

## UK Supreme Court Narrows Scope for Auto Finance Compensation Claims

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In a landmark decision on Friday, the United Kingdom's Supreme Court overturned key parts of a lower court ruling on car finance agreements, a move expected to significantly reduce potential compensation liabilities for lenders. The judgment marks a pivotal moment for the financial services sector, bringing clarity to an issue that could have led to billions in payouts.

A panel of five justices ruled in favour of the lenders on two out of three legal questions presented, concluding that car dealers were not legally obligated to act solely in the interest of customers when arranging finance agreements. The Court also determined that the practice of commission payments between dealers and lenders did not amount to bribery. “No reasonable onlooker would think that... the dealer was thereby giving up... its commercial objective of securing a profitable sale of the car,” the ruling stated.

This decision relieves financial institutions from the looming threat of widespread claims. Industry analysts had warned that if the earlier judgment stood, compensation costs could have soared into the tens of billions of pounds. Lloyds Banking Group, which owns Black Horse, the UK’s largest car finance provider, had already earmarked over £1 billion in anticipation of potential payouts.

To maintain market stability, the ruling was released after the close of trading on Friday. The financial services industry, still recovering from previous mis-selling scandals such as the Payment Protection Insurance (PPI) fiasco, is expected to welcome the clarity provided by the court.

Andrew Barber, a Financial Regulatory Partner at law firm Dentons, noted that the ruling could reduce risks across a broader range of credit arrangements. “The risk of claims in other finance arrangements where commission payments are made will also have significantly reduced as a result,” he said.

The case stems from an earlier Court of Appeal decision in October 2023, which found that three individuals who bought vehicles before 2021 had not been properly informed that car dealers would earn commission from lenders. This lack of disclosure was deemed grounds for compensation. In response, two lenders, Close Brothers and South Africa-based FirstRand Bank, escalated the matter to the Supreme Court, arguing the appellate ruling represented a serious legal misstep.

The Financial Conduct Authority (FCA), the UK’s regulatory body overseeing financial markets, had expressed concern that the previous ruling “went too far.” Following the Supreme Court decision, the FCA stated it welcomed the legal clarification and would spend the weekend reviewing the judgment. It confirmed discussions would take place regarding potential compensation mechanisms for affected consumers ahead of the next market opening.

“Our aims remain to ensure that consumers are fairly compensated and that the motor finance market works well, given around 2 million people rely on it every year to buy a car,” the FCA said.

Though some degree of redress may still be considered, the Supreme Court’s verdict has dramatically limited the scope of liability for lenders. For now, the auto finance sector can move forward with greater legal certainty, avoiding a potential repeat of past financial controversies.