



COVID-19 and Consumers: from crisis to recovery

Drowning in debt?

6-month trend data from
May - October 2020



About the survey

With the challenge of COVID-19 facing consumers, governments, regulators, business and the broader policy community our *Consumers & COVID-19: from crisis to recovery* research initiative aims to:

- **Better understand the impact** that COVID-19 is having on Australian consumers' experiences, behaviours and expectations across essential and discretionary products and services markets, now and into recovery.
- **Provide policy and program insights** on how consumer experiences of COVID-19 should inform the design of support measures that aim to meet the various needs and expectations of consumers.

More than 1100 Australian consumers have been surveyed every month since May 2020. This report contains key 6-month trend data.

About Consumer Policy Research Centre

Consumer Policy Research Centre is an independent, not-for-profit consumer research organisation based in Melbourne. We produce consumer research with impact to create a fair, safe and inclusive future for all consumers.

Executive Summary

- **Debt on the rise**

- Across the 6 months of CPRC's survey, the proportion of consumers relying on credit card/buy-now-pay-later has trended up. This is clearly more prevalent among renters and consumers with disability.
- Across the period there has been a slight increase in consumers taking out new personal loans.
- A far larger proportion of young people have taken out personal loans /credit, with a significant spike in October

- **Drawing down on capital – formal and informal**

- Consumers have continued to seek early access to their super. This has been elevated among groups like renters and young people, peaking at nearly one in five (19%) renters in September.
- The proportion of consumers borrowing from friends and family has remained largely stable across the period, though elevated throughout among certain groups (young people and renters). However, there was a significant increase in October, with more than one in five (21%) young people relying on this support.

- **High refinancing activity**

- Consumers have been active in refinancing their mortgage throughout the period, most significantly July/August. Given the similar trend of payment assistance sought, this may reflect many refinancing to better manage costs or at the end of the initial mortgage payment deferral period.
- The proportion of consumers refinancing existing credit card/loans has steadily increased across the period. However, a far larger proportion of young people have refinanced credit/loans across the period, mostly significantly in October.

- **Growing need reflected in consumers seeking payment assistance**

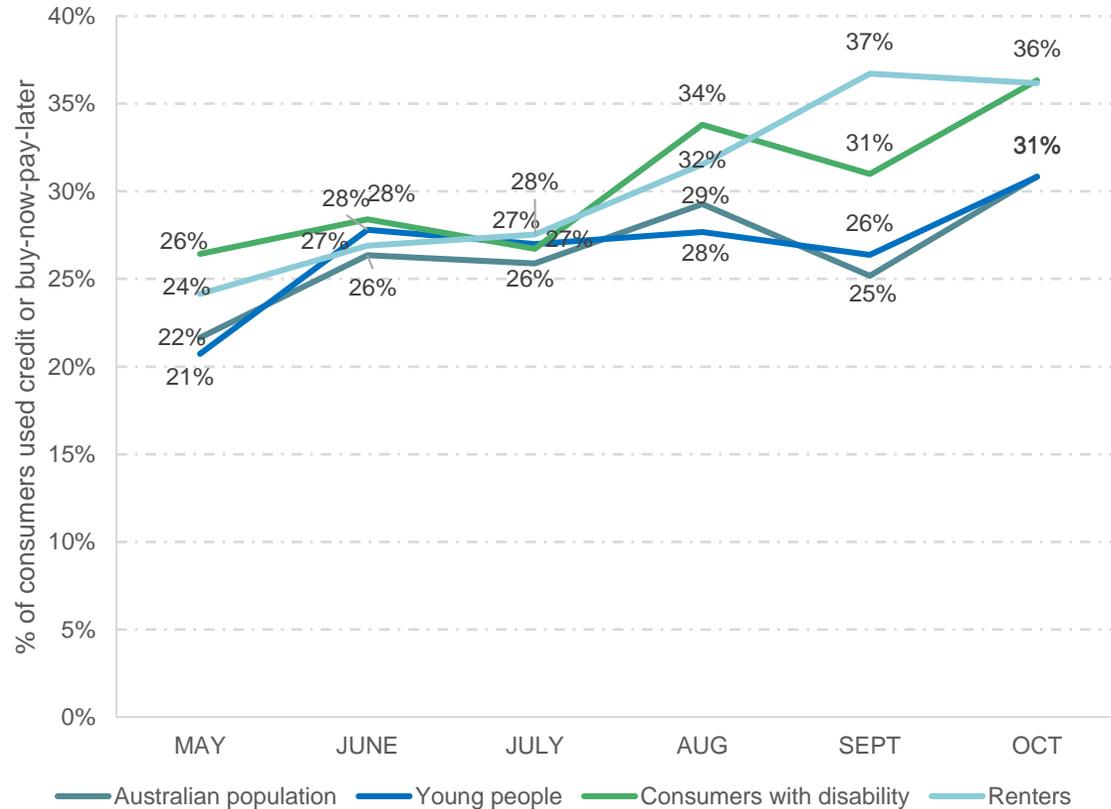
- The proportion of consumers seeking payment assistance has steadily increased over the period, with an initial increase in July, followed by a second larger increase in October.
- This trend is more accentuated among young people, with 15% seeking rental payment assistance and 14% seeking assistance from their personal credit/loan provider in October

- **Continued rise in missed household bill payments – particularly among the young**

- The proportion of consumers missing household bill payments across most sectors has grown across the last 6 months.
- This trend is far more accentuated among particular subgroups such as young people, with a significant spike in missed payments in July and of significant concern, a larger spike in October with more than one in ten young people now reporting missing telco, rent or energy bills.



A growing reliance on credit and buy-now-pay-later - accrual of household debt on the rise

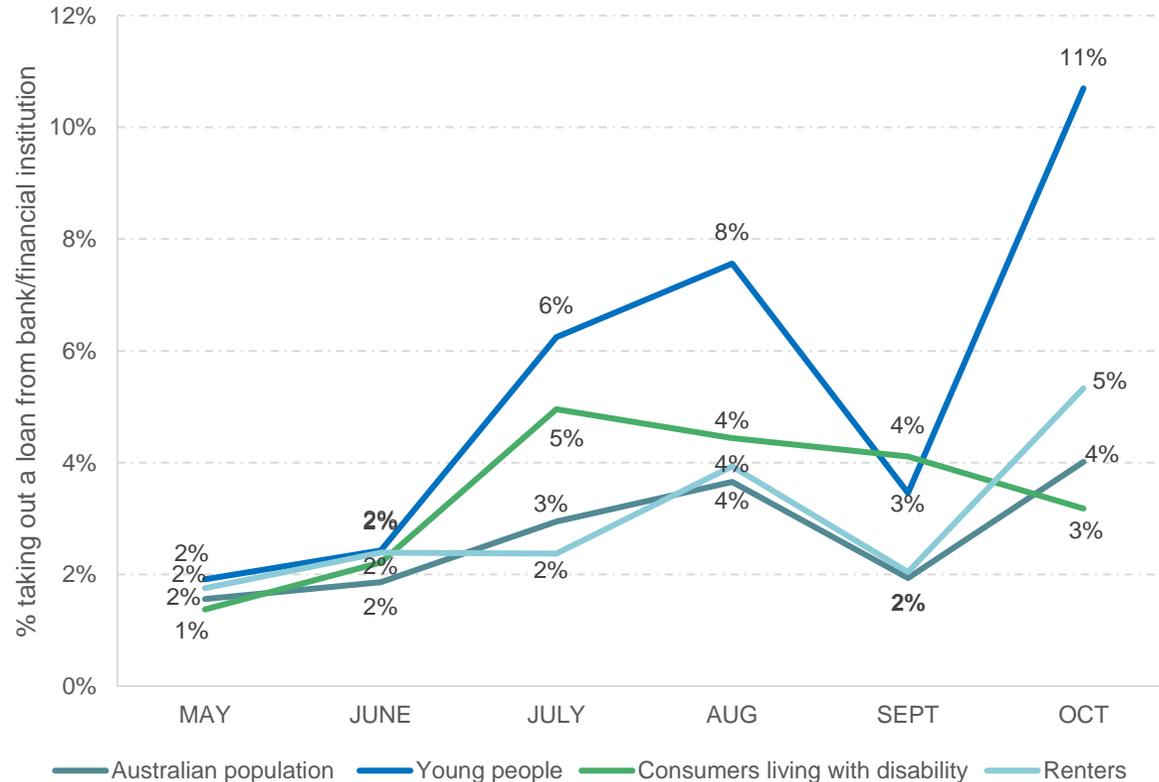


QTN: In the past month, have you taken any of the following actions to manage your household expenses?

Summary of results

- Growing proportions of consumers are turning to credit card using buy-now-pay-later during COVID-19 to make ends meet
- Some groups have become more reliant on credit and BNPL than others:
 - consumers living with disability have been more reliant since the start of CPRC's survey (26% in May). The proportion climbed gradually each month, to more than a third in August (34%) and October (36%).
 - Similarly, a larger proportion of renters have been more reliant on credit/buy-now-pay-later throughout our survey, 24% reported using credit or buy-now-pay-later in May, which has climbed to 37% in September and 36% in October.
 - These findings are particularly pertinent in light of ASIC's recent research finding one in five consumers using buy-now-pay-later have missed payments.

Young people lead the nation taking out personal loans from a bank or financial institution

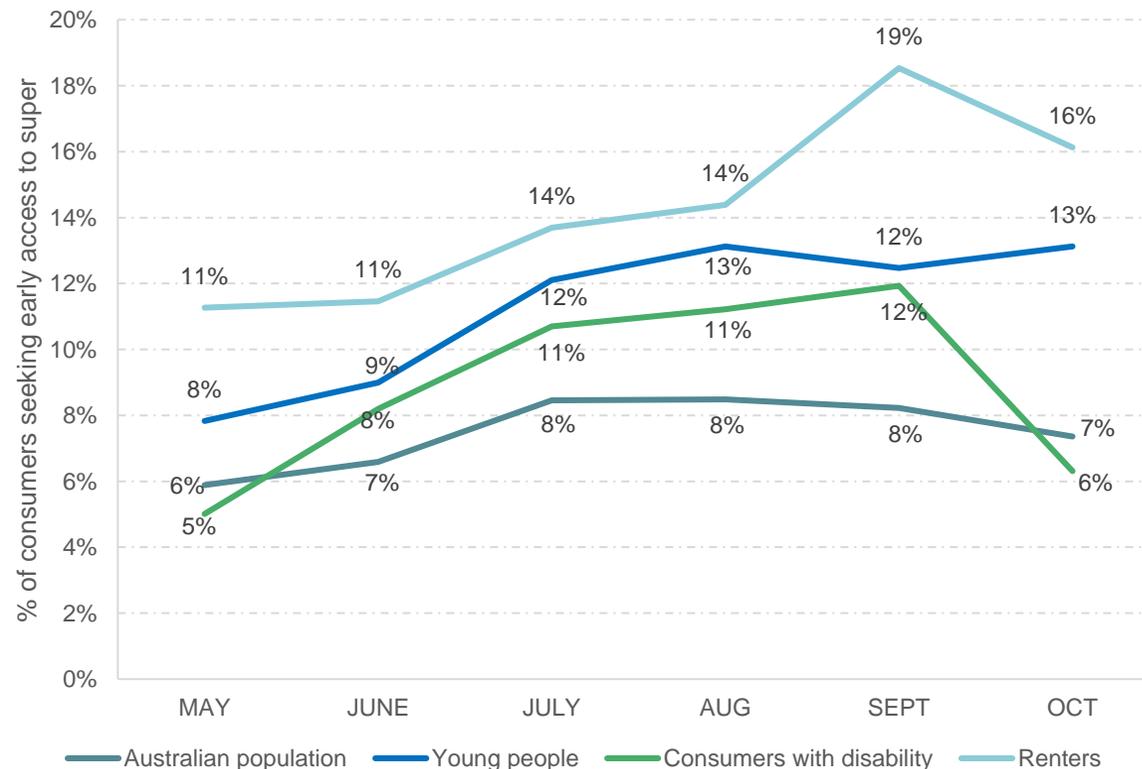


QTN: In the past month, have you taken any of the following actions to manage your household expenses?

Summary of results

- The proportion of the broader Australia population taking out a loan has also trended slightly up but remained low, increasing gradually from 2% in May to 4% in August, dipping in September (2%) and rising back in October (4%).
- By comparison a larger proportion of some subgroups took out loans, including consumers with disability.
- The proportion of young people taking out personal loans was double the broader population at 6% in July and 8% in August. After a dip in September (4%), more than one in ten young people reported taking out a loan in October (11%).

Renters, young people and people living with disability - applying for early access for superannuation

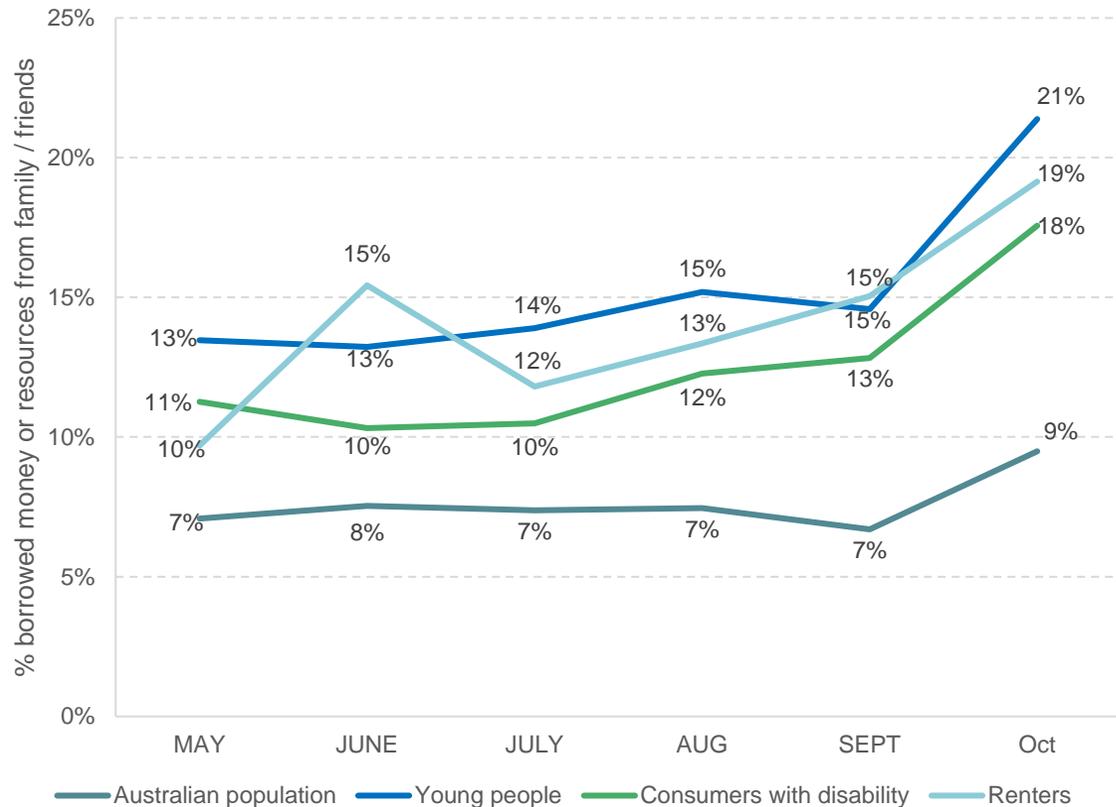


QTN: In the past month, have you taken any of the following actions to manage your household expenses?

Summary of results

- Since May, around 7% of the wider Australian population has sought access to their super, with similar rates throughout the period, a slight increase from May (6%) to 8% between July-Sept.
- Some groups of consumers have been accessing super early at greater rates:
 - **Renters** – from 11% in May to a high of 19% in Sept, falling to 16% in October
 - **Young people** – from 8% in May to 13% in October
- A higher proportion of consumers with disability have also sought access to their super, rising from just 5% in May to 12% in August, before falling significantly to 6% in October.
- Falling rates drawing down on super may reflect a growing proportion exhausting the early access limit of \$20,000.

Drawing down on informal sources of capital – 1 in 5 young people now borrowing from family and friends

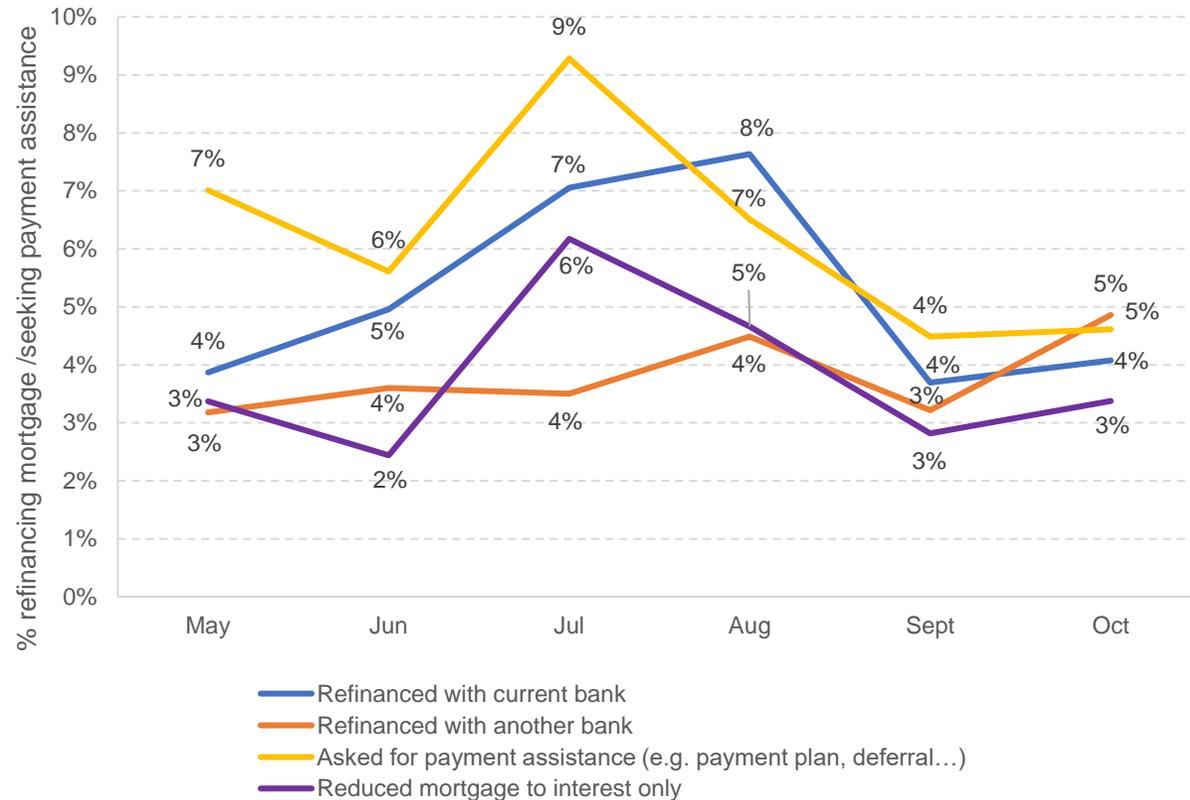


QTN: In the past month, have you taken any of the following actions to manage your household expenses?

Summary of results

- A significant, consistent portion of the Australian population has borrowed money or resources from family or friends to manage household finances throughout CPRC's survey at around 7%, rising slightly in October to 9%.
- A larger proportion of young people have borrowed from family and friends rising slightly from 13% in May to 15% in August/September, jumping to 21% in October.
- In May, 10% of renters borrowed from family/friends, jumping to 15% in June, dipping slightly in July (12%) before gradually climbing to 19% in October.
- A higher proportion of consumers with disability have also borrowed from family /friends, with 10-12% turning to informal supports from May to August, rising to 13% in September and jumping to 18% in October.
- Our findings demonstrate there is significant and growing reliance on informal supports among certain groups, which suggests growing vulnerability.

Consumers have been active refinancing mortgages during COVID-19 pandemic

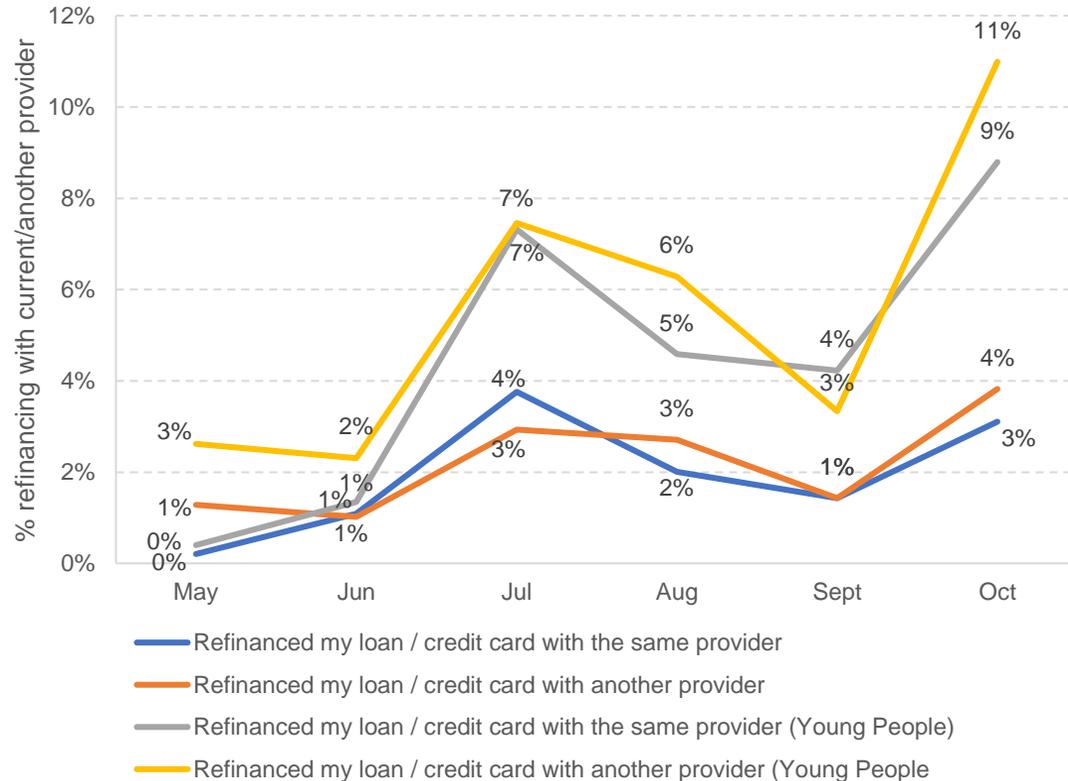


QTN: Thinking about your mortgage repayments or rent, have you attempted any of the following in the last 4 weeks?

Summary of results

- Refinancing activity has been significant throughout the months of CPRC's COVID survey. In May 3% of mortgage holders said they'd refinanced with another bank, a further 3% reported reducing mortgage payments to interest only, and 4% reported refinancing with their current bank.
- The rate of refinancing with another bank has remained largely stable between 3-4% each month, rising to 5% in October.
- The rate of refinancing with current bank saw a stable increase each month, rising to 8% in August, before falling back down to 4% in September and October.
- The rising number of consumers refinancing in July/August may be due to the end of mortgage deferrals prompting consumers to refinance with the current bank, but it also might be attributable to falling interest rates being passed on to consumers.

Young consumers most active refinancing personal credit/loans with current or different providers

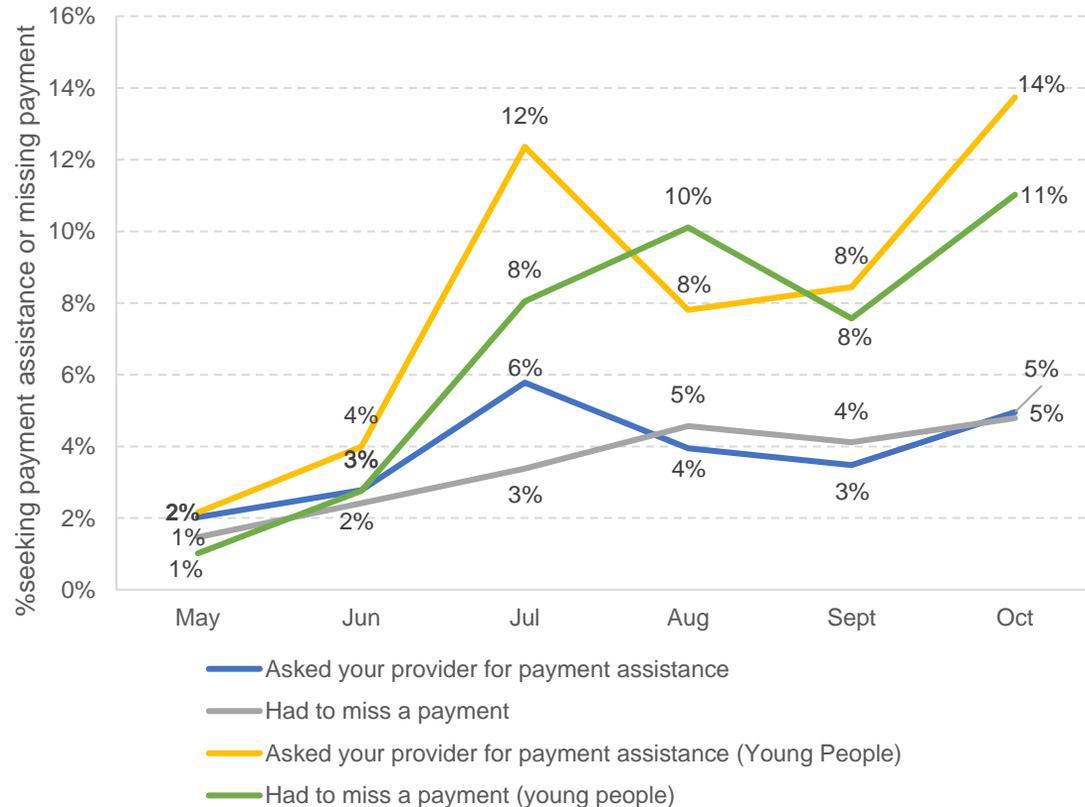


QTN: Thinking about your credit card / personal loan / buy now pay later provider, have you attempted any of the following in the last 4 weeks?

Summary of results

- Our survey has found consumers have been active in taking a range of actions to manage their outstanding loans or credit cost with their provider.
- Refinancing with either current or another provider was low in May among the broader population (0-1%), but this increased in July to 4% refinancing with their current and 3% refinancing with another provider. This dipped in September to 1% for both current/alternative providers, and rose again in October to 4% with another provider and 3% with current provider.
- A significantly larger proportion of young people have refinanced loans or credit cards compared with the general population. Starting from a similar based of 1-3% refinancing with another/current provider in May, this climbed to 7% in July (both current and alternative provider).
- After a drop in refinancing activity in September, there was a significant jump in October, 11% of young people reported refinancing their personal loans or credit cards with another provider and 9% reported refinancing with their current provider.

Significant increases in young people asking for payment assistance from credit/loan providers + missing payments

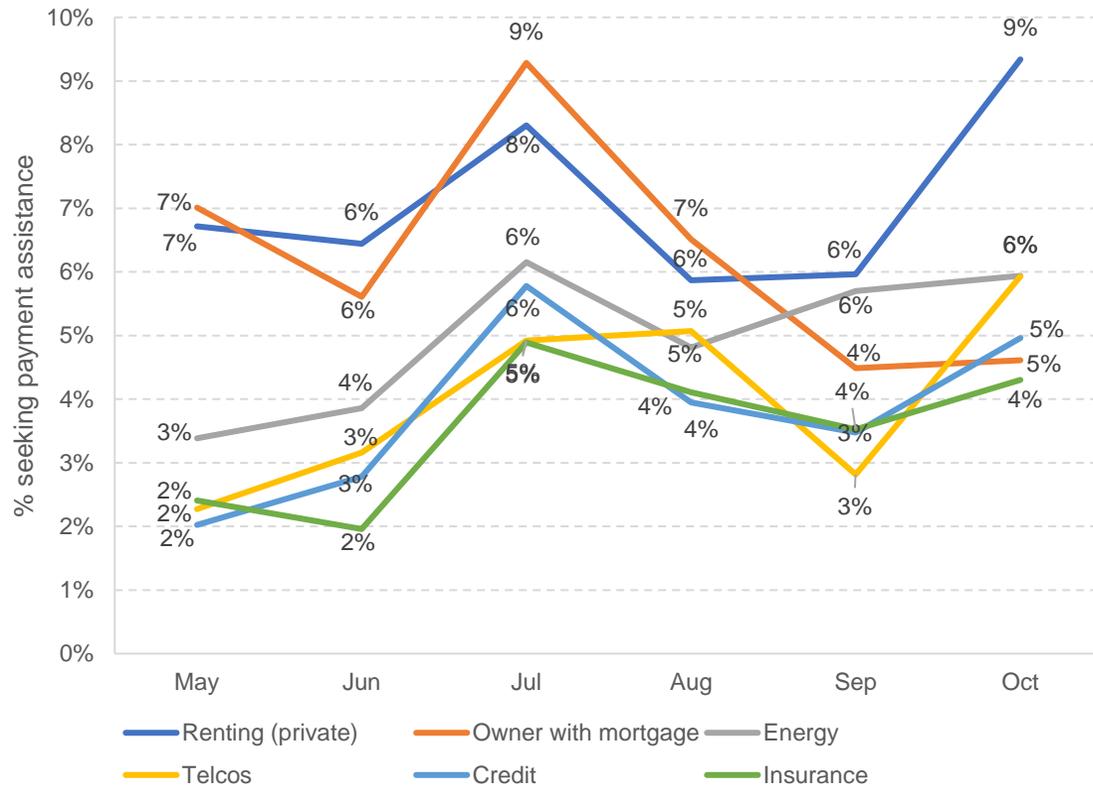


QTN: Thinking about your credit card / personal loan / buy now pay later provider, have you attempted any of the following in the last 4 weeks?

Summary of results

- In May, a small proportion of the Australian population reported seeking payment assistance (1%) or missing a payment (1%) from credit and personal loan providers, but by July this had increased to 6% seeking assistance and 3% missing a payment. This dropped in September (3% and 4% respectively), before rising again in October (5% seeking assistance and 5% missing payment)
- Throughout the period, a much higher proportion of young people sought payment assistance or had to miss a payment with credit providers.
- In May, just 2% of young people sought payment assistance or missed a payment. By July, 12% reported seeking payment assistance and the proportion missing payment reached 8%, rising further to 10% in August.
- Again, our data shows a lull in the proportion seeking assistance or missing a payment in September (8%).
- But there was another significant jump in October with 14% reporting they had to seek payment assistance and 11% missing a payment.

Consumers are seeking payment assistance across different household bill types

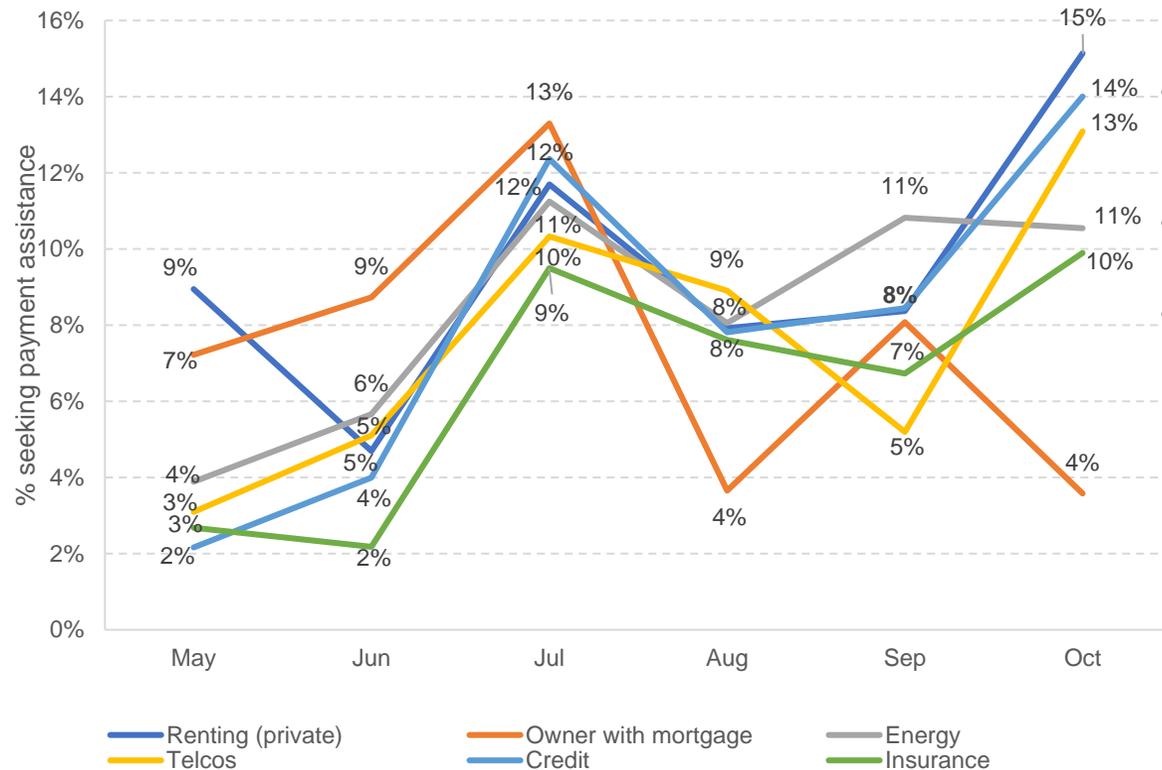


QTN: Thinking of your (household bills), have you attempted any of the following in the last 4 weeks?

Summary of results

- A higher proportion of consumers sought payment assistance for their housing costs from the start of CPRC's survey compared to other household expenses.
- In July, our survey recorded a significant spike in payment assistance sought in all sectors.
- In August and September the proportion seeking payment assistance declined across all sectors (bar energy in September).
- However, there was a noticeable spike in the proportion now seeking payment assistance in October:
 - 9% of renters seeking rental payment support
 - 6% of energy consumers and 6% of telco consumers
 - 5% of consumers sought payment assistance from their loan/credit provider, and 5% from their mortgage provider
 - 4% from their insurance provider.

Young people seeking higher levels of payment assistance for all household bill types

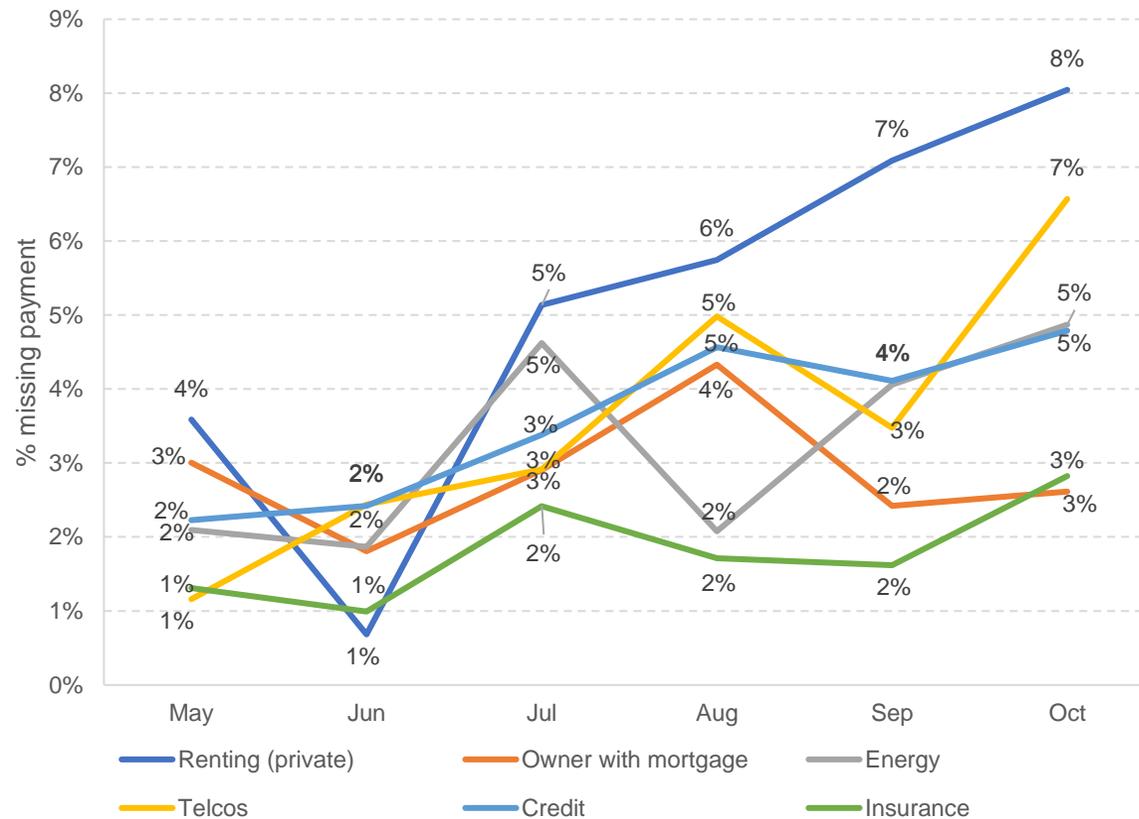


QTN: Thinking of your (household bills), have you attempted any of the following in the last 4 weeks?

Summary of results

- Across a range of household bills, a far larger proportion of some consumer cohorts – largely those without wealth buffers like young people - sought payment assistance.
- There was a significant spike in the proportion of young people seeking payment assistance in July, though this fell somewhat across all sectors in August, most notably in mortgagors.
- A small rise in the proportion of young people missing payments in September in energy, mortgages, credit and renting.
- But in October there was a significant jump in the proportion of young people missing payments, including:
 - 15% of renters seeking rental payment assistance
 - 14% seeking payment assistance from their credit/loan provider
 - 13% from their telco provider
 - 11% from their energy provider
 - 10% from their insurance provider

Consumers missing household bill payments on the rise

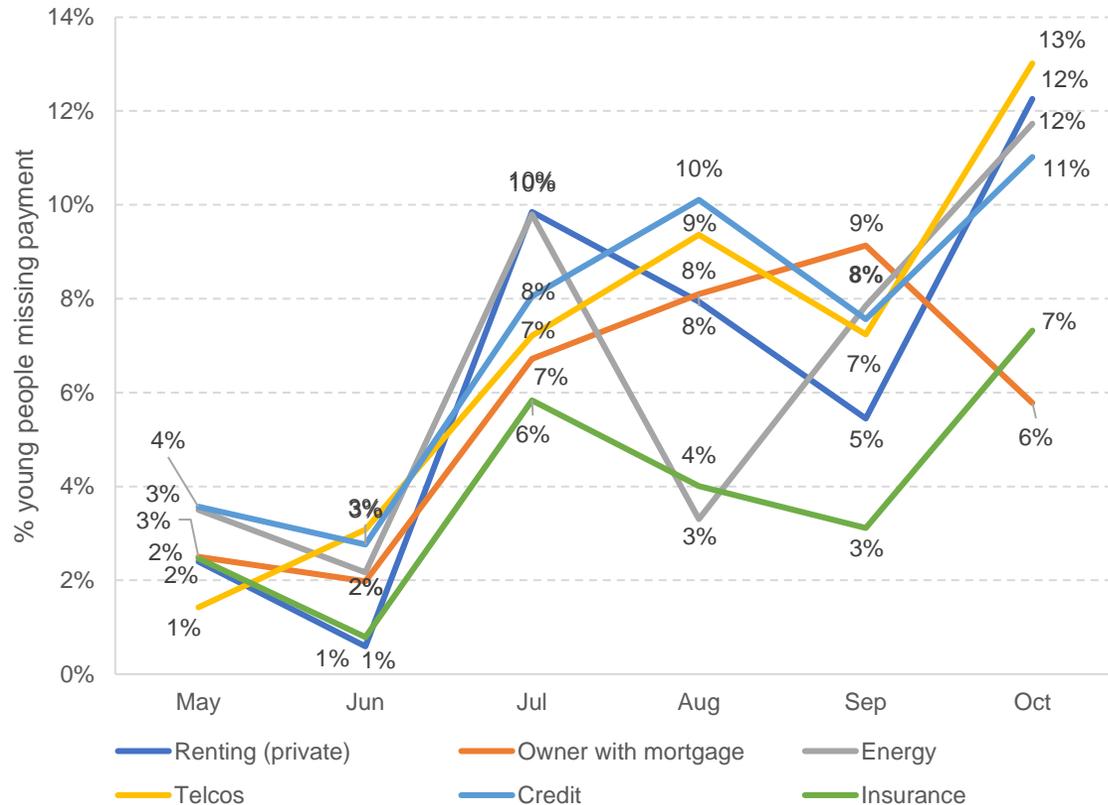


QTN: Thinking of your (household bills), have you attempted any of the following in the last 4 weeks?

Summary of results

- Over the past 6 months, the proportion of consumers missing household bill payments has been on the rise.
- The general trend across many sectors has been a gradual climbing proportion of consumers reporting they had to miss a payment. This was led by rental (8% missed a payment in October, up from 4% in May), and telco payments (7% in October up from 1% in May).
- In sectors like energy, the proportion missing bills has varied between months, likely reflecting the bi-monthly, or quarterly billing cycle that is typical for many consumers.
- The proportion of consumers missing insurance payments has remained low throughout the period, however we note there has been a rising proportion of consumers cancelling insurance policies (not shown).
- The proportion of mortgagors missing payments increased to August, but has remained low in the months since. This may reflect clearer hardship support in payment deferrals or reducing payments to interest only.

Young people missing household bill payments at much greater rates



QTN: Thinking of your (household bills), have you attempted any of the following in the last 4 weeks?

Summary of results

- The proportion of young people missing payments across all sectors has clearly trended upwards since the start of our survey, with significant spikes in July and October.
- There was a significant jump in the proportion missing payments across all sectors from June to July, led by 10% missing a rental or energy payment.
- In August, a slightly higher proportions missed telco payments, credit/loan repayments or mortgage repayments while the proportion missing rental, energy and insurance payments dropped.
- In September there was at least a small drop in almost all sectors other than mortgagors which increased to 9%)
- However, in October, there was another significant jump in missed payments across almost all sectors:
 - 13% of young people missed a telco payment,
 - 12% missed a rental payment
 - 12% missed an energy payment
 - 11% missed a credit/loan repayment
 - 7% missed insurance payment

Consumer policy implications

- Our data suggests that the current regulations aren't necessarily curtailing refinancing activity among mortgagors or those with outstanding personal loans. There has been significant refinancing activity since May, particularly among younger consumers, with a significant number of young people taking out new loans in October.
- Our data suggests growing vulnerability among particular consumer groups, such as young people and consumers living with disability. A growing proportion of young people are seeking payment assistance with credit costs, as well as all other household bills and the increasing number of young people missing basic household bill payments should ring alarm bells for policymakers.
- After a significant spike in the proportion of consumers seeking payment assistance or missing payments in July, there was a drop-off in assistance sought as well as missed payments in August – September. This may reflect the second round of early superannuation available to low income consumers as well as tax returns processed in the new financial year. The spike in payment assistance and missed payments in October is particularly concerning as economies are reopening – a trend we'll be closely watching over Christmas.
- The growing proportion of particular consumer cohorts turning to informal resources like borrowing from family and friends to manage their finances provides another lead indicator of growing vulnerability among some groups. As supports such as JobKeeper and JobSeeker taper off in the coming months, the proposal to wind back responsible lending laws may expose many of vulnerable consumers to unsustainable lending practices.
- If consumers resort to taking out new loans as a result of deregulated lending restrictions simply to pay for arrears and existing debts, they risk spiralling debt costs and may end up in crisis. This highlights the importance of ongoing consumer protections and income support for those without work, particularly as the economy reopens and rebuilds. Withdrawing income supports may have significant direct flow-on effects, causing disconnections of essential services and evictions/foreclosures and also creating increased risks for providers of these services.