

Monthly Credit Risk Insights by Alares

Hi Colleague,

Wishing you a happy, healthy and successful new year. As we enter 2025 we look back at the year that was, and see what new trends may emerge in the coming year.

Key highlights in 2024

- Insolvencies surpassed 12,000 for the year, as the COVID "catch up" continues.
- Small business restructuring (SBR) emerged as a key debt restructuring pathway for small business.
- The ATO and lenders continue to be the major drivers behind the insolvency surge.

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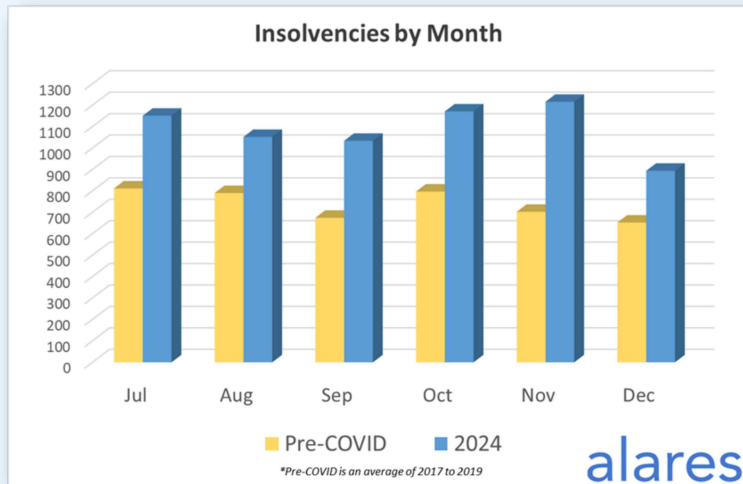
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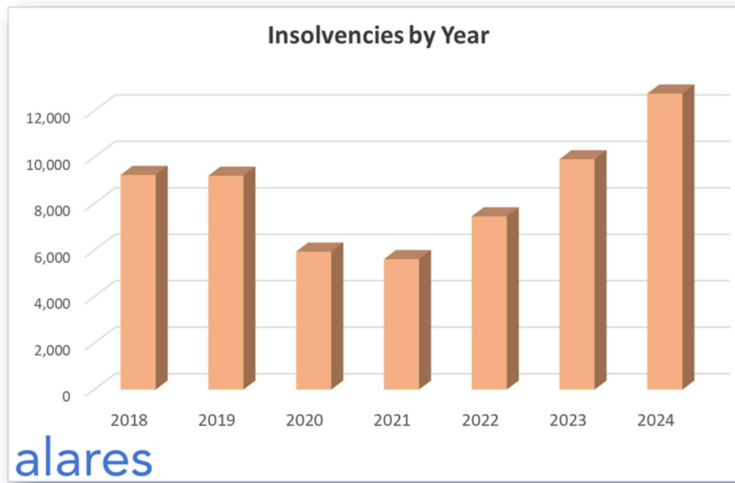
Insolvencies remain well above historical levels

Insolvencies in December dropped from the October-November highs, but were still significantly above pre-COVID numbers.



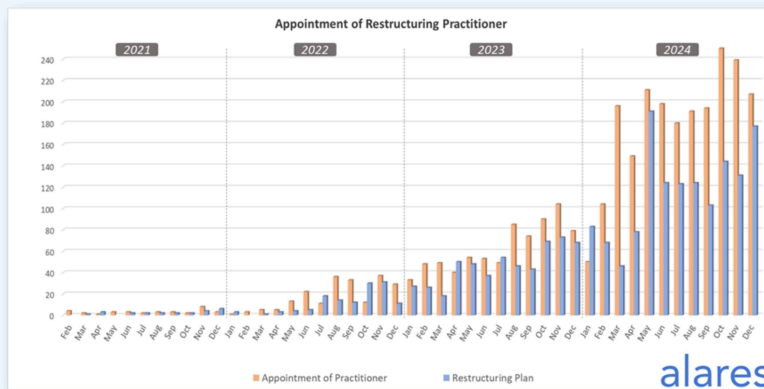
On a yearly basis, insolvencies in 2024 reached on all time high

Much of this can be attributed to a catch up from the COVID lull. From 2020 to 2022 there was a net reduction in insolvencies of ~ 8,500. In 2023 and 2024 there was a net increase of ~ 4,000 which suggests another ~4,500 insolvencies above the "typical" level still to come. We will still how this actually plays out at 2025 takes shape.



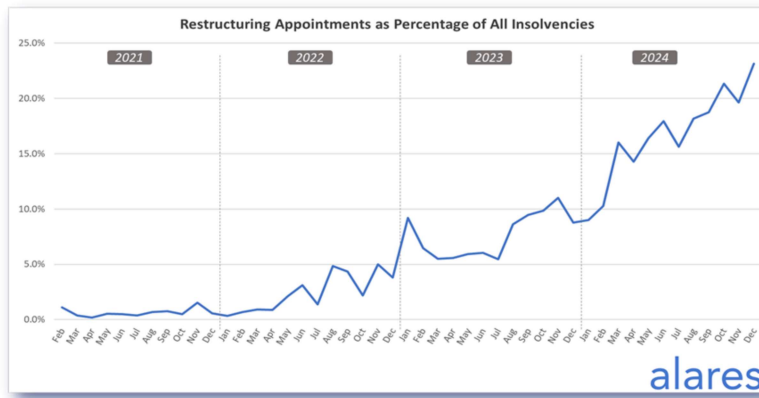
SBRs have emerged as a major pathway for small business to restructure debt and live to fight another day

December saw another month of strong SBR uptake after the October-November surge.



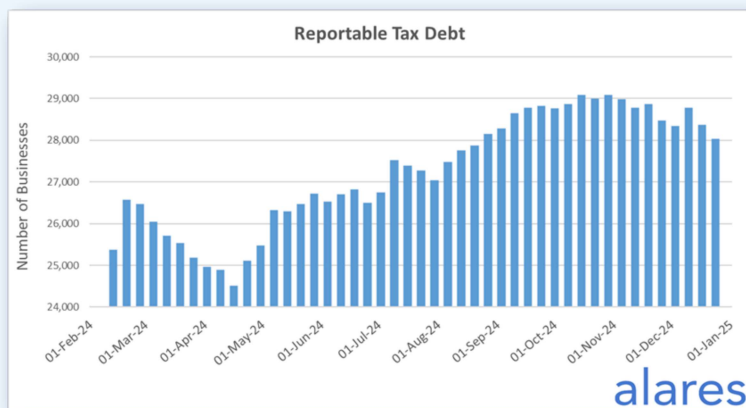
SBRs in December accounted for almost 25% of new appointments

SBRs trended strongly upwards throughout 2024 as a percentage of all new insolvency appointments.



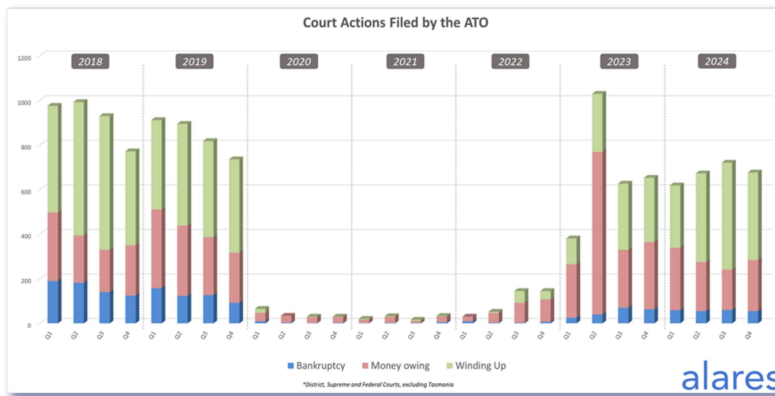
The ATO remains the dominant driver of SBRs

The ATO's outstanding tax debt reporting remains a key component of the ATO's enforcement activity. The total number of new businesses subject to reporting has gradually trended downwards since the October peak. Stay tuned to see if this trend continues in the coming months.



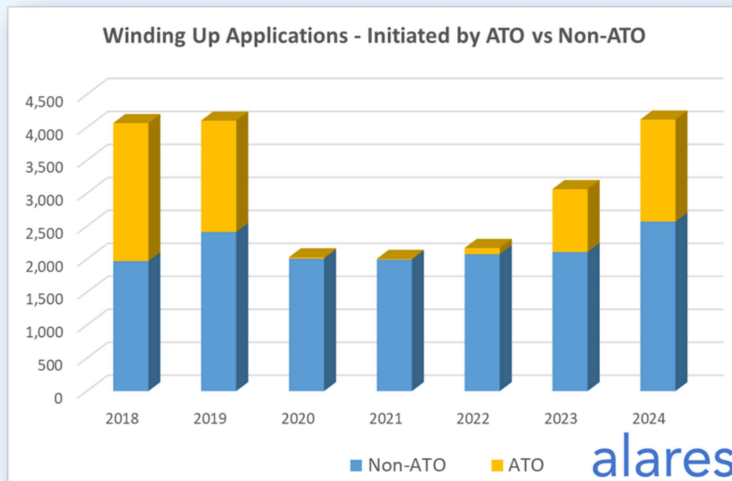
Total ATO Court recoveries in 2024 were slightly below historical levels

The addition of outstanding tax debt reporting, and the issuing of record numbers of director's penalty notices has perhaps slightly reduced the ATO's reliance on the Courts to recover overdue tax debts.



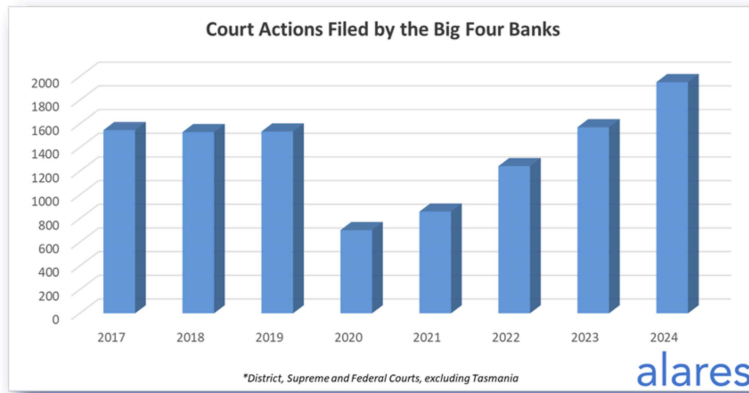
Winding up applications in 2024 returned to historical levels

While ATO-initiated winding ups were slightly down on historical numbers, non-ATO initiated winding ups took up the slack as creditor providers remain on high-alert.



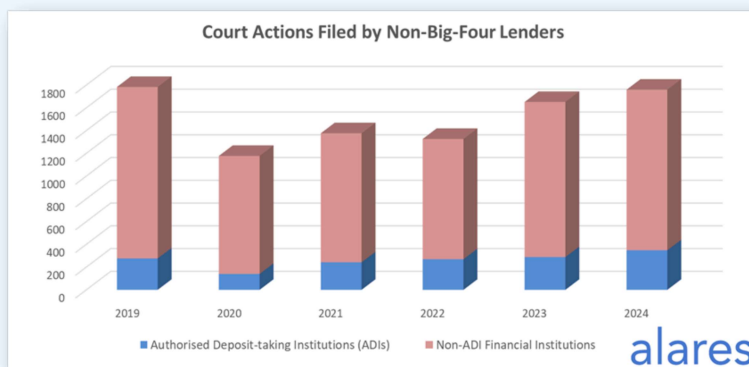
The big four banks continued to ramp up their Court recoveries throughout 2024

2024 saw numbers well above historical levels as borrowers struggled with higher interest rates. Will this trend continue in 2025 or will we see some interest rate relief for borrowers?



Similarly, the non-big four lenders also increased their Court recoveries in 2024

Borrowers outside of the big four banks experienced similar challenges from increased borrowing costs.



Alares provides critical due diligence data that is **NOT** captured by other providers.

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