

FCA Unveils £9-18bn Motor Finance Redress Scheme

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The Financial Conduct Authority (FCA) has proposed a compensation scheme worth between £9 billion and £18 billion to address widespread concerns over historic motor finance commission arrangements. The regulator's plan could become one of the most significant redress schemes in UK financial history.

The move follows over 10,000 complaints regarding discretionary commission models previously used by lenders and car dealerships. Under this system, brokers were able to adjust the interest rates offered to customers, often increasing the cost of borrowing to boost their commission. The practice was banned by the FCA in January 2021.

Despite the ban, lenders continued to reject customer complaints. In response, the FCA imposed a pause on resolving these complaints while it investigated whether a broader intervention was necessary.

Now, the regulator is proposing a formal redress scheme to deliver compensation to customers affected by these agreements between 2007 and 2021.

Sheldon Mills, the FCA's Executive Director of Consumers and Competition, stated: "We believe the use of discretionary commission models led to widespread harm and unacceptable outcomes for customers. It's important that consumers receive redress in a fair and consistent way, without the need for lengthy and costly court proceedings."

More than 10 million car finance agreements are thought to fall within the timeframe being examined. While not every case will qualify for redress, the scale of potential payouts has prompted concerns among lenders and financial institutions.

Barclays, Lloyds Banking Group, and other major providers have already set aside significant sums in anticipation of the FCA's final decision. According to industry analysts, the total cost to the sector could rival the Payment Protection Insurance (PPI) scandal, which resulted in more than £38 billion in compensation.

Consumer groups welcomed the proposal, but some have expressed concern over the long timeline, as affected drivers may need to wait until 2026 or later to receive any compensation. However, the FCA insists the approach is designed to ensure fairness and thorough review of individual cases.

The proposed scheme is now open for consultation, with the FCA inviting responses until 11 September 2025. A final decision is expected in early 2026.

The issue has reignited discussions over commission practices in the UK finance industry and the need for stronger consumer protection. The FCA has made clear it intends to hold firms accountable for past misconduct, while preventing similar issues in future financial products.

