



**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 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):

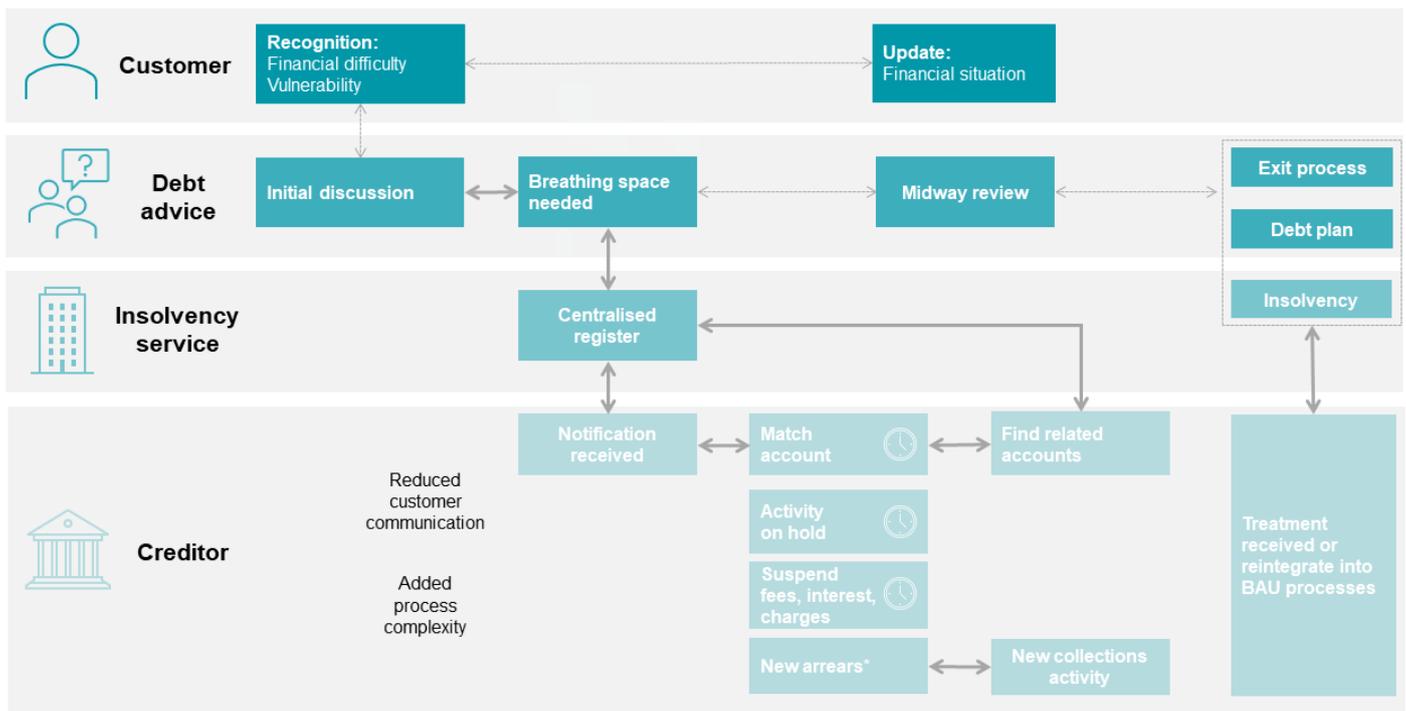
- council tax arrears
- social housing rent arrears
- penalty notices, such as parking fines
- unsecured and secured borrowing
- credit cards
- utility bills
- insurance premiums.

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

Local Authorities will be prohibited from contacting the resident during this period and must cease the application of costs and any other charges by the next calendar day. **This is not a simple extension to any existing breathing space policy.**

The administration of this new scheme is being handled by the Insolvency Service which is creating a portal that debt advisors and local authorities will be able to access. Under the new regulations, a debt advisor will place a resident's details and debts onto the register to communicate with the local authority, meaning even at the point of entering the moratorium, resident-council 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 local authority 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 local authority 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?

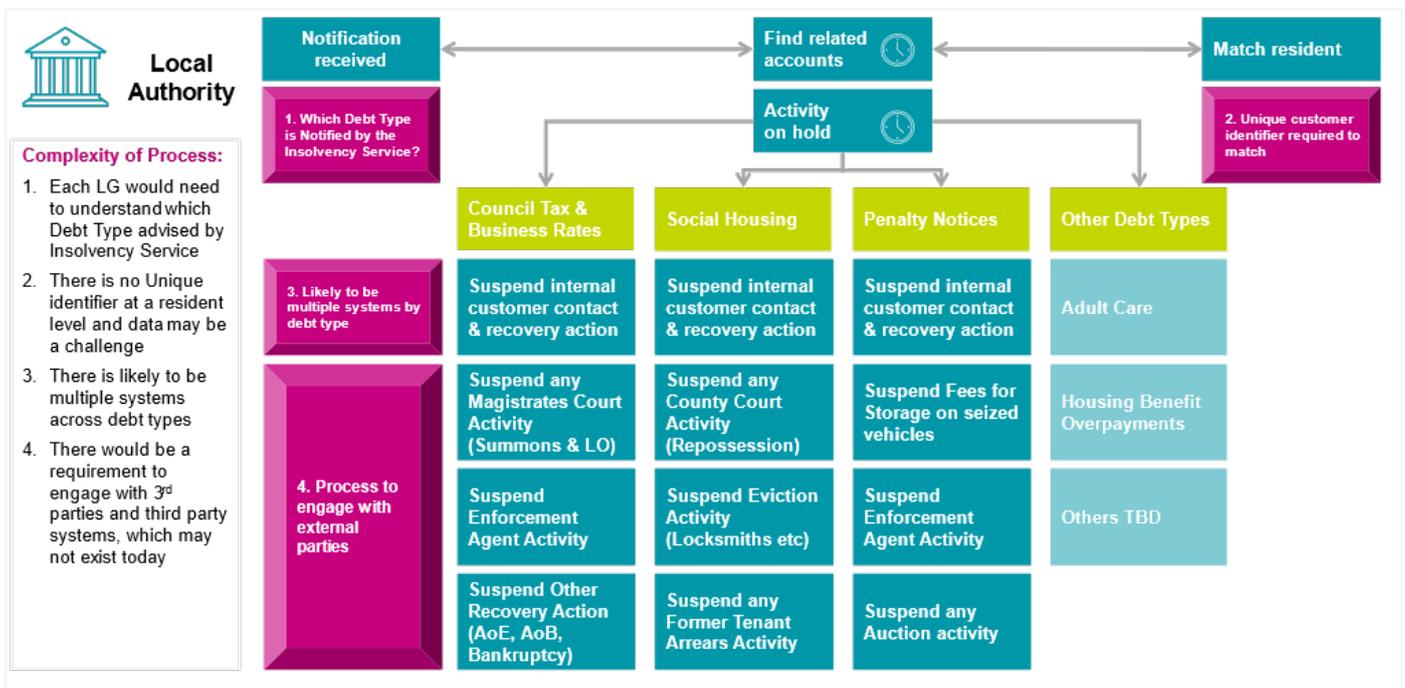
We're already working with clients on implementing the necessary process and system changes, so we've put together this handy guide to help you overcome some potential hurdles you might face as you prepare yourselves for May 2021.

HURDLES TO OVERCOME

1. Understand the impact of the Debt Respite Scheme on Local Authorities:

Do you understand which debt types will be in scope for the Debt Respite Scheme and have you considered the complexity of the process:

1. Do you understand if the Insolvency Service will inform all debt types in scope by Local Authority for a resident or will they consider debt at a total Local Authority level?
2. A recognition of the multiple systems that may exist across a Local Authority and any data challenge on matching residents across debt types?
3. Develop a process to inform other functions within the council and to request external parties, e.g., Enforcement Agencies, to suspend activity.



HURDLES TO OVERCOME

2. 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). 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 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 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 the local authority: all debt types that are not in arrears, are in arrears, are aged arrears and are with a third party.

IT architecture and data capture are often complex and split across multiple, -debt type-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

3. 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

4. Suppressing costs and other charges

When placed on a moratorium, a resident's account must be exempt from any costs or charges.

There are some considerations here:

- **Can you suppress any imminent court costs when a moratorium notification is received?**
- **Can you suspend storage costs when a moratorium notification is received?**
- **Can you suspend any third-party costs when a moratorium notification is received, e.g., Enforcement Agents Compliance Costs?**
- **What happens if a notification comes in at 8.00pm on a Friday?**
- **Can you accommodate moratorium requests that come in over the weekend?**
- **Systems are almost all batch-based, so what happens if you receive a notification after your batch has started?**



HURDLES TO OVERCOME

5. Freezing communications and high priority cases

When 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 costs and charge suppression, resident contact also needs to be suppressed by the following calendar day.

Any form of contact detailing the nature of the 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 notice of possession) that you'll have to cease. For example, if you get a moratorium notification on a Monday and you are supposed to repossess a 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

6. Implementing all necessary changes in under 50 working days

The legislation is due to go live on 4 May 2021, which at the time of writing is under 50 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 resident database, your system solutions, and your 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 any costs applied instead of stopping it being applied initially.

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% annually ¹. 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 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

Darren Furlong – Lead Consultant

Darren has over 25 years experience in collections and recoveries. Starting his career as a collector for Barclaycard, progressing to being Head of Collections for a mortgage servicer where he transformed the collections capabilities of two nationalised building societies including systems, strategies, operational execution and customer outcomes, delivering a 76% reduction in delinquent accounts over a 5 year period.

Darren has been involved in assessments of the revenue collection capabilities of several Local Authorities, and his experience has been invaluable in helping these Authorities achieve rapid improvements by utilising tried and tested methodologies from other industry sectors, and bringing a fresh perspective to bear across all aspects of the revenue collection and enforcement process.



Forid Meah – Senior Consultant

Forid is a MSP Qualified Programme Manager and has over 20 years experience of managing complex programmes in government services, utilities, manufacturing and retail. Recent clients include Boots PLC, Tunstall UK, Southern Water, and large public service providers in the UK and Australia.

He is a specialist in all elements of the programme lifecycle. His key strength is bringing together multidisciplinary business and specialist support teams, with external vendors. He has considerable experience of working with senior stakeholders and operational staff to develop the vision for change, define benefits and gain approval for the business case from Executive management. Forid is adept at developing programme and project organisations maintaining strong governance to ensure projects deliver on time and cost. He has specialist skills in risk management and takes a 'hands on' approach to overcoming issues by bring together relevant stakeholders to find practical solutions.



February 2021

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