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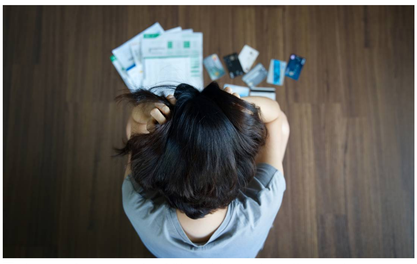
There's a looming debt catastrophe for Australia's youth

Lauren Solomon Latest News



It's too easy for young people to fall into a debt trap. Picture: Shutterstock

Many, many young Australians have seen their jobs evaporate or their incomes dwindle to poverty levels. Figures released yesterday by the APRA on early superannuation withdrawals indicated lower results than originally forecast. However, in the past 12 months the number of young people seeking to take money from their super accounts has risen inexorably while consumers from culturally and linguistically diverse (CALD) backgrounds have been far more reliant on their super to get by than the broader population.

The number resorting to personal loans, credit card or buy-now-pay-later products has risen even more dramatically. In November alone, more than half a million young people took out a pay-day-loan or consumer lease. And one in every five young Australians have been forced to borrow from family or friends to get by.

All indicators are the news for millions of young Australians is terrifying. Research by the Consumer Policy Research Centre (CPRC,) Consumers & COVID-19: from crisis to recovery series, finds far from heading for recovery, many young Australian have been corralled into circumstances that could mire them in personal financial crisis for years to come.

The emotional toll of the crisis has hit young people at critical stages of their development.

And those making their way in the world have also been body-slammed by a perversely opportunistic piece of happenstance to go with their new-found penury - the sudden ubiquity of new forms of debt that are easier to catch than COVID.

Online searches of 'buy now' lands on prompts like 'buy now pay later Australia'. A mere click will instantly reveal "buy now pay later no credit check - interest free'. No credit checks! Our online retail universe and social media is awash with this stuff. It is ensnaring millions of the most vulnerable among us - young people already struggling financially.

Fintech's 'no credit check' are bankers in T-shirts offering instant cash and, in some instances, up to $10,000 - absolutely interest-free! Dig deeper and you will find a big hit of 20 per cent 'establishment fee' plus another 'fee' of 4 per cent per month. Not interest you see. Fine print reveals the 'comparison rate' (i.e., the effective interest rate) on $2000 is almost 200 per cent! It is credit. Consumer advocates and financial counsellors that pick up the pieces, have been exhaustingly repeating: "Regulate it like it's credit."

Bankers in T-shirts are still bankers - and they're certainly cleaning up on the stock market, while the rest of us get dazzled by notions of tech bro and gal hashtag innovation. And while FinTech credit that isn't apparently credit, skirts existing laws, moves are also afoot to repeal responsible lending protections. These obligations require companies to ensure the credit they provide is affordable and in line with what consumers require for their needs - with penalties when they don't. Pretty basic and important stuff.

Innovative products and services should make our lives better but these fall well below that measure with one in five customers, according to ASIC, missing meals or other bill payments to make their buy-now-pay-later repayments. At the same time, the proportion of young people taking out personal loans has skyrocketed to 11 per cent. Young people have also been more active than the rest of the population refinancing their loans and credit cards.

Even with those laws in place, young people are taking on more debt and they're struggling to pay it back. Our survey found one in six young people reached out to credit and loan providers seeking payment assistance. One in 10 missed a repayment entirely.

Everything about the trendlines, our research is tracking, points to a looming debt catastrophe for a huge swathe of our younger generation - the very people who have been hit hardest by the COVID-induced recession.

We are mugs if we think the technological advancements of today don't come with the same old challenges of discrimination, exploitation or unfair practices of yesterday. Protections incentivise the sorts of innovation that improves our wellbeing and that's the way it should be.

An economic recovery that builds a more resilient community and economy is one that ensures Australians aren't exposed to unnecessary risks and ensures fair treatment.

The time to rectify this is now.

- **Lauren Solomon is chief executive of the Consumer Policy Research Centre, an independent think tank focusing on consumer wellbeing and digital transformation.**

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