

Banks Prepare for Pivotal Supreme Court Verdict on Car Finance Commission Disclosures

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A highly anticipated decision from the United Kingdom's Supreme Court, expected on Friday afternoon, may determine whether leading banks face a multibillion-pound compensation bill over historic car finance commission arrangements. The ruling follows a

landmark judgment by the Court of Appeal and could set a precedent for redress across the £40 billion motor finance sector.

At the centre of the case are British lender Close Brothers and South Africa-based FirstRand, both seeking to overturn the earlier Court of Appeal verdict. That decision held that brokers must secure fully informed consent from customers before receiving commissions from lenders, a principle that, if upheld, could trigger widespread liabilities. The legal dispute concerns three connected cases that have raised significant concerns among financial institutions and investors alike.

The Financial Conduct Authority (FCA), which regulates the motor finance sector, has indicated that it may launch a redress scheme depending on the Supreme Court's final judgment. Such a scheme, according to some analysts, could cost banks tens of billions of pounds. A decision on whether to proceed with redress is expected from the FCA within six weeks of the ruling.

In response to the legal uncertainty, several major lenders have already made financial provisions. Lloyds Banking Group has set aside £1.15 billion, Banco Santander's United Kingdom division has allocated £290 million, and Barclays has earmarked £95 million. These preparations highlight the scale of exposure some institutions face if the earlier judgment is upheld.

The Court of Appeal's October 2024 ruling found that lenders could be held liable where commission payments to brokers were either not disclosed to customers at all, labelled as "secret", or disclosed inadequately, failing to ensure informed consent. During the April hearing at the Supreme Court, the FCA's legal team suggested that the earlier ruling might have gone "too far", a stance that has raised hopes among lenders for a more limited scope of liability.

The Supreme Court has confirmed it will deliver its judgment after 15:35 (British Summer Time) on Friday, once London financial markets have closed. In a statement, the court noted: "No inference should be drawn from the timing of the hand-down as to the outcome of the appeals."

The outcome will be closely watched not only by lenders and regulators but also by consumers, many of whom may be entitled to compensation depending on the ruling's scope.

