



**ARE YOU READY FOR
THE NEW BREATHING
SPACE MORATORIUM
LEGISLATION COMING IN
MAY 2021?**

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INTRODUCTION

The Debt Respite Scheme is a new piece of legislation put forward by HM Treasury that will be going live on 4 May 2021.

Its intention is to provide customers with a 60-day breathing space moratorium in order to access debt advice. Also covered is a mental health crisis moratorium which allows customers to have unlimited breathing space for the duration of any treatment too.

The legislation is wide-ranging, covering most personal debt, including (but not limited to):

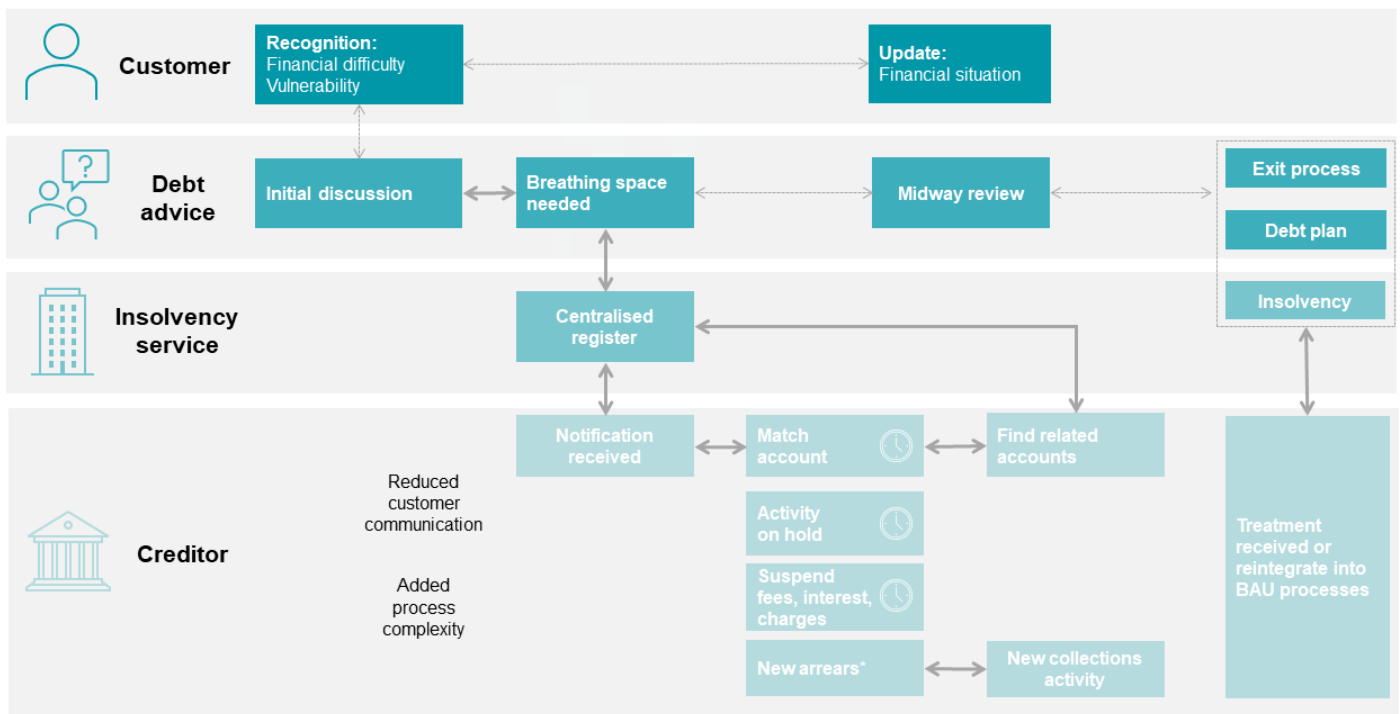
- unsecured and secured borrowing (only arrears on a secured debt can be included in the moratorium)
- credit cards
- utility bills
- mortgages
- motor finance
- council tax arrears
- insurance premiums.

The scheme covers debt throughout the whole lifecycle, including into the enforcement phases, **so if your company or local authority handles consumer/resident debt, it's likely you will be impacted by this legislation.**

Creditors will be prohibited from contacting the customer/resident during this period, and must cease the application of interest, fees and charges by the next calendar day. **This is not a simple extension to your current forbearance policy.**

The administration of this new scheme is being handled by the Insolvency Service which is creating a portal that debt advisors and creditors will be able to access. Under the new regulations, a debt advisor will place a customer's details and debts onto the register to communicate with the creditor, meaning even at the point of entering the moratorium, customer-creditor contact will not occur. It will be remote.

THE NEW DEBT RESPITE SCHEME PROCESS



*New arrears only applies to ongoing liabilities

A mortgage, a lease, an insurance agreement, any taxes, duties and NI contributions, any local taxes for local authority expenditure and rates, water, electricity, gas, heating oil and solid fuel

This diagram summarises the moratorium process. The debtor will apply for a moratorium through a debt advisor who will determine whether a moratorium is appropriate. The creditor will be notified of the moratorium by the Insolvency Service and must then apply all the protections afforded under the regulations until it ends. The creditor must also undertake a reasonable search to identify all the debts owed by the debtor, informing the debt advisor of any debt that has not been included. At the end of the moratorium arrears and non arrears must be recombined on the customer's account

So, what does this all mean for you?

We're already working with creditors on implementing the necessary process and system changes, so we've put together this handy guide to help you overcome some potential hurdles you might face as you prepare yourselves for May 2021.

HURDLES TO OVERCOME

1. Matching and actioning the correct accounts

Debt advisors will initiate the moratorium through the Insolvency Service Portal (at the time of writing, this is still under construction). Customer/resident details need to be securely received (via file transfer – emails initially but API functionality is being developed) and processed from this new portal.

You'll need to set up processes to match details received from the Insolvency Service Portal against your customer/resident accounts - the minimum mandatory information you'll be provided with is: name, date of birth and address (though address can be withheld in some instances). This is limited information, but it is in the debt advisor's interest to provide enough information to enable an effective account search.

Searching for the customers'/residents' accounts is going to be complex, especially when it is not mandatory to include account numbers. Searches will need to be performed to identify all accounts across your business: all brands, in order, collections, recoveries, third party and sold. You'll also have to return the buyer's information to the debt advisor if you have sold the account.

IT architecture is often complex and split across multiple, legacy batch-based systems. This will be tricky for the operation to manually perform or for an automated solution.

Once a reasonable search has been performed, you'll need to place matches into a moratorium treatment, handle exceptions, and report back any unidentified related debts – **and you'll need to do it by the end of the following day.**

**Think about your current setup.
Could you receive a request, match all the accounts a customer holds, and execute the relevant actions within one day?**

HURDLES TO OVERCOME

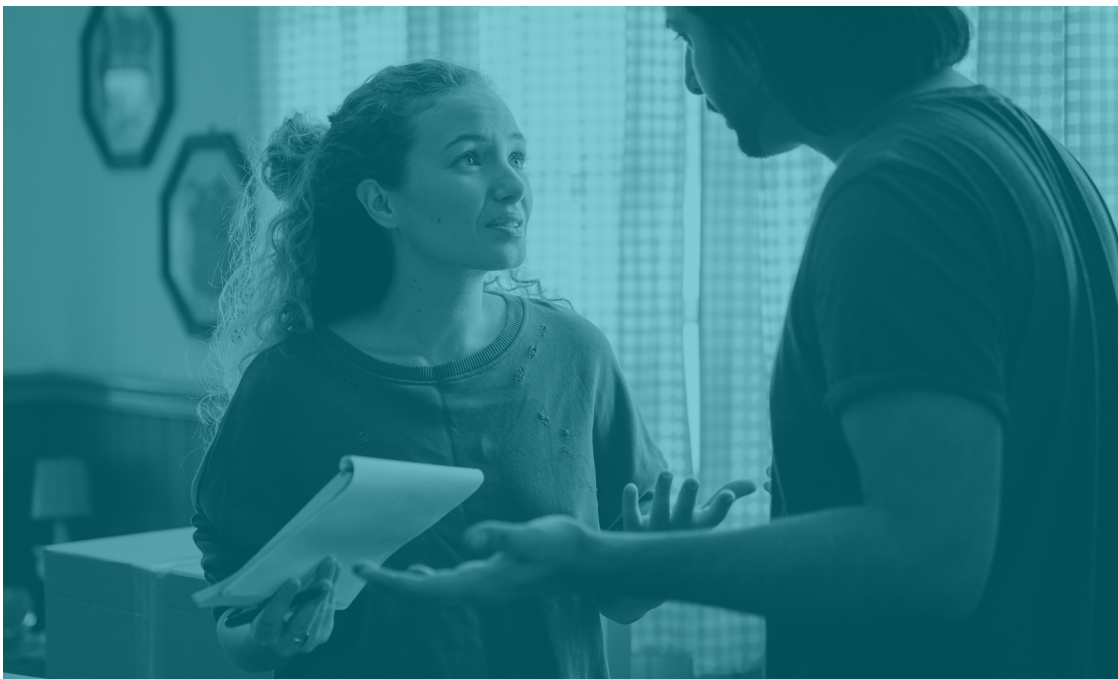
2. Dealing with additional identified accounts

During your search process, you'll need to flag any accounts not included in the original moratorium request to the debt advisor – you won't receive a list of accounts that have been considered but not included.

The debt advisor will then discuss them with the customer and decide if they wish to add them to the moratorium.

This raises a set of operational and delivery questions that need to be considered:

- If an account is added to an existing moratorium, how will you identify accounts owned by the debtor receiving the moratorium? How will you ensure that you have identified the correct debtor?
- What will you do with associated accounts whilst you wait for the decision about whether or not they will be added to the moratorium?
- If they do not add the additional product to the moratorium, what will you do with it since the customer is in financial difficulty?



HURDLES TO OVERCOME

3. Suppressing interest, fees and charges

When placed on a moratorium, a customer's/resident's account must be exempt from any interest, fees or charges.

For secured accounts, interest suppression only applies to the arrears included in the moratorium. This suppression is required **from midnight on the day after the breathing space is applied**, so you don't have long! If the suppression of interest is not feasible within the time constraints, then refunds can be applied retrospectively.

There's a lot to be considered here:

- Does your mortgage or secured loan host system have the ability to suppress interest on the arrears portion of a debt?
- Can you automate the application of interest freeze within one calendar day of receiving the moratorium notification (bearing in mind you need to process the notification, identify and match the accounts, and then get a message to the relevant host system to freeze the interest)?
- What happens if a notification comes in at 8.00pm on a Friday – can you process that in time to ensure interest is frozen by 00.01am on Saturday?
- Can you accommodate moratorium requests that come in over the weekend?
- Host and collections and recoveries systems are almost all batch-based, so what happens if you receive a notification after your batch has started?



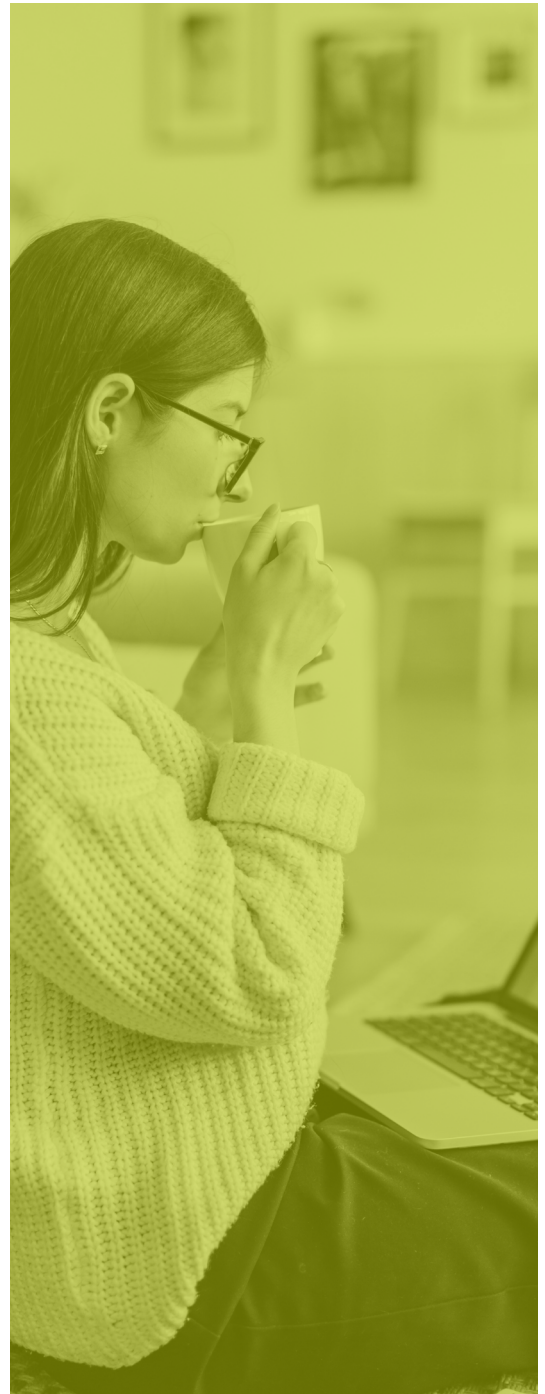
HURDLES TO OVERCOME

4. Freezing communications and high priority cases

When a customer/resident is placed on a moratorium, you must not send them any form of communication that is deemed to be requesting payment. Just like with the interest, fee and charge suppression, customer/resident contact also needs to be suppressed by the following calendar day. Any form of contact detailing the nature of the interest freeze, or moratorium in general, is permitted providing no attempt to collect is made.

All contact or action taken by a third-party agent must also be stopped. There will be high priority cases (such as repossessions) that you'll have to cease. For example, if you get a moratorium notification on a Monday and you are supposed to repossess that customer's property on the Tuesday, you must not proceed with the repossession.

This part of the legislation will create complexity around batch timings and can also involve a lot of work to identify which letters need to be suppressed.



HURDLES TO OVERCOME

5. Implementing all necessary changes in under 100 working days

The legislation is due to go live on 4 May 2021, which at the time of writing is under 100 working days away, and things are not as simple as they may seem.

Building an automated solution

For a fully automated solution to solve the breathing space problem, it's likely you will need to update multiple systems and even create new systems, which all require thorough testing independently but also as part of a full end-to-end system integration test. Consider how long it will take to allocate a set of test environments that are able to talk to each other and would cover your customer database, your collections and recoveries solutions and your host or billing systems.

Adapting your current systems

To reduce development timescales or because of relatively low volumes in certain areas, it may be better to introduce manual workarounds. For instance, you might look to refund the interest applied instead of stopping it being applied initially, or apply the interest freeze manually on the host or billing system.

The industry forecast from the Insolvency Service puts volumes of customers using the service in 2021 to be just over 750,000, with volumes rising 5-10% annually¹. These are significant numbers and customers are likely to hold multiple accounts, so you will need to factor these numbers into any manual processing you are looking at implementing, as well as allocating additional resource, resource which is already likely to be stretched by the impact of COVID.

If you haven't started having these conversations within your teams, we suggest you start now.

¹ www.digitalmarketplace.service.gov.uk/digital-outcomes-and-specialists/opportunities/11901 (Accessed on 17 November 2020)

OVERWHELMED? DON'T WORRY – HERE'S WHERE TO START

If this is the first you are hearing about all of this, don't panic!

You could start by reading the legislation and thinking how it might have an impact on your technology or operation. We would highly recommend you consider the end-to-end journey that needs to be developed.

Some key points for consideration:

- Where is manual work needed and what can be automated in time for 4 May 2021?
- What key exceptions processes need to be developed?
- Where do you need to suppress contact rapidly (repossessions is likely to be one of those areas)?
- How are you going to search for all your customers'/residents' accounts?

How can Arum help?

- We have over 20 years' experience optimising collection processes and have a strong grasp of the legislation.
- We're already working with clients to make these changes so we can help make up any time that may have been lost.
- We can assess your current systems and structure to understand your exposure to the legislation and build a roadmap to ensure you're ready.
- We can put in place plans to help you move away from expensive manual workarounds to more automated solutions.
- We can provide additional resources for your collections or workflow systems.
- We can provide experts to work with the operational teams to ensure they are able to meet the demand of any manual solutions which need to be implemented.

ABOUT ARUM

Arum is the only truly independent company offering services across the credit management lifecycle, partnering with both the private and public sectors.

We have over 20 years' experience helping our clients achieve their strategic objectives by improving their regulatory, credit risk and portfolio performance, whilst maximising returns on their technology investments. We provide a blend of professional services, consulting and unrivalled knowledge of the collections and recoveries software landscape, including benchmarking analysis across 30+ system vendors.

Within public sector, we aim to build better outcomes for citizens by improving the collection of local and central government revenues that fund public services.

Our team includes highly experienced operational and programme directors, project delivery leads and implementation experts, the majority of whom started their careers within the financial services and government sectors and have a passion for sharing their knowledge and expertise.

Headquartered in London and with clients spanning more than 20 countries worldwide, we work across financial services, utilities and telcos, central and local government, and the debt purchase and recovery supply chain.



AUTHORS

Mike, Dominick and Ross have been engaged with a major UK retail bank implementing necessary changes for the new breathing space legislation. They have been working through the impacts, requirements, end-to-end design, customer journey, low level system designs and build required across multiple different products and systems.

Mike Knight – Senior Consultant

Mike has been with Arum for over six years and has been heavily involved with several large Debt Manager migration projects, as well as smaller engagements helping clients with their collections and recoveries systems.

His background in the industry stretches back almost 15 years, having worked in various roles in a telephony operation and as a Debt Manager developer. Mike therefore has a well-rounded understanding of all aspects of collections operations as well as solid technical knowledge.



Dominick Penfold – Consultant

Since joining the Arum team in 2016, Dominick has supported multiple clients with major systems implementation projects covering the full project lifecycle (requirements, design, build, test, post-live support, and state-to-state and data mapping).

He also has experience in regulatory assurance, data architecture and E2E controls where he has delivered SME expertise to support clients in their wider collections and recoveries functions.



Ross Alexander – Consultant

Ross joined Arum in 2015 and has worked on several collections and recoveries projects with large retail banking clients.

Ross has experience working as a migration lead on system upgrades, as well as the design, build and test of Debt Manager configuration and ETL functions. Ross has also led part of the sequence of events (SOE) during go-live weekends.



December 2020

arum[®]



@arumplc

T 0800 689 5056 / +44 (0)207 859 4745



Arum

E info@arumplc.com

W arumplc.com

