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## UK Banks Face £18bn Car Finance Compensation Bill

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— *Categories: Finance*

The UK car finance scandal, once feared to cost lenders up to £44 billion, is now expected to result in compensation claims of less than £18 billion following a key court ruling.

While the reduced figure limits the financial damage, millions of motorists may still have paid more than necessary for their car loans under a system that rewarded brokers for increasing interest rates.

### Commission Deals Under Scrutiny

The practice at the heart of the scandal was known as “discretionary commission arrangements”. Under this model, car finance brokers could raise a customer’s interest rate and, in turn, secure a higher commission. Customers were not always informed, often believing they had agreed to a standard loan.

The Financial Conduct Authority (FCA) banned the practice in 2021, but before then, it had become widespread. Many borrowers unknowingly overpaid by thousands of pounds.

A recent Supreme Court ruling confirmed that while some claims were valid, not all discretionary commission agreements would automatically be considered unlawful. This decision significantly reduced the expected industry bill, though lenders could still face around £18 billion in claims.

## Comparisons to PPI Scandal

The case has drawn parallels with the payment protection insurance (PPI) scandal, which cost UK banks £38 billion in compensation. Both scandals highlight how financial products were sold in ways that customers did not fully understand, exposing deep flaws in consumer protection and regulatory oversight.

## Regulatory Challenges

Critics argue that the FCA acted too slowly, banning commission-linked car loans only after years of potential consumer harm. The regulator has acknowledged the delay and announced plans to consult on a compensation scheme by October 2025, with payments likely to begin in 2026.

This timeline means affected motorists may still wait years before receiving redress. In the meantime, class action lawsuits and further regulatory reviews are expected.

## Restoring Trust

The scandal underscores the fragile relationship between the public and the financial sector. Research consistently shows that trust in financial markets depends on transparency, fairness, and accountability. The discretionary commission system undermined all three.

Observers warn that compliance alone will not restore public confidence. For lenders, adopting transparent and ethical practices will be essential. For regulators, the scandal represents an opportunity to strengthen supervision and ensure consumer protection is not undermined by profit-driven incentives.