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Supreme Court Ruling Could Trigger Major Payouts in Car Finance Commission Case

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A landmark ruling from the United Kingdom's Supreme Court is set to be delivered on Friday, potentially opening the door to billions of pounds in compensation claims over historic car finance commission practices. The decision may determine whether consumers were misled by lenders and dealerships, potentially sparking the largest financial redress since the Payment Protection Insurance (PPI) scandal.

The case centres on a previous Court of Appeal judgment, which ruled it unlawful for lenders to pay commissions to car dealers without the informed consent of the borrower. The Supreme Court has since been asked to review that decision, particularly focusing on whether such commission payments were kept secret and whether lenders acted unfairly in doing so. The Financial Conduct Authority (FCA), which banned discretionary motor finance commissions in 2021, launched a formal investigation in January 2024 into possible historic misconduct.

Several major banks and finance institutions, including Lloyds Banking Group, Close Brothers, Santander UK, Barclays, and the UK arm of Bank of Ireland, have already made financial provisions totalling close to £2 billion in anticipation of a potential wave of claims. Lloyds has reportedly set aside £1.15 billion, Close Brothers £295 million, and Santander UK £165 million. Barclays and Bank of Ireland have allocated smaller amounts. Analysts suggest that if the court upholds the earlier ruling, it could require lenders to significantly expand those provisions.

The Supreme Court's review involves three earlier legal claims, two against the South African lender FirstRand and one against Close Brothers. At issue is the legal responsibility of car dealers who act as credit brokers to disclose commission arrangements to their customers. A ruling against the lenders could mean that such practices previously common in the UK motor finance market were fundamentally unfair.

The implications extend beyond motor finance. Should the court rule that customer consent is necessary for any type of commission payment to intermediaries, it could prompt a broader reassessment of commission-based sales practices in the UK financial sector.

Moody's Investors Service previously warned that total industry exposure in a worst-case scenario could reach £30 billion. More recent estimates from RBC Capital place the likely impact closer to £11 billion, accounting for both banks and non-bank lenders.

In the event of an unfavourable ruling for the lenders, the FCA has said it will consult within six weeks on how a compensation scheme might be structured. However, only a limited number of UK lenders are expected to be materially affected due to the scale of their motor finance operations.

There are also reported concerns within the government over the potential economic fallout. British media have reported that Chancellor of the Exchequer Rachel Reeves is considering legislative measures that could soften the impact of any ruling against the banks. While the Treasury has declined to comment on such reports, a spokesperson stated that it is "now appropriate to let the appeals process run its course," emphasising the need for a balanced and proportionate outcome.

In January, the UK government expressed reservations about the Court of Appeal's earlier decision, noting that any judgment must fairly weigh consumer interests against the need to maintain a functioning credit market.

As financial markets await the Supreme Court's decision, expected after market close on Friday, lenders and consumers alike face a potentially pivotal moment for transparency and fairness in the UK's consumer finance landscape.