

What the UK Supreme Court's Car Finance Ruling Means for UK Motorists

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A landmark ruling by the UK Supreme Court has sharply limited the number of motorists who could claim compensation over discretionary commission arrangements (DCAs) in car finance deals. On August 2, 2025, the court sided with finance companies in two out of three test cases, overturning earlier decisions that had paved the way for mass claims.

The judgment is a major blow to drivers hoping for large-scale redress. It reduces the likelihood of an industry-wide payout and narrows eligibility to only certain individual cases, particularly those involving specific contractual terms or a lack of transparency around how interest rates were set.

Despite this, the Financial Conduct Authority (FCA) has not ruled out further action. The regulator is expected to announce this August 4 whether it will proceed with a formal consultation on a compensation scheme for affected customers. If introduced, such a scheme would be centrally managed by the FCA, with no need for individuals to apply or engage claims management firms.

The Financial Ombudsman Service (FOS), which has approximately 80,000 complaints on hold, will also begin reviewing cases under the new legal guidance. However, far fewer complaints are now expected to succeed.

What Was the Case About?

At the heart of the dispute were discretionary commission arrangements, practices where car dealers could set interest rates for buyers and receive higher commissions from lenders if they charged more. This arrangement gave dealers a financial incentive to raise rates, potentially leading to buyers overpaying without realizing it.

The FCA banned these arrangements in January 2021, calling them unfair to consumers. But many finance deals entered into before that date were still under scrutiny, prompting a wave of legal action and complaints from affected drivers.

What Did the Supreme Court Consider?

The court was asked to resolve key legal questions through three test cases, including:

- Whether undisclosed commissions amounted to bribery
- Whether car dealers owed a fiduciary duty to act in their customers' best interests

Its ruling largely favoured finance providers. The court found that while some contracts may still raise issues, most arrangements, especially those that disclosed basic commission structures, would not qualify for automatic redress.

What Does This Mean for Drivers?

The ruling means most drivers affected by these commission deals will no longer be automatically entitled to compensation. However, some individuals may still be entitled to redress if:

- Their agreement involved misleading or undisclosed commission practices
- They were unaware of how their interest rate was calculated.
- The dealer acted in a way that breached contractual or legal obligations.

If the FCA proceeds with a redress scheme, customers will be contacted directly and guided through a simplified process. The regulator has warned the public not to use claims management firms, which often charge fees for services the FCA would provide for free.

What Happens Now?

- August 4: The FCA will announce whether it will launch a formal consultation on a compensation scheme.
- The FOS will start resolving its backlog of complaints, using the Supreme Court decision as a framework.
- Consumers who believe they were misled can still pursue complaints individually, though success will be more limited.

Why It Matters

Millions of new and used vehicles are sold each year through car finance, and discretionary commission practices were once widespread. While this ruling removes the threat of large-scale financial liability for lenders, it also reduces the chances of meaningful compensation for most affected consumers.

Still, regulators stress they are committed to ensuring fairness.

“The FCA’s aim remains to ensure that consumers are fairly compensated and that the motor finance market works well,” the agency said in a statement.