanders who participated in the competition showed a strong awareness and understanding of their consumer rights and responsibilities.

"Entries covered a wide range of topics such as refunds rights, buying a car, buying a mobile phone, door-to-door sales, internet shopping and making a complaint to the Office of Fair Trading, all important issues for our young people to be aware of," she said.

"This is so important because now more than ever kids are regular consumers of goods and services, even at the primary school level.

"Recent NSW research found one in five young people (aged 12-24 years) surveyed had experienced personal debt problems, with the most common problem debts being mobile phones, car repayments or credit cards, fines and phone bills.

"Young people represent a $4 billion commercial market per year, so it is essential they are equipped with the information and knowledge they need to ensure they get a fair deal."

Mrs Keech presented certificates and cheques to students from four Brisbane schools.

Prizes were awarded across three year level categories (1 - 4, 5 - 8 and 9 - 12):

- First Prize: $300 student/$1500 school
- Second Prize: $200 student/$1000 school
- Achievement Award: $150 student/$750 school
- Encouragement Award: $100 student/$500 school

(Where the winning entry was submitted by a group, the prize money for students was divided among the entrants.)

"Brisbane schools continued to show their competitive spirit and consumer awareness with students winning five of the 12 prizes up for grabs, despite stiff competition from regional Queensland," Mrs Keech said.

"Teachers who encouraged their students to participate have highlighted the competition's real educational value, and have advised that students got much more out of it than just the chance to win a prize.

"This competition is a great way to inspire young people to do their homework on on their consumer rights and responsibilities, and ensuring they're equipped with all the knowledge they need to be responsible consumers."

To view the winning entries, visit the Youth section of the Fair Trading website at www.fairtrading.qld.gov.au.

Media contacts: Belinda Carroll 3224 2007 or Louise Morgan (OFT) 3119 0334

Media please note that schools and students are available to be contacted for interviews/photographs as a condition of entry.

LIST OF WINNERS:

Prize & Category Name School

First Prize

Years 1 – 4; Brock Briggs, Albany Creek State School, 696 Albany Creek Road, Albany Creek Qld 4035.

First Prize

Years 5 – 8; Courtney Smith, Grace Lines, Elizabeth Newman, Chanelle Killen, Upper Mount Gravatt State School, 1699 Logan Road, Upper Mount Gravatt.

First Prize

Years 9 – 12; Sarah Shaw, Bell State School, 90 Dennis Street, Bell.

Second Prize

Years 1 – 4; Shania Dekkers, The Rockhampton Grammar School,Archer Street, Rockhampton.

Second Prize

Years 5 – 8; Selina Gurgacz, Corpus Christi College, 23 Donkin Street, Nundah.

Second Prize

Years 9 – 12; Jamie Bain, Melissa Reinbott, Kingaroy State High School, PO Box 359, Kingaroy.

Achievement Award

Years 5 – 8; Kate Glen, Corpus Christi College, 23 Donkin Street, Nundah

Achievement Award

Years 9 – 12; Olivia Harbeck, Helensvale State High School, 246 Discovery Drive, Helensvale.

Encouragement Award

Years 5 – 8; Jade Amos, Emily Thomson, Bentley Park College,McLaughlin Road, Edmonton.

Encouragement Award

Years 5 – 8; Bridget Judd, Bellevue Park State School, Sapium Road, Southport.

Encouragement Award

Years 9 – 12; Bianca Kabel, Moreton Bay College, 450 Wondall Road, Manly West.

Encouragement Award

Years 9 – 12; Matthew Grebert, Pacific Pines State High School, Archipelago Street, Pacific Pines.

Hon. Desley Boyle MP, Minister for Environment, Local Government, Planning and Women of Queensland

15 October 2004

Money workshops gives women nest egg know-how

Minister for Women Desley Boyle today launched a new money-management program aimed at giving women the skills to stretch their limited dollars further.

Ms Boyle launched Economy Wise + Budget Smart at Cairns's new Learning Network Queensland centre in Buchan St.

"The cold hard facts are that women don't earn anywhere near what men earn, don't have the same savings men have, don't invest like men do and don't have the same superannuation," Ms Boyle said.

"Then there are social dynamics: one-third of all marriages end in divorce and 22.8 per cent of Queensland children are growing up in sole parent households.

"Add that to the fact that women generally live longer than men, outnumbering them three to one by age 75 - and we have a lot of women doing it really tough."

The Office for Women designed the 20-hour Economy Wise + Budget Smart program with the Australian Pensioners' and Superannuants' League Queensland Incorporated to address women's real money needs at all stages of life. It is being delivered by Learning Network Queensland in six regional locations, including Cairns.

"It's being offered in a way that appeals to women - small group situations with no hard sell; just useful information and explanation of money matters from savings and budgeting through to investments," Ms Boyle said.

Ms Boyle applauded Cairns's first 10 participants.

"Too many women put off learning about money matters - they say they're too busy, too tired or it's too hard, and they leave it to the men to work out," she said.

"Economy Wise + Budget Smart is in every woman's best interest, particularly if it makes life better for Queensland women."

Ms Boyle said the program was also being run in Hervey Bay, Kingaroy, Dysart, Yeppoon and Warwick.If the pilot is successful, the program will be rolled out to 19 centres next year.

Media contact: Carissa Mason 3227 6424

John Algate 3227 8825 or 0417 782 865

Hon. Desley Boyle MP, Minister for Environment, Local Government, Planning and Women of Queensland

24 September 2004

Huge demand for financial workshops in Cairns

Cairns women have signed up in droves for a pilot Beattie Government workshop providing financial advice for women.

Women's Minister Desley Boyle said she was overwhelmed at the response to the Economy Wise + Budget Smart money management program which is to be piloted in Cairns next month.

"Before we'd even advertised the program, dozens of women had tried to enrol for the course's 15 places," Ms Boyle said.

"The program has been designed for small groups because that's what women asked for and we need to make sure we get it right.

"If the pilot is successful, it will be expanded next year and - now we're aware of the huge demand in Cairns - I will ensure there are more workshops here."

"We knew there was a need for this kind of training but, frankly, I never expected it to be this high. The overwhelming response just shows that Cairns women know how important money management is for their financial independence.

"Financial skills are just so important, especially for young women - many who are finishing their education and are wondering how on earth they're going to pay off their HECS debt, have children and afford to buy a home.

"Women also have much less access to superannuation - despite living longer than men - so it's important they have the skills to plan for retirement."

The Economy Wise + Budget Smart program includes sessions on budgeting, saving, debt, investments and superannuation.

The Office for Women developed Economy Wise + Budget Smart in partnership with the Australian Pensioners' and Superannuants' League Queensland Inc to meet the varying needs of Queensland women, throughout their lives.

Although the workshop is full, women can still register their interest in a future session by calling 1800 177 189. Economy Wise + Budget Smart will also be trialled in Dysart, Hervey Bay, Kingaroy, Warwick and Yeppoon.

MEDIA CONTACT: Carissa Mason 3227 6424, Louise Foley 3227 8825 or 0407 966 829

Hon. Margaret Keech MP, Minister for Tourism, Fair Trading and Wine Industry Development

22 July 2004

Financial literacy for students

The Beattie Government will teach students financial literacy skills to equip them for a lifetime as consumers, Fair Trading Minister Margaret Keech said today.

Mrs Keech said a new partnership had been forged between the Office of Fair Trading and Education Queensland to develop a financial literacy package for secondary students and expand resources for the middle years.

"I am passionate about the need to improve the financial literacy of our young people," she told a Budget Estimates hearing.

"As a local Member of Parliament I saw the detrimental effect credit has within the Beenleigh and Northern Gold Coast area. I know this is not isolated just to my electorate and all Members of Parliament are aware of the effects of credit in their own areas.

"We have to educate consumers at a young age so they are aware of the effects of credit before they start purchasing things like mobile phones or second hand cars, or a whole range of other goods and services."

Mrs Keech said the new package would target years 10 and 11 students.

"Financial literacy covers a number of subject areas and as such it will be designed to provide fair trading advice and messages across a variety of curriculum activities including maths, English and commerce," she said.

"For example reading and understanding a contract requires strong English skills but understanding the true interest rate within the contract requires mathematical skills.

"Fair Trading staff are also working with Education Queensland to produce new resources for the middle school years of grades 7, 8 and 9 to further expand what is taught in Queensland schools - again educating consumers earlier in life."

Mrs Keech will ask the Ministerial Council on Consumer Affairs to work with the Ministerial Council on Education, Employment and Youth Affairs on a national approach to building financial and consumer literacy skills for young people.

"Improving financial literacy is not just confined to Queensland. It is critical to include consumer and financial literacy skills into relevant state curriculum, to ensure our children are taught basic consumer and financial literacy skills," she said.

"You are never too young to learn. This consumer knowledge and the ability to make responsible decisions is retained for life.

"This financial literacy program will build on work that has already been undertaken by the Beattie Government in relation to financial education.

"The Office of Fair Trading has worked to improve credit behaviours. It will focus the next phase of the Improving Credit Behaviour campaign on improving young Queenslanders' levels of financial literacy.

"People learn good or bad habits about money management when they are young so Fair Trading will help youth to grasp the financial skills to become confident, informed and responsible consumers.

"The Beattie Government will continue to pursue programs to improve financial literacy amoung young people, given the significant social impacts that debt and money matters can have in this vulnerable part of the community."

Media contact: David Smith 3225 1005 / 0409 496 534

Hon. Margaret Keech MP, Minister for Tourism, Fair Trading and Wine Industry Development

16 July 2004

Till debt do us part

Fair Trading Minister Margaret Keech has warned Queenslanders to think carefully before letting their heart rule their head and guaranteeing a loved one's loan.

Mrs Keech said relationship debt occurred when people got involved with someone's debt based on their emotions or the relationship.

"In some cases, a credit provider won't give someone a loan without another person agreeing to share liability if the borrower does not or cannot pay," she said.

"It is easy to be tempted to throw caution to the wind because you trust the borrower, and many more have unknowingly incurred debts on behalf of a partner, spouse or family member.

"In a recent study*, 82 per cent of guarantors reported they were shocked when they found out there was a problem with the loan."

Mrs Keech said a case seen recently by Lifeline's Debt Management Service concerned a woman whose boyfriend moved overseas, leaving her responsible for his debt.

"Now her house is being repossessed to repay a loan she received no benefit from," Mrs Keech said.

"A borrower's partner or parents sometimes plunge into guaranteeing a loan without realising just how serious the consequences can be.

"It is important people know that by co-signing for a loan or by becoming a guarantor, they may be held responsible for the full amount of the debt if it is not paid - not just half," she said.

"In these situations it is very difficult for people to consider the risk involved objectively, because they may genuinely care about, and want to help the borrower.

"I would encourage people to try to put their feelings to one side and at least try to find out as much as possible about the borrower's financial situation and history.

"If they are already in a tough spot financially, getting further into debt is unlikely to solve their problems in the long term."

Before co-signing a loan or becoming a guarantor, the Office of Fair Trading recommends:

- being prepared to pay the full amount of the debt if things go wrong;
- being realistic about the financial and legal obligations - what could you potentially lose in the deal, and is it worth it?;
- making sure you understand what you are signing - for example the inclusion of an "all moneys" clause means you may also be guaranteeing all future money loaned to the borrower by this lender;
- if the loan is for a business, examining the financial statements;
- taking the documents away to read before signing - do not let yourself be pressured to sign immediately;
- getting independent legal advice - it is a good idea to use a different solicitor than the borrower and the lender;
- asking lots of questions, such as:
  - How much money in total am I being asked to guarantee?
  - How will I be notified if the loan isn't being paid back?
  - What could happen to make the borrower not pay off the loan?; and
  - keeping a copy of any documentation you have signed.

"In the long run, it is in the best interests of your relationship with the borrower to treat the arrangement as you would any business deal," Mrs Keech said.

"Even if their intentions are good, the lender considers the borrower to be a risk - it is smart to find out what you can be liable if things go wrong, and to think about whether you can really afford it."

Lifeline provides free information and financial counselling through their Advantage Debt Management Service. For information, options and assistance on issues around debt, budgeting, negotiating with creditors, insolvency, harassment and debt agreements call (07) 3250 1900.

For more information on managing debt, get a copy of the Office of Fair Trading's free Credit Kit, available by calling 1300 658 030 or visiting www.fairtrading.qld.gov.au.

Inquiries: David Smith on 3225 1005 / 0409 496 534 or Sheila Andrews (OFT) 3119 0066

*Research Report 11, undertaken between 2000 and 2003 by the University of Sydney and the NSW Law Reform Commission. A full copy of the report is available from http://www.lawlink.nsw.gov.au/lrc.nsf/pages/rr11toc

Hon. Margaret Keech MP, Minister for Tourism, Fair Trading and Wine Industry Development

5 May 2004

Get out there and tackle the world

Young Queenslanders will be better equipped to tackle the world beyond the school gates with the help of the Office of Fair Trading's revamped youth publication, Get out there! A survival guide for young adults.

Fair Trading Minister Margaret Keech today launched the fifth edition of the publication (previously called Psst! Post School Survival Tips), a one-stop consumer information shop for secondary students.

"Get out there! will help school-leavers make informed consumer decisions and deal with some of the big issues affecting their lives," Mrs Keech said.

"Young adults are active consumers in the marketplace, but many are not necessarily aware of their basic consumer rights and experience the same problems as older consumers.

"Recent research shows that one in five of all young people have experienced personal debt. For 18-24 year olds, the figure is one in four. The most common problem debts are mobile phones, car repayments or expenses, credit cards and phone bills.*

"Young consumers face a range of other problems in the marketplace simply because of their age.

"For example, I've been made aware of a 16-year old high school student who could not get her faulty laptop computer fixed under warranty until her parents intervened on her behalf."

Mrs Keech said Get out there! had practical advice and tips to help young people avoid and manage these problems.

"Feedback from the 2003 edition revealed 98 per cent of students found the publication relevant, and 83 per cent found it appealing," she said.

"This year, more than 50,000 year 10 and year 12 students leaving school will receive the new guide, which is packed with more information, thanks to contributions from nine other government agencies.

"The handy, free booklet includes information on buying cars, moving out of home, using credit, buying computers and mobile phones, enrolling to vote, getting a job and study options.

"These issues confront all young people at some stage, and our aim is to equip them with the information and skills they need to be assured, smart consumers in their own right, without the guidance of teachers and parents."

Mrs Keech said the guide was also a key tool for students preparing for Schoolies Week, and featured important information to help students plan the most enjoyable and stress-free Schoolies celebration possible.

"We included information about Schoolies in the 2003 edition in direct response to what young people said they wanted," she said.

"Students clearly indicated this information was extremely useful and timely, with the Schoolies section rating the second most relevant behind the 'Get your own wheels' section.

"The updated booklet provides comprehensive advice on booking accommodation, hiring cars and mopeds, what to do in case of an accident, under-age drinking and warnings on drink spiking and drugs.

"To help as many young people as we can, and as part of our ongoing contribution to the Schoolies education strategy, Fair Trading will also make Get out there! available to New South Wales and Victorian school students planning to attend Schoolies Festival celebrations in Queensland this year."

Mrs Keech said the 2004 publication had been updated in consultation with students, teachers and other government agencies, and featured chapters dealing with buying a car; moving out of home; shopping and budgeting; standing up for your rights; further study; getting a job; overseas travel; Schoolies Week; and useful contacts.

"If we can help young people achieve their goals and make important life decisions with confidence, then the guide will be a success," she said.

Get out there! will be distributed free to all school-leavers and youth organisations, QGAP offices and Office of Fair Trading regional offices. Copies can be obtained from the Office of Fair Trading by calling 1300 658 030 or visiting www.fairtrading.qld.gov.au.

The following agencies contributed to Get out there!: Department of Employment and Training; Electoral Commission Queensland; Residential Tenancies Authority; Liquor Licensing Division; Department of Emergency Services; Department of Industrial Relations; Queensland Transport; Australian Securities and Investments Commission; and Centrelink.

Inquiries: David Smith on 3225 1005 / 0409 496 534 or Michelle Howe (OFT) 3119 0067

Reference: Youth Debt: A research report prepared by Dangar Research for the New South Wales Department of Fair Trading, 2003, available at http://www.fairtrading.nsw.gov.au/pdfs/corporate/youthdebtreportnov03.pdf

Hon. Margaret Keech MP, Minister for Tourism, Fair Trading and Wine Industry Development

20 April 2004

Credit info to improve consumer behaviour

It is more important than ever before for Queenslanders to learn how to control their credit, Fair Trading Minister Margaret Keech said today.

Mrs Keech said with household debt at an all-time high, it was timely for the Beattie Government to launch its Control Your Credit campaign.

"With Australians increasing their household debt from 85 per cent of disposable income in 1996 to 140 per cent at the end of last year, the Control your credit campaign is more relevant than ever before," Mrs Keech said at the campaign launch in Brisbane.

"The ANZ Bank's 2003 study into financial literacy revealed some disturbing facts.

"While 67 per cent of people said they tried to save regularly if they possibly could, 16 per cent of adults said they spend all their income as soon as they get it and do not really plan for the future.

"Another 26 per cent of respondents said they had problems setting aside money for major financial outlays.

"The bottom line is our household debt level is rising at a time savings are falling."

In 2003 the Office of Fair Trading (OFT) had 775 complaints in the finance/investment category, including 294 complaints about credit/debit cards, personal finance, mortgages, credit rating services and fringe credit providers.

"Consumers' increasing use of credit and failures to save, combined with current OFT complaint levels, suggest many Queenslanders are ignoring the warnings about the pitfalls and traps associated with credit," Mrs Keech said.

"This $100,000 Office of Fair Trading campaign aims to increase consumers' awareness of their credit rights under the Consumer Credit Code and help them manage their credit arrangements whether they are mortgages or personal loans, credit card debts or debts with payday lenders.

"We will be targeting some of Queensland's most vulnerable consumers - people on low incomes who may be struggling to pay back debt and young people who are making credit choices early in their lives."

Mrs Keech said the campaign comprised targeted print advertising in the classified sections of newspapers statewide where credit products are promoted, a trial of radio advertising, a free Consumer Credit Kit including the Good Credit Guide and a calculator for consumers to calculate the real cost of credit, website information, an online credit health check-up and a media promotional campaign.

The first 1000 Credit kits will also include a free copy of financial advisor, Noel Whittaker's book 'Managing your credit cards'.

"Key topics covered in the campaign include payday loans and other fringe credit options, credit and debit cards, loans, finance and mortgage broking and general credit and debt management tips," Mrs Keech said.

"It is important to ensure that consumers had access to practical tools - information and advice - to manage their range of credit arrangements.

"We hope this information and advice will be a catalyst for improving consumers' credit behaviours in the future."

Financial advisor and author Noel Whittaker said the campaign's focus on making relevant information on credit management available would benefit both consumers and financial advice providers throughout Queensland.

"Often consumers aren't sure what to do after the horse has bolted - after they're too deep into credit," he said.

"Tools like the Consumer Credit Kit and advertising messages targeting consumers at the point at which they're about to make a decision on credit are a new and timely reminder to consumers about the effect those decisions can have later."

Copies of the Consumer Credit Kit are available from the Office of Fair Trading on 1300 658 030 or email creditkit@dtftwid.qld.gov.au or download a copy of the Good Credit Guide from the OFT website www.fairtrading.qld.gov.au

The Control Your Credit campaign will be complemented by OFT proactive compliance activity across the credit market.

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