FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP25/27***

Motor Finance Consumer Redress Scheme

October 2025

How to respond

We are asking for comments on this Consultation Paper (CP) by:

- **18 November 2025**, for comments on our redress scheme proposals
- **4 November 2025**, for comments on our proposals to further extend how long firms have to provide a final response to certain motor finance complaints

You can send them to us using the form on our website.

Or in writing to:

Redress Policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Telephone:
0207 066 1000

Email:
cp25-27@fca.org.uk

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- an account of the representations we receive, and
- an account of how we have responded to the representations.

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- if you consent to the publication of your name. If you are replying from an organisation, we will assume that the respondent is the organisation and will publish that name, unless you indicate that you are responding in an individual capacity (in which case, we will publish your name),
- if you wish your response to be treated as confidential. We will have regard to this indication, but may not be able to maintain confidentiality where we are subject to a legal duty to publish or disclose the information in question.

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Chapter 1

Summary

1.1 We are consulting on an industry-wide compensation scheme for motor finance customers who were treated unfairly.

1.2 Many firms did not comply with the law or our disclosure rules that were in force when they sold loans. Millions lost out as a result and it's right that they are now fairly compensated.

1.3 Over 2 million people use motor finance each year, with £39bn borrowed in 2024, making it the second largest consumer credit market. Between April 2007 and October 2024, there were approximately 32.5m motor finance agreements sold. An industry wide redress scheme is the best way to provide timely and fair redress to consumers while protecting the integrity of this vital market and providing certainty as quickly as possible for all involved. Other approaches would add significant cost, be less orderly and take much longer.

1.4 A scheme on the scale we are proposing requires judgements to simplify in a reasonable way some complex legal and operational issues. This means not everyone will get everything they would like from a scheme. We have engaged extensively in developing the proposed scheme. We will continue to be open and transparent, including setting out evidence in this consultation, the options considered and how we have made judgements. We have been working at pace, with gaps in data and evidence, and welcome views on our proposals and potential alternatives. This feedback will enable us to further enhance our evidence base, assumptions and estimates to ensure a robust and operationally effective scheme.

Why we are proposing a redress scheme

1.5 Our review, covering data from 32m agreements, found widespread failings on how motor finance firms disclosed commission payments and commercial ties between lenders and brokers. Inadequate disclosure of commission means consumers are less likely to make informed decisions, negotiate or shop around for a better deal. Our analysis indicates that many people may have overpaid on their motor finance.

1.6 We previously highlighted disclosure failings in 2019 and asked firms to remedy them.

1.7 Over 4 million consumers have complained to their firm. Where firms have considered complaints, over 99 percent were rejected and more than 80,000 consumers have taken their complaint to the Financial Ombudsman Service. The Financial Ombudsman made decisions in January 2024 in two cases involving discretionary commission arrangements (DCAs) – where the broker could adjust the interest rate offered to a customer to obtain a higher commission. One lender (Clydesdale Financial Services Limited (*Clydesdale*)), challenged this decision.

1.8 On 17 December 2024, the High Court rejected *Clydesdale's* challenge that the Financial Ombudsman had misinterpreted our rules. The Court found that the Financial Ombudsman was entitled to find that the broker and lender did not adequately disclose the commission arrangement and that meant the relationship between the lender and the borrower was unfair and therefore unlawful. The High Court also dismissed the challenge to the Financial Ombudsman's approach to compensation. The Financial Ombudsman had awarded a refund of some of the interest paid, based on the interest rate it considered would have been the likely outcome if there had been adequate disclosure.

1.9 Several thousand consumers also challenged their agreements with lenders through the courts. Courts took different approaches resulting in a Court of Appeal ruling in October 2024. On 1 August 2025, the Supreme Court overturned aspects of the Court of Appeal judgment but still found that a lender acted unfairly – and therefore unlawfully – because of the high, undisclosed commission paid to the broker and the failure to disclose a commercial tie. In that case (*Johnson*), the Supreme Court said the commission plus interest at a commercial rate should be repaid to the borrower. In choosing to decide this remedy itself rather than asking a lower court to reconsider the matter, the Supreme Court cited our submissions that the public interest would be aided by an authoritative ruling from the court, given the thousands of pending complaints and claims.

1.10 We intervened in both the Supreme Court and High Court cases and now consider there to be sufficient legal clarity to be able to move ahead with a scheme.

Our principles

1.11 We are balancing key principles in designing the scheme which would:

- Be **simpler** for consumers than bringing an individual complaint meaning more consumers, particularly vulnerable ones, receive compensation they are owed.
- Provide **timely and fair** compensation to consumers, with **clear communication** about how their claim is being dealt with, as we will set rules firms must follow and act if they don't.
- Be **comprehensive** so consumers do not need to go through the courts to secure compensation.
- Be **free to access** for consumers and **cost effective** for firms. Absent a scheme, many cases would go through the courts or the Financial Ombudsman, resulting in significantly higher administrative costs for firms and lengthy delays.
- Protect the **integrity of the market**. Our analysis shows the motor finance market will continue to function well, as it has since we announced our intention to propose a scheme, and will continue to attract investment, with limited disruption to competition.
- Give affected consumers **certainty** that they have had the opportunity to secure compensation, and firms and investors finality by drawing a line under this issue.

Our proposed approach

What the scheme would cover

1.12 The proposed scheme would cover regulated motor finance agreements taken out by consumers between 6 April 2007 and 1 November 2024 where commission was payable by the lender to the broker. Consumers would include sole traders and small partnerships. The scheme would consider whether there had been adequate disclosure of the commission arrangements and any contractual ties between lenders and brokers. The proposed rules we are consulting on will apply to lenders and brokers. Although our information suggests there are no Gibraltar-based motor finance lenders currently providing services into the UK, we have been unable to establish that this has not been the case in the past. As such we are proposing that our scheme would also apply to Gibraltar-based firms providing motor finance agreements covered by the scheme.

1.13 The end date of the scheme is based on when we know firms moved to more transparent disclosure practices following the Court of Appeal judgment. The start date would be consistent with complaints the Financial Ombudsman and courts can already consider. Excluding agreements made before 2014, when we assumed responsibility for regulating consumer credit firms, would not eliminate firms' liabilities. It would be more complicated for consumers to claim, increase costs for firms and risk large numbers of existing and future complaints and court cases dragging on for longer than a compensation scheme. Where there are record gaps, we believe most firms will be able to close these, for example, by using data from credit reference agencies. We will continue working with industry on practical and proportionate solutions.

1.14 We are proposing that lenders will deliver the scheme, rather than brokers. This will be simpler and ensure more timely and comprehensive redress, given there are many more brokers than lenders. Brokers played a part in the failings and lenders may seek contributions from them. Brokers will have to cooperate with the scheme, providing information promptly.

1.15 Consumers who have already been compensated for complaints covered by the scheme would be excluded. Consumers who have a live complaint with the Financial Ombudsman will have their case resolved by the Financial Ombudsman and not through the scheme.

Consumer consent

1.16 Lenders will need to make customers aware of the scheme, where they can identify them. We will also run a consumer awareness campaign.

1.17 Consumers who have complained to their firm, but not to the Financial Ombudsman before the start of the scheme, will be included unless they opt out. Consumers who haven't yet complained, or have had a complaint rejected by their firm, but not taken it to the Financial Ombudsman, will be asked to opt in.

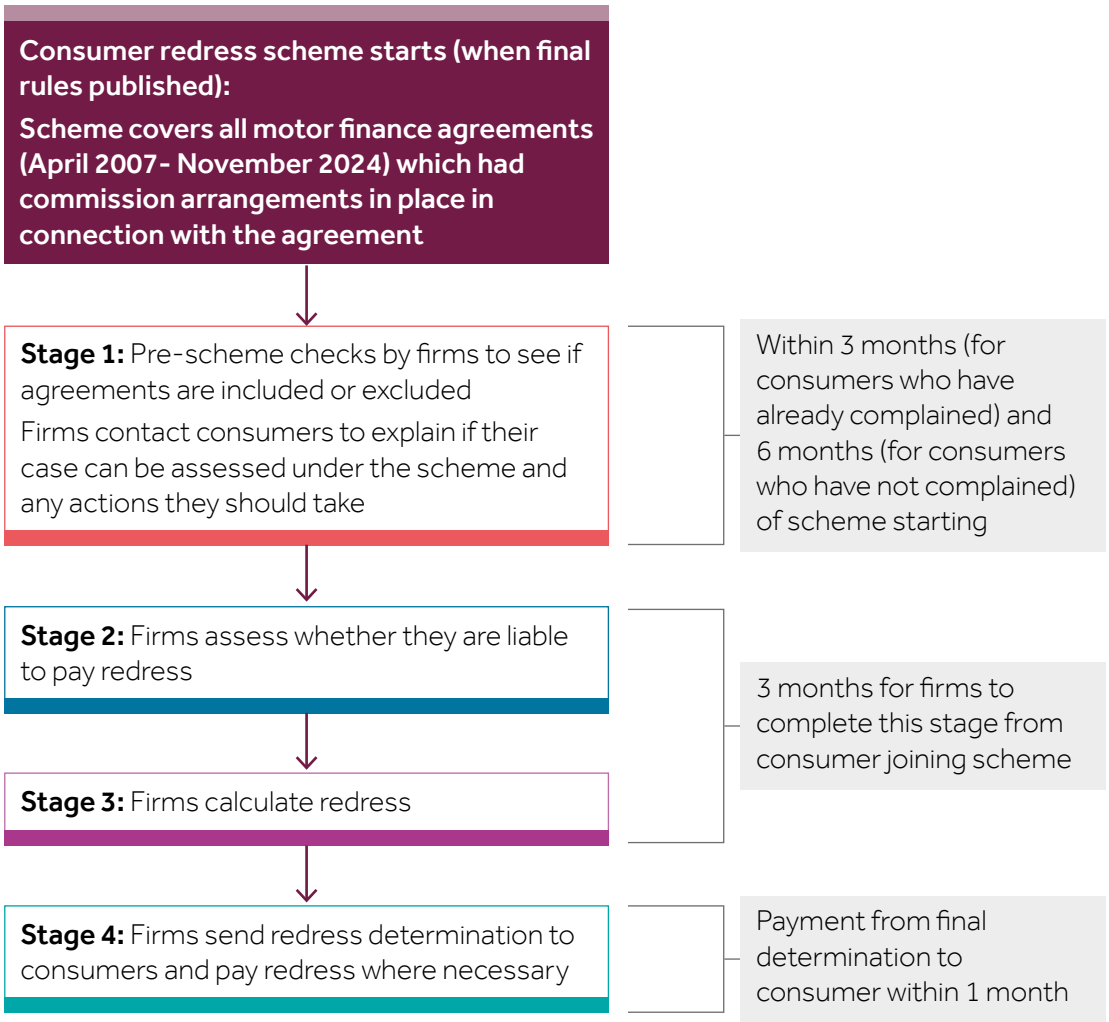
1.18 Lenders will need to contact consumers who have already complained within 3 months of the scheme starting. Consumers who haven't already complained would be

contacted within 6 months. This means consumers who complain before the scheme starts are likely to be compensated before those that don't.

1.19 Consumers who have not been contacted can ask their firm to review their case at any time within one year of the scheme start date.

Scheme steps and timings

Figure 1: overview of proposed scheme stages and timings



Assessing liability

1.20 Not all motor finance customers will be owed compensation.

1.21 A relationship would be considered unfair where it involves inadequate disclosure of one or more of the following:

a. a DCA
b. high commission arrangement (where the commission is equal to or greater than 35% of the total cost of credit and 10% of the loan)
c. tied arrangements that gave a lender exclusivity or a first right of refusal

1.22 We estimate 14.2m agreements – 44% of all agreements made since 2007 – will be considered unfair.

1.23 Where a case includes one or more of the three arrangements above, there would be some limited circumstances in which a lender may be able to prove that it was fair not to disclose it or that the consumer did not suffer any loss. Our findings suggest these cases will be rare. Where evidence of what was disclosed is missing, lenders would have to presume that disclosure was inadequate. Where none of the three factors are present, the lender would be expected to find that the relationship was fair.

1.24 A consumer who is told they are not owed compensation will only be able to get a different outcome from the Financial Ombudsman, if it decides the firm did not follow the scheme rules. People in this situation could still make a claim in court if they believed they had lost out. This approach could provide greater certainty for consumers, firms and the market. We are seeking views on whether there are further factors beyond those listed above that should define an unfair relationship in a motor finance agreement. We have also provided data on alternative thresholds for high commission and will listen carefully to the feedback we receive.

Calculating redress

1.25 The Courts have been clear that they have wide powers to determine what the appropriate level of compensation should be in cases of unfair relationships under the Consumer Credit Act. The Supreme Court awarded repayment of commission plus interest in the *Johnson* case. In choosing to decide a remedy itself rather than asking a lower court to reconsider the matter, the Supreme Court cited our submissions that the public interest would be aided by an authoritative ruling from the Court, given the thousands of pending complaints and claims. When introducing a scheme, we must therefore consider the Courts' approach and our evidence of consumer loss and then use our regulatory judgement to decide the best way forward. We propose that compensation is calculated in a way which balances these considerations, to provide fairness and consistency.

1.26 We propose that consumers whose cases align closely with the *Johnson* case, should be awarded repayment of commission plus interest. We define these as cases involving a contractual tie and commission equal to, or greater than, 50% of the total cost of credit and 22.5% of the loan. These cases will be relatively rare.

1.27 For all other cases, consumers would be compensated at the average of an estimation of loss based on the method we decide and the commission paid. Our estimation of loss is typically lower than the commission paid or the amount awarded in the Clydesdale case considered by the High Court and is based on economic analysis, drawing on independent statistical advice, that there was a difference in the interest rate charged on loans with DCAs compared to those with flat fee arrangements. By way of example, it is estimated that a loan with an interest rate of 10% charged to the consumer should have carried a market-adjusted interest rate of 8.3% (an adjustment of 17%). We believe we can also use this estimation as a reasonable proxy for losses in the small number of non DCA cases covered by our scheme that do not align closely with the *Johnson* case.

1.28 We are proposing an average of the two methods as the fairest way to reflect the Courts' judgments and our legal obligation to consider evidence of loss. We welcome feedback on our proposed approach.

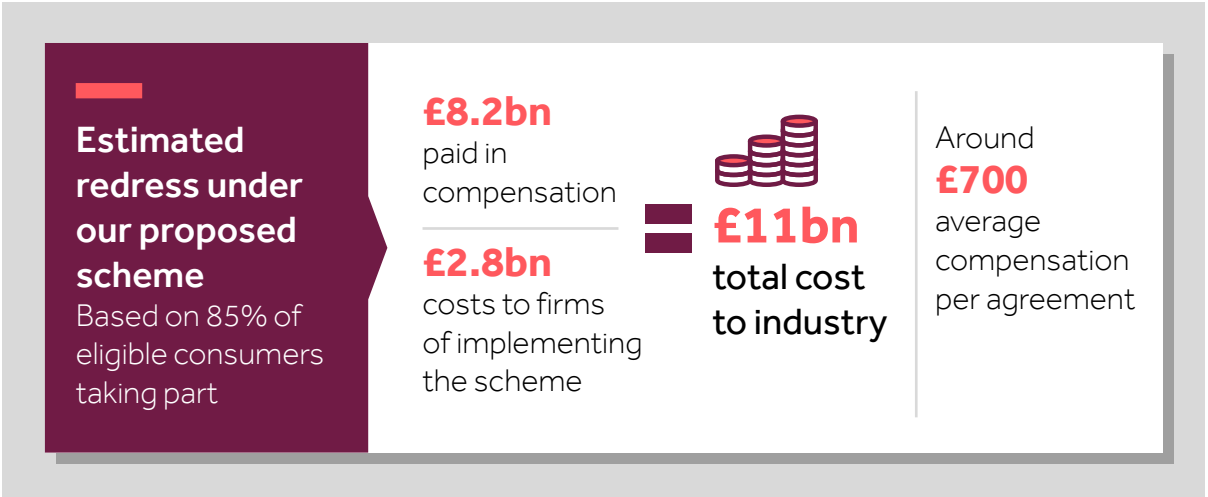
1.29 We propose that simple interest should be paid on the compensation, based on the annual average Bank of England base rate per year plus 1% from the date of overpayment to the date compensation is paid. Consumers will be able to challenge this with evidence if they feel this is unfair. We now estimate the weighted average interest rate payable will be 2.09% and have used this for modelling purposes.

1.30 Based on our proposed scheme, we expect eligible consumers to receive an average of around £700 per agreement. There will be a wide range with many consumers receiving more and a large number receiving less.

1.31 We have estimated around 85% of consumers would take part in the scheme. If so, lenders would owe £8.2bn in redress. Under a very unlikely scenario where 100% of consumers participate, total redress would be £9.7bn. If participation was lower, say at 70%, redress owed would be £6.8bn. If 85% of eligible consumers do take part, we estimate the cost to firms of implementing the scheme to be around £2.8bn, taking the total cost to approximately £11bn.

1.32 These estimates are based on several cautious assumptions to reflect data gaps and uncertainty. Because of these limitations and gaps, redress liabilities may be underestimated in some areas and overestimated in others. These limitations are explained further in chapter 8. We set out in detail some of the assumptions and what the impact on our estimates would be if we changed them to help inform the consultation.

Estimated redress under our proposed scheme



How the scheme would compare to going to court

1.33 Our scheme will be free and consumers do not need to use a claims management company or law firm to participate. Doing so could cost them around 30% of any compensation paid.

1.34 Consumers can choose not to take part and instead take their case to court, where they may get more or less compensation than under our scheme, based on the facts of their case. However, the outcome of a court claim is uncertain and accounting for legal fees they may pay, many consumers could end up with less. Our scheme is also likely to be faster and simpler than going to court. If consumers opt out of the scheme, they cannot opt back in.

1.35 When choosing whether to use a claims management company (CMC) or law firm, it's important consumers can make an informed decision. We have joined with the Solicitors Regulation Authority, to tackle misleading advertising and potentially excessive fees charged by some CMCs and law firms.

Ensuring compliance with the scheme

1.36 We expect firms to cooperate and act fairly and to pay compensation promptly to those owed it.

1.37 We expect brokers to work with lenders to ensure relevant customer data is identified. We have set out our expectations to CEOs. We will supervise the scheme closely to make sure firms follow the rules. We will intervene if they don't, including using enforcement powers if necessary. We are proposing reporting requirements so we can closely monitor compliance, and we will publish regular updates on the scheme's progress.

Complaint handling

1.38 We are also consulting on extending how long firms have to provide a final response to motor finance complaints to 31 July 2026. We may consult on shortening this period depending on when the proposed scheme rules are confirmed.

1.39 We propose no extension to handling complaints about leasing agreements as they are not caught by the legislation relating to unfair relationships and so are not covered by the scheme. This means that firms would need to start sending final responses to any motor leasing complaints from 5 December 2025.

Market impact

1.40 We have analysed the impact of firms' redress liabilities and the costs to firms of dealing with complaints under our proposed scheme on market integrity. We conclude there will continue to be good product availability and competition among lenders in the finance

market for new and used vehicles. While we cannot rule out some modest impacts on product availability and prices, we estimate the cost of dealing with complaints would be as much as £6.6bn higher in the absence of a redress scheme. In that scenario, impacts on access to motor finance and prices for consumers could be significantly higher with uncertainty continuing for many more years.

1.41 Recent Bank of England data also shows consumer credit lending volumes, which include motor finance, continue to grow, and the Finance and Leasing Association report that members anticipate motor finance lending will increase over the next year.

1.42 Equity markets appear to have factored in the anticipated costs of the redress scheme and continue to function well in light of the Supreme Court judgment and our announcement of an intention to consult on a scheme, with initial indicative cost estimates. Independent analyst estimates are broadly in line with our own. In September there was also a sizeable and relatively tightly priced public securitisation of UK automotive loans which attracted a range of investors.

1.43 We have heard concerns about the impact of paying redress on non-bank, non-captive lenders focused on non-prime markets. Some of these lenders are smaller and have less access to funding than larger motor finance firms focused on other parts of the market. Access to funding for such non-prime lenders had been a challenge even before the motor finance commissions issue became prominent. Some non-prime lenders have told us they did not engage in discretionary commission or tied arrangements. If that is the case, they are less likely to have to pay redress under the scheme.

1.44 These lenders may also be able to prove with clear evidence that the consumer would not have secured a better APR from any other lender the broker had arrangements with at the time. If so, the lender would not have to pay any redress.

1.45 While these non-prime lenders represent a small share of the overall motor finance market, we will remain vigilant as to the effect on them as the consultation progresses and as we make final rules.

Measuring success

1.46 We estimate that the proposed scheme will achieve the following outcomes:

- Complaints are resolved and fair redress paid in a timely manner, without unnecessary or disproportionate administrative costs to the Financial Ombudsman and firms.
- Consumers in similar situations receive consistent outcomes.
- The motor finance market continues to work well due to complaints being handled in an orderly, consistent and efficient way.

Next steps

1.47 We have sought to propose as simple and straightforward a scheme as possible. Our aim is that it is as easy for consumers to participate as it is for firms to implement.

1.48 Ahead of consultation, we engaged widely with consumer groups, industry bodies, lenders, brokers, car manufacturers and their affiliates, claims management companies and law firms and credit reference agencies. The feedback we have received has been invaluable but has also revealed polarised views on some issues.

1.49 We recognise that not everyone will get everything they would like from a redress scheme, but we hope all parties will work constructively with us, so we can resolve matters quickly, in the interest of consumers, firms, the long-term health of the market and investors. A 3-month consultation would not be in consumers' interests as it would further delay people getting the compensation they are owed. Given this, and the pre-consultation we have already carried out, we are consulting for 6 weeks as indicated in our statement on 3 August. We will continue to engage widely and welcome views on our proposals and potential alternatives. We are seeking comments on our redress scheme proposals by 18 November 2025. The deadline for commenting on our proposals to further extend how long firms have to provide a final response to certain motor finance complaints is 4 November 2025.

1.50 Tell us what you think using the forms on our website or by emailing cp25-27@fca.org.uk. If emailing, please tell us whether you wish your response to be confidential and, separately, if you are content to be named as a respondent.

1.51 We will confirm by 4 December 2025 whether we will extend the deadline for motor finance firms to provide a final response to relevant customer complaints. If we decide to introduce a redress scheme, we expect to publish our policy statement and final rules by early 2026. This is dependent on the feedback we receive and firms and stakeholders working constructively with us. The scheme would launch at the same time, with consumers starting to receive compensation later in 2026.

1.52 We also recognise that issues with motor finance have raised questions about the broader redress and consumer credit legal and regulatory frameworks. These are outside the scope of this consultation. We are working with the Treasury and the Financial Ombudsman to reform the redress system, so consumers are promptly compensated and to provide greater predictability, so businesses have confidence to invest and innovate. The Treasury also launched a review of the Consumer Credit Act in 2022. We can never rule out firms having to pay redress for serious misconduct, but there are no further mass redress events on our radar. And with the Consumer Duty now setting a higher standard of consumer protection, we are less likely to face similar events in the future.

Chapter 2

The context for our proposed redress scheme

2.1 The motor finance sector helps UK consumers to buy over 2 million new and used vehicles each year. Around 80% of UK new car purchases and 19% of used car purchases were funded through motor finance in 2024. Between April 2007 and October 2024, approximately 32.5m regulated motor finance agreements were signed. We estimate that more than three-quarters of these involved a commission payment from the lender to the broker, usually a car dealer, who arranged the credit.

The relevant law and our rules

2.2 There is a detailed legal and regulatory framework governing the conduct of motor finance lenders and brokers, including what and how they should communicate to customers. We summarise key elements below.

2.3 The Consumer Credit Act 1974 (CCA) is a central part of the legislative framework for the regulation of consumer credit.

2.4 Section 140A of the CCA, which came into effect on 6 April 2007, gives the courts the power to determine whether the relationship between a lender and consumer arising from a credit agreement is unfair to the consumer because of the terms, the way the lender has exercised or enforced their rights, or any other thing done (or not done) by, or on behalf of, the lender. The courts can provide remedies to the consumer if the relationship is considered unfair.

2.5 The meaning and application of these provisions have been the subject of litigation in the courts over the years, most recently in the UK Supreme Court's decision in *Johnson* (see paragraph 2.27) and the High Court's in *Clydesdale* (see paragraph 2.22).

2.6 The Office of Fair Trading (OFT) used to regulate consumer credit and introduced guidance on irresponsible lending and broker remuneration practices in March 2010.

2.7 The FCA assumed responsibility for regulating consumer credit in April 2014 with additional rules and guidance applying to firms engaging in credit related regulated activity. Relevant aspects of the regulatory framework which are now articulated in the FCA Handbook reflect the principles previously set out by the OFT.

2.8 Relevant FCA rules include those found in the Consumer Credit Sourcebook (CONC). This includes CONC 4.5.3R which requires consumer credit brokers (including car dealers who are motor finance brokers) to disclose the existence and nature of any commission, fee or other remuneration payable to them if its existence or amount could actually or potentially affect the broker's impartiality or, if made known to the customer, have a material impact on the customer's transactional decision.

2.9 We clarified the requirement in 2021 to be more explicit in the rules that the information required to be given to customers includes the existence and nature of any commission when the above conditions are met.

2.10 There is also a rule in CONC 3.7.3R that a credit broker must disclose to its customers whether it works exclusively with one or more lenders or works independently.

2.11 These rules on consumer credit sit alongside firms' wider obligations, such as the Principles for Businesses (PRIN).

2.12 Since July 2023, the Consumer Duty has set high standards of consumer protection across financial services and requires firms to act to deliver good outcomes for retail consumers.

2.13 On our website, we have set out for motor finance firms key requirements in CONC and expectations under the Consumer Duty, particularly the consumer understanding outcome, in relation to commission disclosure. Separately, we set out our expectations of firms in relation to the proposed redress scheme in Chapter 10 on our supervisory approach.

Our work on motor finance

2.14 In April 2017 we announced a review of the motor finance sector. This sought, among other things, to assess sales processes and the potential for conflicts of interest to arise from commissions paid by lenders to brokers.

2.15 In March 2019, we published our final findings. We identified concerns over the widespread use of DCAs. These allowed brokers to adjust the interest rates on loans offered to customers. The higher the interest rate, the more commission the broker received. We also found high levels of non-compliance with some of the existing commission disclosure requirements. We made clear lenders should review their systems and controls and address any harm or potential harm they identified.

2.16 As we could not find a satisfactory way to resolve the inherent conflict of interest posed by DCAs, we banned their use in the motor finance sector (PS20/8) from January 2021. At the same time, we clarified our rules on commission disclosure.

2.17 DCAs were widespread before our ban came into force: between April 2007 and our ban in January 2021, around 61% of all motor finance agreements involved a DCA. Thousands of consumers have since complained about lenders' failure to appropriately disclose commission arrangements. Firms had closed 30,000 such complaints by June 2023, and notwithstanding our previous request to firms to address harm they identified, firms rejected 99% of complaints they received. By March 2025, the Financial Ombudsman had received over 80,000 complaints.

2.18 In January 2024, the Financial Ombudsman issued two final decisions relating to DCA complaints. It considered that the relevant brokers and lenders had breached the regulatory requirements regarding commission disclosure. It also considered that the court would find that the relationship between the lender and consumer was unfair

(under s.140A of the CCA). The lender involved in one of these decisions, Clydesdale Financial Services Limited (Clydesdale), sought a judicial review of this decision. The other lender, Black Horse Limited, did not.

2.19 Also in January 2024, we launched diagnostic work to review historic disclosure practices related to DCAs between 2007 and 2021 across 11 lenders, accounting for around 66% of the market (based on year-end outstanding balances in 2023). Our aim was to understand if there was widespread misconduct, whether consumers had lost out and, if so, how they should be compensated in an orderly, consistent and efficient way.

2.20 We also paused the 8-week deadline for motor finance firms to respond to customers with DCA complaints until 25 September 2024, while we undertook our review (PS24/1). We did this to prevent disorderly, inconsistent and inefficient outcomes for consumers and knock-on effects on firms and the market.

2.21 This pause was further extended to 4 December 2025 (PS24/11). This was due to a delay in the data provision by firms and to consider the pending outcome of the Clydesdale judicial review.

2.22 On 17 December 2024, the High Court rejected Clydesdale's submissions challenging the Financial Ombudsman's decision. The court ruled that the Financial Ombudsman was entitled to conclude that the disclosure the broker made to the consumer fell short of the standard required in our rules. The High Court also held that the Financial Ombudsman was entitled to find that the relationship was unfair under s.140A of the CCA and that the broker's conduct could be attributed to the lender under s.56 of the CCA and it dismissed the challenge to the Financial Ombudsman's conclusions on fair compensation. Clydesdale subsequently obtained permission to appeal but the appeal was withdrawn and subsequently dismissed on 10 September 2025. The FCA was an interested party in the case.

2.23 Consumers have also brought claims through the county courts, with varying outcomes.

2.24 Three such cases concerning disclosure – *Johnson v FirstRand Bank Ltd, Wrench v FirstRand Bank Ltd, and Hopcraft v Close Brothers Ltd* (*Johnson*) – were appealed to the Court of Appeal. The Court handed down judgment on 25 October 2024. It found that the brokers in the three cases breached their legal duties to their customers by taking commission from the lenders without the consumers' 'informed consent' and the lenders were liable for the breach by the brokers. Additionally, in *Johnson v FirstRand Bank Ltd*, there was an unfair relationship between the lender and Mr Johnson under section 140A of the CCA. Some of the cases concerned non-discretionary commission arrangements (non-DCAs), such as fixed commission.

2.25 While the focus of the judgment was common law and equitable principles, rather than FCA rules, it had significant implications for our work. So, we expanded the scope of our review to cover both DCAs and non-DCAs. In addition to further casefile reviews from a wider range of lenders, we also collected agreement level data, covering both DCAs and non-DCAs, from 34 motor finance lenders, for the period 6 April 2007 to 31 March 2025. The findings of our review are summarised in Chapter 3 and set out in more detail in the Diagnostic Report published alongside this consultation.

2.26 Permission to appeal the Court of Appeal case was granted by the UK Supreme Court in December 2024. We applied to intervene with a view to assisting the Court in its understanding of the regulatory landscape relevant to these cases in January 2025 and were granted permission to do so in February 2025.

2.27 On 1 August 2025, the Supreme Court handed down their judgment, which largely overturned the Court of Appeal's judgment on the common law and equitable principles. It did, however, agree that the relationship between Mr Johnson and his lender was 'unfair', under s.140A of the CCA, albeit for different reasons from the Court of Appeal.

2.28 The Supreme Court confirmed that the mere non-disclosure of commission does not necessarily make a relationship 'unfair'. However, the Court came to the very clear view the relationship was unfair in Mr Johnson's case, particularly because of the size of the undisclosed commission (which was 55% of the cost of credit and 26% of the loan amount), and the concealment of a contractual tie between the dealer and the lender. It also found that the inadequate disclosure of both the existence of the commission and the contractual tie was a breach of our rules (CONC 4.5.3R and CONC 3.3.1R, 3.7.3R, and 3.7.4G respectively).

2.29 On 3 August 2025, we acted swiftly to confirm that we would consult on an industry-wide redress scheme to compensate motor finance customers who were treated unfairly.

2.30 We have engaged widely with consumer groups, industry bodies, lenders, brokers, car manufacturers and their affiliates, claims management companies, law firms, and credit reference agencies to gather views on how a scheme would work. As part of this, we held 6 pre-consultation roundtables attended by hundreds of stakeholders representing consumers, lenders, credit brokers, claims management companies and professional representatives.

Timeline of key events

- **30 March 2006:** Consumer Credit Act 2006 achieved royal assent, which amongst other things introduced the unfair relationship provisions, and gave consumers access to the Financial Ombudsman Service
- **6 April 2007:** the unfair relationship provisions came into force and the Financial Ombudsman consumer credit jurisdiction was established
- **31 March 2010:** OFT published its irresponsible lending guidance
- **1 April 2014:** We assumed responsibility for consumer credit regulation
- **18 April 2017:** We announced we would conduct a review of the motor finance market
- **4 March 2019:** Publication of our final review report
- **15 October 2019:** We published a consultation on banning DCAs and updating our rules and guidance on commission arrangements disclosure
- **28 July 2020:** We confirmed we would ban DCAs
- **28 January 2021:** Motor finance DCA ban takes effect
- **January 2024:** The Financial Ombudsman made the first decisions on DCA complaints, in favour of consumers. We began our review into pre-2021 misconduct and paused DCA complaint handling requirements until 25 September 2024
- **April 2024:** Clydesdale launched a judicial review of the Financial Ombudsman's decision to uphold a DCA related complaint. The FCA is an interested party
- **September 2024:** DCA complaints pause extended to 4 December 2025
- **25 October 2024:** The Court of Appeal decision in *Johnson*
- **13 November 2024:** In response to the Court of Appeal decision in *Johnson*, we consulted on pausing non-DCA complaint handing requirements
- **10 December 2024:** The UK Supreme Court gave the lenders in *Johnson* permission to appeal. We were later permitted to intervene
- **17 December 2024:** The High Court backs the Financial Ombudsman on all grounds in Clydesdale judicial review
- **19 December 2024:** We confirmed we were pausing non-DCA complaint handling requirements until 4 December 2025
- **24 December 2024:** Clydesdale granted permission to appeal to the Court of Appeal (appeal subsequently withdrawn)
- **11 March 2025:** We signalled a potential redress scheme consultation, with next steps due within 6 weeks of the Supreme Court's ruling in *Johnson*
- **1-3 April 2025:** UK Supreme Court hearing of *Johnson*
- **5 June 2025:** We published key principles of a potential redress scheme
- **1 August 2025:** Supreme Court's judgment in *Johnson* handed down
- **3 August 2025:** We announced we would consult on an industry-wide redress scheme

Chapter 3

Why we are proposing a redress scheme

3.1 We set out why we are proposing a redress scheme that would be made pursuant to our powers in s.404 of the Financial Services and Markets Act (FSMA).

3.2 In summary, the conditions in s.404 are that:

- it appears to us that there may have been a widespread or regular failure by firms to comply with requirements applicable to the carrying on by them of any activity;
- it appears to us that, as a result, consumers have suffered (or may suffer) loss or damage in respect of which, if a consumer brought legal proceedings, a court would grant a remedy or relief; and
- we consider that such a scheme is desirable for the purpose of securing that redress is made to the consumers in respect of the failure, having regard to other ways in which consumers may obtain redress.

The first two conditions: widespread or regular failures leading to loss or damage

Our reviews

3.3 We reviewed 4,041 casefiles to understand disclosure practices to inform our assessment of whether there may have been widespread or regular failings by firms. This included:

- A review by a skilled person of arrangements entered into from 6 April 2007 to 28 January 2021. They reviewed 3,263 DCA casefiles plus 109 non-DCA casefiles across 11 lenders covering around 65% of the motor finance market (based on year-end outstanding balances in 2023). The skilled person also looked at the lenders' policy documents and their governance arrangements with brokers.
- Our review of 70 DCA casefiles from 12 additional lenders covering the period 6 April 2007 to 28 January 2021 when the FCA's ban on DCAs took effect.
- Our review of 599 non-DCA casefiles from 36 lenders covering around 89% of all agreements across the motor finance sector for the period 6 April 2007 and 25 October 2024.

3.4 We collected data for all motor finance agreements (DCA and non-DCA) entered into between 6 April 2007 and 25 October 2024 from 34 lenders (including the lenders from the skilled person review). The data included, if available: agreement date, original contract length, end date and whether the loan was paid in full or settled early, type of product, APR, loan value, commission amount and whether the commission was DCA or non-DCA. We later extended this data collection to also cover the period between

26 October 2024 and 31 March 2025. We are grateful to lenders for their cooperation in collecting this data. In a small number of cases we experienced delays in the provision of documentation which delayed our work.

3.5 We analysed data from 31.86 million agreements. After filtering, we found 24.29 million agreements had commission paid under them, comprising 11.43 million with a DCA and 12.22 million with a non-DCA and 647,728 agreements with commission but no recorded type.

3.6 We received advice from a statistician to ensure that our work was representative of the market.

3.7 More details on these reviews are in the Diagnostic Report. The data we collected is described in detail in Technical Annex 1.

Failure to adequately disclose commission arrangements

3.8 Table 1 shows the results of the 3,333 DCA casefiles reviewed. Seven casefiles were excluded due to not having date values.

Table 1: DCA casefile review findings on commission disclosure

Evidence that the customer was informed that commission "would" be paid and given information about the DCA commission arrangement	0 casefiles
Evidence that the customer was informed only that commission either "may" and/or "would" be received by the broker.	60% (1988 casefiles) (including 226 casefiles recorded as 'Yes' to both the 'may' and 'would' questions)
Insufficient evidence on file to determine whether the customer was informed that commission "may" or "would" be received by the broker or that the broker was acting under a DCA	40% (1338 casefiles)

3.9 In our view, the absence of evidence of disclosure is enough to presume that it is highly likely that no disclosure was made. We have not found any evidence to the contrary. In fact, our review of lenders' oversight of brokers regarding commission disclosure suggests that for many years, lenders exerted little, if any, control over brokers' commission disclosure practices (see Chapter 5 of the Diagnostic Report). Even so, as we set out in Chapter 7, where a DCA was present adequate disclosure required firms to explain not just the fact that a commission is paid, but also the nature of the arrangement. Our casefile review provides clear evidence of a comprehensive failure to do this.

3.10 Our review also looked at whether the customer was informed of the amount of commission, which is required in some circumstances and, in cases where there was one, a tied arrangement.

3.11 There was no evidence that customers were told the amount of commission in any of the DCA casefiles we reviewed. Table 2 shows the results of our review of 599 non-DCA files.

Table 2: Non-DCA casefile review on disclosure of commission amount

Amount of commission disclosed	4% (26 casefiles)
Amount of commission not disclosed	79% (471 casefiles)
Data not available	17% (102 casefiles)

3.12 In our view, the absence of evidence of disclosure is enough to presume that it is highly likely no disclosure was made. Whether or not inadequate disclosure of amount of commission leads to an unfair relationship will depend on whether it is high relative to total cost of credit and loan amount (we set out our proposed definition of high commission in Chapter 4). The absence of any disclosure of amount where DCAs were used and very low levels where non-DCAs were used is evidence of widespread and regular failures to disclose high commission.

3.13 Collecting data on tied arrangements from lenders was challenging because it involved manual searches for lender/broker documentation. However, we reviewed 570 DCA casefiles where the lender/broker contract was on file to see if there were arrangements that restricted the broker from offering the business to other lenders unless the lender declined to offer a loan to the customer (also known as 'right of first refusal' (ROFR)).

Table 3a: DCA casefile review findings on ROFR disclosure.

Casefiles reviewed	ROFR identified	No ROFR identified	Other contractual arrangements identified	Unclear/unclear because documents missing
570	29% (164 casefiles)	30% (173 casefiles)	20% (114 casefiles)	21% (119 casefiles)

3.14 We then looked at how many of the 164 cases that had ROFR were disclosed to the customer, shown in the table below.

Table 3b: Disclosure in casefiles where a ROFR identified

ROFR disclosed to the customer	ROFR not disclosed to the customer	ROFR casefiles where documents missing so unable to determine whether disclosed
10% (16 casefiles)	47% (77 casefiles)	43% (71 casefiles)

3.15 The above table suggests that out of a total of 570 casefiles reviewed, 77 or 13.5% indicated an undisclosed ROFR.

3.16 We also reviewed 295 non-DCA casefiles where the broker had access to a panel of lenders to determine if there was a ROFR.

Table 4: Findings on ROFR disclosure from 295 non-DCA casefiles

Evidence that the lender had a ROFR	26% (76 casefiles)	
	ROFR not disclosed	28 casefiles
	ROFR disclosed	32 casefiles
	Documents missing	16 casefiles
No ROFR arrangement	52% (154 casefiles)	
Unclear because documents missing	22% (65 casefiles)	

3.17 We note that some lenders who never used DCAs also confirmed they have never used tied arrangements. Nonetheless, our evidence shows that in 9.5% of the 295 cases where we asked if there was a ROFR, the customer was not told about it.

3.18 We used the findings of our review to inform assumptions. We used these assumptions to model market-wide estimates of failures to adequately disclose certain arrangements, which could lead to unfair relationships for the purposes of estimating redress costs under our scheme. We set these out in Chapter 8, paragraphs 8.12 to 8.15 and in Annex 6. The redress cost methodologies are described in detail in Technical Annex 1.

3.19 Our liability estimate model assumes that there is no adequate disclosure of DCAs or high commission. For ROFR, the model assumes that, across the population, 14% of agreements will have an undisclosed ROFR. We have not included in our assumption cases where there was a ROFR but where we could not determine if it had been disclosed. This is because the case files were selected in the context of our work on DCAs and lenders were not asked to consider secondary evidence that might indicate whether or not the ROFR would have been disclosed. In relation to DCAs this may have a limited impact given, if the DCA was not disclosed, the undisclosed ROFR would not necessarily impact the amount of redress.

3.20 The breach rates we have calculated are based on the whole market and take account of cases where no commission was paid and cases where the DCA was not engaged, ie the APR did not exceed the minimum APR. These are not modelled to receive a redress payment.

3.21 Our modelling is based on data provided by firms including on the level of commission payable. In a number of cases, firms have provided data recording zero commission was paid in circumstances that are challenging to verify and reconcile including, for example, in relation to DCA arrangements. It may be that when cases are fully assessed through a scheme they are eligible for redress because, in fact, commission was paid or payable. In that scenario it may mean that our overall redress liability estimates for those cases is understated.

3.22 Our model estimates the percentage of cases across the market where there will be an indicator of unfairness present:

- inadequate disclosure of DCA: 37%
- inadequate disclosure of high commission: 9.5%
- inadequate disclosure of tied arrangements: 10.5%

3.23 It is important to note that the above rates are calculated for each category of unfair relationship individually and cases will be duplicated within each category. Our estimates of the percentage of cases that breach any one of the 3 categories of unfairness is reflected in our estimate that redress will be due in 43.6% of cases.

3.24 We conclude that our review findings and estimated breach rates show that there was widespread and regular failure to disclose key factors of a motor finance agreement. This is supported by the large numbers of complaints in motor finance.

Loss or damage from disclosure failures

3.25 When consumers receive necessary information about commission arrangements and tied arrangements:

- They can better understand the deal they've been offered and are more aware that better deals might be available, either from their current broker or elsewhere, depending on the broker's independence and incentives.
- As a result, consumers are more likely to shop around for other loans, try to negotiate a better rate, or simply decide not to go ahead with the deal.
- To avoid losing business, brokers then respond by offering more competitive interest rates – either because the consumer negotiates directly, or because the broker wants to keep their business.
- If adequate disclosure is not made, these positive effects are less likely and consumers could suffer loss.

3.26 We carried out econometric analysis to help inform our view of the impact of inadequate disclosure. We did five pieces of analysis, supported by two external, independent academic reviews. A significant constraint was the lack of cases with compliant disclosure. This has prevented a full assessment of the impact of inadequate disclosure compared with adequate disclosure.

3.27 Full details of the econometric analysis, including its limitations, are in Analysis of Loss section in section 2 of Technical Annex 1: Data, analysis of loss, and liabilities and cost methodologies.

Discretionary commission arrangements (DCAs)

3.28 Our analysis of approximately 230,000 agreements between January 2019 and January 2021 finds that APRs on loans with two types of DCAs – reducing difference-in-charges (DiC) or scaled commission models (these models are described in the Diagnostic Report) – were typically 20–24% higher than comparable flat fee loans.

3.29 In other words, borrowing costs on loans with a flat fee commission structure were on average 17% lower than comparable loans with reducing DiC or scaled commission models. This is broadly consistent with other analysis we have carried out, which found that, following our 2021 ban on DCAs, average APRs fell by around 20% compared to a control group of personal loans, indicating that DCAs were driving higher costs for consumers before the ban. This is also likely to be a lower bound to the losses faced by consumers as it looks at how much more consumers paid than they would have done in a transparent market and not the losses involved with receiving an unsuitable product or the erosion of trust and confidence.

High commission

3.30 We carried out analysis to test if higher broker commission is associated with a higher total cost of credit for consumers with flat fee loans, controlling for other important drivers of borrowing costs. We found that on average, for every £1 of commission paid, the cost of credit rose by about £0.60, although this relationship was not statistically significant across all agreements.

3.31 However, in a smaller subset—where commission was on average 33% of the total cost of credit and 10% of the loan amount—we found stronger evidence that borrowing costs increased by more than £1 for every £1 of commission. This effect becomes stronger as the commission increases as a proportion of the total cost of credit and loan amount. For example, in cases where commission was at least 50% of the total cost of credit, every additional £1 of commission was linked to a £1.54 increase in borrowing cost.

3.32 Some limitations to the analysis mean we treat this as indicative of an impact rather than conclusive evidence (set out in Technical Annex 1). However, it indicates that, where commission is high as a proportion of the cost of credit and the loan, consumers are paying more for their loan. This does not mean the higher commissions were themselves disproportionate or unjustified – brokers provide an important service – but it provides an indication as to why adequate disclosure is essential as it may prompt consumers to ask about the reason for the high commission (relative to the cost of credit and loan amount) and how it impacts their costs.

Tied arrangements

3.33 The Supreme Court's judgment in *Johnson* confirmed that undisclosed or inadequately disclosed tied arrangements between lenders and brokers are highly relevant to whether a credit relationship is "unfair" under section 140A CCA. The Supreme Court found that a hidden commercial tie, combined with a large undisclosed commission, made the relationship unfair. This reinforces the principle that transparency of such ties is critical to fairness. Given the materiality of this information, it is reasonable to expect that consumers may have suffered loss from inadequate disclosure of tied arrangements. Disclosure could have meant that consumers were more likely to shop around, increasing competitive pressures and potentially leading to lower borrowing costs.

3.34 Considering the judgment in *Johnson*, we examined the data we hold on tied arrangements and disclosure practices. However, the available data is too limited and dispersed over time to support statistically robust conclusions about empirical evidence of loss. Analysing a sufficiently large dataset would require significant FCA and firm resources—around six months of work—delaying redress for consumers. Further, consumers' entitlement to redress often arises from factors other than the inadequate disclosure of tied arrangements. Our priority must therefore be to balance analytical depth with the pressing need to implement a scheme that delivers redress quickly and fairly at scale, particularly given the time period that has already elapsed with millions of consumers waiting for matters to be resolved.

3.35 Nevertheless, the *Johnson* judgment makes clear that inadequate disclosure of tied arrangements can cause consumer loss. Where consumers were unaware of such ties, they may have paid a higher APR than they could have obtained if they were properly informed. We are satisfied it is appropriate to consult on this basis and welcome views, including any empirical analysis.

Conclusion on the first two conditions of the statutory test

3.36 We conclude there is strong evidence that there was widespread and regular failure to adequately disclose commission arrangements and tied arrangements in motor finance agreements. Furthermore, when there are certain features present in a commission arrangement, associated with the amount or nature of commission, or a tied arrangement, the failure to disclose those features is likely to have created an unfair relationship under s140A CCA. As a result of this, consumers have suffered (or may suffer) the loss of the opportunity to negotiate lower borrowing costs or seek alternatives. Under s140A, where an agreement is found to be unfair, the courts have a power to provide remedies to the consumer. On this basis, we consider that the first two conditions in the statutory test required for the use of our powers under s404(1)(a) and (b) FSMA are met.

3.37 We note that many firms have been fully disclosing commission arrangements and tied arrangements in the light of the Court of Appeal decision in *Johnson* and have reported very little or no impact on consumer behaviour so far. We also acknowledge that the academic literature is inconclusive on the impact of disclosure. However, we do not think that this is enough to counter the conclusions we have reached. Disclosure practices have only changed recently and the behaviour of firms in response to increased transparency is likely to be a longer-term impact as firms adjust their position over time in order to remain competitive. Furthermore, DCAs are now banned and many of the cases we are dealing with in the scheme related to non-disclosure in relation to those arrangements. We note too that the court in Johnson determined that it was "not necessary for [the claimant] to prove that he would not have proceeded with the transaction had he been made aware of the fact and amount of commission" (see paragraph 327, [2025] UKSC 33).

The third condition: desirability

3.38 Having concluded the first two conditions of the statutory test are met, we set out below how we have determined that the third condition in s.404(1)(c) is also met – that a redress scheme is desirable, having regard to the other ways in which consumers may obtain redress.

3.39 There are broadly four options:

1. A redress scheme made using our powers under s404 FSMA, with us setting rules and guidance on how firms must determine whether customers have lost out due to specified firm failings, and if they have, how they must calculate appropriate compensation.
2. Consumer complaints, which is the usual mechanism. The Dispute Resolution chapters of our Handbook set out the rules that firms must follow when resolving complaints. Firms are required to deal with complaints they receive and then, if unhappy with the firm's response, consumers can refer complaints to the Financial Ombudsman. A consumer is always entitled to pursue a claim in court if they do not wish to pursue a regulatory complaint. In most cases the complaints system allows consumers and firms to quickly and efficiently resolve disputes.
3. Complaint handling guidance. We have previously published guidance for firms on how some complex redress matters should be resolved, for example our guidance on Payment Protection Insurance or Defined Benefit Pension Transfer redress calculations. We could publish further guidance specific to all or a portion of motor finance commission complaints on how to handle them and how to calculate redress.
4. Engaging individually with firms. We have a variety of powers we can deploy including appointing a "skilled person" to oversee a firm's redress exercise, obtaining an undertaking from a firm's senior management that certain conditions will be met, or mandating through requirements how firms identify cases where there has been a failure to adequately disclose relevant information and pay redress. We have the ability, through s.404F(7) of FSMA, to place a requirement on a firm's Permissions that specifies how a firm must identify cases that are eligible for redress and how that redress should be calculated. We can also require that the Financial Ombudsman determines any complaints referred to it in accordance with the terms of the requirement. This would only have effect for the firm in question and is an option that must be deployed on a firm-by-firm basis.

3.40 To help inform decision-making, we have considered the options above against certain principles (also set out in Chapter 1). These had been chosen to help inform design of the redress scheme, but they are as relevant for weighing up the best options for delivering redress.

Comprehensiveness

3.41 A redress scheme will enable us to ensure a broad range of issues are considered and receive fair and consistent treatment. Alternatives would not be as comprehensive. Relying on consumer complaints to deliver redress may mean that consumers receive inconsistent and unpredictable outcomes. Consumers are therefore more likely to refer cases to the Financial Ombudsman or the courts. This will mean that consumers and firms need to spend more effort resolving each issue. Consumers, particularly the most vulnerable, may face barriers to complaining. As the core issue is related to non-disclosure to consumers, many consumers are unlikely to have sufficient information to bring a complaint. Our motor finance consumer awareness survey found a lack of information about eligibility for redress was the most common reason for consumers not complaining. A consumer redress scheme, supported by proactive contact by firms and extensive communications, would ensure more consumers have the opportunity for their case to be considered.

Fairness

3.42 We want to ensure that, as far as possible, all cases follow a straightforward process and similar cases receive a similar outcome. Using our powers to impose an industry-wide redress scheme allows us to set clear standards, and we will act if firms do not meet these standards. The Financial Ombudsman will also consider relevant scheme complaints referred to it after the introduction of the scheme against the outcome the consumer should have received under the scheme. In our pre-consultation engagement we have heard arguments that having firms lead the delivery of redress is placing responsibility on those who have been involved in wrongdoing and harm to consumers. We consider that firms leading on contacting consumers and making redress payments according to the rules of the scheme will be the most operationally efficient and fairest way of delivering timely compensation. To ensure fairness, we will continue to provide for a complaint mechanism to the Financial Ombudsman and consumers always retain their right to access the courts. Setting up a redress scheme will also ensure there are clear requirements of firms. This will facilitate supervision of the scheme, to make sure that firms are treating consumers fairly. Alternatives make it harder for firms to take a consistent approach and therefore risk a greater number of consumers receiving inconsistent redress determinations.

Certainty

3.43 We want to give firms and the wider capital markets as much certainty as possible about the range of liabilities, enabling them to plan and invest for the future. This is important so they can continue to support lending to the consumers who rely on motor finance.

3.44 A redress scheme helps provide certainty to firms by providing clarity on the approach the Financial Ombudsman will take in assessing complaints falling within the scope of the scheme referred to it after the scheme implementation date. As discussed further in Chapter 6, we believe we will be able to better control the future flow of complaints through a redress scheme, than without one. This will provide firms with greater

certainty on their back-book liabilities. Relying on consumer complaints would not provide certainty or finality to firms, as it may take many years for all relevant complaints to be made and resolved.

3.45 A redress scheme is also the best way to provide certainty for consumers. We can set requirements to ensure that consumers are informed of the scheme and are informed of decisions their lender makes during the scheme. This will help provide certainty that their case has been considered and the overall outcome they receive is fair.

Simplicity and cost-effectiveness

Simplicity

3.46 We want a simple way for consumers to get the redress they are owed, recognising there are complexities in the law. Our complaints handling requirements provide a simple way for consumers to raise an issue with a firm in most cases. However, in the case of motor finance, many consumers will find it hard to identify if they have a reason to complain because of the widespread non-disclosure by lenders. Our research found 40% of people who could have complained have not done so because the process seems too complicated. Consumers may also not recall who their lender was or have not kept relevant paperwork.

3.47 We believe that the best way to address these challenges is to require firms to proactively contact consumers. A redress scheme is the best mechanism for us to deliver this and will provide a simple and accessible experience for consumers.

Cost-effectiveness

3.48 We want to ensure that:

- the administrative cost of providing redress to consumers for failures by firms is proportionate for firms, and
- the market continues to work well for future customers, who could indirectly bear the brunt of administrative costs passed on to them through higher borrowing costs or reduced choice.

3.49 If we did not intervene, a very large number of consumers, many with representation, may seek redress through the Financial Ombudsman or the courts. We estimate the administrative cost of providing redress through these routes would be substantially higher than under a redress scheme, due to case fees and other costs. The current Financial Ombudsman fee is £650 for each complaint referred to them. The Financial Ombudsman has also introduced a fee for professional representatives which may also impact the proportion of represented cases which are referred to the Financial Ombudsman. Cases referred to court would likely cost even more.

3.50 In our cost benefit analysis (CBA) at Annex 2, we have estimated the administrative costs to firms of providing redress – otherwise known as "non-redress costs" – at £2.8bn under our proposed redress scheme. This includes direct costs such as administration costs incurred to handle complaints in-house, and indirect costs such as Financial

Ombudsman referral fees. This compares to up to £9.3bn in a scenario where we took no action (see Table 1 in Annex 2) so the net benefit of our proposed intervention is potentially reduced administrative costs of as much as £6.5bn. We also estimate that a redress scheme will result in lower administrative costs for consumers, compared to a scenario where we do nothing. While there is necessarily uncertainty about these estimates given the scale of the issues and range of possible behavioural responses in different scenarios, we consider that the cost of not intervening is far greater than the cost of a redress scheme.

3.51 As set out in Technical Annex 3: Market Impacts, redress and non-redress liabilities are not distributed evenly across lender types: banks account for around 51% of total liabilities, captive lenders around 47%, and independent lenders only about 2%. Within banks and captives, most lenders are estimated to face relatively low liabilities, but a small number face significantly higher costs. Those lenders facing higher costs are typically ones with a large share of motor finance agreements in both the new and used markets.

3.52 As we explain in in our CBA in Annex 2, we do not directly compare the estimated total redress liability figure under our proposed scheme with that expected under the counterfactual. First, redress liability estimates are not a cost to firms arising from our proposed scheme, as firms who are required to pay this redress were in breach of the law and therefore these costs represent impacts derived from historic non-compliance, rather than new costs associated with our intervention. Second, it is extremely challenging to reliably estimate the difference in the quantum of redress liabilities finally paid between our proposed intervention and the counterfactual due to uncertainties in the counterfactual over how firms, the Financial Ombudsman and the courts will treat and assess loss and unfairness. This could lead to undue focus being placed on what might be a relatively small difference, rather than larger differences in non-redress costs that firms, the redress system and market face between the counterfactual and our proposed intervention.

Timeliness

3.53 We want consumers who are owed redress to be compensated quickly. The complaints regime works well for individual complaints about specific issues. However, there has been an exceptionally significant spike in complaints about motor finance commission arrangements. This strained firms' ability to resolve complaints in good time. Bringing claims against firms via the courts can also be time consuming for consumers, which is likely to result in more using claims managers or law firms who would receive a fee or a proportion of any redress paid. Significant court backlogs mean it is likely to be some time before consumers who choose this option would receive any redress they are owed.

3.54 We recognise that introducing a redress scheme will take time to implement as we have needed to conduct our research into the options and prepare our consultation. We will listen carefully to feedback during the consultation on how to ensure a smooth implementation and operation. We also acknowledge the impact that extending complaint handling times may have had on some consumers. However, we believe that

balancing the time taken to implement the scheme against the significant benefits it will offer with respect to the other principles means that the greatest number of consumers will be offered timely redress.

Transparency

3.55 For consumers to have confidence in the scheme, it must be transparent. Firms want to have confidence that the redress they provide is fair and final, consistent with their peers and will not result in complaints under the scheme being referred to the Financial Ombudsman unnecessarily. If redress is not transparent, fair and timely, consumer confidence in firms and the regulatory framework may be impacted, also affecting other consumer credit markets.

3.56 Under a redress scheme, we can impose prescriptive communication requirements on firms to ensure consumers receive appropriate information about how their claims are being dealt with, and how decisions have been reached, at appropriate stages. We also set out in Chapter 10 our proposed reporting requirements and data publication plan to support our supervision, which are crucial to delivering transparency about the scheme's progress.

3.57 Through this consultation and the associated publications, we are setting out transparently the detail underpinning our thinking and will consider carefully all feedback received.

Market integrity

3.58 We believe a redress scheme will help minimise firm failure and support investment. This will help protect the integrity of the UK financial system. We set out our analysis of the market impacts of our proposed redress scheme in more detail in our CBA (Annex 2). In summary, it is likely that lenders will continue to operate in the market, with limited impacts to consumer access and prices in the new motor finance segment. There is potential for a small to moderate increase in prices in the used segment. In the absence of a redress scheme, we expect the potential impacts would be at least as high, including the illustrative increase in motor finance prices.

3.59 We expect our redress scheme to reduce uncertainty for firms and to increase consumer trust and confidence. This will support ongoing market integrity and align with our secondary international competitiveness and growth objective. As set out in our CBA, since the Supreme Court judgment and our subsequent announcement on 3 August, we have seen market confidence in impacted lenders improving, indicating that greater certainty on the range of redress exposure can also help improve market stability.

3.60 The lack of certainty if we do not intervene could impact lender profit margins and may incentivise some lenders to consider passing on greater costs to consumers, restricting lending or, in extreme cases, exiting the market. This could have significant impacts on the vehicle sales market where 80% of new vehicle sales use motor finance. The wider credit market could also be impacted. Lenders with exposure to motor finance may make business prioritisation decisions which impact the cost and availability of finance in other markets.

3.61 Our CBA (Annex 2) and associated Technical Annex 3: Market Impacts provides us with confidence that our proposed redress scheme will address historic liabilities in a timely, consistent and efficient manner whilst ensuring a healthy, well-functioning and competitive motor finance market in the future.

3.62 We are encouraged that, since we announced we would consult on a redress scheme, not only has there been a generally positive response in equity markets, but we have also seen the first UK automotive public securitisation transaction of considerable size since the Court of Appeal judgment. Latest Bank of England data also shows consumer credit lending volumes (which include motor finance) continuing to grow in recent months.

Lessons from previous mass redress events

3.63 Our approach in this CP has been guided by our experience in handling previous redress events. In particular our interventions on unsuitable advice to invest in Arch Cru funds, mis-selling of Payment Protection Insurance (PPI) and Interest Rate Hedging Products (IRHP), and unsuitable advice to transfer from the British Steel Pension Scheme (BSPS). These lessons include:

- The importance of a clear process, which provides fair and consistent outcomes for consumers. When we intervened on Arch Cru, BSPS, PPI and IRHP we set out the methodology against which firms should calculate redress. In our proposed scheme we have sought to provide a clear process for the assessment of liability and calculation of redress. This ensures clear expectations for firms and consumers can understand and have confidence in the outcome.
- Clear communications to consumers. When we ran the Arch Cru and BSPS redress schemes we required firms to use template letters to communicate with consumers. We are proposing a similar approach for motor finance so we can be certain that key messages are being delivered to consumers. We have also drawn experience from our media campaign related to PPI; we are planning significant consumer engagement to highlight the scheme and the steps consumers may need to take.
- The importance of finality. We recognise from previous interventions that a redress scheme needs to provide closure on an issue, both for firms and consumers. We have drawn from our experience setting the PPI complaint deadline to inform our approach to complaints within the subject matter of the scheme, and how we can help provide firms certainty of their future liabilities.
- Transparent consultation on the use of our powers. Following our intervention on IRHPs and the subsequent independent review we have referred to many of the recommendations made, when designing this redress scheme. In particular, ensuring that there is transparent and meaningful engagement with stakeholders. The pre-consultation engagement we have conducted has helped us design the redress scheme and we continue to welcome engagement from all stakeholders. We have preserved the independence and integrity of the FCA's decision-making processes throughout.

Question 1: **Do you agree with our assessment that i) there were widespread and regular failures to disclose information about commission arrangements, ii) consumers have lost out as a result, and iii) a redress scheme is desirable? If not, please explain why**

Consultation period

3.64 We acknowledge that in providing stakeholders with 6 weeks to respond to this consultation, we are departing from guidance in CONRED 1.2.1G that says the consultation period will usually be 3 months long. That guidance also points towards the exemption from consultation requirements for cases where the FCA considers that a delay would be prejudicial to the interests of consumers. We consider that a 3 month consultation would be prejudicial to the interests of consumers as it will mean that there are further delays to cases being considered and consumers being adequately compensated for their losses.

3.65 We have been clear in our communications since June 2025 that we want to be able to act as quickly as possible following the Supreme Court's judgment, so we can bring greater certainty for affected consumers, firms and investors. Given this and the pre-consultation engagement we have carried out, which has included engagement with firms, consumer groups and consumer representatives and a mailbox for consumers to share feedback, we have decided to align with what we have suggested in earlier communications and have a shorter consultation window.

3.66 While some of the issues being considered are complex, there has been significant public engagement on this issue for some time. Simplicity has been one of our guiding principles when designing a redress scheme. We want it to be easy for consumers to participate. Our consultation is open to consumers and we have endeavoured to make it easy to respond to. In light of our pre-consultation engagement and the planned post-consultation engagement, we consider a consultation period of 6 weeks will provide stakeholders with adequate opportunity to respond to our proposals and enable us to start bringing greater certainty for those affected. The consultation will be open over a period where extended holiday periods are not expected, and we will continue to engage with interested stakeholders during the consultation period.

Chapter 4

What our consumer redress scheme will cover

Key definitions

4.1 We use the following terms in this CP:

- "subject matter" defines the conduct issues addressed by a scheme
- "scheme case" describes the agreements that will be assessed and determined under a scheme.

4.2 If a case meets the scheme case criteria and falls within the subject matter of the scheme, it must be handled in accordance with the scheme rules. For the Financial Ombudsman, section 404B FSMA requires that complaints within the subject matter of the scheme are determined on the basis of the scheme rules rather than on the usual basis of what the Financial Ombudsman considers fair or reasonable for that individual complaint. However, complaints referred to the Financial Ombudsman before the scheme start date will be determined in the usual way.

The subject matter of the scheme

4.3 We propose that the subject matter of the scheme is whether, in a scheme case, there was inadequate disclosure of any of the following in connection with the entering into of a motor finance agreement:

- a DCA
- the payment of commission
- a tied arrangement
- any other arrangement between a lender and a credit broker under which the credit broker was incentivised (directly or indirectly) to introduce consumers wishing to enter into motor finance agreements to that lender

4.4 Defining the subject matter of the scheme broadly is essential to capture as many motor finance inadequate disclosure cases as possible within a single, coherent framework, and provide clarity and consistency on the kinds of cases that do, or do not, give rise to unfair relationships.

4.5 In particular, a broad subject matter definition will enable lenders to determine there was no unfair relationship under the scheme where a scheme case does not feature inadequate disclosure of a DCA, a high commission arrangement, or an exclusivity or near-exclusivity tied arrangement, as defined in this chapter. In this CP and our rules, we refer to these as arrangements – which we see as strongly associated with an unfair relationship – as "relevant arrangements".

4.6 If the subject matter were, instead, narrow and restricted only to the inadequate disclosure of relevant arrangements, cases without these arrangements could not be determined under the scheme. These excluded cases would have to be dealt with through parallel dispute resolution processes (ie firms' complaints processes, the Financial Ombudsman and even the courts). This risks fragmented or inconsistent outcomes, rather than predictable, standardised determinations that support fairness and orderly market functioning and confidence.

4.7 A broad subject matter, therefore, supports our scheme principles of certainty and market integrity and provides net benefits to both consumers and firms by preventing the redress system from being overwhelmed by cases concerning inadequate disclosure of other arrangements, which we do not consider likely to cause unfairness.

4.8 We have set out proposals at paragraphs 4.69-4.72 to deal with the risk that cases that receive a determination of no unfair relationship and no redress, because they did not involve a DCA, high commission payment, or contractual tie, might be referred to brokers because they breached our CONC disclosure rules.

Question 2: **Do you agree with the proposed broad definition of the subject matter of the scheme? If not, please explain why not and any other options we should consider**

Conditions for a case to be a scheme case

4.9 We set out below the conditions that must be satisfied for a case to be a scheme case. If these are not met, a case will not be considered under the scheme and any related complaint would need to be made to the lender (or broker) in the usual way.

Type of agreements

4.10 To be a scheme case, a consumer must have entered into a motor finance agreement with an FCA-regulated lender, or a lender that previously held an OFT licence, and there must have been a commission arrangement connected to that agreement.

4.11 Complaints about regulated consumer hire agreements, which we have previously given firms extra time to respond to (see Chapter 11), will not be able to become scheme cases. This is because the unfair relationship provisions under s140A CCA do not apply to these agreements.

Definition of motor finance agreement

4.12 A motor finance agreement is a regulated credit agreement that was used in whole or in part to finance the purchase or hire of a motor vehicle. These are most likely to be personal contract purchase (PCP), hire purchase (HP), or conditional sale agreements.

Definition of a motor vehicle

4.13 We propose to define a motor vehicle as a mechanically propelled vehicle that is intended or adapted for use on roads. It should have its own engine or motor for movement. We are not proposing to provide a list of every vehicle that would meet this definition, although we can confirm that we do not consider towed caravans motor vehicles for the purposes of this scheme.

Definition of commission arrangement

4.14 A commission arrangement is an arrangement between the lender and a credit broker in connection with the entering into of the motor finance agreement that related to the payment (directly or indirectly) of commission to the broker. In paragraph 4.40 we propose that cases where commission was not payable by the lender to the broker should not be scheme cases.

Definition of commission

4.15 For the purposes of this scheme, commission means any commission, fee or other form of remuneration payable (directly or indirectly) by a lender, or by a third party, to a credit broker in connection with the entering into of a specific motor finance agreement.

Question 3: **Do you agree with the proposed definitions of a motor finance agreement, motor vehicle, commission arrangement, and commission? If not, please explain which definitions you do not agree with and any other options we should consider**

De minimis threshold

4.16 In our 3 August statement, we said we would consider a de minimis threshold for the scheme. This would target cases where the cost to the lender of considering the case under the scheme would likely exceed the redress amount. We have decided not to propose a de minimis threshold. Excluding cases on proportionality grounds would not remove a lender's liability for failing to adequately disclose a relevant arrangement. These cases would fall outside the scheme and could still be referred to lenders or the Financial Ombudsman as complaints. Instead, we believe the better approach is to allow lenders to settle low-value cases without completing all stages of the scheme. Our proposals on settlement are set out in Chapter 5.

Question 4: **Do you agree with our proposal not to include a de minimis threshold? If not, please explain why you do not agree and any other options we should consider**

Definition of a consumer

4.17 We propose aligning the definition of a consumer with the scope of protections provided by the CCA. This means individuals, including sole traders, entering into regulated credit agreements as well as:

- partnerships consisting of two or three persons not all of whom are corporate bodies
- unincorporated bodies of persons which does not consist entirely of bodies corporate and is not a partnership

4.18 This approach also aligns with our remit for consumer credit. We think this provides consistency and ensures that those most likely to have been affected by unfair practices arising in motor finance agreements will be covered by the scheme. They are also likely to meet the definition of an "eligible complainant" for the purposes of the Financial Ombudsman's jurisdiction. We expect most scheme cases will be from individual consumers.

4.19 Under our proposals, agreements involving limited companies, limited liability partnerships, and partnerships consisting of more than three persons would not be scheme cases. Nor would agreements that were exempt from the consumer credit regime, such as agreements with a credit value of over £25,000 for business purposes.

Question 5: **Do you agree with our proposed definition of a consumer? If not, please explain why you do not agree and any other options we should consider**

Definition of a lender

4.20 We are proposing that the agreement must have been taken out with:

- an FCA-regulated lender, even if they are no longer regulated, or
- a lender that held an OFT licence, but did not receive FCA authorisation

4.21 If the agreement was taken out with a lender that has stopped trading and no longer exists, there will be no legal entity to which the scheme rules could be applied, so any agreements taken out with that lender could not be scheme cases. However, if another business has assumed the liabilities incurred by a firm that is no longer trading, that business will be treated as a lender for the purpose of the scheme, even if it was never FCA-regulated or held an OFT licence.

Question 6: **Do you agree with our proposed definition of a lender? If not, please explain why you do not agree and any other options we should consider**

Date the agreement was written

4.22 To be a scheme case, we are proposing that the agreement must have been taken out between 6 April 2007 and 1 November 2024. This proposed start date of the period covered by the scheme broadly aligns with the date on which section 140A of the CCA came into force and the Financial Ombudsman took on responsibility for handling complaints relating to consumer credit. The proposed end date is one week after the Court of Appeal's *Johnson* judgment (subsequently appealed to the Supreme Court) on 25 October 2024, by which time our work suggests firms had taken steps to amend their disclosure practices in light of the judgment.

4.23 During pre-consultation engagement, some firms raised concerns about a scheme extending back to April 2007 because key data to identify and assess claims may be unavailable stretching back to that date due to record management policies or changes to customer contact details. As an alternative and to help address the issue of missing data, some firms suggested that the period covered by the scheme should start from 1 April 2014 to align with when the FCA took over regulation of consumer credit. Other firms have indicated to us they support the period covered by the scheme starting from a 6 April 2007 as they can resolve the data issues and would prefer a comprehensive scheme.

4.24 We received strong support from consumer representatives for a scheme dating back to 6 April 2007, for consistency with the Financial Ombudsman's jurisdiction. They felt this could help ensure that consumers do not need to turn to other routes such as the courts and would help mitigate risks of harm posed by fraud and scams.

4.25 Some firms suggested that 11 March 2010 would be an appropriate start date for a scheme. This was when the OFT introduced guidance on irresponsible lending and broker remuneration practices. Our current view is that this would not be an appropriate start date as the CCA unfair relationship provisions, which were in place as of 6 April 2007, are sufficient to generate liability in respect of unfair relationships across the whole period. Therefore, unless the scheme covers cases from 6 April 2007, it will not be able to provide finality to firms, consumers and the market.

4.26 Our CBA estimates that covering agreements from 6 April 2007 could result in 14.2 million agreements involving an unfair relationship being within the remit of the scheme. This number reduces to 8.9 million if a start date of April 2014 is used. However, if a redress scheme does not include agreements written before April 2014, the liabilities owed by lenders for the 5.3 million agreements involving an unfair relationship not captured would continue to exist. If these complaints were determined outside of the redress scheme, it could place additional burden and costs on firms and the Financial Ombudsman. Complaints referred to the Financial Ombudsman could incur a case fee of £650 per case. Cases could potentially be pursued through the courts for many years at considerable expense to firms and consumers. We set out in our CBA (Annex 2) the different costs of a scheme with a 2007 start date compared to one starting in 2014.

4.27 We acknowledge that the earlier the period covered scheme starts, the greater the possibility of gaps in historic records. However, the evidence we have gathered, and which is set out in Chapter 3, strongly suggests that, in a large majority of cases, commission and commission arrangements were not adequately disclosed.

In particular, in later periods, when records of what was disclosed to the consumer during a transaction are more widely available, adequate disclosure of the existence and nature of DCAs, the amount of commission in high commission arrangements, and tied arrangements was extremely rare. To presume that this was not also the case in earlier periods, when there are more likely to be evidence gaps, would mean saying that disclosure practices got worse, rather than better, over time. This would be inconsistent with normal regulatory and market developments.

4.28 To avoid consumers being disadvantaged by evidential gaps beyond their control, we propose in Chapter 7 that, where evidence of what was disclosed to the consumer is missing, lenders must presume that disclosure was inadequate (subject to the limited rebuttals set out in that chapter). We also propose in Chapter 7 that lenders have the option to evidence adequate disclosure by using standardised or template materials – which we consider are more likely to have been retained – provided they take reasonable steps to verify that such materials were in use at the time of the transaction. In practice, this means the absence of individual records should not, of itself, prevent significant numbers of cases from being assessed under the scheme.

Question 7: **Do you agree with our proposal that an agreement would need to have been written between 6 April 2007 and 1 November 2024 for it to be a scheme case? If not, please explain why you do not agree and any other options we should consider**

Civil limitation

Legal framework

4.29 To be a scheme case, the limitation period for bringing a legal claim must not have expired before the scheme rules are made.

4.30 Section 140A CCA claims are normally subject to a six-year limitation period in England, Wales and Northern Ireland running from the end of the credit relationship (section 9 Limitation Act 1980). Under section 32(1)(b) of the Limitation Act 1980, however, the limitation period does not begin to run where any fact relevant to a claim has been deliberately concealed from the consumer by the defendant or its agent until such time as the consumer could, with reasonable diligence, have discovered it.

4.31 In Scotland the time-limits – referred to as prescription – applicable to bringing a legal claim are governed by the Prescription and Limitation (Scotland) Act 1973 (as recently amended by the Prescription (Scotland) Act 2018). This does not impose a time limit on s.140A CCA claims, or a remedy awarded pursuant to s.140B. Notwithstanding there being no period of prescription that applies to unfair relationship claims we do not consider there to be an open-ended right to bring an unfair relationship claim in Scotland. As the Supreme Court said in *Smith v Royal Bank of Scotland*, a court can refuse to grant a remedy under s.140B "where, although the claim is not time-barred, in view of delay by the debtor in making a claim and the reasons for the delay, the court considers it unfair in all the circumstances for the debtor to obtain the relief sought," (paragraph 59).

4.32 The CCA 1974 applies across the UK. To determine whether a s.140 CCA claim can be issued in Scotland lenders and consumers should refer to the Civil Jurisdiction and Judgments Act 1982 ('CJJA 1982'). This Act sets out whether courts in England & Wales, Scotland or Northern Ireland have jurisdiction to hear a particular type of case. In general, a consumer who is domiciled in Scotland will be entitled to issue proceedings in Scotland, see s.15B(2)(b) of the CJJA 1982. A consumer domiciled in England, Wales or Northern Ireland will also be entitled to issue proceedings in Scotland if the lender is domiciled in Scotland, see s.15B(2)(a). In general, the law which a court will follow in any proceedings will be the law which is said to apply to the contract in any choice of law clause contained in the contract. If the contract does not have a choice of law clause, then the general position is that the court will apply the law of the country in which the consumer was habitually resident at the time the credit agreement was made.

Implications of disclosure practices for civil limitation

4.33 In relation to the application of s.32(1)(b) Limitation Act in England, Wales and Northern Ireland, inadequate disclosure of a relevant feature of the lending arrangement (ie the fact of a DCA, high commission arrangement or tied arrangement) is the essential basis of the unfair relationship claims that our proposed scheme is intended to capture. In our view, absent adequate disclosure of those features, typically that will amount to deliberate concealment of a fact relevant to the consumer's claim that the consumer could not with reasonable diligence have discovered.

4.34 Our analysis, which is set out in our Diagnostic Report, has identified that the most common form of disclosure relating to these features made by firms (if any) was a partial disclosure that "commission may be payable". We do not consider that such wording, or a similar partial disclosure such as commission "would be payable", would normally be sufficient for lenders successfully to argue that that the consumer cannot rely on s.32(1)(b).

4.35 We do not, therefore, expect lenders to be routinely finding that a case is out of time for the scheme. Under our proposals, we will be monitoring closely through supervisory reporting the numbers of cases that lenders do not accept under the scheme on grounds of being out of time.

When civil limitation should be assessed

4.36 We are proposing that lenders assess whether a case is in time for the scheme at the point it determines whether it is a scheme case. Assessing limitation at this stage will protect consumers who, by making a complaint to the lender before the start of the scheme, have preserved their position for the purposes of the Financial Ombudsman's time limit rules. If, on the other hand, limitation was considered as part of the scheme's liability assessment under the scheme, the consumer would receive a redress determination and, therefore, any complaint to the Financial Ombudsman would be considered on the more limited basis of whether the lender's decision on limitation was correct under the scheme rules.

4.37 If a firm decides that a scheme case is outside the limitation period, but the consumer disagrees, the consumer will be able to refer it to the Financial Ombudsman. If the Financial Ombudsman decides that the case was made in time for the scheme, the

case will fall to be determined in accordance with the scheme rules, and so the Financial Ombudsman would, ordinarily refer the case back to the firm to be assessed as part of the scheme, rather than conduct the scheme assessment itself. If the Financial Ombudsman finds that the case was not made in time for the scheme, it will consider it as a complaint for the purposes of the complaint handling rules in DISP and consider whether it has been made in time by reference to the rules in DISP 2.8.2R. If the complaint was made in time for the Financial Ombudsman to consider the complaint, and all other jurisdiction criteria are met, it will be for the Financial Ombudsman to decide how it considers the complaint.

Question 8: **Do you agree with our view that lenders should not be routinely finding that a case is out of time for the scheme? If not, please explain why you do not agree**

Question 9: **Do you agree with our proposal that civil limitation should be assessed at the point the lender determines whether a case is a scheme case? If not, please explain why you do not agree and any other options we should consider**

Geographical scope

4.38 We propose that the scheme should apply to any consumer with a scheme case, who was resident in the UK at the time of entering into the relevant agreement, even if they are not resident in the UK anymore. This reflects the fact that they were protected by the consumer credit regime when they took out their agreement and are still entitled to benefit from these protections, despite no longer living in the UK. Such consumers would also be able to make a complaint to a lender and, if necessary, to the Financial Ombudsman.

4.39 We recognise the practical challenges of tracing customers no longer in the UK, particularly if they are not active customers of the firm. This may mean that even when firms take reasonable steps to do so, they may be unable to proactively locate such consumers. In such cases, the onus will be on those consumers to come forward if they wish to have their case considered.

Question 10: **Do you agree with our proposal that the scheme should apply to any consumer with a scheme case, who was resident in the UK at the time of entering into the relevant agreement, even if they are not resident in the UK anymore? If not, please explain why you do not agree and any other options we should consider**

Cases that are not scheme cases

4.40 We propose that the following cases are not scheme cases, even if they would otherwise satisfy the conditions to be a scheme case:

- If a consumer has already referred a complaint to the Financial Ombudsman and the complaint falls within the jurisdiction of the Financial Ombudsman.
- If a consumer made a complaint, prior to the scheme effective start date, to their lender or broker that related to the subject matter of the scheme and resulted in redress being accepted.
- If a consumer had a case prior to the scheme effective date that related to the subject matter of the scheme decided by the Financial Ombudsman that resulted in redress being accepted.
- If a consumer has accepted an offer of redress in full and final settlement of a complaint or claim that was not about the subject matter of the scheme and the terms of that acceptance extended to cover the subject matter of the scheme. For example, a consumer might have brought a separate claim against the lender for breach of contract which was settled on terms that required the consumer to agree to waive their legal right to bring any future claims based on the agreement. In such circumstances, if the terms of the settlement extend to cover a claim that would fall within the subject matter of the scheme, we expect the scheme to respect that settlement reached between the parties.
- If a consumer had a case decided by the Court, prior to the scheme effective date, that related to the subject matter of the scheme, regardless of the outcome.
- If no commission was payable. The purpose of the scheme is to address clear cases of unfair relationships in motor finance, drawing on the legal principles established in *Johnson and Clydesdale*. Neither case involved agreements where no commission was payable, and we do not consider that our diagnostic work or the current case law would support the inclusion of cases where commission was not payable.

4.41 Consumers whose cases are excluded from the scheme on the grounds set out above may be able to refer a complaint to the Financial Ombudsman. If the consumer feels that they were wrongly excluded from the scheme the Financial Ombudsman would consider whether the lender was correct to exclude them. If the Financial Ombudsman decides that the case was incorrectly excluded, the case will fall to be determined in accordance with the scheme rules, and so the Financial Ombudsman would ordinarily refer the case back to the lender to be assessed as part of the scheme, rather than conduct the scheme assessment itself.

4.42 If the Financial Ombudsman finds that the lender was correct to exclude the consumer, or the consumer accepts that the lender was correct to exclude them, it will be for the Financial Ombudsman to decide how it considers the complaint. The lender will need to be given the opportunity to provide a final response to the complaint before it can be considered by the Financial Ombudsman

Question 11: **Do you agree with our proposals on which cases should be excluded from the scheme? If not, please explain why you do not agree and any other options we should consider**

Question 12: **Do you agree with our proposal that cases where no commission was payable should be excluded from the scheme? If not, please explain why you do not agree and any other options we should consider**

Proposal to limit determination of an unfair relationship to scheme cases with "relevant arrangements"

4.43 In *Johnson*, the Supreme Court confirmed that the test of unfairness under section 140A CCA is highly fact sensitive and permits courts to take account of a very broad range of factors. However, a consumer redress scheme under section 404 FSMA must have objective, common and identifiable criteria so that firms can assess very large volumes of cases consistently, quickly and at proportionate cost.

4.44 Our approach does not aim to narrow or redefine the court's legal test. It is clear to us that the amount of commission and the nature of commission arrangements can be highly material factors in the assessment of the unfairness of a relationship. We are, therefore, making a regulatory judgement, supported by our diagnostic work and the case law, about the circumstances in which a firm should consider that the inadequate disclosure of certain features is likely to lead to a finding of an unfair relationship. Regarding the case law, we note the following specific points:

- In *Johnson*, the Supreme Court reasoned that the size of the undisclosed commission and the concealment of the tied arrangement tie between the dealer and the lender meant that the relationship was unfair.
- In *Clydesdale*, the judicial review of the Financial Ombudsman's decision in the Miss L case, the High Court dismissed challenges to the basis on which the Financial Ombudsman had decided to award compensation, including a decision that the failure to disclose the DCA had resulted in an unfair relationship.

4.45 We propose that lenders should only determine there was an unfair relationship under the scheme if at least one of the following arrangements – which are defined in the next section – were present in a scheme case and inadequately disclosed:

- a DCA
- a high commission arrangement
- a tied arrangement

Determination of no unfair relationship for scheme cases without "relevant arrangements"

4.46 We propose that, if a scheme case does not involve inadequate disclosure of a relevant arrangement, as defined in the following section, the lender must conclude that there is no unfair relationship, and the consumer is not entitled to redress under the scheme.

4.47 Consumers would be entitled to complain to the firm and, subsequently to the Financial Ombudsman, about a redress determination of no unfair relationship because none of the features were present. However, in line with section 404B FSMA, the Financial Ombudsman would have to assess any complaint about a redress determination against the scheme rules. If the firm had followed the scheme rules, the Financial Ombudsman would not be able to determine that, notwithstanding the absence of a relevant arrangement, there was an unfair relationship because of inadequate disclosure of the amount of the commission or the nature of the commission arrangements. For example, if the size of the commission was below the threshold for a high commission arrangement, the Financial Ombudsman could not (for a scheme case) decide that a failure to disclose the amount of commission caused or contributed to an unfair relationship.

4.48 The effect of this approach is that consumers seeking to complain about the inadequate disclosure of commission and commission arrangements that are not relevant arrangements would have to take legal action through the court system if they wanted the individual circumstances of their case to be considered. This would not only apply to unfair relationship complaints about inadequate disclosure against lenders. If consumers attempted to bring complaints about inadequate disclosure of commission arrangements against brokers instead, on the basis that they had breached FCA rules, the Financial Ombudsman would determine that the subject matter of the complaint – inadequate disclosure – should be dealt with under the scheme (see paragraphs 4.69-4.72).

4.49 We consider our proposal to limit liability for an unfair relationship to relevant arrangements is supported by engagement with the Financial Ombudsman, which has received more than 100,000 complaints about the inadequate disclosure of motor finance commission arrangements.

4.50 We acknowledge that some stakeholders will be concerned about the removal of free, informal dispute resolution for certain consumers who would otherwise have access through the normal complaints process. This may pose challenges for individuals whose cases fall outside our definitions.

4.51 To mitigate the risk that we have overlooked other features whose inadequate disclosure could also give rise to an unfair relationship, we are inviting evidence through this consultation on other potentially problematic practices where inadequate disclosure could have resulted in an unfair relationship. In our policy statement, we will summarise any representations we have received and whether the evidence in support of them is sufficiently compelling to cause us to change our position.

Complaints outside the subject matter of the scheme

4.52 Our proposed approach does not affect motor finance-related complaints that are not about inadequate disclosure of commission or commission arrangements. These would not be scheme cases. Complaints concerning other matters – such as affordability or creditworthiness assessments, fees and charges, treatment of arrears and forbearance, or other aspects of the lending or broking process – can continue to be made to firms under the normal complaint handling rules and, if unresolved, referred to the Financial

Ombudsman. Where a complaint contains multiple elements, those parts of the complaint that are within the subject matter of the scheme, will be dealt with under the scheme rules. While elements not within the subject matter of the scheme will proceed through the normal complaint route. We are proposing to extend the time firms have to respond to these complaints.

Question 13: **Do you agree with our proposal that, if a scheme case does not involve inadequate disclosure of a relevant arrangement, the lender must conclude that there is no unfair relationship, and the consumer is not entitled to redress under the scheme? If not, please explain why you do not agree and any other options we should consider**

Question 14: **Do you have any evidence on other potentially problematic practices where inadequate disclosure could have resulted in an unfair relationship and which would not be included under our current proposals? If so, please share your evidence with us**

Definitions of relevant arrangements

4.53 We set out below the proposed definitions of relevant arrangements, which could result in liability for an unfair relationship if they were not adequately disclosed. We have included DCAs for completeness, but as DCAs are already defined in our Handbook, we are only seeking views on our proposed definitions of high commission payments and contractual ties. Given the significance of these definitions, we welcome consultation feedback on the thresholds we have proposed for these two arrangements. This feedback should be supported by appropriate analysis.

Discretionary commission arrangements (DCAs)

4.54 In line with our Handbook definition, a DCA would be present where the broker had discretion to set or influence the interest rate or other key pricing terms in a way that increased or reduced the commission they received from the lender.

High commission arrangements

4.55 We propose to set the threshold for a high commission arrangement at 35% of the total cost of credit and 10% of the amount financed. As recognised by the Supreme Court in *Plevin* and *Johnson* there is a point at which a commission is so high that the relationship may be regarded as unfair for the purposes of s140A if the consumer is kept in ignorance of it. In deciding where we think that point should lie for the purposes of the scheme we have had regard to that legal principle, our own econometric evidence on the relationship between commission and borrowing costs, and the need for us to set a clear metric that can be operationalised at scale in a redress scheme of this nature.

4.56 In Chapter 3 and in Technical Annex 1 we set out analysis of the relationship between commission and borrowing costs. This has found statistically significant evidence that the relationship between commission and borrowing costs is stronger (ie borrowing costs increase by more than £1 for every £1 paid in commission) at the 75th percentile of loans organised by commission as a proportion of loan amount. For this group, commission is on average 33% of the total cost of credit and 10% of the loan amount.

4.57 The 35%/10% threshold is the point at which our analysis best indicates that borrowing costs may have been more strongly affected, and in some cases disproportionately elevated, by the commission, such that its size would likely to have been a major consideration in the consumer's mind had they been aware of it when they took out the loan. We note, in particular, the Supreme Court's acknowledgement in paragraph 328 of *Johnson* of how commission affects borrowing costs in its finding that the lender indirectly recovered commission costs from borrowers within the charge for credit.

4.58 We consider both the total cost of credit and loan amount thresholds suggested above should be met for a scheme case to be considered as having a high commission arrangement. This will help ensure that "false positives" are not caught by the scheme, eg low-cost credit agreements, such as very low APR loans, or relatively small loan amounts, where commissions could appear very large relative to the cost of credit or loan amount. However, liability could still be established under the scheme for low-cost credit agreements where another relevant arrangement is present, such as a DCA or a tied arrangement.

4.59 When calculating the commission as a proportion of the total cost of credit and loan amount, lenders should refer to these values as they stood at the start of the agreement. This is because lenders should have considered and made any necessary disclosure to consumers before they entered into the agreement. Any changes to these values afterwards, for example due to early settlement, would not be relevant to the assessment of whether the relationship was unfair for lack of disclosure at the time.

4.60 If the commission is equal to or greater than 35% of the total cost of credit and 10% of the loan amount, the high commission arrangement threshold is met. Where commission is below either threshold, the scheme case should be treated as not involving a high commission arrangement.

4.61 It is important to note that:

- Our proposed definition of high commission arrangement is for motor finance scheme cases only and not intended to establish a benchmark for other finance products.
- The proposed definition is about the point at which the amount of commission should be disclosed to the consumer. It should not be interpreted as setting a threshold for an "unfair" level of commission. Nor are we making any judgement about the appropriate remuneration for brokers.

Question 15: **Do you agree with our proposed definition of a high commission arrangement? If not, please explain why you do not agree and any other options we should consider**

Tied arrangements

4.62 In our view, an inadequately disclosed tie that is likely to give rise to an unfair relationship is a contractual requirement that materially constrains independence by providing a lender with exclusivity or near-exclusivity in the following ways:

- by obliging the broker to introduce customers exclusively to a single lender, or
- by requiring the broker to give a lender the opportunity to make an offer before approaching others (including rights of first refusal or equivalent right of priority).

4.63 In short, the tie means the broker must prioritise the tied lender and cannot approach alternative lenders unless the tied lender does not accept the broker's proposal, or the lender accepts the proposal, but the consumer rejects the offer presented by the broker. If a tie of this nature is not adequately disclosed, as was the case in *Johnson*, the consumer may reasonably presume the broker is free to select from a range of lenders. This underscores the importance of the disclosure obligations in CONC 3.7.3R and 3.7.4G and (previously) section 160A(3) CCA, requiring firms to explain the extent to which they act independently, including any exclusivity.

4.64 There are a range of commercial arrangements between brokers and lenders which vary in their potential to influence what credit agreement is offered to the customer. Some arrangements may offer a benefit to the broker but without any specific link to lending referrals. For example, a lender providing a short-term cash-flow facility, sometimes called advanced commission, which can be set off against commission or repaid by other means. Other arrangements might include an explicit incentive, clearly intended to influence the broker's choices of where to place business, such as a stocking facility provided by the lender with a variable interest rate depending on the volume of business placed with that lender, or a volume bonus paid when a certain volume of lending business is reached.

4.65 We need to determine where within this range of commercial arrangements to draw the line between those that lead to unfair relationships if inadequately disclosed and those that do not. In some circumstances, commercial arrangements have the potential to influence broker behaviour and create conflicts of interest that engage regulatory disclosure provisions, specifically, CONC 3.7.4G on conflicts of interest and, as relevant, CONC 3.7.3R or section 160A(3) CCA on the extent of broker's independence.

4.66 It is clear to us that arrangements which offer an advantage, but no explicit incentive, such as short term cash flow arrangements, do not have the necessary features to lead to an unfair relationship – given the lack of clear link between the contractual arrangement and business the broker refers to the lender. Incentive-based arrangements are more difficult to determine but there is an important difference between these arrangements and contractual ties as they do not require the broker to present an offer from a particular lender, nor do they depend on the consumer's response to "break" any tie.

4.67 Incentive-based arrangements are not binding on brokers' individual credit introduction decisions and operate at the level of the broker's wider commercial relationships, rather than at the individual-agreement level. While an incentive-based arrangement could be an influencing factor in a broker's choice of referral, in the absence of a tied arrangement

of the nature described above, the impact on the broker's independence is less acute and the potential for direct, adverse impact on the consumer is weaker as a result. Given this, we consider, on balance, that failure to adequately disclose such arrangements does not result in an unfair credit relationship.

4.68 However, this is a complex area, and we welcome views on this matter and evidence which demonstrates that these arrangements have or have not led to consumers losing out. It may be that these arrangements, when combined with other factors relating to commission disclosure, could lead to unfair relationships. That said, we are unaware of any such factors, other than those already accounted for in our scheme.

Question 16: **Do you agree with our proposed definition of a tied arrangement? If not, please explain why you do not agree and any other options we should consider**

Question 17: **Do you agree with our assessment that, because incentive-based arrangements are not binding on brokers' individual credit introduction decisions and operate at the level of brokers' wider commercial relationships, failure to adequately disclose an incentive-based agreement would not result in an unfair relationship? If not, please explain why you disagree**

Question 18: **Are there any other types of arrangement that you consider should be included in our proposed definition of a tied arrangement? If so, please explain why**

Our approach to complaints against brokers

4.69 As set out in this chapter, we propose that a case that did not involve a relevant arrangement, as defined in the scheme rules, would receive a redress determination of no liability for an unfair relationship and, therefore, zero redress under the scheme. The Financial Ombudsman would be limited to determining whether the lender came to the correct determination under the scheme rules.

4.70 We consider that a complaint made against a broker that falls within the subject matter of the scheme should be determined in accordance with the scheme and that the Financial Ombudsman is bound by this.

4.71 Section 404B FSMA is designed to ensure that complaints which are, in substance, caught by a redress scheme are determined under that scheme. In the typical motor finance tripartite transaction, the conduct of brokers and lenders is so intertwined that it does not make sense, where a scheme has been set up to deal with disclosure breaches and provide redress, to allow consumers to nonetheless pursue separate complaints (that could lead to different outcomes) about the same underlying conduct and material facts. This would ultimately undermine the purpose of the scheme. The definition

of "relevant firm" in s.404(2) FSMA is broad and includes both lenders and brokers. Therefore, where the Financial Ombudsman receives a complaint about a broker, the subject matter of which falls to be dealt with under the scheme, they must send this complaint to the relevant lender for determination. Similarly, if a broker receives such a complaint, they must also send the complaint to the relevant lender to be determined under the scheme.

4.72 In summary, our proposed rules on broker complaints will ensure that, even where a complaint about inadequate disclosure is framed as a breach of CONC by the broker, the outcome will be consistent with the scheme's approach to determining unfairness. This approach supports our principles of fairness, certainty, and market integrity, and will help prevent inconsistent outcomes from "forum shopping". We welcome feedback on whether further guidance or clarification is needed on how complaints against brokers should be handled.

Question 19: **Do you agree with our proposal that complaints made to brokers that are about the subject matter of the scheme, should be sent to the lender to be dealt with under the scheme rules? If not, please explain why you do not agree and any other options we should consider**

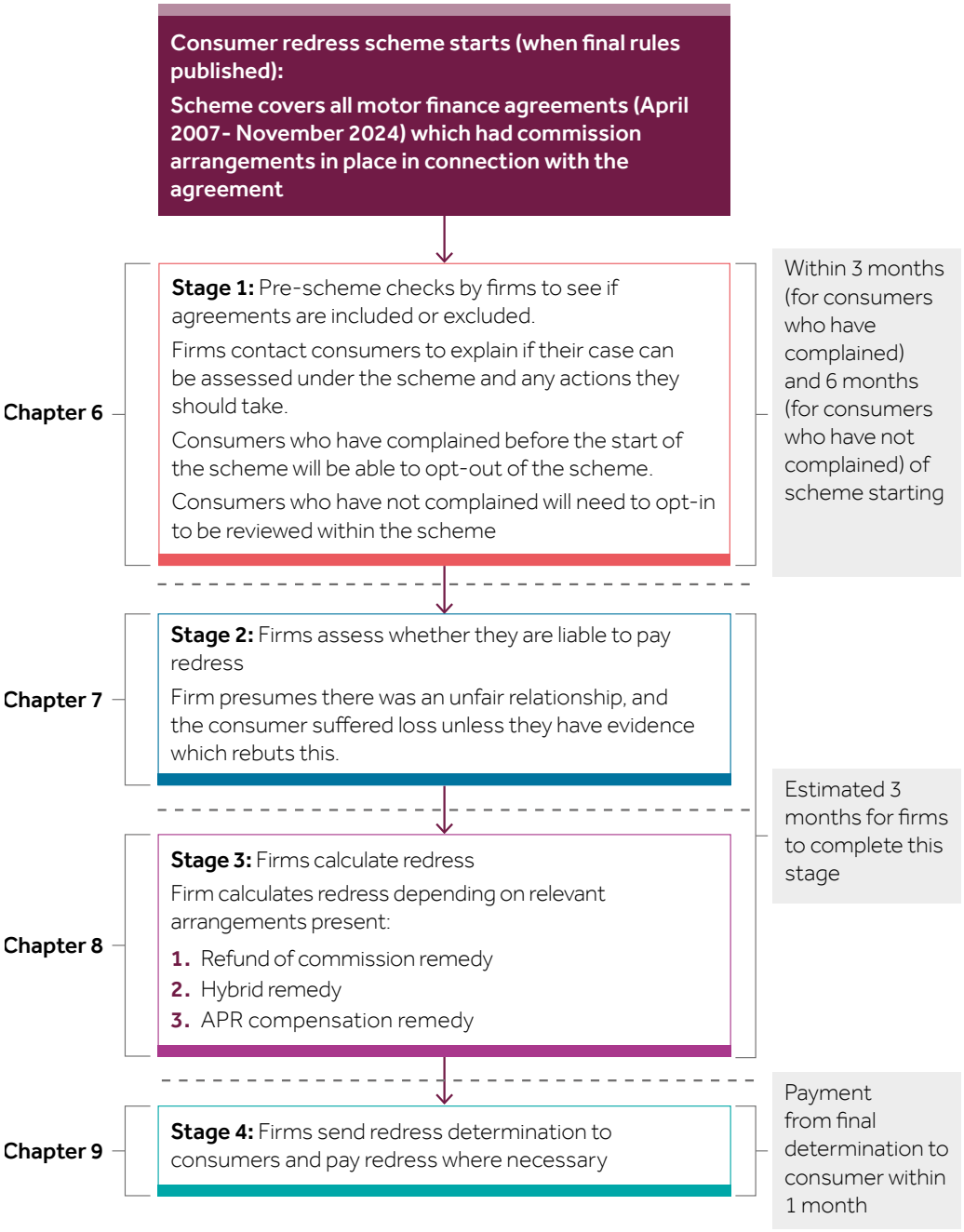
Chapter 5

Overview of scheme stages and the role of the Financial Ombudsman Service

Overview

5.1 The stages of our proposed scheme are summarised in figure 2 below.

Figure 2: overview of our proposed redress scheme



The scheme stages

5.2 This chapter sets out the four stages of the proposed scheme and the steps lenders, brokers and consumers will need to take. Chapters 6 to 9 contain further details on the steps within each stage. There is also a summary of the scheme steps in Annex 7.

5.3 These stages do not have to happen sequentially. For example, firms may be able to complete liability and redress assessments on some cases before other cases have exited the scope stage.

Stage 1: Identification of scheme cases and consumer consent

5.4 Lenders will be required to identify which agreements are "scheme cases". We define subject matter and what constitutes a scheme case in Chapter 4. Lenders must also make consumers aware of the scheme at this stage and invite them to decide whether they want to have their case assessed under it. These proposals are set out in more detail in Chapter 6, but, in summary:

- Consumers who have already complained about an issue covered by the scheme before the scheme comes into force and have not referred their complaint to the Financial Ombudsman will have their case assessed unless they opt out. If a consumer opts out of the scheme, they will not be able to refer their complaint to the Financial Ombudsman, they would have to go to court to have their case considered and they could not opt back in at a later date.
- Consumers who have not complained will be contacted by their lender and invited to opt in to the scheme, as long as the lender has the records needed to identify the consumer and their current contact details.
- If a consumer complains to a lender about a matter within the subject matter of the scheme during the first year of the scheme they should be deemed as opting in to the scheme.
- After the opt-in period has ended, consumers will not be able to complain to the firm or Financial Ombudsman about a matter falling within the subject matter of the scheme unless there are exceptional circumstances.

5.5 When inviting consumers to participate, lenders will be required to tell consumers if their scheme case had at least one of the arrangements that (if not adequately disclosed) gives rise to liability under the scheme, ie a DCA, high commission arrangement, or a tied arrangement. This will help consumers decide whether to opt in or opt out of the scheme.

5.6 Lenders may struggle to contact all consumers so consumers will need to be prepared to contact their lender if they do not hear from them. Consumers will need to contact their lender within 1 year of the scheme start if they want to participate in the redress scheme.

Stage 2: Liability assessment

5.7 Once a customer has decided to participate in the scheme lenders will assess each case to determine whether there was an unfair relationship. As part of the Stage 2 liability assessment set out in Chapter 7, lenders must determine whether a scheme case gives rise to an unfair relationship due to a failure to adequately disclose a relevant arrangement (ie a DCA, high commission arrangement, or tied arrangement). If no relevant arrangement is present, the lender must conclude that no unfair relationship exists, and no redress is due.

5.8 Where a relevant arrangement is identified, the lender must assess whether inadequate disclosure created an unfair relationship and, if so, whether this caused loss or damage to the consumer. We set out certain presumptions firms will need to apply when assessing liability once a relevant arrangement has been identified. We also set out the limited situations in which firms will be able to rebut these presumptions, as well as rules for how firms must take account of consumer vulnerability and sophistication.

Stage 3: Redress calculation

5.9 Where an unfair relationship has been established, lenders will calculate redress due to consumers in accordance with the redress calculation rules set out in Chapter 8.

Stage 4: Redress determination

5.10 At this stage, lenders will tell consumers the outcome of the assessment of their scheme case in the form of a "redress determination". A redress determination will be provided for any outcome under the scheme – not just where redress is due to the consumer. Consumers will first receive a provisional decision which will set out a process by which consumers can challenge the outcome of the lender's assessment within a prescribed timeframe. The redress determination will then be finalised. Further information on our redress determination proposals can be found in Chapter 9.

Main interested parties

5.11 The redress scheme primarily applies to lenders, who are responsible for carrying out the substantive stages of the scheme, but brokers, consumers, and professional representatives also have a role to play in ensuring it operates efficiently.

Expectations of brokers

5.12 Brokers may be asked by lenders to provide documents or information to support assessment of scheme cases and will be required to comply with such requests within 1 month. Brokers will also be required to remit complaints made to them, that fall within the subject matter of the scheme, to the relevant lender.

Expectations of consumers

5.13 For consumers, the scheme is designed to be as straightforward as possible, but there are key points where their engagement is needed. In particular, consumers who have already complained will receive opt-out letters and will need to respond if they do not want their case reviewed, while those who have not complained but have a scheme case will receive opt-in letters and must respond within 6 months to participate. If a consumer is not contacted by their lender, they will need to contact their lender to opt-in within 1 year of the scheme starting.

5.14 We have set out in the proposed scheme rules the letters that lenders will be required to send to consumers and the key content those letters should contain. Requiring standard content to be included in letters will help ensure consumers receive a consistent experience during the scheme, while allowing lenders to adapt the format of the letters. We welcome feedback as part of this consultation on the letters, their content and whether we should precisely prescribe the wording lenders must use in the letters.

5.15 In addition to the direct communication from lenders we propose, we expect to run a mass consumer communication campaign to support engagement with the scheme.

Question 20: **Do you agree with the letters we propose lenders send to consumers and the level of detail we require in those letters? Do you think the FCA should provide template wording to be used in those letters in the final rules? If you disagree, please provide reasons for your answers**

Consumer vulnerability

5.16 We recognise that that some consumers may be in vulnerable circumstances, for example having a disability, limited financial capability, or other characteristics that may make it harder for them to engage with the scheme and get the right outcome. We consider the following factors will reduce the risk of this happening:

- In line with our guidance on vulnerability and the requirements in the Consumer Duty on communications and consumer support, we expect firms to operate the scheme in a way that meets the needs of consumers with characteristics of vulnerability.
- In Chapter 7, we propose requiring lenders to consider any information they hold about a consumer's circumstances and potential vulnerabilities when assessing whether disclosure of relevant arrangements was adequate (see paragraphs 7.20-7.21).
- In Chapter 8, under our proposed APR adjustment remedy, we have proposed a proportional reduction to the consumer's APR rather than a flat percentage point reduction. This would have had an unfair impact on high-APR consumers, who are more likely to be higher credit risk, have lower incomes, and be more vulnerable to harm. A flat APR reduction would not have reflected the much larger interest costs borne by these customers and, therefore, risked under-compensating them (see paragraph 8.27).

- In Chapter 8, our proposal to allow representations from consumers on compensatory interest awards may be particularly important for consumers in vulnerable circumstances, who may have experienced greater financial detriment from being deprived of funds (see paragraphs 8.78-8.81).

Expectations of professional representatives

5.17 We encourage consumers to consider carefully whether they need to use a representative, given that the scheme is designed to be straightforward and accessible without professional representation. Nonetheless, we recognise that some consumers may choose, or have already chosen, to appoint a professional representative to act on their behalf.

5.18 Professional representatives – SRA-regulated solicitors and FCA-regulated CMCs – must act in the best interests of their clients, comply with relevant regulatory requirements, and avoid practices that could mislead or disadvantage consumers. Both we and the SRA will continue to monitor the conduct of CMCs and professional representatives in this area, and will take action where we identify poor practices, including inappropriate advertising or excessive fees.

Question 21: **Do you agree with the proposed expectations of brokers and professional representatives? If not, what should we consider when setting our expectations**

Question 22: **Do you agree with our expectations of consumers, including how we have taken account of consumer vulnerabilities in our proposals? If not, please explain why you disagree and what else should we consider when setting our expectations of consumers**

The role of the Financial Ombudsman

5.19 Consumers will have a right to complain to the Financial Ombudsman if, for example, a firm does not take one of the steps outlined above, if a firm breaches a deadline within the scheme or if a consumer disagrees with a decision the firm makes on whether the consumer is in scope of the scheme or the redress payable.

5.20 In accordance with s.404B of FSMA, the Financial Ombudsman would be required to review the firm's decision in the scheme by reference to what, in its opinion, the determination under the scheme should be or should have been, rather than based on what it thinks would be is fair and reasonable in all the circumstances of the case. The consumer and the lender could also agree that that the fair and reasonable standard should apply instead.

5.21 The Financial Ombudsman has recently consulted on whether case fees should be differentiated based on the stage at which a case is resolved. This is on the basis that some complaints require more or less work and therefore cost more or less that other complaints to resolve. We have been discussing with the Financial Ombudsman whether case fees could be reduced for some or all scheme cases where they may require less work to resolve. We aim to conclude on this by the time we publish the scheme rules.

5.22 Consumers will be able to complain to firms and the Financial Ombudsman where the complaint falls outside the subject matter of the scheme. This would include, for example, a credit agreement which was entered into after 1 November 2024. Such cases would be handled under our standard complaint requirements.

5.23 Complaints referred to the Financial Ombudsman prior to the scheme start date will fall outside of the scheme and the Financial Ombudsman will deal with them in accordance with its standard complaint process.

Settling cases without completing all stages of the scheme

5.24 We propose that lenders should be able to settle scheme cases without completing all stages of the process. This flexibility allows firms to avoid incurring the costs of a full investigation where the likely redress is less than the cost of continuing with the case under the scheme.

5.25 A lender may make an offer to the consumer at any time, including before taking the first step in the scheme process, to settle the claim in full and final settlement of all claims relating to the subject matter of the scheme. Where such an offer is made, the lender must demonstrate that the amount offered is no less than the maximum redress that would be available under the scheme (as set out in Chapter 8). This means calculating redress under the APR adjustment remedy, hybrid remedy, and commission repayment remedy and making any necessary assumptions in favour of the consumer.

5.26 Recognising that calculation of all remedies is likely to be resource intensive and could erode the cost savings that settlement provides, we propose that lenders may, as an alternative, choose to offer only the repayment of commission remedy, which is the simplest remedy to calculate. If lenders take this approach, they must explain clearly that, while repayment of commission results, on average, in the highest amount of redress, the other remedies have not been calculated, so this cannot be guaranteed.

5.27 If the consumer accepts the settlement offer, the lender does not need to complete any remaining steps in the scheme process for that case. The lender must issue a redress determination in the prescribed form confirming that no further redress is due under the scheme. The consumer would not be entitled to further redress under the scheme, from the Financial Ombudsman, or through the courts for the unfair relationship claim relating to the subject matter of the scheme that has been settled. If the consumer rejects the offer or does not accept it within the 1-month deadline, the case will proceed through the full scheme process. Where negotiations on settlement delay progress, the relevant deadlines will be extended by 1 month.

Firms must keep records of all settlement offers and be able to demonstrate that the relevant steps were taken. We will set out later in this document how we intend to monitor compliance with these requirements.

Question 23: **Do you agree with our proposal that lenders should be allowed to make settlement offers without completing all the stages of the scheme, but that these are clearly explained and must either be no less than the maximum redress that would be available under the scheme or based on the repayment of commission? If not, please explain why you do not agree and any other options we should consider**

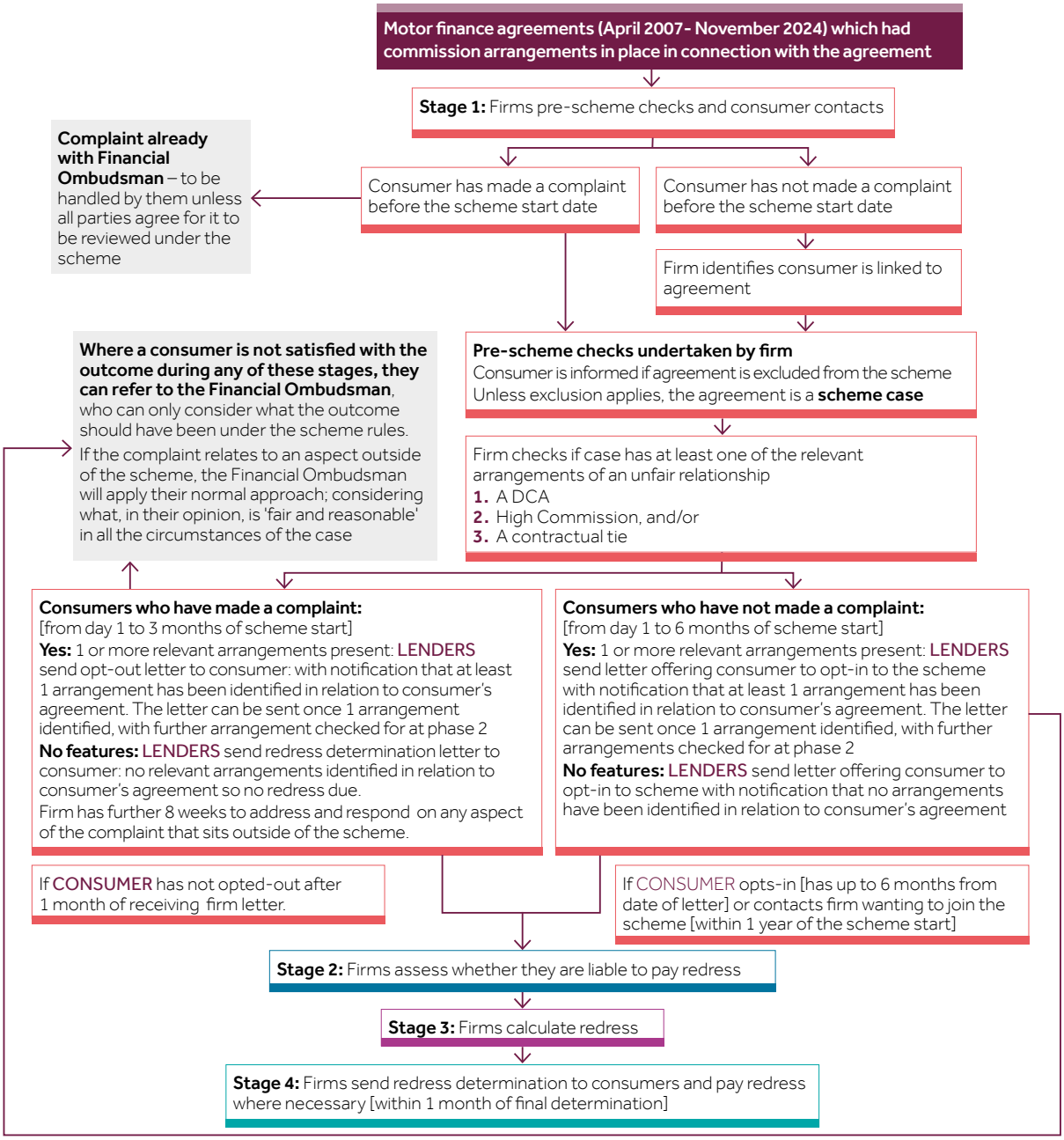
Chapter 6

Stage 1: Pre-scheme checks and inviting consumers to participate

Overview

6.1 Figure 3 below provides an overview of the pre-scheme checks firms would be required to complete, and the process by which they would invite consumers to participate. This stage of the scheme is set out in detail below and in Annex 7.

Figure 3: Stage 1 – pre-scheme checks and consumer consent to participate



What we expect firms to do once the scheme starts

6.2 We propose that our scheme rules would come into force the day after we publish our Policy Statement. We propose that lenders will need to:

- Identify consumers who took out motor finance with them between 6 April 2007 and 1 November 2024.
- Assess which agreements taken out during the above period are "scheme cases", ie those that fall within the subject matter of the scheme as described in Chapter 4.
- Identify whether the agreement featured at least one of the following relevant arrangements which we propose (if not properly disclosed) could give rise to an unfair relationship is present,:
  - a DCA
  - a high commission arrangement
  - a tied arrangement
- Contact the consumer to inform them of the scheme, confirm whether there appears to be at least one of the arrangements that could give rise to an unfair relationship on the agreement or not. There will be different letters for consumers with agreements which have at least one arrangement that could give rise to an unfair relationship and those who do not.
- Write to consumers who have already complained within 3 months of the scheme starting.
- Write to consumers who have not already complained within 6 months of the scheme starting.

6.3 If consumers do not hear from their lender they will have 1 year from the start of the scheme to opt-in.

6.4 Consumers who have already complained should receive timely responses from firms. We believe that 3 months should be sufficient time for firms to organise and review their records and contact consumers who have already complained. Firms should have been progressing complaints where they are able to do so and we expect firms to have a good understanding of the substance of their open complaints. We believe firms should easily be able to identify DCA and high commission cases from their files.

6.5 In our pre-consultation engagement, we have heard that some lenders are concerned about the challenges in obtaining tied arrangement documentation. As information about tied arrangements will likely be held in overarching lender-broker agreements, we do not believe finding this information will require a review of individual client files. We do however welcome feedback on the amount of time firms estimate they will require to determine whether agreements fall within the subject matter of the scheme and whether DCA, high commission or contractual ties are present. We also welcome feedback from stakeholders on the appropriateness of the proposed deadlines.

Question 24: **Do you agree that the scheme should start the day after the publication of our Policy Statement? If not, please explain why you disagree and what other options we should consider**

Question 25: **Do you agree that consumers who have already complained should be contacted within 3 months of the scheme starting and all other consumers should be contacted within 6 months? If not, please explain why you disagree and what other options we should consider**

Identifying consumers

6.6 Lenders will need to identify and contact consumers who have taken out motor finance from them. Firms have told us that they hold data that will enable them to identify most relevant consumers. Where that's not the case, we believe firms should be able to find these consumers using commercially available tracing services, such as credit reference agencies. Where a consumer has died, there may be a redress liability owed to the consumer's estate. In such situations we expect firms to attempt to contact the consumer's estate. However, we recognise that there may be instances where some firms are unable to contact all consumers. Address records may be out-of-date or unavailable, for example. Our policy intent is to put the onus on firms to do what they can to track down consumers.

6.7 Consumers will, also, need to take action if they do not hear from their lender and they want to participate in the redress scheme. We intend to deliver a communications campaign. This campaign will inform consumers about the scheme, the need to proactively contact their lenders if they have not heard from them within 6 months of the scheme start, and that they will need to opt-in to the scheme within 1 year of it starting if they want to participate in it.

Question 26: **Do you agree with the steps we propose lenders must take to make contact with consumers? If not, please explain why you disagree and what other options we should consider**

Identifying scheme cases

6.8 Firms will need to identify whether each agreement falls within the subject matter of the scheme. In order to do this firms will need to know the date the agreement was entered into and whether commission was payable by the lender to the broker in relation to the agreement.

6.9 It is important that consumers who have motor finance agreements are informed whether their agreement is within the subject matter of the scheme. We propose that firms should write to consumers where they find the consumer has a motor finance agreement which is not a scheme case. This will ensure the consumer is informed of their status in the scheme and provide them with a decision which can be referred to the Financial Ombudsman if they disagree with the lender's decision. Informing consumers at an early stage will help consumers and firms by reducing the need for consumers to contact firms about the scheme when they would not have a scheme case.

Contacting consumers to invite them to participate

Ways for consumers to consent to participate in the scheme

6.10 We considered various ways for consumers to be able to participate in the scheme:

- Opt-out: firms write to consumers who had agreements with them to inform them of the redress scheme and to give them the option of withdrawing from the scheme.
- Firm-led opt-in: firms write to consumers who had agreements with them informing them of the scheme and consumers would then have to tell the firm they wished to participate.
- Consumer-led opt-in: Consumers would enter the scheme by making a complaint or proactively contacting the firm. Firms would not be required to proactively contact consumers.

6.11 We have discounted a consumer-led opt-in approach. We believe it places too much burden on consumers. Our research found that 33% of motor finance holders did not remember who their lender was, and may not hold the necessary information to complain. Consumer groups have told us they believed a consumer-led approach would increase confusion among consumers and the risks of consumers being exposed to fraud and scams.

Identifying relevant arrangements before inviting consumers to participate

6.12 It is important that, when deciding whether to participate in the scheme, consumers are well informed about the likelihood of ultimately receiving redress. We, therefore, propose that firms should inform consumers at this stage whether their agreement involved at least one of the 3 relevant arrangements – a DCA, high commission arrangement, or tied arrangement – that we propose could give rise to an unfair relationship if not adequately disclosed (Chapter 4).

6.13 While lenders must ultimately determine whether each relevant arrangement was present in a scheme case – and we set out the steps they must follow to do this in Chapter 7 – we propose that they do not wait to do this before inviting consumers to participate in the scheme. This may not be feasible within the time we have allowed firms to send these communications. Rather, we expect lenders to send invitations as soon as

they have identified one relevant arrangement, even if they have not completed checks for each one. Firms will however need to complete checks for all relevant arrangements once a case enters the liability assessment stage.

6.14 Based on our understanding of the records lenders hold, we would generally expect consumers with a DCA or high commission payment on their agreement to receive an invitation before those who only had a tied arrangement or whose agreement had none of the features (see paragraph 7.6).

6.15 If a consumer has not already complained and the lender determines that a case includes no relevant arrangements, we propose that the lender informs the consumer of this when inviting them to participate in the scheme. This allows the consumer to decide whether to have their case reviewed with the knowledge that they will not receive any redress.

6.16 If a consumer has a scheme case and has already complained but the lender determines that a case includes no relevant arrangements, we propose that the lender issues a provisional redress decision informing them that there is no unfair relationship in relation to the disclosure of commission arrangements, and the consumer is not entitled to redress under the scheme.

Question 27: **Do you agree with our proposal for lenders to check whether at least one relevant arrangement for an unfair relationship is present before contacting consumers? If not, please explain why you disagree and what other options we should consider**

Opt-out and opt-in processes

Consumers who have complained

6.17 **For consumers who have already complained by the time the scheme rules come into effect we propose they are included within the scheme unless they tell the firm they don't want to be included.** These consumers have already provided a form of consent to their complaint being reviewed by the firm. The firm would need to contact relevant consumers, letting them know their complaint will be considered under the scheme unless they choose to opt out. Firms will need to contact these consumers within 3 months of the start of the scheme.

6.18 Consumers will have 1 month from the date of the letter to confirm whether or not they are opting-out of the scheme. This means that unless consumers respond within 1 month of receiving their letter they will be deemed to be participating in the redress scheme, although all consumers will retain the right to withdraw from the redress scheme at any time. We believe 1 month provides consumers with sufficient time to respond, while ensuring that firms progress assessments at pace. This means firms will start to conduct detailed assessments and where necessary to pay redress 4 months after the start of the scheme. Consumers who opt out will not be able to opt back in.

6.19 Consumers who have complained about the subject matter of the scheme and had their complaint rejected will be able to have their case considered under the scheme. This is because we know that firms rejected 99% of complaints and it would not be fair, on the basis of findings that firms have not followed the law, to prevent consumers who have not received redress and might otherwise have a scheme case, from the opportunity to participate in the scheme. However, if they have taken a claim to court and received an outcome, they will not be able to participate in the scheme.

Question 28: **Do you agree with our proposed opt out consent mechanism for consumers who have already complained? If not, please explain what other options we should consider**

Question 29: **Do you agree with our proposed 1 month deadline for consumers to opt-out? If not, how long should we allow for consumers to opt-out?**

Consumers who have not complained

6.20 **For consumers who have not complained by the date the scheme rules come into effect, we propose requiring firms to invite consumers to opt-in to the scheme.** It is important that this process is led by lenders, as they are likely to have better records than consumers and be better resourced than consumers to undertake the tracing and contact work.

6.21 Some consumers may not wish to join the redress scheme because they may be happy with their deal they received and do not think they have suffered a loss. Our research shows that 14% of past and current motor finance holders do not intend to make a claim. Consumers who have not previously raised complaints about their commission arrangements, should only be included if they request it. We do not believe that an opt-out approach would achieve this aim. An opt-out approach for consumers who have not complained may result in operational inefficiencies as firms attempt to calculate and pay redress to consumers who are not responding to communications. We therefore believe that inviting opt-ins and, therefore, engaging consumers at an early stage of the scheme is the most efficient approach for consumers who have not complained.

6.22 Firms will need to write to consumers who have not complained within 6 months of the scheme starting. Consumers invited to opt in will need to do so within 6 months of the date of the opt in letter. If a consumer does not receive an invitation to opt in they will need to contact their lender within 1 year of the scheme start. We expect lenders to make it as easy as possible for consumers to opt in to the scheme.

Question 30: **Do you agree with our proposed opt in consent mechanism for consumers who have not already complained? If not, please explain why you do not agree and what other options we should consider to gain the consent of the consumer**

Deadline for opting in to the scheme and impact on complaints after the deadline

6.23 We propose that, to support finality, consumers who have not complained by the date the scheme starts will have 6 months from the date of the invitation letter to opt in. Save for exceptional circumstances, consumers who have been contacted will not be able to opt-in after 6 months from the date of the opt-in letter has elapsed. Where a consumer is not contacted by a firm they will need to contact their lender within 1 year of the scheme start date to opt-in to the scheme. If a relevant complaint is received after the opt-in deadline, the firm – and if challenged the Financial Ombudsman – would only need to consider whether the appropriate steps had been taken under stage 1, the initial assessment and the contact to the consumer. They would not need to assess liability or redress unless there had been errors in the first stage or if there were any relevant exceptional circumstances.

6.24 In proposing this approach, we have considered:

- The time needed for consumers to read and understand the communications from firms. A shorter time limit will restrict the time consumers have to absorb our messages. A longer time limit may mean consumers do not see this as an urgent matter and decide to take no action.
- The time needed for firms to prepare their records. A longer time limit increases uncertainty for firms and will prevent prompt resolution of the scheme.

6.25 When we intervened on PPI complaints (CP15/39) we recognised that a one year deadline might help bring benefits sooner and provide a strong nudge to consumers compared to a longer deadline. We also set out the disadvantages with this, including that it may leave insufficient time for consumers to respond to messages and to act. Our proposals for this scheme include provisions that firms will need to proactively contact consumers within 6 months of the start of the scheme. This prompt communication by firms, alongside a mass communication campaign led by the FCA, should mitigate some of the disadvantages of a shorter deadline.

6.26 There is a risk that consumers may not complain or opt in to the redress scheme in time and will therefore be timed out of obtaining redress. We propose that, as with all complaints handled under our DISP rules, the Financial Ombudsman will be able to consider complaints once the deadline has passed, however the Financial Ombudsman's review would be limited to a procedural check of whether the scheme opt-in deadline was complied with. We will also allow for the Financial Ombudsman to consider complaints where the complainant's failure to opt into the scheme in time was as a result of exceptional circumstances. A firm will also be able to choose to consider a complaint after the deadline and also permit the Financial Ombudsman to consider it, although, the complaint would still be considered against the scheme rules.

6.27 We propose that the time limit should apply to a consumer regardless of whether they were aware of specific concerns with their policy, the wider issues with motor finance commission payments or the existence of the deadline.

6.28 The 1-year time limit would not apply to complaints about steps the firm should have taken under the scheme rules. For example, a consumer would be able to complain after the time limit about a firm not taking all reasonable steps to inform them of the existence of the scheme. The deadline would also not apply to complaints about conduct occurring after 1 November 2024, where the normal DISP timelimits will apply.

Question 31: **Do you agree with our proposals that consumers will need to opt-in to the scheme within 6 months of receiving the letter from their lender, or within 1 year of the start of the scheme if they are not contacted? If not, please explain why you do not agree and what other options we should consider**

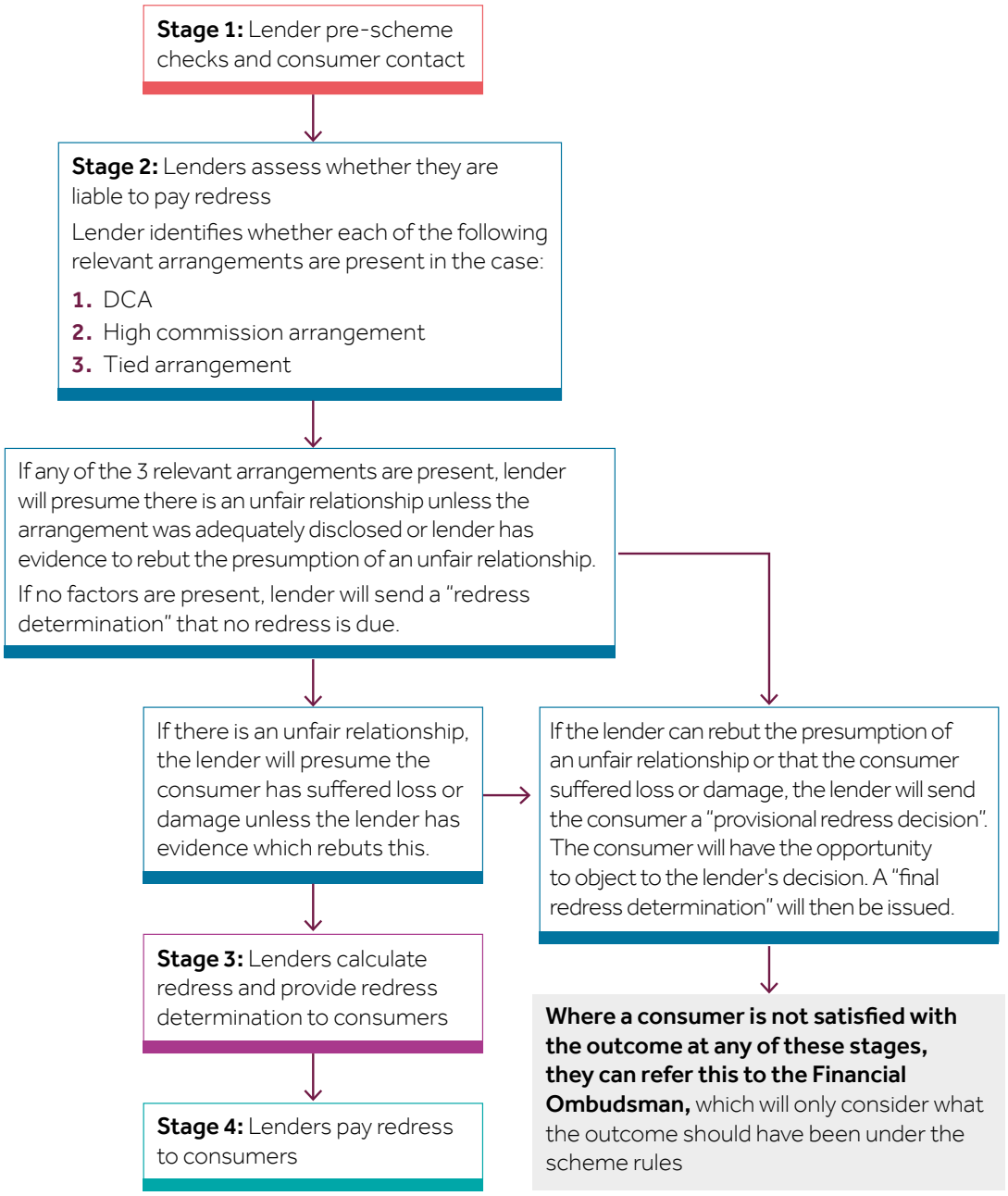
Chapter 7

Stage 2: Assessing liability

Overview

7.1 Figure 4 below provides an overview of stage 2 of our proposed scheme, in which firms would assess whether they are liable to pay redress. Our proposed process is set out in more detail below and alongside the rest of the scheme in Annex 7.

Figure 4: Stage 2 – lenders assess liability



Legal framework and the key principles of our approach

7.2 We propose that lenders must assess liability based on whether the scheme case gives rise to an unfair relationship because of a failure to adequately disclosure a relevant arrangement (ie a DCA, high commission arrangement or tied arrangement), and, if so, whether that unfair relationship resulted in loss or damage to consumers. As set out in Chapter 4, if no relevant arrangements are present in a scheme case, the lender must conclude that no unfair relationship exists, and no redress is due.

7.3 We, therefore, propose that, when assessing liability, lenders establish:

- If any relevant arrangement was present.
- If any relevant arrangement was present, whether there was an unfair relationship because of its inadequate disclosure.
- If there was an unfair relationship, whether it caused loss or damage to the consumer.

Establishing whether a relevant arrangement was present

7.4 For each scheme case, firms will need to determine whether any of the 3 relevant arrangements – a DCA, high commission arrangement, or tied arrangement – that could give rise to an unfair relationship is present.

7.5 We propose that firms must review their records to identify whether a relevant arrangement was present – the presence of a relevant arrangement will not be presumed. These records will include both the records of the individual credit agreement, as well as more general corporate records dealing with commercial practices (e.g. use of different commission arrangements) and relationships (e.g. with brokers) over longer periods of time. For example, lenders may have documents showing that during a particular period they only used DCAs, or did not use DCAs at all, and could use these documents as evidence in respect of all agreements written during that period.

7.6 The extensive data we have collected, and our pre-consultation engagement, shows that most firms should be able to identify relatively easily from their records the amount of commission paid and whether the agreement involved a DCA. Lenders are more likely to face challenges identifying tied arrangements, as this information is likely to be in broker-lender agreements, which may only have been retained by brokers. We are writing to lenders to remind them of the need to prepare for the finalised scheme and to start gathering records they may need now, rather than waiting for the scheme to start.

7.7 Because there will be no presumption that a relevant arrangement is present, we must guard against the risk that lenders will choose not to search for records that could show the presence of a relevant arrangement or will carry out only superficial searches. We consider the following proposals will address this risk:

- In Chapter 10, we propose that lenders provide an attestation from a suitable Senior Manager (under the Senior Managers and Certification Regime) on the lender's preparatory steps for the scheme, confirming the lender has robust

processes, systems, and controls in place to successfully identify the starting population of potentially impacted consumers, to identify firm records and to plug any information gaps.

- If a lender lacks the necessary records to identify whether there was a relevant arrangement, we propose the lender must request relevant information from the credit broker. Upon receiving such a request, the credit broker must conduct a thorough search and respond within one month, either by providing the information requested or confirming it does not hold the information. If the broker fails to respond within one month, the lender must issue a follow-up letter, allowing an additional 14 days for a response.
- If, after completing the steps above, the lender still does not have the necessary records to identify whether there was a relevant arrangement, it must contact the consumer to see if the consumer holds any relevant information. This includes taking all reasonable steps to obtain the information, even where contact details are missing.

7.8 If, having followed the steps set out above, the lender has not identified the presence of any relevant arrangements, the lender must conclude that no unfair relationship exists, and no redress is due. However, if a relevant arrangement is identified, the lender must proceed to the next part of the liability assessment stage, set out below.

Question 32: **Do you agree with the steps we propose lenders must take to identify the presence of a relevant arrangement? If not, please explain why you do not agree and any other options we should consider**

Question 33: **Do you agree with our proposal that if the lender has not identified the presence of any relevant arrangements having followed the steps required, that the lender must conclude that no unfair relationship exists, and no redress is due? If not, please explain why you do not agree and any other options we should consider**

Use of rebuttable presumptions when establishing if an unfair relationship resulted from inadequate disclosure and if it led to loss or damage for the consumer

7.9 In Chapter 3, we set out our view that there were widespread or regular failures by firms to adequately disclose relevant arrangements, leading to an unfair relationship that is likely to have caused loss or damage to consumers. On this basis, this part of the liability assessment will use two key presumptions in favour of consumers, which lenders can rebut. The key presumptions are, first, that an unfair relationship arose from inadequate disclosure of a relevant arrangement and, second, that such an unfair relationship caused loss or damage to the consumer.

7.10 We consider the following factors support the use of presumptions:

- Despite the passage of time meaning that disclosure documentation relating to older agreements may have often not been retained, our diagnostic work indicates there appears to have been widespread or regular failures to provide adequate disclosure of the features in question across the time covered by the scheme.
- Section 140B(9) CCA, which says that if a consumer alleges an unfair relationship, it is for the lender to prove it is not unfair, recognising that the onus in court proceedings under section 140A CCA remains on the borrower to prove facts on which they positively rely to assert their case.
- Presumptions will streamline the handling of potentially millions of cases by avoiding the need for lengthy and costly, case-by-case investigations, as firms will not be required to prove or disprove that there was a failure or loss in every case.

7.11 Using presumptions will also ensure that consumers are not unfairly denied redress because of evidential gaps and firms will have a fair opportunity to demonstrate that no failure or loss occurred, if they have clear and contemporaneous evidence. Our approach, therefore, seeks to strike the right balance between fairness to consumers and firms, consumer protection, and the practical realities of delivering redress at scale.

Question 34: **Do you agree with our proposal to use rebuttable presumptions in favour of the consumer when establishing if an unfair relationship resulted from inadequate disclosure and whether it led to loss or damage for the consumer? If not, please explain why you do not agree and any other options we should consider**

Establishing if there was an unfair relationship because of inadequate disclosure

Presumption of an unfair relationship because of inadequate disclosure

7.12 The first key rebuttable presumption we propose is that failure to adequately disclose a relevant arrangement gave rise to an unfair relationship between the lender and the consumer. This is consistent with the legal analysis of unfair relationships set out in Chapter 4 (paragraphs 4.43-4.45).

7.13 As set out in this section, lenders would be entitled to determine there was no unfair relationship under the scheme if:

- there is evidence of adequate disclosure of the relevant arrangement in question, or
- in cases only featuring a DCA, the lender can provide evidence that the broker selected the lowest interest rate at which they would not have made any additional commission under the DCA, or

- disclosure of the relevant arrangement in question was inadequate, but the lender can provide evidence that the consumer was sufficiently sophisticated to have nonetheless been aware of the relevant arrangement

Question 35: **Do you agree with the first rebuttable presumption we propose that failure to adequately disclose a relevant arrangement gave rise to an unfair relationship between the lender and the consumer? If not, please explain why you do not agree and any other options we should consider**

Determining whether disclosure was adequate

7.14 As the UK Supreme Court confirmed in *Johnson*, compliance with regulatory rules or guidance is not determinative of whether there was an unfair relationship. However, it likely to be a significant factor in that assessment.

7.15 In considering our approach to unfair relationships and adequate disclosure, we have had regard to both the relevant case law (including *Plevin*, *Clydesdale*, and *Johnson*) and the regulatory rules and guidance that applied to lenders and credit brokers during the period that would be covered by the proposed scheme:

- For agreements entered into on or after the transfer of the regulation of consumer credit to the FCA on 1 April 2014, we have considered FCA rules and guidance. This would include CONC 3.3.1R, CONC 3.7.3R, CONC 3.7.4G, CONC 4.5.2G, CONC 4.5.3R, CONC 4.5.4R, Principles 6 to 8 (as further explained in *Johnson* and *Clydesdale*), and (for agreements entered into on or after 31 July 2023) the Consumer Duty.
- For agreements entered into before the transfer of regulation, we have considered guidance issued by the OFT. This would include, for agreements entered into on or after 31 March 2010, paragraphs 2.2, 2.3 and 5.5 of the Irresponsible Lending Guidance (also updated in February 2011) and (for agreements entered into on or after 24 November 2011) paragraphs 2.2, 3.1, 3.7, 4.6, and 4.8b to 4.8d of the Credit Brokers and Intermediaries Guidance.
- We have also considered section 160A(3) CCA (which required brokers to disclose the extent to which they were acting independently and in particular whether they worked exclusively with one or more creditors), which applied in relation to agreements entered into on or after 30 April 2010 and until regulation was transferred to the FCA on 1 April 2014.

7.16 Although there have been some changes to these provisions over time, in our view the regulatory expectations around disclosure in this context have remained materially the same throughout the period in which the OFT and then FCA provisions applied. This is supported by the findings in *Johnson*, where the Supreme Court said that the current regulatory framework is the same in substance as previous versions.

7.17 We have considered whether our approach to liability should be different for agreements entered into before section 160A(3) CCA, and then subsequently the relevant OFT guidance, was introduced in 2010. However, we consider that a court's approach to the assessment of unfairness under section 140A CCA, and the nature of the disclosure

required for DCAs, high commission arrangements, and tied arrangements, would have been the same since the unfair relationship provisions came into force on 6 April 2007, even without the detailed regulatory rules. As such we propose to approach the assessment of liability consistently for all scheme cases across the period.

Question 36: **Do you agree with our assessment that the relevant regulatory expectations around disclosure have remained materially the same throughout the period in which the OFT and then FCA provisions applied? If you do not agree, please explain why**

Question 37: **Do you agree with our proposal to approach the assessment of liability consistently for all scheme cases from 6 April 2007 onwards? If you do not agree, please explain why and any other options we should consider**

How information should have been disclosed

7.18 We propose that, under the scheme, "adequate disclosure" means that clear and prominent information about any relevant arrangement was provided to consumers before they agreed to the loan. Such information is likely to have been included in pre-contractual documentation but could also have been provided verbally to the consumer.

7.19 Disclosures should have been provided in a way that ensured that the attention of the "average consumer" would be drawn to them, for example not hidden in small print or lengthy terms and conditions, or otherwise obscured.

7.20 The average consumer standard would apply unless there is evidence on the file about the characteristics of the consumer (of which the lender and/or broker were aware) which indicated that such disclosure would not have been sufficient for that customer to understand the information about the relevant arrangement(s). For example, language barriers or sensory impairments.

7.21 Whenever a lender determines that adequate disclosure has occurred, we propose that it should clearly document in the consumer's redress determination which, if any, personal characteristics were considered and how. This will provide the consumer with an opportunity to object if they disagree with the finding of adequate disclosure.

7.22 In assessing whether there was adequate disclosure the lender is likely to need to consider not just what information they provided to the consumer, but also what information was provided by the broker. This is because section 56 CCA says that negotiations by the broker are considered to have been conducted as the lender's agent for the purposes of the assessing whether there is an unfair relationship. This will be the case where the broker was a motor dealer who sold the vehicle to the lender as part of the transaction – which is how most motor finance transactions work. As a result, in situations where the broker is acting as the lender's agent and section 56 CCA applies, the lender must also consider whether, in conducting those negotiations, the broker provided adequate disclosure. This was confirmed in *Clydesdale*.

7.23 Although disclosure failings by a broker to which section 56 CCA applies will be a significant factor in an unfair relationship assessment, it is not a pre-condition of an unfair credit relationship arising. As such our scheme proposes that lenders must presume that, if the relevant information has not been provided to the customer (either by the lender or another party) prior to them entering into the motor finance agreement, then an unfair relationship has arisen unless there is a basis for rebuttal.

7.24 We recognise that there may be limited situations where it could be argued that the existence of a tied arrangement would have been obvious to the consumer from the circumstances of the transaction. One example might be where a franchised dealership offers finance exclusively through the relevant manufacturer's lending arm. If the dealership sells only that manufacturer's vehicles and the connection between the dealership, the manufacturer, and its finance arm is made clear to the consumer – through prominent references in the premises, point-of-sale materials, brochures, and paperwork – then that may have indicated to the consumer that a tied arrangement was in place even though there was no express statement to that effect in the dealership's communications. We welcome views on whether such situations should be reflected in the scheme rules when assessing adequate disclosure, given the practical challenges of evidencing what a consumer could have been expected to understand about the arrangement from the wider circumstances of the transaction.

Question 38: **Do you agree with our proposal that, under the scheme, "adequate disclosure" means that clear and prominent information about any relevant arrangement was provided to consumers before they agreed to the loan? If not, please explain why you do not agree and any other options we should consider**

Question 39: **Do you agree with our proposal that the average consumer standard should apply unless there is evidence on the file about the characteristics of the consumer which indicated that such disclosure would not have been sufficient for that customer? If you do not agree, please explain why and any other options we should consider**

Question 40: **Do you agree with our proposal that, whenever a lender determines that adequate disclosure has occurred, the lender should clearly document in the consumer's redress determination which, if any, personal characteristics were considered and how? If you do not agree, please explain why and any other options we should consider**

Question 41: **Do you agree that there may be limited situations where it could be argued that the existence of a tied arrangement would have been obvious to the consumer from the circumstances of the transaction? If you agree, do you have any views on whether and how such situations should be reflected in the scheme rules when assessing adequate disclosure? If you do not agree, please explain why and any other options we should consider**

What information should have been disclosed

7.25 In addition to the general requirements explained above, we set out in this section what we would expect to see for each relevant arrangement specifically for there to have been adequate disclosure to prevent an unfair relationship arising under the scheme.

7.26 Importantly, simply disclosing the bare fact, or possibility, of commission (for example, that commission "would", "may" or "typically" be payable) will not have been sufficient to constitute adequate disclosure of a relevant arrangement.

Discretionary commission arrangements

7.27 For a DCA, adequate disclosure required lenders to disclose not just the fact that a commission is paid, but also the nature of the arrangement – specifically, how the broker's commission was linked to the interest rate charged and that the broker had discretion to select the rate within a range set by the lender. This standard is supported by recent case law (*Clydesdale*) and regulatory standards.

Question 42: **Do you agree with our proposal that for a DCA, adequate disclosure required disclosure of not just the fact that a commission is paid, but also the nature of the arrangement? If you do not agree, please explain why and any other options we should consider**

High commission arrangements

7.28 For a high commission arrangement, adequate disclosure required lenders to disclosure both the fact and the amount of the commission – or information that enabled the consumer to easily work out the amount, such as what the commission represents as a percentage of the loan amount. This approach is consistent with *Johnson*, where the Supreme Court found that failure to disclose the amount of the high commission was "a powerful indication of unfairness and a breach of regulatory standards."

Question 43: **Do you agree with our proposal that for a high commission arrangement, adequate disclosure required disclosure of both the fact and the amount of the commission? If you do not agree, please explain why and any other options we should consider**

Tied arrangements

7.29 For a tied arrangement, adequate disclosure required lenders to tell the consumer about the tied arrangement, and give them sufficient information to understand whether it requires the broker to:

- Introduce customers exclusively to that lender. This would include a broker who worked exclusively with one lender and did not have arrangements with others.
- Give that lender the opportunity to make an offer of credit before approaching other lenders, including rights of first refusal or equivalent right of priority. This would include a broker who had arrangements to provide finance from multiple lenders, such as where the broker maintained a "panel" of lenders, but had to prioritise a particular lender.

7.30 We consider the positions set out above are consistent with the regulatory framework, including CONC 3.7.3R and 3.7.4G, and (previously) section 160A(3) CCA, which require (or required) the broker to tell consumers about the extent of their independence, and any exclusivity.

Question 44: **Do you agree with our proposal that for a tied arrangement, adequate disclosure required disclosure of either exclusivity or right of first refusal or equivalent right of priority? If you do not agree, please explain why and any other options we should consider**

Presumption of inadequate disclosure for cases where evidence of what was disclosed to the consumer is missing

7.31 Irrespective of the age of the agreement and whether it falls within the lender's record retention period, we propose that lenders should presume disclosure of a relevant arrangement was inadequate unless the lender can provide evidence to the contrary. This approach ensures that consumers are not disadvantaged by evidential gaps beyond their control and reflects our findings on historical disclosure practices, as set out in Chapter 3 (paragraphs 3.8-3.24). It also provides clarity and consistency, which are essential for delivering redress at scale.

7.32 The alternative would be requiring lenders to take reasonable steps to evidence whether disclosure was adequate in every case, allowing them to conclude adequate disclosure where records cannot be found. We do not believe this is the right approach because of these significant drawbacks:

- Many consumers could be denied redress because of missing records outside of their control, despite strong evidence of widespread disclosure failings.
- Without a presumption of inadequate disclosure, there is a clear risk that lenders will choose not to search for records that could show disclosure of a contractual tie or will carry out only superficial searches.
- To mitigate this risk, we would need to impose detailed requirements on lenders to search for records and take reasonable steps to obtain evidence from brokers and consumers, and to document those efforts. This would slow down case resolution, undermine scheme efficiency, and increase the risk of inconsistent outcomes.

Agreements that fall within expected record retention periods

7.33 There should not be any issues with lenders and, if needed, credit brokers lacking the necessary information to determine whether there was adequate disclosure of a DCA, high commission payment, or a contractual tie for:

- agreements involving a DCA that ended on or after 11 January 2018
- agreements that did not involve a DCA that ended on or after 20 December 2018.

7.34 This is because of the record retention rules we made for agreements involving a DCA (which would include DCA agreements that also involved a high commission payment or contractual tie) on 11 January 2024 and for other agreements that did not involve a DCA on 20 December 2024. These directed lenders and credit brokers to ensure they retained and preserved relevant records of any motor finance agreement that could be relevant to the handling of existing or future commission-related complaints or civil claims. If lenders or credit brokers do not have these records, it is likely they have not complied with our record retention rules.

7.35 The 2018 end dates above are based on our understanding that that lenders' record retention policies are generally aligned with court limitation periods. For unfair relationship claims, this would be six years from the end of the credit agreement. In Table 5, we have set out what this means for agreements of different lengths.

Table 5: End dates for agreements for which lenders should have retained and preserved relevant records

Type of agreement	Record retention rule date	End date of oldest agreement on record (6 years pre-record retention rule date)	Agreement start date for different agreement lengths				
			12m	24m	36m	48m	60m
Involved a DCA	11 Jan 2024	11 Jan 2018	11 Jan 2017	11 Jan 2016	11 Jan 2015	11 Jan 2014	11 Jan 2013
Did not involve a DCA	20 Dec 2024	20 Dec 2018	20 Dec 2017	20 Dec 2016	20 Dec 2015	20 Dec 2014	20 Dec 2013

Agreements that fall outside expected record retention periods

7.36 We consider a presumption of inadequate disclosure is also appropriate for agreements that ended more than six years before we made our 2024 record retention rules. This is supported by the evidence we set out in Chapter 3 (paragraphs 3.8-3.24) that, in later periods, when records of what was disclosed to the consumer during a transaction are more widely available, adequate disclosure of the existence and nature of DCAs, the amount of high commission payments, and contractual ties was extremely rare. To presume otherwise would mean saying that disclosure practices got worse, rather

than better, over time, which is inconsistent with normal regulatory and market developments. By taking this approach, we will ensure consumers are not unfairly denied redress due to the routine deletion of records by firms.

Question 45: **Do you agree with our proposal that, irrespective of the age of the agreement and whether it falls within the lender's record retention period, lenders should presume disclosure of a relevant arrangement was inadequate unless it can provide evidence to the contrary? If you do not agree, please explain why and any other options we should consider**

Evidencing adequate disclosure

7.37 In pre-consultation engagement, stakeholders supported pragmatic and proportionate solutions to deal with information gaps. Reflecting this feedback, we propose that to evidence that disclosure was adequate, lenders must identify clear and contemporaneous evidence of adequate disclosure, meaning documents or other records that:

- demonstrate the nature and extent of the disclosure made to the individual customer, and
- are:
  - directly linked to the customer named on the agreement, such as signed acknowledgments or personalised correspondence, or
  - standardised or template documents that were provided to all consumers by the broker or lender in question as part of normal sales processes during the relevant period, for example documents provided as part of a "welcome pack", or
  - documents relating to another consumer in a sufficiently similar position as the consumer in the scheme case, and which include information that demonstrates the standard disclosure practice of the lender or the credit broker at the relevant time

7.38 If disclosures were made verbally, rather than through documentation, we expect firms to evidence this with contemporaneous recordings or acknowledgements signed by the consumer confirming what they were told.

7.39 Recognising that lenders may have to request documentation and records from brokers, we have proposed rules requiring brokers to cooperate with lenders who make such requests and respond to them in a timely manner. However, by allowing lenders to use indicative records that are not directly linked to the customer named on the agreement, this should reduce reliance on brokers to provide evidence. For example, lenders could – if they do not hold them themselves – request from brokers copies of all standardised documentation used during the period in question, rather than approaching brokers on a case-by-case basis.

7.40 If lenders are relying on template disclosure documents, or documents relating to other consumers, as evidence of what was disclosed to a consumer, because customer-specific documentation is not available, we expect lenders to take reasonable steps to assure themselves the document was in use at the time of the transaction. The risk of lenders mistakenly believing a document was in use at a time when it was not will be mitigated by the fact that some consumers will have kept the documentation they were given and may use this in support of any objection to a provisional redress decision. For example, for agreements taken out in the period 2010-14, our consumer awareness research indicates that around half of consumers have retained some of the documents they were given. Reasonable steps that lenders could consider taking to ensure that only relevant secondary evidence is used in their assessments of disclosure may include:

- Version control and date stamps that confirm that the version of the template document matches the period of the consumer's transaction.
- Internal policies and procedures, such as process manuals or training materials, that may specify the use of the template for all customers during the relevant period.
- System logs or workflow records showing that the template was generated or sent to customers as part of the sales process, for example automated system entries indicating the template was included in "welcome packs" or sent by email.
- Emails or other audit trails showing the template was distributed to staff for use with customers.

7.41 Documents and records used to evidence adequacy of disclosure must also be accessible and verifiable to enable us to supervise lenders' operation of the scheme effectively, as well as any independent reviews or audits that may be necessary.

Question 46: **Do you agree with our proposal that lenders may rely on customer-specific documents, indicative records, and documents relating to similar customers as contemporaneous evidence of adequate disclosure? If you do not agree, please explain why and any other options we should consider**

Question 47: **Do you agree with our proposal that lenders should take reasonable steps to assure themselves documents used to evidence adequate disclosure were in use at the time of the transaction? If you do not agree, please explain why and any other options we should consider**

Rebutting the presumption of an unfair relationship because of inadequate disclosure

Rebutting the presumption of unfairness because a DCA was not acted upon

7.42 We banned DCAs due to the conflict of interest inherent in the commission arrangement. However, where a rate was selected by the broker that earned them no discretionary commission, the conflict of interest within the DCA would not have been acted upon, and the consumer would have received the most favourable rate available under the lender's pricing framework.

7.43 We, therefore, propose that lenders may rebut the presumption that inadequate disclosure of a DCA caused an unfair relationship in scheme cases where the lender can identify evidence – such as the relevant rates and terms document – that the broker selected the lowest interest rate at which they were not making discretionary commission under the DCA.

Question 48: **Do you agree with our proposal that lenders can rebut the presumption of an unfair relationship caused by inadequate disclosure where the broker selected a rate that earned them no discretionary commission? If you do not agree, please explain why and any other options we should consider**

Rebutting the presumption of unfairness due to customer sophistication

7.44 Most consumers are unlikely to possess the specialist knowledge required to understand whether a DCA, high commission arrangement, or tied arrangement was present without adequate disclosure. However, there may be rare cases where a customer's background or experience means they are sophisticated enough to likely have been aware of information that ought to have been disclosed. For example, if the customer has worked in a relevant role in the motor finance industry, has had professional responsibilities that would have given them specific knowledge of the relevant commission arrangements, or had prior knowledge as a result of previous transactions with the lender or credit broker in which adequate disclosure was provided.

7.45 We, therefore, propose that firms should be able to rebut the presumption of an unfair relationship due to inadequate disclosure if they can provide clear, contemporaneous, and customer-specific evidence that the customer was sophisticated in the sense set out in the paragraph above, and that they did not actively mislead the customer in respect of any information disclosed.

7.46 We do not consider it appropriate for firms to rely on broad categories such as general employment in financial services or the wider motor industry, as these are unlikely to provide the necessary level of insight. Any rebuttal should be narrowly focused and only apply where there is clear evidence that the customer was likely to have been aware of the specific information required to avoid an unfair relationship. We expect this rebuttal to apply in very few cases.

Question 49: **Do you agree with our proposal that lenders can rebut the presumption of an unfair relationship caused by inadequate disclosure because the customer was sophisticated enough to have been aware of the relevant arrangement despite its inadequate disclosure? If you do not agree, please explain why and any other options we should consider**

Establishing whether the unfair relationship caused loss or damage

Presumption of loss or damage because of an unfair relationship

7.47 The second key rebuttable presumption we propose is that, based on the analysis set out in Chapter 3 (paragraphs 3.25-3.35), an unfair relationship, established through the process set out above, caused, or may have caused, loss or damage to the consumer.

7.48 If the presumption of loss or damage is successfully rebutted, the lender may determine that there was an unfair relationship, but no redress is due. This approach aims to ensure openness and transparency with consumers regarding commission arrangements in their agreements, even if no loss or damage occurred. If the lender does not rebut the presumption of loss or damage, the case will proceed to the redress calculation stage described in Chapter 8.

Question 50: **Do you agree with the second rebuttable presumption we propose that an unfair relationship caused by inadequate disclosure caused loss or damage to the consumer? If not, please explain why you do not agree and any other options we should consider**

Rebutting the presumption of loss or damage

Using cost recovery arguments

7.49 We have considered whether lenders should be able to rebut the presumption of loss or damage on the basis that the commission paid to brokers covered the costs of arranging finance – and that, without such commission, the finance could not have been provided.

7.50 We do not consider this is a reasonable defence against an assertion of unfairness due to inadequate disclosure. Consumers need clear, prominent information about commission to ensure fairness. While brokers have legitimate distribution costs, these do not outweigh the consumer's right to transparency and fair treatment. Costs should be recovered through transparent pricing, not through practices that obscure costs or prevent effective comparison of offers. Allowing rebuttals that commission is justified by distribution costs would also contradict the scheme's goals for clarity and consistency, leading to unverifiable, case-by-case debates over costs.

7.51 We consider this to be supported by legal precedent and our own economic analysis:

- In *Johnson*, the fact the lender was indirectly recovering its overheads (in the form of the commission payable to the broker) did not prevent the Court from awarding repayment of the commission plus interest as a remedy.
- Our econometric analysis of consumer loss already accounts for cost recovery incentives. As detailed in Chapter 3, and in Technical Annex 1, our analysis compares borrowing costs in transactions where the commission feature was present (and disclosure was required) with those where it generally was not. In both cases, we consider brokers would have been motivated to cover their costs. This like-for-like comparison ensures that the influence of cost recovery is already part of our assessment of consumer loss. Introducing a rebuttal on this basis would therefore, be unnecessary.

Question 51: **Do you agree with our proposal that cost recovery arguments are not a reasonable defence against an assertion of unfairness due to inadequate disclosure? If not, please explain why you do not agree and any other options we should consider**

Discretionary commission arrangements (DCAs)

7.52 In the case of a DCA case, the presumption of loss or damage could, in theory, be rebutted if the lender is able to demonstrate that the broker selected the lowest rate within the permitted range. However, as outlined in paragraphs 7.42-7.43, we consider it more appropriate to address this rebuttal under the presumption of an unfair relationship, since, in such circumstances, the failure to disclose the conflict has not resulted in unfairness as the broker has not taken advantage of it.

7.53 Our proposal to address the rebuttal of the presumption of loss or damage for a DCA within the presumption of unfairness means that where an unfair relationship has been established because of a failure to adequately disclose a DCA, the presumption of loss or damage is irrebuttable. Accordingly, under the scheme, any case involving a DCA would proceed to the redress calculation stage, with the rebuttals below applying only to cases involving high commission arrangements and/or tied arrangements.

Question 52: **Do you agree with our proposal that it is more appropriate to address the rebuttal for a DCA under the first key presumption of an unfair relationship caused by inadequate disclosure than the second key presumption of loss or damage? If not, please explain why you do not agree and any other options we should consider**

High commission arrangements and tied arrangements

7.54 We propose that the presumption of loss or damage caused by an unfair relationship arising from inadequate disclosure of a high commission arrangement or a tied arrangement should be rebuttable if the lender can provide clear, contemporaneous, and customer-specific evidence that the consumer would not have secured a lower APR from any other lender the broker had arrangements with at the time of the transaction.

7.55 We propose that "having arrangements with a lender" means the broker had, at the time of the transaction, an arrangement relating to the introduction of consumers wishing to enter into motor finance agreements.

7.56 This would be a single, objective test across both relevant arrangements, rather than having specific rebuttals for each relevant arrangement – an approach that would undermine the simplicity and efficiency of the scheme for cases with both arrangements, as lenders will only have to consider whether the rebuttal applies once. It reflects the principle that loss or damage arises only where inadequate disclosure prevented the consumer from accessing a better deal. If no better deal was available from any other lender the broker had arrangements with, the consumer's position was not worsened by the inadequately disclosed arrangement, and the presumption of loss or damage would be rebutted.

7.57 This single rebuttal would also cover situations where a broker claims that a higher commission was justified because of additional work, for example to secure finance for a high-risk borrower. If that extra work meant no lower APR was available from any other lender the broker had arrangements with, such as being a member of a "panel" operated by the broker, the lender can demonstrate this through clear, contemporaneous, and customer-specific evidence. For example, if there was evidence that multiple lenders on the broker's panel had refused to provide finance and/or the broker had to go through a specialist broker to secure finance due to the consumer's credit risk.

7.58 We have set out below the standard of evidence that we consider would be necessary to rebut the presumption:

- Clear evidence:
  - Evidence that is unambiguous and verifiable, showing the actual offers available at the time of the transaction.
  - Generic statements or reconstructed estimates would not be permitted.
- Customer-specific evidence:
  - Evidence must relate to the individual consumer and transaction, demonstrating that alternative, lower APRs were not available for the application in question, e.g. consumer's credit profile, loan amount, and product type.
- Contemporaneous evidence:
  - Evidence must have been created at or very close to the time of the transaction, not generated retrospectively.

- Acceptable examples include:
  - Dated and version-controlled lender rate sheets for the relevant period, that provide information about rates for consumers with different credit profiles, loan amounts and product types, allowing rates to be matched to the individual consumer.
  - Timestamped broker platform screenshots showing the consumer's application and the range of offers available.
  - Timestamped communications (eg emails or system notes) confirming the offers considered and the rationale for selection.

7.59 This rebuttal may be difficult to substantiate, especially in instances where brokers did not keep information relating to other lenders or did not seek offers from other lenders, potentially due to contractual obligations. Commercial confidentiality could also present an issue, though any concerns may be reduced over time and addressed with suitable redaction. However, we consider it appropriate to allow lenders the opportunity to demonstrate this where possible, as it ensures that redress is targeted to cases where the consumer was genuinely disadvantaged.

7.60 Where the broker was tied exclusively to one lender, we consider this rebuttal would not be feasible. In such cases, the presumption of loss or damage would remain irrebuttable. We welcome stakeholder views on whether alternative evidential approaches could be developed for this scenario.

Question 53: **Do you agree with our proposal that the presumption of loss or damage caused by an unfair relationship arising from inadequate disclosure of a high commission arrangement or a tied arrangement should be rebuttable if the lender can provide evidence that the consumer would not have secured a better offer from any other lender the broker had arrangements with at the time of the transaction? If not, please explain why you do not agree and any other options we should consider**

Question 54: **Do you agree with our proposal on the standard of evidence that we consider would be necessary to rebut the presumption of loss or damage caused by an unfair relationship arising from inadequate disclosure of a high commission arrangement or a tied arrangement? If not, please explain why you do not agree and any other options we should consider**

Question 55: **Do you agree with our proposal that, where the broker was tied exclusively to one lender, the presumption of loss or damage would remain irrebuttable? If not, please explain why you do not agree and any other options we should consider, particularly any alternative evidential approaches that could be developed for this scenario**

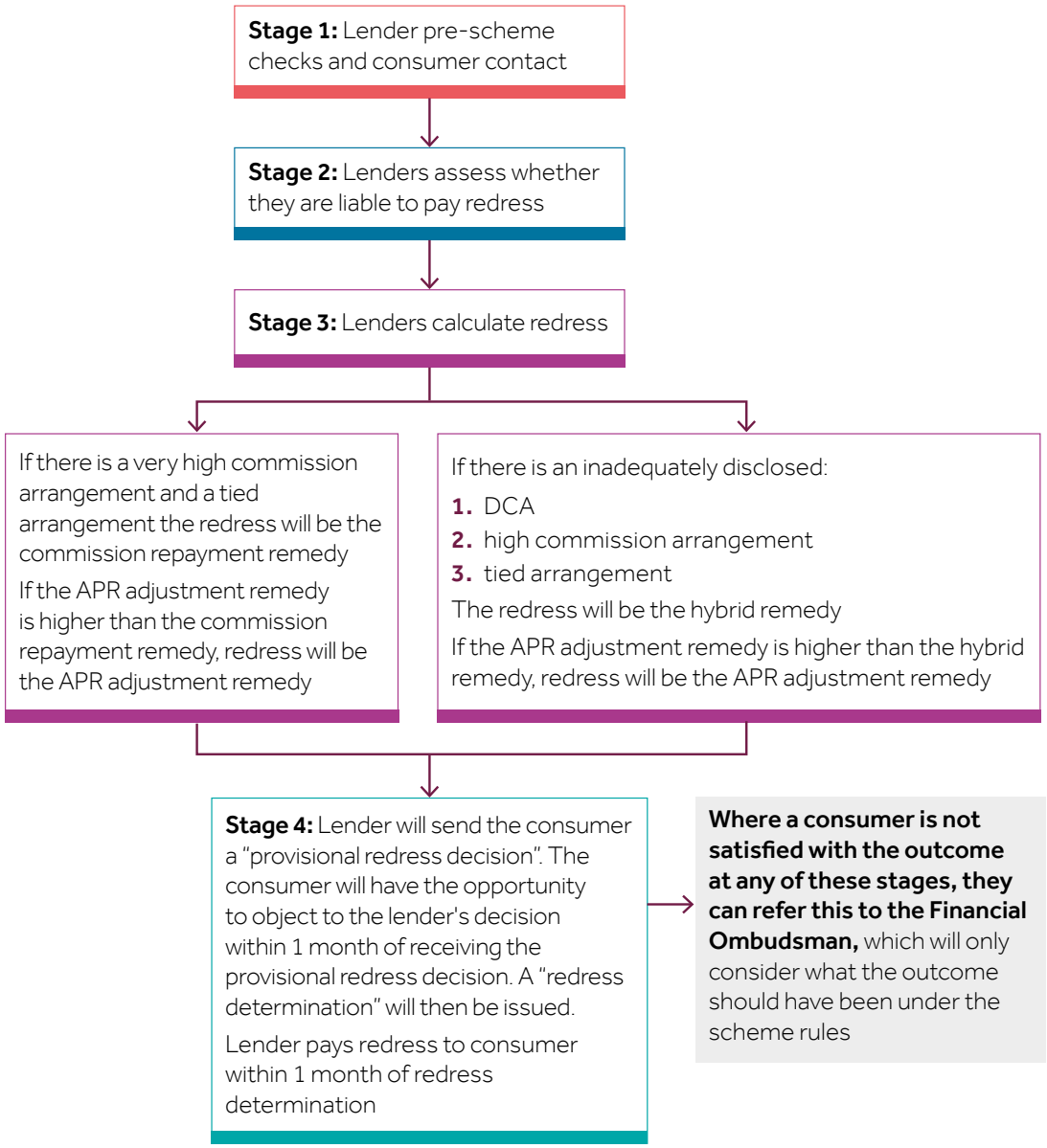
Chapter 8

Stage 3: Calculating redress

Overview

8.1 Figure 5 below provides an overview of stages 3 and 4 of our proposed scheme, in which firms would calculate how much redress is owed and pay this to the customer. We set this process out in more detail in the following two chapters, and alongside the rest of the scheme in Annex 7.

Figure 5: Stages 3 and 4 – lenders calculate and pay redress



Legal framework and the key principles of our approach

8.2 Under section 404 FSMA, we must set out how lenders should calculate and provide redress. To ensure fairness and consistency, we specify this in detailed rules.

8.3 Section 404A(4) FSMA says that redress under a scheme must be "just" for the type of case in question. In deciding what remedy is just, section 404A(5) says we must consider the nature and extent of the loss or damage. This does not mean a remedy must be strictly based on the financial loss suffered by the consumer, but we must show that we took financial loss into account.

8.4 In previous redress schemes – those for British Steel Pension Scheme (BSPS) members and Arch Cru investors – remedies were based on measurable financial loss. These schemes compared actual outcomes with what would have happened if suitable advice had been provided, using standardised assumptions to ensure consistency and efficiency.

8.5 For this scheme, we must contend with the fundamentally different frameworks that apply in unfair relationship cases under the CCA, compared to previous redress schemes such as BSPS and Arch Cru that were based on breaches of our rules.

8.6 In particular, section 140A CCA gives courts very wide remedial powers. These powers do not confine courts to loss-based remedies of the type used in BSPS and Arch Cru. In *Kerrigan v Elevate*, the High Court noted that the aim is not to compensate the borrower or punish the lender but to restore fairness. Accordingly, in deciding to award repayment of commission plus interest in *Johnson*, the Supreme Court did not have to consider causation and measurable financial loss.

8.7 This creates a unique challenge for scheme design. We must balance two fundamentally different approaches, which deliver different amounts of redress:

- The loss-based approach (as in BSPS and Arch Cru), which is strictly compensatory and limited to measurable financial harm; and
- The commission repayment remedy (as in *Johnson*), which is designed to restore fairness, does not depend on precise financial loss, and is only available because of the CCA's broad remedial powers.

8.8 In summary, our proposals on remedy are:

- Recognising the Supreme Court's decision in *Johnson* supports a commission repayment remedy, we propose that consumers whose cases align closely with *Johnson* should get the commission repayment remedy.
- For almost all other cases, we propose a "hybrid remedy" that combines a loss-based remedy applying a reduced APR ("APR adjustment remedy") and the commission repayment remedy. The hybrid remedy is designed to compensate consumers for financial loss from inadequate disclosure, while also reflecting the broader range of remedies courts could award, and, particularly, the uncertainty discussed below around where courts might land in unfair relationship cases if the facts do not align so closely with *Johnson*.

- In the very limited circumstances where the APR adjustment remedy would produce greater redress than the commission repayment remedy (if relevant) or hybrid remedy (if not), we propose consumers should get the APR adjustment remedy.

8.9 Importantly, our proposed remedies are standardised to ensure the scheme operates efficiently and effectively. As these are standardised remedies, and not presumptions, the core amount of redress (as opposed to the compensatory interest element, see paragraph 8.79) cannot be "adjusted" through rebuttals. Rebuttals that adjust the remedy would likely require individual assessments, which could complicate the scheme's broad approach and affect its simplicity and cost-effectiveness, consistency, and predictability. Further, there is no reason such rebuttals should be "one-way" – if we were to allow firms to use the rebuttal process to argue for a lower remedy then it is unclear why consumers should not also be entitled to use the process to argue against this and, indeed, for a higher remedy.

8.10 Moreover, we consider that, providing there is a mechanism to rebut the presumption of loss or damage – which we have set out in our proposals on liability assessment in Chapter 7 – we do not need to incorporate a mechanism to adjust the core amount of redress once loss or damage has been established.

8.11 Our proposed approach provides a streamlined process with clear rules, consistent outcomes, and much faster resolution compared to litigation, which is costly, uncertain, and time-consuming. While some consumers may receive more or less than in an individual court case, we consider our proposed scheme would deliver just redress quickly and at scale.

Comparing consumer outcomes under different redress approaches

To illustrate the implications of our proposed approach to remedy, we have considered how consumer outcomes under our scheme might compare to a scenario in which we did not introduce a scheme, and consumers sought redress through the Financial Ombudsman or the courts instead.

What would happen if there wasn't a scheme?

- Consumers dissatisfied with a firm's response could make complaints to firms and subsequently to the Financial Ombudsman. In January 2024, the Financial Ombudsman issued two "lead decisions", upholding complaints about the inadequate disclosure of DCAs and awarding redress based on the difference between the consumer's actual APR and the lowest APR the lender could have offered under the DCA.
- Alternatively, consumers could bring claims to court – an option that would still be open to them if there was a scheme. In the Supreme Court's *Johnson* case, the Court awarded repayment of the commission (plus interest) to remedy the unfairness in the relationship between the consumer and the lender.
- Importantly, it is highly uncertain whether these remedies would be available in every motor finance unfair relationship case considered by the Financial

Ombudsman or a court. For example, the Financial Ombudsman has not to date set out its approach to complaints that involved a high commission and/or a contractual tie, but not a DCA.

How could outcomes differ?

As a case study, we have compared the redress outcomes in the Financial Ombudsman's *Miss L* lead DCA decision – which was judicially reviewed in *Clydesdale* – to those that could be available to the same consumer under the remedies set out in this chapter, ie the commission repayment remedy, the APR adjustment remedy, and the hybrid remedy.

Estimated core redress (compensatory interest excluded for comparability)

Financial Ombudsman award	Commission repayment remedy	APR adjustment remedy	Hybrid remedy
£1,326	£1,593	£549	£1,071

Note: All calculations based on information contained within the published Financial Ombudsman decision. Financial Ombudsman award has been calculated as actual sum not included in published decision.

Key insights

- **Outcomes in cases that are not very similar to Johnson are uncertain:** Under the scheme, if every eligible case received repayment of commission (as in *Johnson*), total redress costs could reach £13.2 billion. However, if there was no scheme, as we explain above and in the wider chapter, it is highly uncertain whether a court – or indeed the Financial Ombudsman – would award repayment of commission for all such cases, as each case will need to be considered on its individual merits and circumstances. For example, it would be open to the Financial Ombudsman to take a different approach based on evidence provided by the consumer or respondent in an otherwise similar case. Additionally, the Financial Ombudsman's decision in *Miss L* considered a DCA case with a predetermined interest rate range linked to the commission payment. It is unknown whether the Financial Ombudsman would take an identical approach to redress in a case with an inadequately high commission or contractual tie, but no DCA, in which different considerations would apply. When our final rules are published they will be a relevant consideration in future cases.
- **Administrative costs are significantly higher without a scheme:** Our analysis shows that, without a scheme, total administrative (or non-redress) costs for firms could be up to £6.5 billion higher than under a scheme, irrespective of the remedy that individual consumers end up getting.
- **Our scheme provides consistency and efficiency:** Our proposed approach, under which most cases will receive the hybrid remedy, balances fairness, legal precedent, and evidence of consumer loss, providing a consistent and operationally deliverable remedy at scale. In our case study, the consumer would, theoretically, receive more redress under the commission repayment remedy. Under a purely loss-based approach – the APR adjustment remedy – they would receive far less. The hybrid remedy is designed to account for this uncertainty by providing the simple average of the 2 remedies.

Total redress costs from our redress calculation proposals

8.12 We have modelled the total, market-wide cost of the redress that is owed by lenders to consumers under the redress calculation approach summarised in paragraph 8.8 – and set out in further detail in the rest of this chapter – at £9.7bn. This includes compensatory interest calculated using an annual average of the daily Bank of England base rate plus one percentage point (1ppt), which is the approach proposed in paragraphs 8.73-8.77.

8.13 Importantly, the £9.7bn figure assumes 100% of cases where there is an unfair relationship claim and receive redress under our scheme. However, we model that, after screening, 84.7% (85%) of unfair relationship cases are joined in the scheme. If we were to apply this figure to the £9.7bn redress figure, it would translate to £8.2bn. Because the model also includes non-redress costs (such as administration, Financial Ombudsman fees, and cases that exit the scheme), the total cost estimate does not scale directly. An 85% scenario should therefore be treated as illustrative rather than a precise calculation.

8.14 As we explain in more detail in Section 2 of Technical Annex 1, we estimate total market-wide redress costs as follows:

- We identified agreements in our sample that met our definitions for different types of unfair relationship (ie DCAs, high commission arrangements, and tied arrangements). Specifically we used our review of sample agreements to inform estimates of how many of arrangements with a DCA, high commission or tied relationship were adequately disclosed.
- We then used this information to work out across our data set which agreements would have an unfair relationship. For DCA arrangements and high commission we assume that no agreements have been adequately disclosed. For tied relationships we have taken the rate of inadequately disclosed arrangements from a small sample and applied this across our data set. Where an agreement in our data set showed zero commission, zero APR or zero loan value, we did not assign a redress payment to ensure these agreements did not affect our estimates of average redress, but we have counted them in the total number of agreements for the purpose of estimating non-redress costs. Finally, for DCA agreements where the minimum APR was not available in our data set, we set the minimum APR value to zero.
- We then calculated redress for each agreement where there was an unfair relationship using either the hybrid methodology or, for agreements with a very high commission arrangement and a tied arrangement, the commission repayment remedy. The total redress for our sample (covering about 89% of the market) was then reweighted to provide a market-wide estimate, ensuring our figures reflect both the scale and distribution of unfair relationships.

8.15 In Annex 6, we set out estimates of total, market-wide redress costs in full, including how our £9.7bn estimate would change depending on different approaches to calculating redress, different compensatory interest rates (including 8%), and different thresholds for the definition of a high commission payment. Under the alternative approaches set out in Annex 6, our total, market-wide estimates of redress costs range from £6.2bn to £14.3bn.

Compensatory interest

8.16 For simplicity, we used a single compensatory interest rate of 2.09% in our market-wide estimates. This is a weighted average, based on the annual average of the daily base rate plus 1 percentage point for each year covered by the scheme, with weights reflecting the number of eligible agreements written in each year. The rate is lower than the "ballpark 3% rate" referenced in our 3 August statement because the earlier 3% figure was estimated before the Supreme Court's *Johnson* judgment. At that time, we were contemplating a scheme that covered disinterested and fiduciary duty breaches. This meant the weighted average included many more recent agreements, written when interest rates were higher. Following *Johnson*, and the dismissal of the disinterested and fiduciary duty claims, the focus of the scheme narrowed to unfair relationship cases, which are predominantly DCA-related. As DCAs were banned in 2021, most affected agreements were entered into during periods of historically low interest rates, resulting in a lower weighted average.

8.17 Our modelling assumes a compensatory rate of interest based on a weighted average base rate from 2007-2024 plus 1ppt to cover each year covered by the scheme with this weighted rate then rolled forward until end 2026. The interest rate actually awarded will also take account of changes to base rate from 2025 up to the date of the award. This may mean the interest paid to consumers may be higher than accounted for in our redress liability estimates based on their individual circumstances and how the base rate changes between end 2024 and redress payment date.

8.18 In practice, individual redress calculations under the scheme will use the actual base rate plus 1ppt applicable for the period between when the consumer was deprived of money because of the lender's disclosure failure and when redress is paid, rather than the weighted average used for aggregate modelling.

Treatment of redress costs in our cost benefit analysis

8.19 Our CBA in Annex 2 makes several analytical assumptions and judgements to simplify the analysis to allow respondents to this consultation to focus on the most material components of our proposed intervention. The most important of these is that we do not directly compare the estimated total redress liability figure under our proposed scheme with that expected under the counterfactual "do- nothing" scenario.

8.20 There are several reasons for this:

- First, it is important to note that redress liability estimates are not a cost to firms arising from our proposed redress scheme, as firms who are required to pay this redress were in breach of the law and therefore these represent impacts derived from historic non-compliance, rather than new costs associated with our intervention.
- Second, while it is likely there will be difference in the quantum of redress liabilities finally paid between our proposed intervention and the counterfactual, it is extremely challenging to reliably estimate what this will be due to the significant uncertainties in the counterfactual over how firms, the Financial Ombudsman and the courts will treat and assess loss and unfairness. Any such comparisons would be highly sensitive to untestable prior assumptions around take-up and firm and

consumer behaviour. This could lead to undue focus being placed on what might be a relatively small difference, rather than larger differences in non-redress costs firms, the redress system and market face between the counterfactual and our proposed intervention.

Proposal for a loss-based APR adjustment remedy

8.21 Financial loss can arise when important details about commission and commission arrangements are not made clear to the customer. As set out in Chapter 3, transparency about such arrangements helps consumers make informed choices that could save them money and incentivises brokers to act in ways that are more aligned with consumers' interests.

8.22 Reflecting our duty to take account of loss, in this section we consider how an appropriate remedy for the scheme based explicitly on financial loss could be constructed for inadequate disclosure of each relevant arrangement (ie DCAs, high commission arrangements, and tied arrangements).

Our analysis of financial loss caused by inadequately disclosed discretionary commission arrangements

8.23 The analysis set out in Chapter 3 (paragraphs 3.25-3.35) provides a reasonable proxy for how much consumers may have lost out because of the conflict of interest caused by an inadequately disclosed DCA. This analysis compares the actual interest rate a consumer paid to the rate they could have got from brokers and lenders where there was no conflict of interest.

8.24 We consider the use of proxy measures would be broadly consistent with how a court would approach the determination of compensation in cases where there is limited or ambiguous evidence of financial loss or harm. As set out by the Supreme Court in paragraph 50 of *Merricks v Mastercard*, a court would generally rely on the "best evidence available", which could include "best estimates relying on assumptions and approximations" (paragraph 52). This is highly relevant to cases involving unfair relationships. In relation to section 140A CCA, courts have broad discretion to determine appropriate remedies without being constrained by strict causation of loss requirements.

8.25 We consider our analysis could be used as follows as the basis for a potential loss-based APR adjustment remedy for inadequately disclosed DCAs:

- Lenders would apply the 17% average APR difference identified in this analysis to the APR the consumer actually paid to produce a "market-adjusted APR" to use as the basis for the calculation of redress. If deducting 17% from the APR produces a market-adjusted APR lower than the lowest APR at which the broker would have received additional commission under the DCA, that APR should be used as the market-adjusted APR.

- The difference between each payment made under the actual agreement and that which would have been paid under the reduced rate shows how much extra the consumer was overcharged in total.
- Lenders would apply compensatory interest to each overcharge resulting from the higher APR that they paid due to the inadequately disclosed DCA.

8.26 As set out in Table 6, average redress for a scheme case where there had been an inadequately disclosed DCA would, under this approach, be £421 at the mean and £316 at the median. This includes an additional amount for compensatory interest at a rate of base rate plus 1ppt per year from the date of each overcharge. We have set out our approach to compensatory interest in more detail below.

8.27 Our analysis could also be used to calculate a fixed percentage point reduction for all APRs, rather than a proportional one. We considered this approach but ruled it out. We are concerned this would have an unfair impact on high-APR consumers, who are more likely to be higher credit risk, have lower incomes, and be more vulnerable to harm. A flat APR reduction would not reflect the much larger interest costs borne by these customers and, therefore, would risk under-compensating them. Instead, we propose a proportional discount of 17% to the interest and charges paid. This better reflects differences in customers' actual costs and is more even-handed across APR levels, while being as simple to apply consistently.

Proposed approach

8.28 If we were to include a remedy in the scheme based explicitly on financial loss, we propose that this should use the same 17% APR reduction that we consider appropriate for unfair relationships arising from inadequately disclosed DCAs for all unfair relationships due to inadequate disclosure of all relevant arrangements.

8.29 In our judgement, this approach is supported by the shared market context and the existence of similar incentives for opportunistic broker behaviour where there is inadequate disclosure of high commission arrangements or tied arrangements as there is for inadequate disclosure of DCAs. More specifically:

- for high commission arrangements, brokers may select a lender based on the amount of commission they could earn, not whether they offer the best deal for the consumer
- for tied arrangements, brokers may give preference to one lender for the mutual benefit of the broker and lender but not necessarily the consumer

8.30 Given that we already have robust findings of loss from our DCA analysis, which we consider provides a reasonable proxy for the cost of broker opportunism where conflicts of interest from inadequately disclosed commission arrangements arise, we do not propose introducing additional estimates of loss for other relevant arrangements based on other analysis. For example, the analysis set out in Chapter 3 (paragraphs 3.25-3.35) on the relationship between commission and credit costs.

8.31 Doing so would unnecessarily increase the complexity of the scheme without clear benefit. For example, in cases where there was unfairness arising from multiple

relevant arrangements (almost a quarter of cases in our sample) – such as both a DCA and a high commission arrangement – we would need to decide whether to sum the estimated losses, take the maximum, or attempt to model potential interaction effects between different disclosure failures. Each of these approaches would introduce further assumptions and operational complexity. This could undermine the simplicity, transparency, consistency, efficiency, and deliverability of the scheme, without a strong evidential basis for improved consumer outcomes.

8.32 Further, the impact of us misjudging the appropriateness of the 17% APR reduction as an explicitly loss-based APR adjustment remedy for cases that did not involve a DCA would likely be limited in the context of the scheme as a whole. This is because around 84% of cases that we expect to be eligible for the scheme involved a DCA. This compares to cases with no DCA but a high commission arrangement or a tied arrangement (or both) at 16%.

Question 56: **Do you agree with our proposal for a loss-based APR adjustment remedy for all unfair relationships arising from inadequate disclosure of a relevant arrangement that applies a reduction of 17% to the APR the consumer actually paid to produce a market-adjusted APR to use as the basis for the calculation of redress? If not, please explain why you do not agree and any other options we should consider**

Question 57: **Do you agree with our proposal that, if deducting 17% from the APR produces a market-adjusted APR lower than the lowest APR at which the broker would have received additional commission under the DCA, that APR should be used as the market-adjusted APR? If not, please explain why you do not agree and any other options we should consider**

How our proposed loss-based APR adjustment remedy compares with the commission repayment remedy in *Johnson*

8.33 A redress scheme does not prevent consumers going to court. When considering what a just remedy might be under a scheme, it is important to reflect on remedies that could be available to consumers who go to court and how these compare to remedies under the scheme.

8.34 The Supreme Court's ruling in Johnson provides a key reference point for what may constitute a just remedy under section 140A CCA in cases involving inadequate disclosure of commission and commission arrangements. Importantly, the Supreme Court chose not to remit the question of remedy to a lower court. In paragraph 337, the Supreme Court expressly cited the FCA's submissions in favour of an authoritative ruling from the court on remedy as one of the reasons for choosing to decide the remedy itself: "We note the submission on behalf of the FCA that the public interest in achieving finality and clarity in the law under section 140A in the motor finance context and that

consistency in respect of the many thousands of pending complaints and claims would be aided by an authoritative ruling by this court." This makes it appropriate and, indeed, necessary for us, when designing a statutory redress scheme, to have regard to the principles reflected in that judgment.

8.35 Table 6 sets out how the commission repayment remedy would result in significantly larger average redress payouts than our proposed APR adjustment remedy.

Table 6: Average redress per eligible agreement under proposed APR adjustment and commission repayment remedies (including compensatory interest)

Unfairness factor	APR adjustment remedy (APR-17%)		Commission repayment remedy		Difference in mean redress amount (mean)	Difference in median redress amount (median)
	Mean	Median	Mean	Median		
DCA	£421	£316	£910	£667	£489 (+116%)	£351 (+111%)
High commission arrangement	£452	£361	£1,765	£1,532	£1,313 (+290%)	£1,171 (+324%)
Tied arrangement	£511	£387	£862	£609	£351 (+69%)	£222 (+57%)

Source: FCA analysis

Circumstances in which a court may follow the Supreme Court's approach to remedy in *Johnson*

8.36 Although courts would need to look at the specific facts of each case, we think it is highly likely that county courts – where most claims would be heard – would award the commission repayment remedy in cases with similar circumstances to *Johnson*.

8.37 However, *Johnson* does not, in our view, establish that repayment of commission would be the appropriate remedy in every successful unfair relationship claim. Notably, it is hard to predict how a county court judge might rule in cases involving only an undisclosed DCA or an undisclosed DCA plus just one of the features in *Johnson* – a high commission arrangement or a tied arrangement, but not both. In *Johnson*, a DCA was present, but since the broker did not use their discretion to increase the claimant's interest rate, the DCA appears to have played little to no role in the court's decision about unfairness and what remedy to award.

8.38 Where only a single relevant arrangement is present – such as a high commission arrangement or a tied arrangement, or if the commission itself is not substantial – we consider courts may be more receptive to arguments advocating alternative remedies. In cases where the circumstances are less severe, or there is evidence that the consumer's actions would have remained unchanged with proper disclosure, the

court may opt to grant a reduced remedy or no remedy at all. However, it is important to recognise that the commission repayment remedy in *Johnson* will remain an important reference point and is likely to influence the perspectives of county court judges in cases involving not only high commission arrangements and tied arrangements, but also undisclosed DCAs.

Proposal for a hybrid remedy that balances our proposed loss-based APR adjustment remedy and the commission refund remedy in *Johnson*

8.39 Given the uncertainty about how a court would rule in any individual case, we propose a hybrid remedy that draws on what we consider to be a credible loss-based approach to remedy – the APR adjustment remedy set out above – and the principles reflected in *Johnson* about the commission repayment remedy. We propose that the hybrid remedy is used to calculate redress for all cases, except those that are very similar to Johnson (which would receive the commission repayment) and the minority of cases where more redress would be available under the APR adjustment remedy.

8.40 We consider this hybrid remedy, which averages the outcome of the commission repayment and APR adjustment remedies, is both just and fair. It is consistent with our statutory objectives to have regard to the nature and extent of the loss or damage in question and provides clarity and certainty for consumers and firms. A universal approach for most cases enhances operational simplicity for firms, provides clarity for consumers, and also supports effective implementation of the scheme.

8.41 If we applied the commission repayment remedy to all cases, rather than just those that are very similar to *Johnson*, average (mean) redress would be £949. Under the hybrid remedy, average redress would be £695. We have estimated that, under the hybrid remedy, most cases would receive 2 thirds or more of the redress that would have been provided under the commission repayment remedy. They would not, however, have to wait for an uncertain result through the courts and the expense this would incur. These are illustrative figures only and should be interpreted in light of the wider caveats on the modelling approach set out elsewhere in this CP.

8.42 In summary, our scheme principles aim to deliver comprehensiveness, fairness and consistency. We want broad consumer participation in our scheme while ensuring redress is grounded in clear evidence of loss. We acknowledge the tension between these goals. If we decided not to include the commission repayment remedy, our aim to deliver a comprehensive scheme might be undermined as many consumers might decide to initiate legal action instead of participating in the scheme; higher perceived court outcomes, which may not account for the costs of going to court, may reduce uptake of the scheme. However, non-evidence-based redress may compromise fairness.

8.43 Our proposal offers a reasonable and pragmatic basis for consultation. However, should we receive compelling representations in feedback to this consultation as to why our proposed approach could result in significant over- or under-compensation, or is unworkable or inappropriate for other reasons, we will carefully reflect on how any aspect of our redress proposals should be revised.

Calculating the hybrid remedy

8.44 The proposed hybrid remedy would average the outcomes of the proposed APR adjustment remedy and the commission repayment remedy – effectively giving equal weight to both – as set out below.

$$\frac{(APR\ adjustment\ remedy\ redress + commission\ repayment\ remedy\ redress)}{2}$$

8.45 Regarding the calculation of the commission repayment remedy, our proposed definition of commission – and therefore the amount that would be repaid – is "any commission, fee or other financial consideration or remuneration payable (directly or indirectly) by a lender to a credit broker in connection with the entering into of a specific motor finance agreement". Or, in other words, the total amount that was payable to the broker in connection with the agreement.

Exception to the hybrid remedy

8.46 The hybrid remedy would apply to all cases where unfairness has been determined, with an exception for the small proportion of cases that are either very similar to Johnson.

8.47 Cases very similar to *Johnson* would receive the commission repayment remedy. We propose defining such cases as cases where an unfair relationship has been determined and which have **both** of the following features:

- Commission equal to or greater than 50% of the total cost of credit and 22.5% of the loan amount. This applies a 10% buffer below the amounts in *Johnson* to reduce the risk of excluding cases that are substantively similar but fall just below the level of commission in *Johnson* and overextending the remedy to materially different cases.
- A tied arrangement.

Applying the APR adjustment remedy as a minimum floor for the hybrid and commission repayment remedies

8.48 Generally, averaging the APR adjustment remedy and the commission repayment remedy under the hybrid remedy results in redress that is higher than under the APR adjustment remedy alone. However, in a minority of cases, a consumer could receive higher redress if it was calculated only on the APR adjustment basis. An example of such a case would be a case where the APR is high (so the 17% APR reduction provides a significant APR reduction) but the commission payment is low.

8.49 As explained in paragraphs 8.59-8.60, where we consider alternative remedy approaches, applying a purely loss-based APR adjustment remedy to all cases risks under-compensating consumers and would not deliver the fair and comprehensive redress required for a market-wide scheme. For most cases, the hybrid remedy addresses this risk by providing higher compensation than the APR adjustment remedy. However, it would be inconsistent with this principle to allow outcomes under the scheme where the hybrid remedy produces less than the APR adjustment remedy.

8.50 We therefore propose that the APR adjustment remedy should act as a minimum floor. This means that:

- Where the hybrid remedy would result in lower redress than the APR adjustment remedy, the APR adjustment remedy should be used instead.
- Where the commission repayment remedy, if applicable, would result in lower redress than the APR adjustment remedy, the APR adjustment remedy should be used instead. While it is unlikely that this would be the case for cases involving very high commission arrangements, we propose that lenders verify this by calculating both APR adjustment and commission repayment remedies for any case qualifying for the commission repayment remedy. Given the small number of cases that would be eligible for the commission repayment remedy on account of the size of the commission, we do not expect this to add materially to lenders' administrative costs.

8.51 Our modelling for estimated total redress costs does not yet account for cases where the APR adjustment remedy would be higher than the hybrid commission repayment remedy (if applicable). This could mean redress in those cases is higher than is currently reflected in our model.

Question 58: **Do you agree with our proposal that, except for cases very similar to *Johnson*, all cases where there was an unfair relationship arising from inadequate disclosure of a relevant arrangement should receive a hybrid remedy that averages the outcomes of the proposed APR adjustment remedy and the commission repayment remedy? If not, please explain why you do not agree and any other options we should consider**

Question 59: **Do you agree with our proposed definition of commission for the purpose of calculating the commission repayment remedy as, in summary, the total amount that was payable to the broker in connection with the agreement?**

Question 60: **Do you agree with our proposal that cases with commission equal to or greater than 50% of the total cost of credit and 22.5% of the loan amount and a tied arrangement, where there was an unfair relationship arising from inadequate disclosure of these arrangements, should receive the commission repayment remedy rather than the hybrid remedy? If not, please explain why you do not agree and any other options we should consider**

Question 61: **Do you agree with our proposal that the APR adjustment remedy should act as a minimum floor where either the hybrid or the commission repayment remedy would provide less redress than the APR adjustment remedy? If not, please explain why you do not agree and any other options we should consider**

How average redress compares under the hybrid and commission repayment remedies

8.52 Table 7 sets out how average redress would differ less significantly between the hybrid approach and the commission repayment remedy than between the APR adjustment remedy and the commission repayment remedy.

Table 7: Average redress per eligible agreements under proposed hybrid and commission repayment remedy (including compensatory interest)

	Hybrid remedy		Commission repayment remedy		Difference in mean redress amount	Difference in median redress amount
Unfairness factor	Mean	Median	Mean	Median		
DCA	£666	£518	£910	£667	£244 (+37%)	£149 (+29%)
High commission arrangement	£1,108	£960	£1,765	£1,532	£657 (+59%)	£572 (+60%)
Tied arrangement	£686	£527	£862	£609	£176 (+26%)	£82 (+16%)

Source: FCA analysis

Alternative approaches

8.53 We have considered, but decided against, the following alternative approaches to the proposal set out above:

- Applying the minimum APR remedy awarded by the Financial Ombudsman in the *Miss L* and *Miss Y* "lead decisions" on DCA disclosure, which were issued in January 2024. The approach to remedy in *Miss L* was judicially reviewed in Clydesdale (*Miss Y* was not challenged).
- Applying the loss-based APR adjustment remedy to all scheme cases.
- Expanding the commission repayment remedy to scheme cases that are less closely aligned with *Johnson*, for example those with lower levels of commission or different features to the cases defined in paragraph 8.47.
- Applying "smoothing" to address concerns about the "cliff edge" effect between the commission repayment remedy and the hybrid remedy
- Using whether a consumer received an APR below the market average APR to determine whether they suffered loss.

Applying the Financial Ombudsman's Miss L remedy to all non-Johnson cases

8.54 In the *Miss L* lead decision, the Financial Ombudsman concluded that, had the broker disclosed the existence of the DCA in a prominent way, the consumer would have asked for further information about the DCA before deciding to proceed – particularly given the direct link between the commission the broker would receive under the DCA and the amount she would have to pay for the conditional-sale agreement the broker arranged.

8.55 The Financial Ombudsman concluded on the weight of evidence that the consumer would have sought to renegotiate the terms of the agreement to the DCA floor rate (the minimum rate under the DCA) and the broker would have agreed given the overall circumstances of the sale. Those circumstances included that the broker stood to make a profit from the sale of the car and to receive a separate commission payment under a non-DCA arrangement for arranging the loan. Taking this and a number of other factors into account, the Financial Ombudsman awarded the difference between the actual cost of credit (at the rate the consumer paid) and the cost of credit at the DCA floor rate, plus compensatory interest at a simple rate of 8%.

8.56 In *Clydesdale*, the High Court found the Financial Ombudsman's approach to remedy was rational. However, we do not consider it the most appropriate approach to assessing redress for use in a market-wide consumer redress scheme. The Financial Ombudsman must consider the facts of each individual complaint and apply case-specific judgment, including giving the consumer and lender the opportunity to provide evidence specific to the consumer's circumstances. Whilst other cases referred to the Financial Ombudsman might raise similar features to *Miss L*, this approach remains an inherently individualised assessment taking into account what would have happened but for the regulatory and legal breaches identified by the Financial Ombudsman and the financial consequences for the consumer.

8.57 Our scheme, by contrast, is designed to deliver fair and consistent outcomes across over ten million agreements taking into account a range of factors. These include the approach taken by the Supreme Court in *Johnson* where there was both high commission and a tie, the effect of inadequate disclosure of relevant arrangements at a market level, as indicated by our econometric analysis, the possibility that a court might award the commission repayment remedy in more circumstances than were present in *Johnson*, and the need to ensure the costs of administering the scheme are proportionate.

8.58 In addition, our scheme covers a wider range of situations than the decision in *Miss L* and must provide remedies for cases involving inadequate disclosure of high commission arrangements and tied arrangements, as well as DCAs. If these cases did not also feature a DCA, there is no DCA floor rate that could serve as a basis for redress. We consider a universal approach to compensating consumers, suitable for all relevant arrangements, is the best way to balance the need to provide fair redress to consumers with our wider redress scheme objectives.

Applying the loss-based APR adjustment remedy to all cases

8.59 We do not consider it appropriate to apply the loss-based APR adjustment remedy to all cases. While such an approach may provide a reasonable estimate of financial harm in some cases, it may understate the true extent of consumer detriment in this context. For the following reasons, a purely loss-based approach would risk under-compensating consumers and would not deliver the fair and comprehensive redress required for a market-wide scheme:

- First, a loss-based remedy does not fully recognise the influence of the Supreme Court's decision in *Johnson*, which – noting the Supreme Court's explicitly stated desire to provide authoritative guidance to aid resolution of cases – will shape the expectations of courts and consumers in future motor finance cases.
- Second, it does not reflect the broader range of remedies that courts may award under the CCA, which are not limited to strict financial loss.
- Third, as set out in Technical Annex 1, the APR adjustment remedy is likely to be a lower bound estimate of loss, as it only captures the difference in APRs that might have been paid in a transparent market. It does not account for other forms of detriment or unfairness, such as distress or inconvenience, or the erosion of an individual's trust and confidence in providers.

8.60 As explained above, while we consider the loss-based APR adjustment remedy should provide a minimum floor (see paragraph 8.48-8.51), a scheme that only offered a loss-based APR adjustment remedy would not be just in our view because it would fail to consider the broader range of remedies available for unfair relationship cases under the CCA, including the commission repayment remedy. In addition, if our scheme did not offer redress that is just – and is seen to be so by consumers – it would increase the risk that many consumers would decide not to participate in the scheme and pursue litigation instead in the belief that they will obtain a much higher award in the courts. This would undermine the scheme's objectives of delivering timely, consistent, and comprehensive redress and place undue pressure on the court system. This would also increase uncertainty and costs for both consumers and firms.

Applying the commission repayment remedy to cases less closely aligned with Johnson

8.61 Conversely, we do not consider it reasonable or proportionate to apply the commission repayment remedy to cases that are less closely aligned with the facts of that case. The Supreme Court's decision in Johnson was based on a specific combination of features – a very high commission and a contractual tie. It did not establish that commission-plus-interest should be the default remedy in all motor finance cases where there was an unfair relationship arising from inadequate disclosure of certain commission-related features.

8.62 Extending the commission repayment remedy to materially different cases would risk overcompensation and would not be grounded in evidence of actual consumer loss, contrary to our statutory duty to take account of this. Our hybrid approach strikes a better balance by recognising the potential, but nonetheless uncertain, influence of *Johnson* on county courts while ensuring that redress remains linked to evidence of harm.

8.63 We recognise that the commission repayment remedy is a simpler remedy than the hybrid remedy and could, therefore, deliver lower administrative costs if applied across the scheme. However, we consider the better way to allow for this potential cost saving is to allow lenders to make settlement offers based on the commission repayment remedy rather than carrying out all of the stages of the scheme. We set out our proposal on settlement offers in Chapter 5.

Applying "smoothing" to address cliff edges

8.64 Under the proposed approach, consumers with similar cases could receive significantly different redress simply because the commission paid on their agreement falls just above or below the very high commission arrangement threshold. This risks the perception of arbitrary outcomes and could undermine confidence in the fairness of the scheme.

8.65 We considered whether smoothing could be used to address concerns about the "cliff edge" effect between the commission repayment remedy and the hybrid remedy. By introducing a graduated or tapered approach, the level of redress would increase in line with the commission paid, rather than changing abruptly at the threshold.

8.66 While we can see some consumer confidence benefits in ameliorating the cliff edge in redress at the high commission arrangement threshold, we do not consider smoothing necessary for two main reasons. First, we consider our proposed threshold for a high commission arrangement is robust and evidence based. Second, other things equal, the proposed hybrid remedy, which averages the APR adjustment remedy and commission repayment remedy, already provides for proportionately higher redress in higher commission cases.

Using the "average APR" as the benchmark for loss

8.67 Some lenders have suggested in pre-consultation that, regardless of the commission involved, some customers were given an APR that was either the lowest allowed under a DCA or better than the "average" APR available. In Chapter 7, we propose, for DCA-only cases, allowing lenders to rebut the presumption of an unfair relationship where the broker chose the minimum APR allowed under the DCA. However, we do not agree that using an average APR as the benchmark for loss is appropriate.

8.68 To do so would be to rely on APRs that will have been affected by the commission and inadequate disclosure practices we are addressing in our scheme. If the market was, as we believe, affected on a widespread or regular basis by these practices, meaning APRs may have been inflated across large parts of the market, then the average cannot be a fair point of comparison. In addition, deciding what counts as the "average" – for example, across which lenders, brokers, products, credit scores or time periods – would be complex and open to challenge. This would make the approach harder to apply consistently and could create opportunities for firms to influence the average APR benchmark. This would increase disputes and significantly slow down redress.

8.69 We also strongly question whether using an average APR would properly meet our duty to consider the loss or damage suffered by consumers. It would apply a single market figure to everyone, even though APRs vary based on factors like credit score, vehicle type, and loan term. This increases the risk of under- or overcompensation for loss compared to our proposed APR adjustment remedy which applies the same, proportional APR reduction to every case. This approach would also be difficult to implement fairly. It would require detailed, standardised data across the market and careful decisions about how to treat outliers and time periods.

Question 62: **Do you have any comments on the alternatives to our proposed approach to remedy that we considered but decided against? Are there any other approaches that we should consider?**

Early settlement

8.70 A significant proportion of motor finance agreements are settled before term. Consumers have a statutory right to settle early through the calculation of an "early settlement payment", which incorporates a rebate of interest charges calculated on an actuarial basis. It is important to take account of early settlement in redress calculations to ensure we do not misstate both the amount actually paid by the consumer and the amount that would have been paid under the market-adjusted APR. This could lead to systematic errors in redress calculations.

8.71 Early settlement changes the shape and timing of cashflows, as the stream of future payments after the early settlement date is adjusted to take account of early settlement, including full or partial early settlement payments. When using the APR adjustment remedy, lenders will, therefore, need to calculate the early settlement payment under both the original APR and the market-adjusted APR using the statutory formula at Regulation 4 of the Consumer Credit (Early Settlement) Regulations 2004.

8.72 Taking early settlement into account ensures the redress calculation mirrors the customer's real economic loss, rather than using an artificial "run-to-term" scenario that never occurred. This is because, for amortising loans (such as motor finance), interest is often "front-loaded". This means that payments made earlier in the agreement contain a higher proportion of interest because interest is charged on a larger outstanding balance.

Compensatory interest

8.73 We propose that, as standard, redress under the scheme should include an amount to compensate consumers for being deprived of money as a result of the lender's actions. In line with the courts and the Financial Ombudsman, we propose this is calculated by applying interest to the money the consumer was deprived of from the date they were deprived of it to the date it is paid back as redress. We use simple interest as compound interest is usually only awarded on compensation in fraud cases.

8.74 We propose that compensatory interest should be calculated using a set rate of simple interest for each year covered by the scheme. This would be based on the annual average of the daily Bank of England base rate for that year plus 1ppt and rounded up to the nearest quarter percentage point. This approach aligns with the policy change announced by the Financial Ombudsman following its recent consultation.

8.75 We consider that a base rate plus 1ppt rate strikes an appropriate balance between compensating consumers fairly and preventing undue financial strain on firms from the accumulation of interest on redress liabilities that may stretch back many years.

8.76 Some consumers or professional representatives may view court action as a more favourable route due to a perception that courts routinely award pre-judgment interest at 8%. However, court awards for pre-judgment interest are discretionary, and consumers must weigh the financial and other costs of litigation against the greater efficiency, reduced costs and accessibility of our proposed scheme. We note that, in *Johnson*, the Supreme Court directed that interest should be added at an "appropriate commercial rate". Although the Court did not specify the rate, we consider it unlikely that a commercial rate would be as high as 8%. In a 2004 report, which also recommended that courts should award a pre-judgment interest rate of base rate plus 1ppt as standard, the Law Commission notes that it is usual for the Commercial Court to use a rate of base rate plus 1ppt.

8.77 The proposed rates are set out in Table 8. The rate for each year is the annual average of the daily Bank of England base rate plus 1ppt, rounded up to the nearest quarter percentage point. In paragraphs 8.92-8.93, we explain how compensatory interest should be calculated.

Table 8: Proposed compensatory interest rates for use in redress calculations

Annual average of the daily Bank of England base rate plus 1pp (rounded up to nearest 0.25%)			
2007	6.75%	2017	1.50%
2008	5.75%	2018	1.75%
2009	1.75%	2019	1.75%
2010	1.50%	2020	1.25%
2011	1.50%	2021	1.25%
2012	1.50%	2022	2.50%
2013	1.50%	2023	5.75%
2014	1.50%	2024	6.25%
2015	1.50%	2025	5.50%
2016	1.50%		

Question 63: **Do you agree with our proposal that compensatory interest on redress should be calculated using a set rate of simple interest for each year covered by the scheme, based on the annual average of the daily Bank of England base rate for that year plus 1 percentage point and rounded up to the nearest quarter percentage point? If not, please explain why you do not agree and any other options we should consider**

Cases where standard compensatory interest is considered inadequate

8.78 To ensure fairness, we propose that the compensatory interest amount is rebuttable by consumers with specific evidence where they believe that interest at base rate plus 1ppt does not adequately compensate for their loss. This is consistent with the approach we took for the BSPS redress scheme.

8.79 Consumers can seek a higher rate than base rate plus 1ppt by providing appropriate supporting evidence. Unlike the core amount of redress under our proposed remedies, which, as we set out in paragraph 8.9, become non-rebuttable once liability and loss are established to ensure predictability, compensatory interest is treated differently. It represents an additional payment for lost opportunity due to deprivation of money and is not part of core redress. Allowing limited, evidence-based rebuttals by consumers allows for a consistent approach in the majority of cases, while acknowledging there may be differences in opportunity costs experienced by individuals.

8.80 We propose that a consumer can formally object to the compensatory interest amount when they receive a provisional redress decision under the scheme, as set out in Chapter 9. Formal objections will need to set out the actual amount being claimed above the standard compensatory interest detailed above. We propose that such objections must be based on the cost of borrowing, ie where consumers claim they had to borrow money at a higher cost as a result of not having the money available they should have had.

8.81 To prevent speculative claims and manage the burden on lenders, objections must be supported by appropriate contemporaneous evidence. Examples of acceptable evidence would include bank statements showing insufficient funds following repayments under the agreement, evidence of subsequent borrowing, and correspondence indicating financial pressures or distress linked to motor finance repayments.

Question 64: **Do you agree with our proposal to allow consumers to make representations where they believe that interest at base rate plus 1 percentage point does not adequately compensate them for their loss? If not, please explain why you do not agree and any other options we should consider**

Setting redress off against money owed by the consumer

8.82 We propose that lenders are entitled to set redress off against any monies owed by the consumer to the lender (eg for arrears and defaults), provided these are not subject to an unresolved dispute, complaint or legal claim at the time of the redress calculation. This set-off is limited to monies owed under any motor finance agreement or other regulated consumer credit agreements with the lender, as these will all be subject to the same arrears, default, and recovery requirements in CONC 7. It does not extend to other, non-consumer credit lending products, such as mortgages or business loans. We propose that consumers are informed of any set-off applied, giving them an opportunity to object it if they believe it is incorrect or unfair. This approach ensures that redress is not used to offset debts that are themselves disputed or outside the scope of consumer credit regulation.

8.83 Where a consumer still has an outstanding principal balance on their motor finance agreement, lenders may offer the option to apply any redress due under the scheme as a set-off against that outstanding balance. However, this can only be done with the consumer's explicit agreement. The consumer must be given a clear choice between receiving the redress as a direct payment or having it applied to reduce their outstanding principal. This ensures that consumers retain control over how their redress is used and are not disadvantaged by having redress automatically set off against their loan balance without their informed consent.

Question 65: **Do you agree with our proposal that lenders are entitled to set redress off against any monies owed by the consumer to the lender in relation to any motor finance agreement or other regulated consumer credit agreements and which are not subject to an unresolved dispute, complaint or legal claim? If not, please explain why you do not agree and any other options we should consider**

Question 66: **Do you agree that lenders may only apply any redress due under the scheme as a set-off against an outstanding balance with the consumer's explicit agreement? If not, please explain why you do not agree and any other options we should consider**

Scheme steps

8.84 We propose that firms should take the steps in Table 10 to calculate redress for cases where unfairness has been established. Table 10 also sets out the data that lenders will need to complete each step and what they should use as an alternative value if that information is not available. We have provided an explanation for the proposed alternative value where this may not be self-explanatory.

Why we propose two options for constructing the APR adjustment remedy payment schedule

8.85 To calculate the APR adjustment remedy redress accurately, firms must create payment schedules to compare the customer's actual pattern of payments with the pattern under the market-adjusted APR. The difference between these payments forms the basis for the APR adjustment remedy redress amount.

8.86 Given potential issues with the availability and quality of historical data, we propose two ways to construct the payment schedules, depending on whether actual cashflow information is available.

- **Option 1**, which is our preferred approach and is based on actual cashflows. Where complete and reliable records exist (including actual payment dates/amounts, charges, and any early settlement transaction), firms must reconstruct the factual cashflows exactly. This maximises accuracy, captures irregularities (eg missed or partial payments, payment holidays, fees) and provides the clearest audit trail back to source records.
- **Option 2**, which is a fallback option, based on modelled or assumed cashflows. Where necessary data to reconstruct actual cashflows are not available or not reliable, firms must construct a modelled schedule using the standard amortisation formula, the original APR, and the contractual term, assuming the agreement ran to full term (with specific adjustments where early settlement occurred and necessary inputs to calculate the early settlement payment are known). This ensures consumers are not disadvantaged by legacy data gaps while maintaining consistency and proportionality in delivery. The counterfactual schedule is then created using the same approach, substituting the market-adjusted APR.

8.87 Providing both options balances three objectives: accuracy (Option 1 wherever feasible), deliverability at scale (Option 2 where records are incomplete), and comparability (the same option must be used for both the factual and market-adjusted schedules on a given case, so the only difference is the APR).

Question 67: **Do you agree with the two options we have proposed for constructing the payment schedule to compare the customer's actual pattern of payments with the pattern under the market-adjusted APR? If not, please explain why you do not agree and any other options we should consider**

Approach where early settlement information is not available

8.88 The statutory early settlement formula requires detailed inputs, including the timing of the settlement and the outstanding balance at that point. These data points are essential to replicate the actuarial method required by law. Where this information is unavailable, we do not consider there are reasonable or evidence-based alternatives that would allow lenders to approximate the calculation accurately. However, we welcome feedback on this point.

8.89 For example, the calculation of the early settlement payment depends on:

- the exact date of settlement relative to the payment schedule,

- the remaining term and outstanding balance at that point, and
- any contractual adjustments or fees included in the original agreement.

8.90 These factors will vary significantly across agreements and cannot be reliably inferred from headline data such as the original APR or term alone. Using generic assumptions, such as applying an average rebate percentage, would undermine the accuracy and fairness of redress calculations and could create systemic bias.

8.91 Accordingly, where the necessary data to calculate the early settlement payment is missing, we propose that lenders should assume the loan ran to term. This approach avoids speculative modelling and the use of arbitrary generic assumptions that could distort redress outcomes.

Question 68: **Do you agree with our proposal that, where the necessary data to calculate the early settlement payment is missing, lenders should assume the loan ran to term? If not, please explain why you do not agree and any other options we should consider, including whether there are any reasonable or evidence-based alternatives that would allow lenders to approximate the calculation more accurately**

Calculating compensatory interest

8.92 Firms will need to take the following steps to calculate the total compensatory interest amount:

1. Segment the period: Divide the total period from the date the consumer was deprived of money (eg the date of each overcharge under the APR adjustment remedy or the date of the commission payment under the commission repayment remedy) to the date the redress is paid (which should be assumed to be 2 months after the provisional redress decision is sent) into calendar year segments, each with a constant average interest rate.
2. Calculate calendar year segment days: For each calendar year segment, determine the number of days the relevant rate applies. For example, if the rate applied for the whole year, the number of days would be the number of days in the year, ie 365 or 366.
3. Apply the formula: For each calendar year segment, calculate interest using the following formula (where "principal" refers to the base amount of redress, for example a refunded commission payment or a monthly overcharge under the agreement):

$$Calendar\ year\ segment\ interest\ amount = Principal\ x\ Compensatory\ interest\ rate\ for\ that\ year\ x\ (\frac{Days}{365})$$

4. Repeat for all calendar year segments: Perform this calculation for each segment covering the full period.
5. Sum the results: Add together the calendar year segment interest amounts to obtain the total compensatory interest amount.

8.93 Under the APR adjustment remedy, compensatory interest would be calculated for each overcharge made under the agreement (ie the difference between what the consumer actually paid and what they would have paid under the market-adjusted APR). The lender would calculate interest from the date of each overcharge to the date of redress payment, segmenting the period by year as above. For an agreement with 48 payments – and therefore 48 overcharges – this process would be repeated 48 times. While this may appear complex, we expect firms will develop automated tools or applications to perform these calculations accurately and efficiently at scale. The same approach would apply under the commission repayment remedy, although the calculation would not need to be repeated multiple times as the commission was only paid once, assumed to be at the date of the agreement.

8.94 Using the rates in Table 8, Table 9 sets out a worked example of the calculation of compensatory interest on a refunded monthly overcharge of £10 that was paid by the consumer to the lender on 1 April 2014 and refunded to the consumer on 31 December 2025.

Table 9: Example calculation of compensatory interest on an overcharge of £10 paid by the consumer to the lender on 1 April 2014 and refunded to the consumer on 31 December 2025

Year	Rate (%)	Days for which rate was constant	Calculation	Compensatory Interest (£)
2014	1.50	275	£10 × 0.0150 × (275/365)	0.11
2015	1.50	365	£10 × 0.0150 × (365/365)	0.15
2016	1.50	366	£10 × 0.0125 × (366/366)	0.15
2017	1.50	365	£10 × 0.0125 × (365/365)	0.15
2018	1.75	365	£10 × 0.0175 × (365/365)	0.18
2019	1.75	365	£10 × 0.0175 × (365/365)	0.18
2020	1.25	366	£10 × 0.0125 × (366/366)	0.13
2021	1.25	365	£10 × 0.0125 × (365/365)	0.13
2022	2.50	365	£10 × 0.0250 × (365/365)	0.25
2023	5.75	365	£10 × 0.0575 × (365/365)	0.58
2024	6.25	366	£10 × 0.0625 × (366/366)	0.63
2025	5.50	365	£10 × 0.0550 × (365/365)	0.55
			Total compensatory interest on overcharge	£3.19

Question 69: **Do you agree with the proposed steps that firms should take to calculate the total compensatory interest amount? If not, please explain why you do not agree and any other options we should consider**

Question 70: **Do you agree with the proposal that the presumed date of redress payment should be 2 months from the date the provisional redress decision is sent?**

Table 10: Scheme steps to calculate redress

Step	Calculation instructions	Minimum data needed to complete step	Alternative data/ values if minimum data not available
1: Calculate commission repayment remedy redress amount	Calculate redress as the total commission paid to the broker plus compensatory interest at base rate plus 1ppt per year from the date of the agreement (following the formula at paragraph 8.92). If the unfair relationship arose from an inadequately disclosed: • very high commission arrangement, defined as ≥50% of the total cost of credit and ≥22.5% of the loan amount, and • tied arrangement Compare redress calculated under the commission repayment remedy with redress calculated under the APR adjustment remedy (Steps 2-7). If redress is higher under the APR adjustment remedy, use the APR adjustment remedy. Redress may be set off against any money owed by the consumer to the lender (eg for arrears or defaults) that are not subject to an unresolved dispute, complaint or legal claim at the time of the redress calculation. If the unfair relationship arose for any other reason, proceed to Step 2, below.	Amount of commission payable (excluding cases where there is a very high commission arrangement or a high commission arrangement, as the amount of commission will be known)	Median commission payable to relevant broker in the financial year agreement written (to help ensure the alternative value is less susceptible to skewing by outliers)
		Date commission was payable	Date of agreement
		Amounts owed by consumer for arrears, defaults etc.	£0
2: Calculate the market-adjusted APR	Calculate the market-adjusted APR as the original APR multiplied by 0.83. Use this unless the agreement includes a DCA with a minimum discretionary commission-paying interest rate higher than the result of this calculation. In that case, use the minimum interest rate.	Original APR	Median APR agreed by relevant broker in financial year agreement written
		Minimum DCA APR	Original APR x 0.83

Step	Calculation instructions	Minimum data needed to complete step	Alternative data/ values if minimum data not available
3: Create a schedule of payments under the agreement at the original APR	**Option 1** If all necessary data is available, create the schedule of actual payments (including any early settlement payments that included a rebate of interest charges) by reconstructing the consumer's actual payment schedule under the original APR using actual payment and settlement dates.	All data used in the consumer's original payment schedule	N/A
	Option 2 If Option 1 is not possible because the necessary data is not available, create the schedule of actual payments made under the original APR by assuming the agreement ran to its full term and using the amortisation formula below. $M = (P \times r) / 1 - (1 + r)^{-n}$ Where: • M = Monthly payment • P = Principal (amount borrowed) • r = Monthly interest rate calculated from the original APR using the formula: $r = (1 + \text{APR})^{1/12} - 1$ • n = Total number of monthly payments (term in months) *Early settled agreements* If the agreement was settled early, lenders will also need to calculate the payment that the consumer would have made to settle their agreement early. The early settlement payment should be calculated using the statutory formula at Regulation 4 of the Consumer Credit (Early Settlement) Regulations 2004. Once the early settlement payment is calculated, all payments that fall after the early settlement date should be removed from the schedule of payments and replaced with the early settlement payment in the schedule.	Original APR	Median APR agreed by relevant broker in financial year agreement written
		Original loan amount	Use valuation guide prices (eg AutoTrader, CAP, Percayso, Glass's etc) for vehicle for relevant year minus 10% to reflect a typical deposit.
		Agreement start date	Vehicle registration year (if new vehicle sale) or date broker acquired the vehicle or any other information showing approximately when the broker acquired the vehicle. If the agreement end date is available, 48 months prior to the agreement end date.
		Term of loan	48 months (typical length of a motor finance agreement in our dataset)
		Data required to perform statutory early settlement calculation	Assume no early settlement rebate was paid.

Step	Calculation instructions	Minimum data needed to complete step	Alternative data/ values if minimum data not available
4: Create a schedule of payments under the agreement at the market-adjusted APR	Carry out the calculation in the same way as it was carried out at Step 3 – ie if the Option 1 approach was used at Step 3, use the same approach at Step 4 – but use the market-adjusted APR (as calculated at Step 2) rather than the original APR.	Agreement start date	See Step 3
		Original loan amount	See Step 3
		Market-adjusted APR	See Step 2
		Actual agreement end date	See Step 3
5: Calculate payment differentials (overcharges) for actual and market-adjusted payments under the agreement	For each payment made under the agreement, calculate the payment differential (overcharge) by subtracting from each actual payment (Step 3) its corresponding market-adjusted payment (Step 4).	Amount of each monthly payment at Steps 3 and 4	N/A
6: Apply compensatory interest to each payment differential (overcharge)	Apply compensatory interest at base rate plus 1ppt per year to each payment differential (overcharge) from the date of the original payment to the assumed date the redress will be paid, following the formula at paragraph 8.92.	Payment differentials calculated at Step 5	N/A
7: Calculate APR adjustment remedy redress amount	Add together: • all payment differentials (overcharges) (Step 5), and • all compensatory interest on payment differentials (overcharges) (Step 6)	See calculation instructions column	N/A

Step	Calculation instructions	Minimum data needed to complete step	Alternative data/ values if minimum data not available
8: Calculate hybrid remedy redress amount	Use the formula: (A + B) / 2, where: • A = APR adjustment remedy amount (from Step 7) • B = Total commission paid to broker + compensatory interest at base rate plus 1ppt per year from date of payment (from Step 1) Compare redress calculated under the hybrid remedy with redress calculated under the APR adjustment remedy. If redress is higher under the adjusted APR adjustment remedy, use the APR adjustment remedy. As at Step 1, the redress amount should be calculated net of any sums owed by the consumer for arrears, defaults etc.	See calculation instructions column	N/A

Question 71: **Do you agree with the proposed scheme steps to calculate redress set out in Table 10? If not, please explain why you do not agree and any other options we should consider**

Question 72: **Do you agree with the proposed minimum data needed to complete each step and the proposed alternative data/ values if the minimum data are not available? If not, please explain why you do not agree and any other options we should consider**

Chapter 9

Stage 4: Communicating redress outcomes

9.1 The outcome of the assessment of a scheme case must be communicated to the consumer in a formal "redress determination". A redress determination is not just provided when an amount of redress is due to the consumer – it is used to communicate any outcome under the scheme, including where the firm concludes there is no liability and, therefore, no redress due. For consistency and transparency, we have prescribed letters in our proposed rules dealing with the different circumstances in which a redress determination may be issued.

9.2 We have set out below the proposed content of the redress determination and the processes for sending it to the consumer, including the process for dealing with any issues the consumer may have with the firm's findings, and making any payment of redress that is due under the scheme.

Content of the redress determination

9.3 The redress determination will include:

- The lender's assessment of:
  - whether the scheme case included any relevant arrangement giving rise to an unfair relationship (ie a DCA, high commission payment, or contractual tie)
  - whether there was an unfair relationship (and, if not, why not)
  - any personal characteristics that could have affected understanding of any disclosures
  - if there was an unfair relationship, whether it caused loss or damage (and, if not, why not)
- If there was not an unfair relationship that caused loss or damage, a statement that no redress is due.
- If there was an unfair relationship that caused loss or damage:
  - the total redress amount payable, with the amount of compensatory interest awarded clearly specified, and
  - a breakdown of the redress calculation
- An explanation that the consumer must notify the lender if they disagree with any aspect of the provisional redress decision, including the compensatory interest amount, so that the lender can commence the process for dealing with objections.
- A reminder that the consumer has the right to complain to the Financial Ombudsman, even if redress is paid under the scheme.

Issuing the redress determination

9.4 We propose that the lender should send a provisional redress decision to the consumer setting out the provisional outcome of the review of their scheme case and giving the consumer an opportunity to object.

9.5 We propose firms will need to send their provisional redress decisions within 3 months of the end of the first stage of the scheme. This will mean consumers who complained prior to the scheme start, who do not opt out of the scheme, should receive their provisional redress decisions within 7 months of the scheme start. Other consumers with scheme cases should receive their provisional redress decisions within 15 months of the scheme starting.

9.6 The provisional redress decision will be finalised as a redress determination after 1 month of it being sent if the consumer does not notify the lender within that period that they do not accept the provisional redress decision and wish to object.

9.7 We will leave it open to lenders to decide whether to include a process to allow consumers to actively accept the provisional redress decision before 1 month has expired – as this could speed up the payment of redress and reduce compensatory interest costs – or to simply consider the provisional redress decision final if the consumer has not objected within 1 month. However, we do not consider that consumers should be required to respond for the provisional redress decision to become a redress determination. To operationalise this, we expect lenders will need to ensure that they have carried out appropriate identity verification and agreed payment details with the consumer as early as possible in the process.

Question 73: **Do you agree with our proposal that lenders will need to send provisional redress decisions within 7 months of the scheme start to consumers who have already complained, and within 15 months to all other consumers whose agreements have been assessed under the scheme? If not, please explain why you do not agree and what alternative time limits we should consider**

Confirmation and payment

9.8 Once the redress determination has been finalised:

- the lender must send the letter confirming the provisional redress decision
- the lender must pay any redress due by bank transfer (unless alternative payment instructions have been received from the consumer) within 1 month of sending the confirmation

9.9 If redress is not paid within the 1-month period, simple interest at 8% per year applies from the end of the 1-month period until payment is made.

Question 74: **Do you agree with our proposals for finalising the provisional redress decision? If not, please explain why you do not agree and what alternatives options we should consider**

Question 75: **Do you agree with our proposal that if a lender makes a payment more than 1 month after sending the redress determination, then interest will accrue on the redress payment at 8% per year? If not, please explain why you do not agree and what alternatives options we should consider**

Process for objecting to the provisional redress decision

9.10 A lender must be entitled to finalise a provisional redress decision as a redress determination if the consumer fails to notify the lender within 1 month of it sending the provisional redress decision of any objections. This would include objections to the lender's assessment of whether the case is a scheme case, whether there was an unfair relationship, and any offer of redress (including the compensatory interest component).

9.11 If the consumer objects within the 1-month period, the lender must:

- acknowledge the consumer's notification with 7 days
- give the consumer 1 month from the date their objection was acknowledged to submit their formal objection and any evidence to support it
- give the consumer clear, plain-language instructions on how to provide evidence with a simple means to do so, such as a portal to upload any documents or a pre-paid envelope (if evidence is sent by post then the date of posting is the date for the purpose of determining whether the evidence was sent within 1 month)
- consider the consumer's objection and any supporting evidence and provide a final redress determination within 2 months of receiving the consumer's evidence

9.12 If a consumer, having notified the lender of their intention to object to the provisional redress decision, fails to submit a formal objection within 1 month, the lender:

- must send the letter confirming the provisional redress decision
- must pay any redress due by bank transfer (unless alternative payment instructions have been received from the consumer) within 1 month of sending the confirmation
- would not be obliged to add compensatory interest to any redress for the period during which the consumer failed to submit their formal objection.

Failures to respond due to exceptional circumstances

9.13 If the consumer misses either the deadline for notifying the lender of an objection or submitting their formal objection, the lender should consider if the delay was due to exceptional circumstances and, if so, disregard the deadline and consider the consumer's notification or objection. If not, the redress determination will be final. Exceptional circumstances would include, at the time in question, incapacitation, other serious ill health, or a bereavement.

Question 76: **Do you agree with our proposals for how a consumer can object to a provisional redress decision? If not, please explain why you do not agree and what alternatives options we should consider**

Referral to the Financial Ombudsman Service

9.14 Consumers may still be entitled to redress if they complain to the Financial Ombudsman within 6 months of receiving their redress determination, even if redress is not paid under the scheme. In accordance with FSMA, the Financial Ombudsman would be required to determine the complaint by reference to what, in its opinion, the determination under the scheme should have been, rather than based on what it thinks would be is fair and reasonable in all the circumstances of the case.

Enforcement of redress

9.15 If redress is unpaid (including interest), it may be recovered as a debt due to the consumer, enforceable through the courts in the relevant part of the United Kingdom.

Chapter 10

Ensuring firms follow the rules and meet our expectations

10.1 In this chapter we set out how we intend to oversee how firms are following the proposed scheme rules and acting appropriately. To assist firms in achieving this we are also providing clarity around our specific expectations and requirements of them.

Principles of our supervisory approach

10.2 We have engaged widely ahead of this consultation, including with regulated firms. We want that close engagement to continue as we consider feedback and decide on a redress scheme.

10.3 Under our proposed scheme, we would expect the relevant lenders to deliver the following actions:

- Firms accurately identify and effectively contact their impacted population of consumers (with support from third parties where required);
- Firms gather appropriate information to assess whether cases are in scope of the scheme and liability (with support from brokers where required) and reach appropriate decisions;
- Redress calculations are accurate, and payments are made quickly;
- No undue delay at any stage of the proposed redress scheme; and
- Where issues are identified they are remedied swiftly and robustly.

10.4 Those firms would have to adhere to the scheme rules and guidance, once they come into force, following the steps set out in the redress scheme to deliver the outcomes we expect.

10.5 We recognise the scale of the challenge, but firms should work with urgency to get consumers who have lost out the compensation they are owed.

10.6 We will supervise firms closely and assertively, we will collect data regularly, and we will not hesitate to use our full range of powers if we find firms don't follow the rules.

10.7 Where firms encounter or anticipate issues, we expect them to engage with us at the earliest possible opportunity to discuss what steps are appropriate to address them.

10.8 We have a wide range of supervisory and investigatory powers which we will deploy proportionately where we want further clarity, or see evidence that firms are not complying. For example, we can appoint a skilled person under s.166 of FSMA to produce a report if we have concerns about compliance.

10.9 If there is a material failure by a firm to take actions required under the redress scheme, we can appoint a competent person, to take steps by, or on behalf of the FCA. We can also impose requirements on firms to take specific actions: we could, for example, require a lender to appoint a competent person check their redress calculations for a period to ensure they are accurate.

10.10 Where we identify the most serious or persistent breaches, we also have enforcement powers, including to issue financial penalties or public censure.

Question 77: **Do you agree with our proposed Supervision strategy? If not, please explain why you do not agree and what alternative options we should consider**

Need for lenders and brokers to act now

10.11 While this chapter covers how we intend to oversee our proposed scheme once it is introduced, we expect both lenders and brokers to take steps now to prepare for the proposed scheme.

10.12 We set out these steps and our expectations before we finalise our proposed scheme rules in the Dear CEO letter we are sending to lenders and brokers alongside the publication of this consultation paper.

10.13 Robust action from lenders and brokers now will support the swift delivery of redress and the timely conclusion of the motor finance issue. From our pre-consultation engagement with firms, we recognise and welcome the significant amount of preparatory work firms are already undertaking.

Financial Resilience

10.14 We will expect firms to make adequate preparations for any scheme, including ensuring they have the financial and non-financial resources in place that are required to deliver it.

10.15 We remind firms that they must always maintain adequate financial resources and must be capable of meeting their liabilities as they fall due. Every firm authorised under FSMA must meet the FCA's Threshold Conditions and Principles for Businesses, which require firms to have appropriate resources (see COND 2.4 Appropriate resources and PRIN in the FCA handbook).

10.16 We set out more detail in our framework for assessing adequate financial resources (FG 20/1), including the need to cover potential redress liabilities. We expect firms to undertake an assessment of whether their financial resources are adequate. This assessment should be proportionate to the scale and complexity of their regulated activities. The assessment is expected to be forward looking and must consider the risks, and potential liabilities, the firm is exposed to, including any potential redress

liabilities. We expect firms to analyse the impact of making any capital reduction, such as dividend payments, on their ability to meet potential future liabilities that may arise from motor finance redress.

10.17 We expect firms to deal with us in an open and cooperative way (Principle 11) and notify us of anything relating to them of which we would reasonably expect notice using a SUP 15 notification. This includes if firms believe they may not have adequate resources to meet potential liabilities, or if they are considering transactions that could materially affect their financial position.

10.18 In addition, as we explain in chapter 1, we recognise that lenders may seek restitution from brokers in cases where they are responsible for non-disclosure. This is a commercial matter and the provisions of the proposed scheme are without prejudice to any rights of indemnity or contribution a lender may have against a credit broker under the contractual arrangements between them, or pursuant to the Civil Liability (Contribution) Act 1978. Nevertheless, this does not negate firms' responsibilities to maintain adequate financial resources (as set out above) or to make payments to consumers in accordance with the timescales required under the proposed scheme.

Additional rules to support supervision of the scheme

10.19 We are also proposing to introduce a series of additional requirements on lenders to support our supervision of their progress and compliance with our scheme rules. These are set out below.

Reporting requirements

Delivery forecast

10.20 We propose lenders send the FCA a redress scheme delivery forecast 6 weeks after our final rules are published. As we anticipate lenders will build their own delivery forecasts to support workflow and resource management, we do not anticipate this placing undue burden on lenders.

10.21 Lenders' delivery forecasts must include:

- The name and contact details of the Senior Manager (SMF) responsible for oversight and overall delivery of the scheme
- Attestations from an appropriate SMF confirming their firm has robust process, systems and controls in place to:
  - successfully identify the starting population of potentially impacted consumers.
  - identify the firm's own records required to assess scheme claims.
  - obtain records required to assess scheme claims where these are not held by the firm.

- Number of agreements in the firm's starting population
- The starting population broken down by month until the whole population of complaints is closed and all redress paid:
  - How many letters will be sent inviting the consumer to opt in to the scheme.
  - How many letters will be sent inviting the consumer to opt out of the scheme.
  - How many cases (existing, new or Financial Ombudsman Service complaints and opt in cases) will be assessed and closed (based on existing portfolio of complaints, and assumptions for opt-in case/new complaint volumes).
  - Cash flow forecast for redress payments.

10.22 Where a person has acquired a loan portfolio and redress obligations transferred under the sale, that person will need to provide us with details of who will be completing the obligations under the scheme within 1 week of the start of the scheme.

Regular data reporting to the FCA

10.23 We propose lenders provide data to the FCA monthly to demonstrate progress under the scheme, adherence to their delivery forecasts and compliance with our requirements. This will support our monitoring of lenders' progress under the scheme as well as their financial resilience.

10.24 The reporting requirements, for the proposed scheme are set out in more detail in CONRED 5.9, in the draft instrument attached to this consultation paper (see appendix 1).

10.25 Our pre-consultation discussions with lenders indicated data provision can be automated, reducing firm burden, and that the proposed monthly frequency appropriately balances firm burden with the need to demonstrate progress.

10.26 We also consider the number of data points is appropriate to assist both us and lenders to fully understand the progress being made under the scheme, providing comfort that delivery is as expected and identifying any issues. We anticipate lenders would collect such data in any event and so the reporting burden on lenders is reduced.

10.27 To support effective monitoring, we may also request the submission of more detailed data from firms, on an ad-hoc basis, or where we have identified concerns, exercising our formal information gathering powers where necessary.

Data publication

10.28 As part of our commitment to transparency, accountability and building confidence in the proposed scheme, we are seeking views on proposals to publish selected data submitted by lenders.

10.29 We recognise this is a sensitive issue and the importance of balancing transparency and commercial impact.

10.30 In previous redress exercises we have published data on a firm specific basis. In Payment Protection Insurance we published firm specific data on a 6-monthly basis from those firms with more than 500 complaints in the period. Information published included the volume of complaints received and closed, complaint closure times and complaint uphold rates.

10.31 We have also used transparency in other FCA interventions. For example, during the Covid-19 Pandemic, following the Supreme Court judgment in the Test Case around issues with Business Interruption Insurance, we published firm specific data monthly which highlighted the number of claims received, how many had been dealt with and the value of claims that had been paid.

10.32 During our pre-consultation with lenders, they were supportive of publishing data to demonstrate progress under the scheme on an anonymised or aggregate basis. Lenders raised concerns around the publication of firm specific data, suggesting doing so could be misleading without context, and could potentially lead to market volatility.

10.33 Publishing firm specific data will support consumer understanding of the progress being made under the scheme, in line with our principle of transparency. In turn this will help build confidence in the scheme and re-build consumer trust in firms.

10.34 We recognise lenders' concerns, along with the likely desire from others to understand how individual firms are performing. On balance, we propose a PPI-type approach to publish limited firm specific data from those firms subject to the proposed redress scheme.

10.35 We are proposing to publish the following data for each lender every 6 months during the scheme:

- Number of cases dealt with under the scheme
- Number of scheme cases closed during the period
- Number of scheme cases where a redress payment was made during the period

10.36 There are other options available. We therefore invite feedback on publication, the types of data, format and frequency of publication and any potential risks or unintended consequences.

Question 78: **Do you agree with the data we propose to gather to help us understand progress under the proposed scheme, compliance with the proposed scheme rules and monitoring of financial resilience? If not, please explain why you do not agree and what alternative options we should consider**

Question 79: **Do you agree with our proposed reporting frequency? If not, please explain why you do not agree and what other reporting frequencies we should consider**

Question 80: **Do you agree with our proposal to publish certain data on firms' progress during the scheme? If not, please explain why you do not agree and what alternative options we should consider**

Lender SMF Accountability

10.37 We propose lenders appoint a suitable SMF (under the Senior Managers and Certification Regime) to have overall responsibility for oversight of the delivery forecast and compliance with the scheme rules for their firm. Depending on the size of the firm and how many of its consumers are affected, it may decide to appoint more than one SMF to oversee certain parts of the scheme.

10.38 We also propose an appropriate SMF attest for the firm's preparatory steps for the scheme, confirming the firm has robust processes, systems and controls in place to successfully identify the starting population of potentially impacted consumers, to identify firm records and to plug information gaps.

10.39 We may also require further attestations from firms as the scheme progresses to ensure delivery of the outcomes we expect under the proposed scheme.

10.40 Our proposed approach to attestation will support firms' delivery of the scheme, ensure accountability and build trust and confidence in the scheme.

Question 81: **Do you agree with our proposal to require a senior manager at the lender to take responsibility for overall delivery and oversight of the scheme at their firm and for its preparatory steps? If not, please explain why you do not agree and what alternative options we should consider**

Record keeping

10.41 It is important that firms keep records of the steps they take to comply with the scheme. Accurate records will help the firm demonstrate that it has complied with all the necessary requirements should a consumer challenge a decision the firm made during the scheme. It is also important that firms hold records that we can review should we want to monitor the firm's performance as part of our supervision strategy.

10.42 We are proposing that the firm will need to retain records for a minimum of 5 years from the date it was received or created. These records will include:

- The certificate of posting for each letter sent
- A copy of each letter sent
- A record of any attempts to contact the consumer, or obtain further information
- The completed assessment for each scheme case assessed
- All information on the consumer file and information received from the consumer

Question 82: **Do you agree with our proposals for the records firms will need to retain once the scheme ends? If not, please explain why you do not agree and what alternative options we should consider**

Other firms involved in successful delivery of the proposed scheme

10.43 While our proposed scheme applies to lenders, other regulated firms will play a key role in its successful operation. It is therefore crucial everyone with a role in our proposed scheme's success plays their part. Our supervision will be focused on ensuring they do so.

Brokers

10.44 While lenders are responsible for operating the scheme, brokers had a key role in providing consumers with information during the purchase of the vehicle and credit. They will therefore play an important role in ensuring the successful delivery of the scheme where lenders do not have all the records necessary to assess whether a case is in scope of the scheme and to assess liability.

10.45 We have set out in earlier chapters specific expectations of brokers, for example to retain records and to respond within a month of a request for information from the lenders. Collaboration between lenders and brokers will be important to deliver swift compensation to consumers.

10.46 Brokers will need adequate resources to ensure they can meet information requests from lenders. Like lenders, we will supervise brokers closely to ensure they're meeting our expectations, if not, we'll consider the use of appropriate regulatory powers.

Professional Representatives

10.47 We have previously issued joint communications with the SRA setting out our expectations of professional representatives dealing with consumers' motor finance commission claims. We also highlighted some troubling behaviour from professional representatives, for example inappropriate advertising. The FCA's proactive monitoring has led to the removal or amendment of more than 740 misleading adverts by FCA regulated CMCs since January 2024.

10.48 We expect to see all firms, including professional representatives, work together constructively in the best interest of consumers. Where we identify evidence to the contrary, we will intervene against those we regulate using our supervisory or enforcement powers or share intelligence with the appropriate regulatory body. We set out our expectations in the Dear CEO letter we are sending to claims management firms alongside the publication of this consultation paper.

Chapter 11

Changes to handling rules for motor finance complaints

11.1 This chapter sets out our proposals for changes to the handling rules for motor finance complaints that can be found in DISP App 5.

11.2 We are asking stakeholders to respond to this chapter of the consultation by 4 November 2025. This is to allow us time to finalise any changes and give firms notice of them before the current extension in the rules for handling motor finance complaints ends on 4 December 2025.

11.3 Under the current rules, firms will be required to start sending final responses to relevant motor finance DCA complaints and non-DCA commission complaints, which may include complaints about tied arrangements, from 5 December 2025. Under our proposals for a consumer redress scheme, this means that some firms will be required to start sending final responses before we have concluded our consultation and determined whether the redress scheme will go ahead and which complaints will be covered.

11.4 To avoid this, we propose to further extend the time firms have to send a final response to certain motor finance complaints.

11.5 If we do not give firms more time to send a final response it could risk undermining our objective that these complaints are resolved in an orderly, consistent and efficient way.

Complaints the further extension will apply to

11.6 For consistency with the current rules, we propose to apply the further extension to complaints that are covered by the current rules, with one exception. The proposed further extension will apply to:

- all relevant motor finance DCA-complaints; and
- non-DCA motor finance commission complaints, with the exception of complaints relating to leasing agreements.

Complaints excluded from the further extension: leasing agreements

11.7 As we did in CP24/22 and PS24/18, we describe regulated consumer hire agreements as leasing agreements. This is to avoid confusion with hire purchase products, which are types of credit agreement.

11.8 We propose to exclude complaints about leasing agreements from the further extension.

11.9 When we made the rules extending the time firms have to respond to motor finance non-DCA commission complaints we widened the definition of "relevant motor finance non-DCA commission complaint" to cover leasing agreements, as well as regulated motor finance credit agreements.

11.10 However, as the unfair relationship provisions do not apply to leasing complaints, our proposals exclude them from the subject matter of the proposed redress scheme. [see Chapter 4]. As such, we consider it reasonable for firms to start providing consumers with final responses to these complaints. When sending a final response to a leasing complaint, a firm should consider whether it would be helpful to explain to the consumer that the complaint will not be part of the redress scheme.

11.11 Firms will have 8 weeks from 5 December 2025 to send a final response to a leasing complaint received between 20 December 2024 and 4 December 2025. Where a leasing complaint was received between 26 October 2024 and 19 December 2024 (when the extension to send a final response to a leasing complaints started), a firm would only have the difference between the 8 weeks it ordinarily has to send a final response and the number of weeks that had already passed before the extension started to respond to the complaint eg if a complaint was received 3 weeks before the extension started, the firm would have 5 weeks from 5 December 2025 to send a final response. For leasing complaints received on or after 5 December 2025, firms will need to send a final response within 8 weeks of the date the complaint was received – which is the normal period set in our complaint handling rules in DISP 1.6.2R.

11.12 We acknowledge that under our existing rules, consumers will still have 15 months to refer their complaint to the Financial Ombudsman where the final response is sent on or before 29 January 2026. We considered a proposal to amend the time consumers have to refer leasing complaints to the Financial Ombudsman for final responses sent during this time but we think that introducing additional dates is likely to cause confusion for consumers, firms and the Financial Ombudsman. Given we have set out that these complaints will not be in scope of the scheme, we would expect consumers who are unhappy with the final response and want a resolution to their complaint to refer the matter to the Financial Ombudsman well before the end of the 15 months. If, by the end of 8 weeks, the firm is not in a position to send a final response, it must send a written response in accordance with DISP 1.6.2R(2) that explains why it is not in a position to make a final response and indicates when it expects to be able to provide one and informs the complainant that they may now refer the complaint to the Financial Ombudsman. If a final response is sent on or after 30 January 2026, the consumer will have 6 months to refer their complaint to the Financial Ombudsman. This is set out in more detail further on in this chapter.

How long the further extension should last for

11.13 With the exception of leasing complaints, we are proposing to further extend the time firms have to send a final response to 31 July 2026. On the assumption that, following consideration of the consultation responses, the FCA decides to implement a redress scheme, we think an extension of time to 31 July 2026 should provide sufficient time for a) scheme rules to be made; and b) for firms to familiarise themselves with the requirements those rules impose on them in relation to any complaints that fall within the extension.

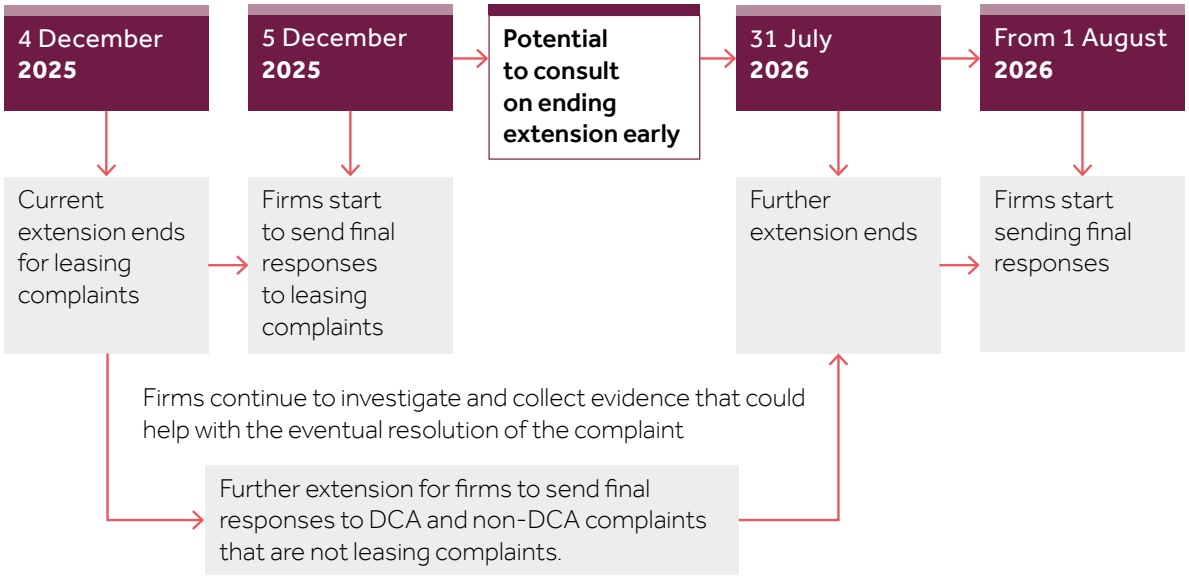
11.14 If, having analysed the responses to our consultation on the proposed redress scheme, we think that firms should start sending final responses to complaints sooner, we will consult on ending the extension (to 31 July 2026) early.

11.15 We encourage firms to continue to progress complaints already received by investigating and collecting evidence that could help with their eventual resolution. This information will be needed even if a decision is made not to pursue a redress scheme.

11.16 If we decide not to implement a redress scheme, we still propose 31 July 2026 as the date from which firms must begin to start sending final responses to complaints. This will ensure that there is sufficient time for us to consult on and implement any other motor finance complaint handling rules or guidance to assist firms as to how to respond to these complaints. As above, we will consult on ending the extension to 31 July 2026 early if we think that firms should start sending final responses sooner.

11.17 The diagram below sets out a timeline based on our proposals.

Figure 6: complaints handling timeline under our proposals



Requirements while the extension to time limits is in place

11.18 Our proposals do not affect the continuing application of DISP 1.4.1R. This rule requires firms to, among other things, assess and investigate complaints properly and diligently. Where possible, we expect firms to collect evidence that could help with the eventual resolution of the complaint.

11.19 We will not prevent firms from sending final responses during the period of the extension, should they wish to do so. Any response will need to give the complainant the right to ask the Financial Ombudsman to consider their complaint (see below on time periods for referrals). Nor do we propose to prevent firms from responding to a complaint in line with the provisions in DISP 1.6.4R, which provide an alternative approach to that set out in DISP 1.6.2R. However, we expect that firms will most likely want to wait for our response to this consultation before deciding whether to send a final response to impacted complaints.

11.20 If we see evidence of firms making offers, which could potentially be for less money than the consumer may be entitled to under any redress scheme, as a deliberate attempt to exclude consumers from the scheme, we will take strong action against the firm to put a stop to this.

Communicating the complaint handling time limits

11.21 We propose to require firms to update their published consumer-facing information about their complaint-handling procedures to reflect the changes to the time limits. We propose to share information on our website to help firms with this.

11.22 We are not proposing to require firms to tell existing complainants about the further extension to the time limits for dealing with their complaint and the reason for the further extension. We are satisfied that the requirement for firms to direct complainants to our website is sufficient. If we finalise these rules, our website will explain the reason for the extension. It will be updated to enable consumers to understand what the extension means for them.

11.23 Where firms wish to use the proposed extended time to provide a response to a new complaint received on or after 5 December 2025, they should send an acknowledgement within 8 weeks of receipt to help prevent complaints being unnecessarily referred to the Financial Ombudsman and potentially incurring a case fee. We propose requiring that the acknowledgement includes an explanation of the extension to the time limit rules in DISP 1.6.2R.

Referring a complaint to the Financial Ombudsman

11.24 Under our current rules consumers who are sent a final response to a DCA complaint between 12 July 2023 and 29 January 2026 and a non-DCA commission complaint between 21 June 2024 and 29 January 2026 will have until the later of 29 July 2026 or within 15 months of when they were sent their final response to refer their complaint to the Financial Ombudsman. This additional time applies even if the firm sends a final response because, for example, it feels able to respond to a complaint without considering the commission element.

11.25 We decided to give consumers more time so they didn't have to decide whether to refer a complaint to the Financial Ombudsman before we had made an announcement on our approach to redress.

11.26 As we are now publishing our consultation on our approach to redress, we do not consider it necessary to further extend the time that consumers will have to decide whether to refer their complaint to the Financial Ombudsman. So, for final responses sent on or after 30 January 2026, we propose that consumers will have 6 months to decide whether to refer their complaint to the Financial Ombudsman.

11.27 We recognise this would mean a substantial difference in the referral period before and after 30 January 2026 – a consumer who is sent a final response on 29 January 2026 will have until 29 April 2027 to refer a complaint to the Financial Ombudsman whereas a consumer who is sent a final response on 30 January 2026 will have until 30 July 2026.

11.28 We considered proposing a staggered approach to reducing the time to refer a complaint to the Financial Ombudsman down from 15 months to 6 months but we think that introducing additional dates is likely to increase complexity and potentially cause confusion. Proposing no additional changes to this time limit will also avoid firms from potentially having to write again to consumers who have already been sent a final response to tell them that they have more time.

Record keeping and retention

11.29 DISP 1.9.1R requires firms to keep a record of each complaint received and the measures they have taken to resolve it. Firms should keep this record for 3 years from the date they received the complaint. We've previously said that the period of the extension will not contribute to the 3-year period. To maintain consistency with this approach we propose that the period of the further extension to 31 July 2026 will not contribute to the 3-year period. We expect firms to be able to give us the information collected in complying with DISP 1.9.1R on request. We also introduced a rule to require lenders and credit brokers to maintain and preserve any records that are or could be relevant to handling existing or future complaints or civil claims for relevant DCA-complaints and non-DCA commission complaints. This is regardless of whether the customer has complained or not. We said that this rule would remain in place until 11 April 2026. We are proposing to extend this rule by a further 5 years to 11 April 2031 to maintain consistency with the 5-year period we are proposing firms retain records relating to redress scheme steps for.

Question 83: Do you agree that we should further extend the time firms have to send a final response to motor-finance DCA and non-DCA complaints that are not leasing complaints? If not, please explain why

Question 84: Do you agree that leasing complaints should be carved out of the extension? If not, please explain why

Question 85: Do you agree with our proposal to extend the deadline for firms sending a final response for motor-finance DCA and non-DCA complaints that are not leasing complaints to 31 July 2026? If not, please explain why. Please include any views on the possibility of consulting to end the extension early

Question 86: Do you agree that it is not necessary for the time to refer a complaint to the Financial Ombudsman to be aligned with the 15 months previously offered? If not, please explain why

Question 87: For consistency of approach, do you agree with our proposal that the period of the extension should not contribute to the 3-year period that firms are required to keep records of complaints for? If not, please explain why

Question 88: Do you agree with our proposal that lenders and credit brokers must maintain and preserve any records that are or could be relevant to the handling of existing or future complaints or civil claims until 11 April 2031? If not, please explain why

Annex 1

Questions in this paper

Question 1: Do you agree with our assessment that i) there were widespread and regular failures to disclose information about commission arrangements, ii) consumers have lost out as a result, and iii) a redress scheme is desirable? If not, please explain why

Question 2: Do you agree with the proposed broad definition of the subject matter of the scheme? If not, please explain why not and any other options we should consider

Question 3: Do you agree with the proposed definitions of a motor finance agreement, motor vehicle, commission arrangement, and commission? If not, please explain which definitions you do not agree with and any other options we should consider

Question 4: Do you agree with our proposal not to include a de minimis threshold? If not, please explain why you do not agree and any other options we should consider

Question 5: Do you agree with our proposed definition of a consumer? If not, please explain why you do not agree and any other options we should consider

Question 6: Do you agree with our proposed definition of a lender? If not, please explain why you do not agree and any other options we should consider

Question 7: Do you agree with our proposal that an agreement would need to have been written between 6 April 2007 and 1 November 2024 for it to be a scheme case? If not, please explain why you do not agree and any other options we should consider

Question 8: Do you agree with our view that lenders should not be routinely finding that a case is out of time for the scheme? If not, please explain why you do not agree

Question 9: Do you agree with our proposal that civil limitation should be assessed at the point the lender determines whether a case is a scheme case? If not, please explain why you do not agree and any other options we should consider

Question 10: Do you agree with our proposal that the scheme should apply to any consumer with a scheme case, who was resident in the UK at the time of entering into the relevant agreement, even if they are not resident in the UK anymore? If not, please explain why you do not agree and any other options we should consider

Question 11: Do you agree with our proposals on which cases should be excluded from the scheme? If not, please explain why you do not agree and any other options we should consider

Question 12: Do you agree with our proposal that cases where no commission was payable should be excluded from the scheme? If not, please explain why you do not agree and any other options we should consider

Question 13: Do you agree with our proposal that, if a scheme case does not involve inadequate disclosure of a relevant arrangement, the lender must conclude that there is no unfair relationship, and the consumer is not entitled to redress under the scheme? If not, please explain why you do not agree and any other options we should consider

Question 14: Do you have any evidence on other potentially problematic practices where inadequate disclosure could have resulted in an unfair relationship and which would not be included under our current proposals? If so, please share your evidence with us

Question 15: Do you agree with our proposed definition of a high commission arrangement? If not, please explain why you do not agree and any other options we should consider

Question 16: Do you agree with our proposed definition of a tied arrangement? If not, please explain why you do not agree and any other options we should consider

Question 17: Do you agree with our assessment that, because incentive-based arrangements are not binding on brokers' individual credit introduction decisions and operate at the level of brokers' wider commercial relationships, failure to adequately disclose an incentive-based agreement would not result in an unfair relationship? If not, please explain why you disagree

Question 18: Are there any other types of arrangement that you consider should be included in our proposed definition of a tied arrangement? If so, please explain why

Question 19: Do you agree with our proposal that complaints made to brokers that are about the subject matter of the scheme, should be sent to the lender to be dealt with under the scheme rules? If not, please explain why you do not agree and any other options we should consider

Question 20: Do you agree with the letters we propose lenders send to consumers and the level of detail we require in those letters? Do you think the FCA should provide template wording to be used in those letters in the final rules? If you disagree, please provide reasons for your answers

Question 21: Do you agree with the proposed expectations of brokers and professional representatives? If not, what should we consider when setting our expectations

Question 22: Do you agree with our expectations of consumers, including how we have taken account of consumer vulnerabilities in our proposals? If not, please explain why you disagree and what else should we consider when setting our expectations of consumers

Question 23: Do you agree with our proposal that lenders should be allowed to make settlement offers without completing all the stages of the scheme, but that these are clearly explained and must either be no less than the maximum redress that would be available under the scheme or based on the repayment of commission? If not, please explain why you do not agree and any other options we should consider

Question 24: Do you agree that the scheme should start the day after the publication of our Policy Statement? If not, please explain why you disagree and what other options we should consider

Question 25: Do you agree that consumers who have already complained should be contacted within 3 months of the scheme starting and all other consumers should be contacted within 6 months? If not, please explain why you disagree and what other options we should consider

Question 26: Do you agree with the steps we propose lenders must take to make contact with consumers? If not, please explain why you disagree and what other options we should consider

Question 27: Do you agree with our proposal for lenders to check whether at least one relevant arrangement for an unfair relationship is present before contacting consumers? If not, please explain why you disagree and what other options we should consider

Question 28: Do you agree with our proposed opt out consent mechanism for consumers who have already complained? If not, please explain what other options we should consider

Question 29: Do you agree with our proposed 1 month deadline for consumers to opt-out? If not, how long should we allow for consumers to opt-out?

Question 30: Do you agree with our proposed opt in consent mechanism for consumers who have not already complained? If not, please explain why you do not agree and what other options we should consider to gain the consent of the consumer

Question 31: Do you agree with our proposals that consumers will need to opt-in to the scheme within 6 months of receiving the letter from their lender, or within 1 year of the start of the scheme if they are not contacted? If not, please explain why you do not agree and what other options we should consider

Question 32: Do you agree with the steps we propose lenders must take to identify the presence of a relevant arrangement? If not, please explain why you do not agree and any other options we should consider

Question 33: Do you agree with our proposal that if the lender has not identified the presence of any relevant arrangements having followed the steps required, that the lender must conclude that no unfair relationship exists, and no redress is due? If not, please explain why you do not agree and any other options we should consider

Question 34: Do you agree with our proposal to use rebuttable presumptions in favour of the consumer when establishing if an unfair relationship resulted from inadequate disclosure and whether it led to loss or damage for the consumer? If not, please explain why you do not agree and any other options we should consider

Question 35: Do you agree with the first rebuttable presumption we propose that failure to adequately disclose a relevant arrangement gave rise to an unfair relationship between the lender and the consumer? If not, please explain why you do not agree and any other options we should consider

Question 36: Do you agree with our assessment that the relevant regulatory expectations around disclosure have remained materially the same throughout the period in which the OFT and then FCA provisions applied? If you do not agree, please explain why

Question 37: Do you agree with our proposal to approach the assessment of liability consistently for all scheme cases from 6 April 2007 onwards? If you do not agree, please explain why and any other options we should consider

Question 38: Do you agree with our proposal that, under the scheme, "adequate disclosure" means that clear and prominent information about any relevant arrangement was provided to consumers before they agreed to the loan? If not, please explain why you do not agree and any other options we should consider

Question 39: Do you agree with our proposal that the average consumer standard should apply unless there is evidence on the file about the characteristics of the consumer which indicated that such disclosure would not have been sufficient for that customer? If you do not agree, please explain why and any other options we should consider

Question 40: Do you agree with our proposal that, whenever a lender determines that adequate disclosure has occurred, the lender should clearly document in the consumer's redress determination which, if any, personal characteristics were considered and how? If you do not agree, please explain why and any other options we should consider

Question 41: Do you agree that there may be limited situations where it could be argued that the existence of a tied arrangement would have been obvious to the consumer from the circumstances of the transaction? If you agree, do you have any views on whether and how such situations should be reflected in the scheme rules when assessing adequate disclosure? If you do not agree, please explain why and any other options we should consider

Question 42: Do you agree with our proposal that for a DCA, adequate disclosure required disclosure of not just the fact that a commission is paid, but also the nature of the arrangement? If you do not agree, please explain why and any other options we should consider

Question 43: Do you agree with our proposal that for a high commission arrangement, adequate disclosure required disclosure of both the fact and the amount of the commission? If you do not agree, please explain why and any other options we should consider

Question 44: Do you agree with our proposal that for a tied arrangement, adequate disclosure required disclosure of either exclusivity or right of first refusal or equivalent right of priority? If you do not agree, please explain why and any other options we should consider

Question 45: Do you agree with our proposal that, irrespective of the age of the agreement and whether it falls within the lender's record retention period, lenders should presume disclosure of a relevant arrangement was inadequate unless it can provide evidence to the contrary? If you do not agree, please explain why and any other options we should consider

Question 46: Do you agree with our proposal that lenders may rely on customer-specific documents, indicative records, and documents relating to similar customers as contemporaneous evidence of adequate disclosure? If you do not agree, please explain why and any other options we should consider

Question 47: Do you agree with our proposal that lenders should take reasonable steps to assure themselves documents used to evidence adequate disclosure were in use at the time of the transaction? If you do not agree, please explain why and any other options we should consider

Question 48: Do you agree with our proposal that lenders can rebut the presumption of an unfair relationship caused by inadequate disclosure where the broker selected a rate that earned them no discretionary commission? If you do not agree, please explain why and any other options we should consider

Question 49: Do you agree with our proposal that lenders can rebut the presumption of an unfair relationship caused by inadequate disclosure because the customer was sophisticated enough to have been aware of the relevant arrangement despite its inadequate disclosure? If you do not agree, please explain why and any other options we should consider

Question 50: Do you agree with the second rebuttable presumption we propose that an unfair relationship caused by inadequate disclosure caused loss or damage to the consumer? If not, please explain why you do not agree and any other options we should consider

Question 51: Do you agree with our proposal that cost recovery arguments are not a reasonable defence against an assertion of unfairness due to inadequate disclosure? If not, please explain why you do not agree and any other options we should consider

Question 52: Do you agree with our proposal that it is more appropriate to address the rebuttal for a DCA under the first key presumption of an unfair relationship caused by inadequate disclosure than the second key presumption of loss or damage? If not, please explain why you do not agree and any other options we should consider

Question 53: Do you agree with our proposal that the presumption of loss or damage caused by an unfair relationship arising from inadequate disclosure of a high commission arrangement or a tied arrangement should be rebuttable if the lender can provide evidence that the consumer would not have secured a better offer from any other lender the broker had arrangements with at the time of the transaction? If not, please explain why you do not agree and any other options we should consider

Question 54: Do you agree with our proposal on the standard of evidence that we consider would be necessary to rebut the presumption of loss or damage caused by an unfair relationship arising from inadequate disclosure of a high commission arrangement or a tied arrangement? If not, please explain why you do not agree and any other options we should consider

Question 55: Do you agree with our proposal that, where the broker was tied exclusively to one lender, the presumption of loss or damage would remain irrebuttable? If not, please explain why you do not agree and any other options we should consider, particularly any alternative evidential approaches that could be developed for this scenario

Question 56: Do you agree with our proposal for a loss-based APR adjustment remedy for all unfair relationships arising from inadequate disclosure of a relevant arrangement that applies a reduction of 17% to the APR the consumer actually paid to produce a market-adjusted APR to use as the basis for the calculation of redress? If not, please explain why you do not agree and any other options we should consider

Question 57: Do you agree with our proposal that, if deducting 17% from the APR produces a market-adjusted APR lower than the lowest APR at which the broker would have received additional commission under the DCA, that APR should be used as the market-adjusted APR? If not, please explain why you do not agree and any other options we should consider

Question 58: Do you agree with our proposal that, except for cases very similar to *Johnson*, all cases where there was an unfair relationship arising from inadequate disclosure of a relevant arrangement should receive a hybrid remedy that averages the outcomes of the proposed APR adjustment remedy and the commission repayment remedy? If not, please explain why you do not agree and any other options we should consider

Question 59: Do you agree with our proposed definition of commission for the purpose of calculating the commission repayment remedy as, in summary, the total amount that was payable to the broker in connection with the agreement?

Question 60: Do you agree with our proposal that cases with commission equal to or greater than 50% of the total cost of credit and 22.5% of the loan amount and a tied arrangement, where there was an unfair relationship arising from inadequate disclosure of these arrangements, should receive the commission repayment remedy rather than the hybrid remedy? If not, please explain why you do not agree and any other options we should consider

Question 61: Do you agree with our proposal that the APR adjustment remedy should act as a minimum floor where either the hybrid or the commission repayment remedy would provide less redress than the APR adjustment remedy? If not, please explain why you do not agree and any other options we should consider

Question 62: Do you have any comments on the alternatives to our proposed approach to remedy that we considered but decided against? Are there any other approaches that we should consider?

Question 63: Do you agree with our proposal that compensatory interest on redress should be calculated using a set rate of simple interest for each year covered by the scheme, based on the annual average of the daily Bank of England base rate for that year plus 1 percentage point and rounded up to the nearest quarter percentage point? If not, please explain why you do not agree and any other options we should consider

Question 64: Do you agree with our proposal to allow consumers to make representations where they believe that interest at base rate plus 1 percentage point does not adequately compensate them for their loss? If not, please explain why you do not agree and any other options we should consider

Question 65: Do you agree with our proposal that lenders are entitled to set redress off against any monies owed by the consumer to the lender in relation to any motor finance agreement or other regulated consumer credit agreements and which are not subject to an unresolved dispute, complaint or legal claim? If not, please explain why you do not agree and any other options we should consider

Question 66: Do you agree that lenders may only apply any redress due under the scheme as a set-off against an outstanding balance with the consumer's explicit agreement? If not, please explain why you do not agree and any other options we should consider

Question 67: Do you agree with the two options we have proposed for constructing the payment schedule to compare the customer's actual pattern of payments with the pattern under the market-adjusted APR? If not, please explain why you do not agree and any other options we should consider

Question 68: Do you agree with our proposal that, where the necessary data to calculate the early settlement payment is missing, lenders should assume the loan ran to term? If not, please explain why you do not agree and any other options we should consider, including whether there are any reasonable or evidence-based alternatives that would allow lenders to approximate the calculation more accurately

Question 69: Do you agree with the proposed steps that firms should take to calculate the total compensatory interest amount? If not, please explain why you do not agree and any other options we should consider

Question 70: Do you agree with the proposal that the presumed date of redress payment should be 2 months from the date the provisional redress decision is sent?

Question 71: Do you agree with the proposed scheme steps to calculate redress set out in Table 10? If not, please explain why you do not agree and any other options we should consider

Question 72: Do you agree with the proposed minimum data needed to complete each step and the proposed alternative data/values if the minimum data are not available? If not, please explain why you do not agree and any other options we should consider

Question 73: Do you agree with our proposal that lenders will need to send provisional redress decisions within 7 months of the scheme start to consumers who have already complained, and within 15 months to all other consumers whose agreements have been assessed under the scheme? If not, please explain why you do not agree and what alternative time limits we should consider

Question 74: Do you agree with our proposals for finalising the provisional redress decision? If not, please explain why you do not agree and what alternatives options we should consider

Question 75: Do you agree with our proposal that if a lender makes a payment more than 1 month after sending the redress determination, then interest will accrue on the redress payment at 8% per year? If not, please explain why you do not agree and what alternatives options we should consider

Question 76: Do you agree with our proposals for how a consumer can object to a provisional redress decision? If not, please explain why you do not agree and what alternatives options we should consider

Question 77: Do you agree with our proposed Supervision strategy? If not, please explain why you do not agree and what alternative options we should consider

Question 78: Do you agree with the data we propose to gather to help us understand progress under the proposed scheme, compliance with the proposed scheme rules and monitoring of financial resilience? If not, please explain why you do not agree and what alternative options we should consider

Question 79: Do you agree with our proposed reporting frequency? If not, please explain why you do not agree and what other reporting frequencies we should consider

Question 80: Do you agree with our proposal to publish certain data on firms' progress during the scheme? If not, please explain why you do not agree and what alternative options we should consider

Question 81: Do you agree with our proposal to require a senior manager at the lender to take responsibility for overall delivery and oversight of the scheme at their firm and for its preparatory steps? If not, please explain why you do not agree and what alternative options we should consider

Question 82: Do you agree with our proposals for the records firms will need to retain once the scheme ends? If not, please explain why you do not agree and what alternative options we should consider

Question 83: Do you agree that we should further extend the time firms have to send a final response to motor-finance DCA and non-DCA complaints that are not leasing complaints? If not, please explain why

Question 84: Do you agree that leasing complaints should be carved out of the extension? If not, please explain why

Question 85: Do you agree with our proposal to extend the deadline for firms sending a final response for motor-finance DCA and non-DCA complaints that are not leasing complaints to 31 July 2026? If not, please explain why. Please include any views on the possibility of consulting to end the extension early

Question 86: Do you agree that it is not necessary for the time to refer a complaint to the Financial Ombudsman to be aligned with the 15 months previously offered? If not, please explain why

Question 87: For consistency of approach, do you agree with our proposal that the period of the extension should not contribute to the 3-year period that firms are required to keep records of complaints for? If not, please explain why

Question 88: Do you agree with our proposal that lenders and credit brokers must maintain and preserve any records that are or could be relevant to the handling of existing or future complaints or civil claims until 11 April 2031? If not, please explain why

Cost benefit analysis

Question 89: Do you agree with the overall conclusions in this CBA, including the market impacts?

Question 90: Do you agree with the overall methodological approach taken?

Question 91: Do you agree with the choice and articulation of the counterfactual scenario?

Question 92: Do you agree with the modelling assumptions used and sensitivities applied?

Question 93: Are there impacts (costs or benefits) that you have evidence of that are missing or incorrectly estimated?

Question 94: Do you have feedback on assumed firm and consumer behaviours under the intervention?

Question 95: Is there further data we should use that could improve the analysis?

Annex 2

Cost benefit analysis

Executive summary

The case for intervention and our proposals

1. We are proposing an intervention to ensure fair and timely compensation for motor finance consumers and to preserve market integrity. In determining what redress consumers may be owed, we have taken into consideration several factors. These include, but are not limited to, the UK Supreme Court's recent judgment on indicators of an unfair relationship in past motor finance agreements, the High Court's judgment in the *Clydesdale* judicial review and our own analysis.

2. In the absence of this regulatory intervention, we would expect to see considerable market disruption, inconsistent and significantly delayed compensation for consumers, and unnecessary costs and burdens to firms, the Financial Ombudsman Service ('Financial Ombudsman') and the judicial system. Without an industry-wide consumer redress scheme and an extension in the rules for handling motor finance complaints, we would expect the following after 4 December 2025:

- Firms would likely experience a surge in complaints and would be unable to respond to them all within the required 8-week deadline, meaning a large volume of complaints would likely be referred to the Financial Ombudsman.
- Firms could then incur significant costs with complaints being referred to the Financial Ombudsman (facing up to £650 per case after four cases referred in a financial year, as well as any scaling fee) or resolved via the court system. The Financial Ombudsman itself could be overwhelmed with the number of cases and be forced to recoup costs via its annual levy to industry, affecting firms not directly involved in motor finance. The court system may also face pressures from large volumes of complainants.
- Inconsistent or fragmented consumer outcomes as firms, the Financial Ombudsman and courts would each be making determinations independently.
- Some consumers who could be owed redress may face barriers or disincentives to complain and may not even be made aware of the potential for redress, meaning they miss out. Other consumers who choose to use Claims Management Companies (CMCs) or other professional representatives (PRs) may receive less redress than they expect due to fees.
- With firms facing both significant redress liabilities and costs associated with dealing with complaints, with significant uncertainty remaining for several years, there may be consequential adverse impacts relating to the motor finance market. Within the motor finance market, a higher perceived risk of repayment to investors (debt side) and/or lower returns (equity side) could lead to a higher cost of capital for firms. Higher costs to firms could dent profit margins leading some to try

and pass on additional costs to future consumers, restrict new lending or, in the extreme, withdraw from the market, and discouraging investment in the UK motor finance market.
- The sub-prime market segment may be disproportionately affected. Commissions in this segment are typically higher than in prime or near-prime segments relative to loan size which could result in a higher number of complaints in the absence of guidance on what disclosure failure would give rise to an unfair relationship. The sub-prime segment may be particularly sensitive to cost shocks as the baseline credit risk is higher.
- Across the wider economy, the overall demand for vehicles could fall due to price increases in motor finance. There may be spillover impacts in other consumer credit markets where motor finance lenders with redress liabilities also operate, which in turn could spill over into the wider credit market. This could contribute to reductions in wider investment.

3. We believe regulatory intervention is necessary to avoid the above outcomes. We have considered several regulatory options to prevent these outcomes and conclude, based on our criteria and analysis, that we will consult on proposals to establish a market-wide Consumer Redress Scheme (CRS) using our s.404 FSMA power and for an extension in the rules for handling motor finance complaints motor finance complaints to 31 July 2026. We are proposing a firm-led opt-out redress scheme for consumers who have already made a complaint and awaiting a decision, and a firm-led opt-in scheme for consumers who have not yet made a complaint. Further details of the proposed scheme are provided in Chapters 4 to 9 of the Consultation Paper (CP).

4. Our analysis and regulatory judgement lead us to conclude that this proposed intervention is best placed to:

- Ensure timely and consistent redress outcomes for consumers
- Reduce the cost and time burden to firms, consumers, the Financial Ombudsman and the courts
- Minimise market disruption, maintaining trust and stability
- Maintain wider macroeconomic stability and international competitiveness

Analytical approach

5. This cost benefit analysis (CBA), which we are seeking feedback on, considers the impact of a CRS covering agreements from April 2007 and an extension in the rules for handling motor finance complaints. For completeness and to provide respondents to this consultation with the broader set of analyses, we also consider the impact of the CRS if it were to only cover agreements from April 2014, when the FCA took over regulation of motor finance and other consumer credit firms.

6. We compare the impacts of our proposed intervention against a do-nothing counterfactual where consumers continue to complain directly to firms or to the courts to receive redress – a complaints-led approach.

7. However, this comparison is not straightforward due to significant uncertainties over what might happen in the do-nothing counterfactual with respect to firm and consumer behaviour and how the wider redress system is affected.

8. In recognition of this, we make several analytical assumptions and judgements to simplify the analysis to allow respondents to this consultation to focus on the most material components of our proposed intervention. The most important of these is that we do not directly compare the estimated total redress liability figure under our proposed scheme with that expected under the counterfactual.

9. There are several reasons for this. First, it is important to note that redress liability estimates are not a cost to firms arising from our proposed CRS, as firms who are required to pay this redress were in breach of the law and therefore these represent impacts derived from historic non-compliance, rather than new costs associated with our intervention. Second, while it is likely there will be difference in the quantum of redress liabilities finally paid between our proposed intervention and the counterfactual, it is extremely challenging to reliably estimate what this will be due to the significant uncertainties in the counterfactual over how firms, the Financial Ombudsman and the courts will treat and assess loss and unfairness. Any such comparisons would be highly sensitive to untestable prior assumptions around take-up and firm and consumer behaviour. This could lead to undue focus being placed on what might be a relatively small difference, rather than larger differences in non-redress costs firms, the redress system and market face between the counterfactual and our proposed intervention.

10. However, we recognise this is a modelling decision and we are consulting on this approach. The CP, in Annex 6, considers different redress liability estimates if different approaches were taken.

11. We use the terms "eligible" and "ineligible" as shorthand to describe whether an agreement does or does not contain at least one of the relevant arrangements we propose could give rise to an unfair relationship. Our use of this shorthand is not meant to be a description of scheme rules.

12. A second important consideration in our analysis relates to how many consumers are likely to participate in the CRS. The rate at which consumers choose to join is a key consideration of our analysis, and a key determinant of the success of the CRS.

13. We have considered join rates separately depending on two factors: the type of letter consumers receives (either a "likely eligible" or "likely ineligible" letter), and whether or not they have already made a complaint. To make the analysis more straightforward, we assume that firms' initial determinations in the agreement screening process are correct (i.e., consumers receive a "likely eligible" letter if and only if they have an agreement with at least one of the relevant arrangements, and consumers receive an "unlikely eligible" letter if and only if they do not have an agreement with at least one of the relevant arrangements.

14. Based on this approach, our central case assumes:

- 83% of consumers in the opt-in group (consumers who have not submitted a complaint) who receive a likely eligible letter would choose to join the CRS
- 41% of consumers in the opt-in group who receive a likely ineligible letter would still decide to join
- For the opt-out group (consumers who have already submitted a complaint), we expect a higher participation rate of around 95% where they receive a likely eligible letter
- Where a firm determines, after the initial screening, that a consumer is not eligible for redress, and the consumer has already complained, the CRS join rate is assumed to be 0%. These consumers are not invited to continue through the CRS, but they retain the right to refer their complaint to the Financial Ombudsman.

15. By combining the proportion of agreements in each of the four agreement groups with the CRS join rate in each of the four agreement groups, we obtain a CRS join rate of 57% overall under our proposed intervention. For breached agreements (i.e., agreements which receive the "likely eligible" letter), we estimate that the CRS join rate would be 85% under our proposed intervention. In contrast, under the counterfactual do-nothing scenario, the central case complaint incidence rate is 69%. We therefore estimate that i) more consumers would receive the redress owed to them under our proposed intervention, and ii) firms would not have to fully assess as many likely ineligible agreements. Hence, we estimate that our proposed intervention will deliver good outcomes for consumers while minimising costs for firms.

16. This CBA's primary comparative focus is assessing "non-redress" benefits and costs to firms, consumers and the redress system, and wider market and economy impacts between the counterfactual and our proposed intervention. We define "non-redress" costs as comprising administrative costs of handling and responding to complaints, Financial Ombudsman fees incurred when consumers disagree with outcomes, Financial Ombudsman fees incurred for timed out complaints and Financial Ombudsman scaling fees. Similar to estimates of redress liabilities, we recognise these estimated costs are also sensitive to assumptions on firm, consumer and other stakeholder behaviours and responses relative to the counterfactual. We are seeking views on these through our consultation.

17. Other key analytical assumptions used in this CBA include:

- Our central scenario for the proposed intervention assumes that 7.5% of consumers will seek to have their complaint reviewed by the Financial Ombudsman following the complaints assessment outcome received from the firm.
- We consider the impact on the wider court system, but do not quantify these impacts.
- We make assumptions on firm and consumer behaviour in response to our proposed CRS.
- We have not included any prior redress payments that may have already been paid in the redress liability calculations. Such payments may have been made in respect of claims based on the interest charged on the loan (e.g. for an unaffordability or forbearance claim).

Costs and benefits of our proposed intervention

18. We identify the following main benefits from our intervention compared to the counterfactual:

- For consumers: as well as receiving redress, they will have more certainty, confidence and greater speed in receiving this redress, and expend less time and effort making complaints
- For firms: fewer complaints being made to the Financial Ombudsman and the courts, as scheme allows more time for firms to resolves cases (as opposed to 8 weeks), resulting in lower non-redress costs, and greater certainty on redress methodologies
- For the wider economy: preserving stability through reduced uncertainty, risk of firm failure, ensuring ongoing viability and investability, and minimising competitive disruptions
- For the Financial Ombudsman and the wider court system: reduced complaints and cases and lower overall burden

19. We identify the following main costs from our intervention compared to the counterfactual:

- For consumers: time and monetary costs associated with pursuing complaints following an unsatisfactory CRS outcome
- For firms: familiarisation and gap analysis (including legal costs), implementation and staff training costs associated with this intervention, and reporting costs to the FCA
- For FCA: additional supervisory costs to oversee and ensure firms comply with the CRS

20. As in the do-nothing counterfactual, firms will still incur costs from complaints handling and any Financial Ombudsman fees, but our analysis suggests these will be lower (i.e. a benefit of our proposed intervention). The table below compares our nominal estimates of the do-nothing counterfactual and our proposed intervention of the CRS from April 2007.

Table 1: Summary of estimated nominal monetised impacts

Monetised costs	Do-nothing counterfactual	Proposed intervention of CRS	Benefits (savings)
Total firm costs	£9,346.0 m	£2,757.5 m	£6,589.0 m
Consumer time costs	£225.3 m	£150.9 m	£74.4 m

21. Our quantified central estimates for the proposed intervention of the CRS are shown below (impacts for the complaints deadline extension are not quantified):

Table 2: Estimated costs and benefits

	Proposed CRS intervention
One-off benefits	-
Annual benefits (for first 2 years)	£3,870.2 m
One-off costs	£881.8 m
Annual costs (for first 2 years)	£117.4m in year 1; £109.0m in year 2

22. Calculating the Present Value (PV) across the standard 10-year appraisal period with ongoing impacts occurring in the first 2 years of the scheme equally, with a 3.5% discount rate we estimate the proposed intervention to be net positive. We make the assumption the period of operation for our CRS is similar to that of the process under the counterfactual, although there may be differences in practice which affect when both redress and non-redress costs are incurred. We are seeking feedback on this as part of the consultation.

Table 3: NPV calculation estimates

	Proposed CRS intervention
PV benefits (excluding gain to consumer redress)	£7,609.5 m
PV costs	£1,104.5 m
NPV	£6,505.0 m

23. We are aware that the above are estimates and sensitive to modelling and analytical assumptions. As we set out in our consultation questions below, we are keen to receive evidence from industry, consumer groups and others with an interest in the topic on how to improve these before we make our final rules.

24. We identify unquantified market-wide benefits as including a reduced risk of firm failure and associated negative market-wide impacts, and reduced uncertainty. Unquantified costs include the cost of data requests for the FCA and additional costs incurred for those consumers who decide to pursue a claim through the courts after participating in the CRS.

Market impacts of our proposed intervention in absolute terms

25. In addition to assessing the market impacts relative to the counterfactual, to examine the effect on future market integrity we have analysed the impacts on the market of the proposed CRS relative to a situation with no redress liabilities. This is what we refer to as the market impacts of our intervention in absolute terms.

26. Under our proposed CRS, we estimate that total costs (redress and non-redress costs) amount up to £12.4bn which informs our market impacts analysis. This includes maximum redress liabilities costs from the scheme of £9.7bn (including interest), and the expected costs to firms of implementing the scheme ("non-redress costs"), of

£2.8bn. The scheme redress liability estimate assumes that 100% of consumers with an agreement that has at least one feature we propose could give rise to an unfair relationship seek and receive redress through the scheme. The actual redress liability incurred across the market is likely to be lower.

27. Our market impact assessment for our proposals considers a range of modelling scenarios to allow for alternative assumptions around lender decisions to continue operating or withdraw from the market, adjust lending volumes or prices. This is supported by our assessment of firm resilience, the estimated scale of lender-specific liabilities in relation to their capital reserves and the broader group support that is likely to be available to the largest lenders.

28. The table below summarises the potential market impacts in absolute terms for the new, used and sub-prime segments. **It is important to note that these reflect the modelling scenarios and illustrate the potential direction and scale of market impacts of the proposed CRS and are not forecasts or predictions of market impacts.**

Table 4: Summary of illustrative market impacts of our proposed intervention in absolute terms (these are not forecasts or predictions)

	New	Used	Sub-prime
Decision to continue operating in the market	Lenders continue to operate in the market under all scenarios	Lenders continue to operate in the market under most scenarios: some firms may restrict lending volumes or a few small firms may stop lending under some scenario	Lenders continue to operate in the market under most scenarios: some firms may restrict lending volumes or a few small firms (representing a combined small market share) may stop lending under some scenario
Volume of agreements and access to motor finance	No material change in volumes or access	Potential small reduction in volumes (up to 1.1%) under some scenarios No material change in access	No material change in volumes or access under most scenarios. However, in a scenario where lenders' access to capital or risk appetite reduce, potential reduction in volumes (up to 10%) and access for sub-prime consumers
Competition	No material change in concentration, market share or intensity of (price) competition	No material change in concentration, market share or intensity of (price) competition	No material change in concentration, market share or intensity of (price) competition

	New	Used	Sub-prime
Price	Potential small increase in price under some scenarios	Potential small to moderate increase in price under some scenarios	Potential small to moderate increase in price
Illustrative impact on weighted average APR	Potential increase in weighted average APR of around 0.1-0.5pp (from baseline weighted average APR of 6.0%)*	Potential increase in weighted average APR of around 0.2-1.4pp (from baseline weighted average APR of 13.2%)*	Potential increase in weighted average APR of around 0.6-1.5pp (from baseline weighted average APR of 33.1%)*
Illustrative impact on monthly payments	Average monthly payments may increase by £2-5 (up to c.1%), equating to £74-258 per agreement	Average monthly payments may increase by £1-10 (up to c.3%), equating to £69-484 per agreement	Average monthly payments may increase by £2-6 (up to c.2%), equating to £116-285 per agreement

*Note: Baseline weighted average APRs are based on 2022/23 data.

29. Technical Annex 3 provides further details of the market impacts scenarios, assumptions, and analyses.

30. Again, we are keen to hear the views of industry on expected wider market impacts associated with our proposals.

Sensitivities

31. Recognising market and analytical uncertainties if non-redress costs were to change, we have considered the impact on cost and benefit estimates if key variables were different. These variables include:

- The CRS join rates and complaint incidence rates by consumers
- Consumer complaint times and the value of time
- Firm responses and the cost of assessing complaints
- The role of CMCs and other PRs
- The Financial Ombudsman referral rate
- Interest rates and the interaction with courts
- The existence of claims already in the system
- The use of compromises by firms
- Credit Reference Agency usage to support consumer identification

We explore possible ranges for these variables and generate two further scenarios in addition to our central scenario, shown below.

Table 5: Estimated Net present values under sensitivity analysis.

Scenario	PV Benefits (excluding changes to consumer redress)	PV Costs	NPV
CRS proposed intervention			
Low case	£2,826.2 m	£636.8 m	£2,189.4 m
Central case	£7,609.5 m	£1,104.5 m	£6,505.0 m
High case	£12,837.3 m	£2,835.6 m	£10,001.8 m

Monitoring and evaluation

32. We propose to actively monitor the effectiveness of our proposed CRS in delivering the outcomes we seek. We intend to introduce reporting requirements for motor finance lenders to provide us with information that will allow us to monitor the effectiveness of the scheme, as well as helping us to supervise firms' performance of their roles in the scheme. We will use this reporting to monitor (inter alia):

- Uptake of the scheme and amounts of redress paid to consumers;
- The timeliness with which firms check consumers' likely eligibility for inclusion in the scheme, assess complaints and (where relevant) pay redress; and,
- The financial impacts on firms and their resilience to those impacts.

Consultation questions

Question 89: **Do you agree with the overall conclusions in this CBA, including the market impacts?**

Question 90: **Do you agree with the overall methodological approach taken?**

Question 91: **Do you agree with the choice and articulation of the counterfactual scenario?**

Question 92: **Do you agree with the modelling assumptions used and sensitivities applied?**

Question 93: **Are there impacts (costs or benefits) that you have evidence of that are missing or incorrectly estimated?**

Question 94: **Do you have feedback on assumed firm and consumer behaviours under the intervention?**

Question 95: **Is there further data we should use that could improve the analysis?**

Introduction

33. The Financial Services and Markets Act 2000 (FSMA) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

34. This analysis presents estimates of the significant impacts of our proposals. Our consideration of the impacts does not cover the costs already incurred by firms or other key parties, as such impacts are not attributable to our proposed intervention. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we expect and reaching a judgement about the appropriate level of regulatory intervention.

35. The CBA has the following structure:

- The market for motor finance
- Context
- Problem and rationale for intervention
- Regulatory options to address market failure
- Our proposed intervention
- Key assumptions
- Counterfactual
- Data sources
- Summary of impacts
- Benefits
- Costs
- Impacts on the motor finance market
- Wider economic impacts
- Risks and uncertainties
- Sensitivity analysis
- Monitoring and evaluation
- Our response to the advice received from the independent FCA Cost Benefit Analysis Panel
- Consultation questions

36. Detailed supporting analyses for this CBA are included across several annexes.

The market for motor finance

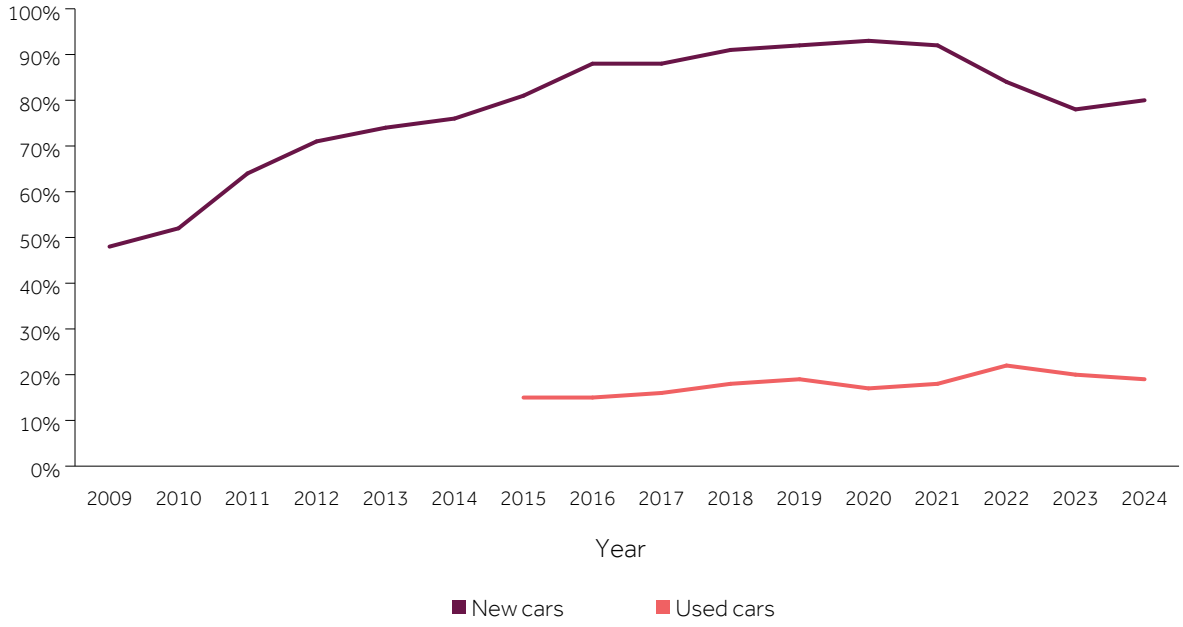
37. The motor finance sector helps UK consumers to buy over 2 million new and used vehicles each year. In this section, we provide a description of the market as background for our CBA.

38. For the purposes of this CBA, when we refer to vehicles we mean motor vehicles as per the proposed definition in Chapter 4 of this Consultation Paper. While we do not provide here an exhaustive list of the types of vehicles included in this definition, it includes more than just cars but excludes, for instance, caravans and jet skis.

39. Given the significant cost of purchasing a vehicle, motor finance plays a crucial role for the wider motor industry, enabling domestic vehicle ownership. In the case of car purchases, around 80% of UK new car purchases and 19% of used car purchases were funded through motor finance in 2024 (see the figure below).

40. According to data provided by the Finance & Leasing Association (FLA), the largest trade body for asset, consumer and motor finance providers in the UK, in 2024 the average motor finance loan amounted to £28,230 for new vehicles and £14,790 for used vehicles.

Figure 1: Car finance market penetration, 2009-2024



Source: Finance & Leasing Association (FLA) & Society of Motor Manufacturers and Traders (SMMT)

41. For the purposes of this CBA, our relevant 'product' is regulated consumer motor finance credit agreements for the acquisition of vehicles, not regulated consumer hire (leasing) agreements. This is because our proposals are concerned with redress for breaches of s.140A of the Consumer Credit Act (CCA) leading to the determination of unfair relationships, which is not relevant for consumer hire agreements. Accordingly, when we refer to 'motor finance', we mean regulated motor finance credit agreements. Our definition does not include cash loans and credit cards used to purchase motor vehicles.

42. For further information on the market and data sources, please see Technical Annex 1 and Technical Annex 2.

Market size

43. Below we provide some descriptive statistics on the size of the market in volume and value terms based on the available evidence. All values are shown in nominal terms.

Table 6: Overview of the size of the motor finance market, April 2007 – October 2024

	April 2007 – March 2014	April 2014 – October 2024	April 2007 – October 2024
Number of agreements	9.4m	23.1m	32.5m
Average number of new agreements per year	1.3m	2.4m	1.9m
Total advances [from 2009]	£74.2bn *	£378.7bn	£452.9bn *
Average value of new advances per year [from 2009]	£15.3bn *	£35.2bn	£28.6bn *
Average advance (mean) [from 2009]	£11,115 *	£15,632	£14,581 *

Note: Data on advances begins from January 2009. Asterisks indicate figures where only part of the relevant time period is covered due to data availability.
Source: FCA analysis of DD1 data, FLA data

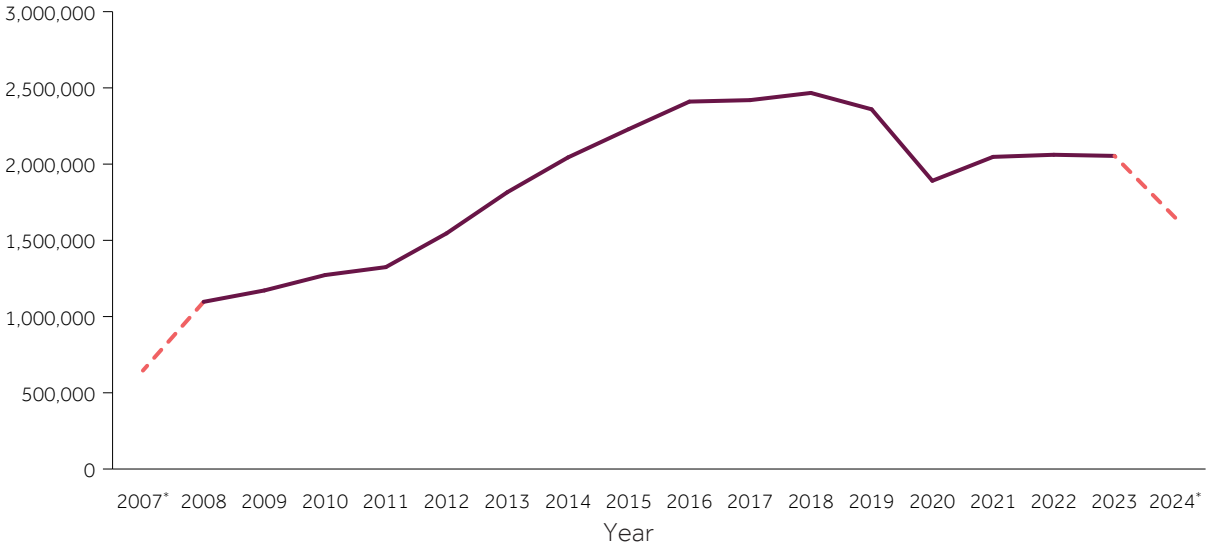
44. We estimate that consumers entered into approximately 32.5m regulated motor finance agreements with lenders between 6 April 2007, when unfair relationship provisions in the CCA came into effect and complaints-handling rules for motor finance also brought such complaints within the Financial Ombudsman's jurisdiction, and 24 October 2024, the day before the Court of Appeal issued its judgment in *Hopcraft et al* (after which firms should have taken action to improve their practices, where relevant, in light of the judgment). Around 70% of these 32.5m agreements were entered into from April 2014 onwards.

45. Many agreements will now have ended, given motor finance agreements typically have a term of between 2 and 5 years.

46. Some consumers have, or have had, more than one agreement. In consumer research we commissioned (discussed further in the 'Consumers' subsection below), more than three-quarters of current motor finance holders in the research had used motor finance before their current agreement. The number of consumers who have entered into a motor finance agreement in the relevant period will, therefore, be significantly lower than the number of agreements.

47. The number of new motor finance agreements grew year-on-year between 2007 and 2019 (except between 2016 and 2017), peaking at around 2.5m in 2018. The number of new agreements per year fell back to roughly 1.9m in 2020, during the COVID-19 pandemic, and has remained largely stable since. The drop below for 2024 reflects the data not yet covering the full year.

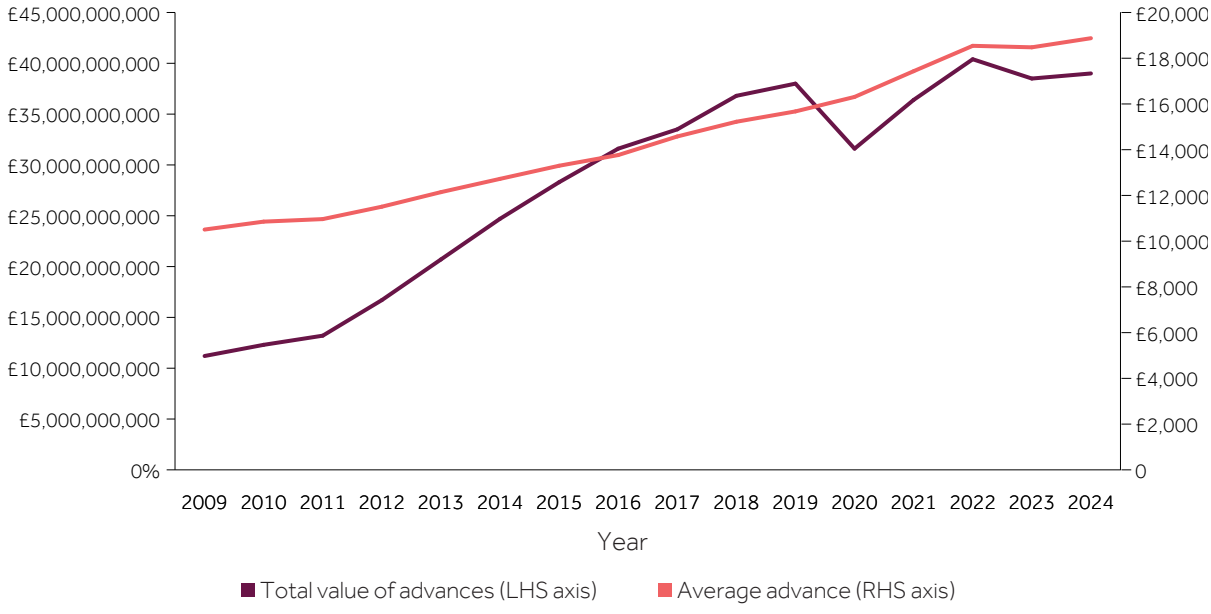
Figure 2: Total number of new motor finance agreements per year, April 2007 – October 2024



Note: Dashed lines and the coral colour indicate partial years (from 6 April to December in 2007 and until 24 October in 2024).
Source: FCA analysis of DD1 data

48. According to FLA data, consumer motor finance agreements taken out between 2009 (first full year data is available) and 2024 totalled £452.9bn in value. The average amount advanced per agreement over this period was £14,325. The average value of advances has increased over time, largely reflecting rising vehicle prices. Together with the trend in the number of new agreements shown above, this has meant that the total value of advances rose from 2007 to 2019. It fell back during 2020, reflecting the fall in the number of new agreements that year, before rising again to a peak of just over £40.0bn in 2022.

Figure 3: Total and average value of advances in new motor finance agreements, 2009 – 2024



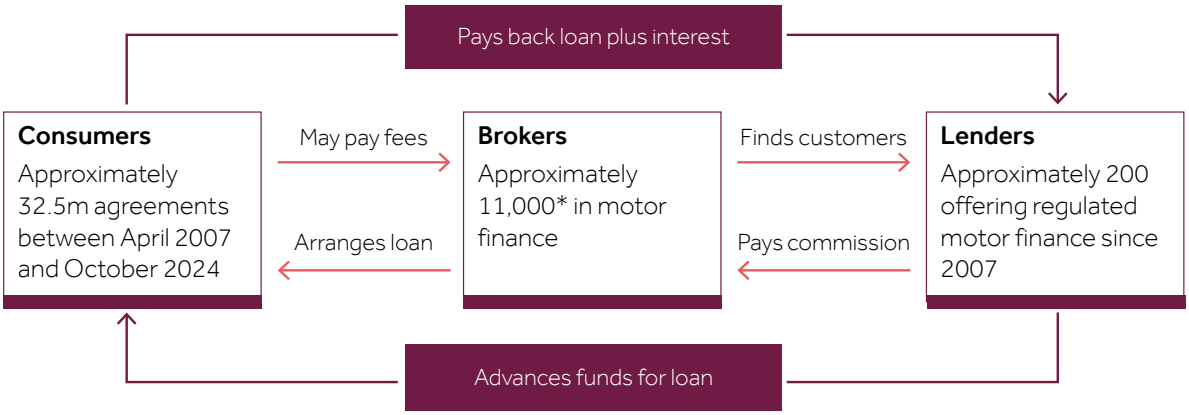
Source: FLA

Market participants

49. The motor finance market consists of three main participants: lenders, brokers and consumers. In a typical transaction, a consumer will choose a vehicle and agree a price for it with a motor dealer (the broker). If financing is required, the dealer obtains an offer of finance from a lender. The dealer then presents that offer of finance to the consumer. A minority of vehicles are purchased through a direct-to-consumer sales model operated by manufacturers or via private transactions between individuals. In such cases, consumers may obtain finance through alternative channels, including taking out a personal loan or arranging finance via a credit broker, particularly where credit broking is the broker's primary business activity.

50. The figure below provides an overview of market relationships.

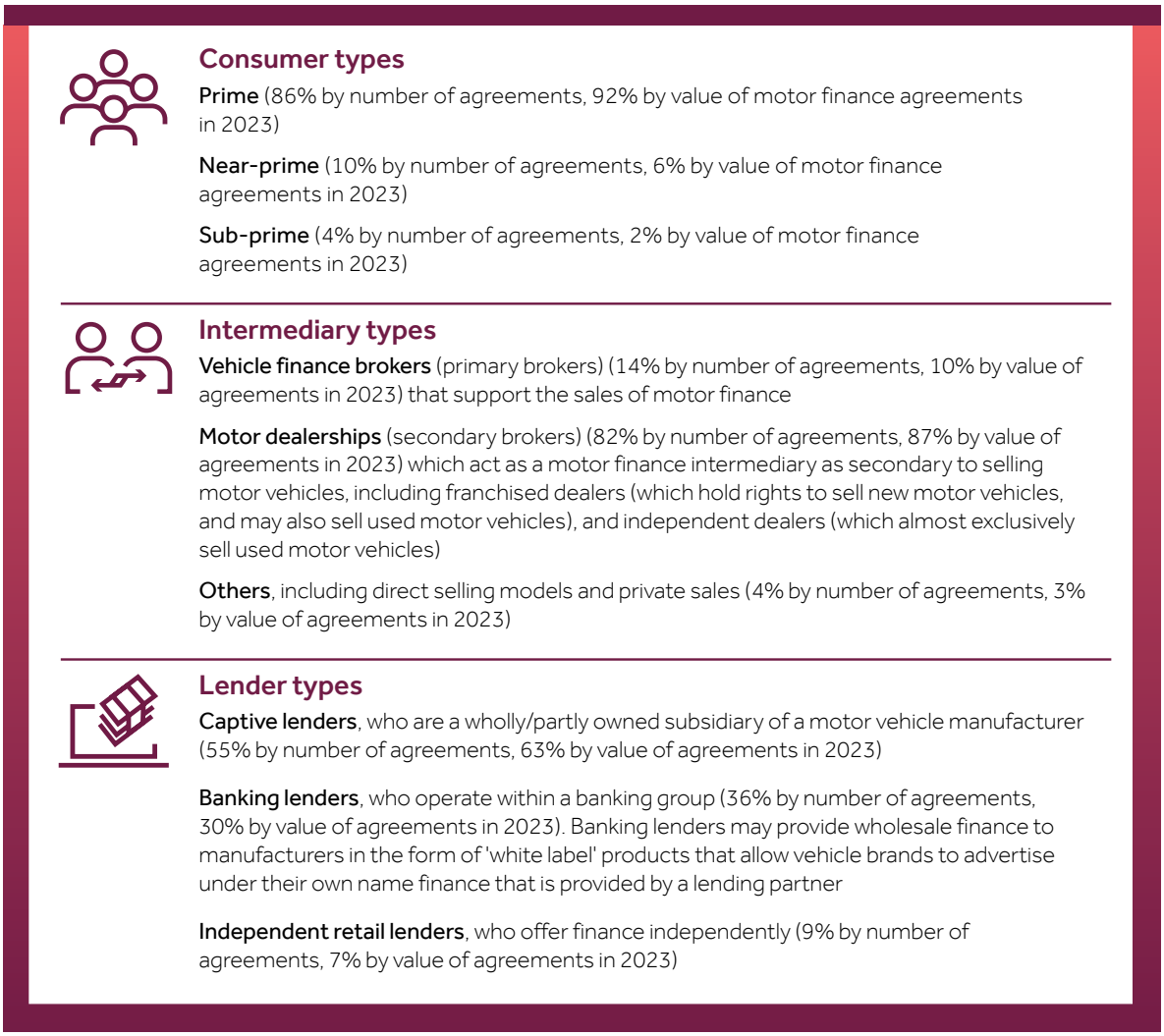
Figure 4: Overview of market participants and their relationship



*Based on loan-level data from 2019 to 2022.

51. Within these broad groupings, consumers, brokers, and lenders can be broken down into several different types. The figure below provides further details.

Figure 5: Overview of market participant volumes



Note: In our request for information to firms from which the above has been produced, we asked firms to exclude personal contract hire (PCH) and other rental/leasing agreements in reported figures. We understand that some firms may have reported leasing and unsecured personal loan agreements as part of their response.

Consumers

52. In the context of motor finance, firms commonly categorise customers based on their credit risk profile to determine lending terms. These categories are typically referred to as prime, near-prime, and subprime, and are used by lenders to assess affordability, pricing, and overall creditworthiness. While specific definitions and thresholds may vary between firms, the broad characteristics are as follows:

- Prime customers are those with a strong credit profile, typically demonstrating a high credit score, a stable income, and a clean credit history. These customers are considered low risk and generally receive access to the most favourable finance terms, including lower interest rates and promotional offers.
- Near-prime customers have a moderate credit risk profile. They may have a limited or mixed credit history, occasional missed payments, or moderate indebtedness. While not considered high risk, they may face higher interest rates or stricter lending criteria than prime customers.

- Subprime customers are those assessed as higher credit risk, often due to a low credit score, past defaults, or adverse credit events such as County Court Judgments or insolvency. These customers typically face the highest interest rates, may be subject to more restrictive terms, and are often financed through specialist or non-mainstream lenders.

53. The market for finance for new vehicles almost exclusively serves prime consumers. Compared to prime consumers, sub-prime consumers may, due to their lower creditworthiness, have more difficulty in accessing finance, and may qualify for fewer financing options, facing higher interest rates and overall cost of credit.

54. Below we set out further characteristics and behaviours of consumers.

Demographics

55. The Financial Lives 2024 survey (FLS) found that 11% of adults held motor finance (or had done so in the previous 12 months). The following groups were more likely to do so:

- **Adults aged 25-34:** 15% (1.4m) of this age group held motor finance in May 2024 or had done so in the previous 12 months. Adults aged 18-24 and 65 or older were least likely to hold motor finance; just 7% and 8% of these groups, respectively, held motor finance in May 2024, or had done in the previous 12 months.
- **Mortgage holders:** 18% (2.8m) of mortgage holders held motor finance in May 2024, or had done in the previous 12 months, compared with 8% of those who owned their home outright and 10% of renters.
- **Adults living in a household with an income of £50,000 or more:** 17% (3.6m) of adults living with a household income of £50,000 or more held motor finance in May 2024 or had done in the previous 12 months. This is compared to adults with a household income of £30,000-<£50,000 (14%), £15,000-<£30,000 (11%) and less than £15,000 (5%).

56. The FLS found that adults who held motor finance in May 2024 or had done so in the previous 12 months were just as likely to show any characteristics of vulnerability[1] as the general population.

Consumer decision-making

57. We commissioned the consultancy Yonder to conduct research in 2024 into current motor finance holders and consumers considering motor finance. The research included an online survey of 4,000 current motor finance holders and 1,000 consumers considering motor finance. It also included 20 60-minute in-depth interviews – 14 with current motor finance holders and 6 with consumers considering using motor finance. This research treated personal loans used for vehicle purchase, as well as personal contract purchase, hire purchase and conditional sale agreements, as motor finance. The full report, which includes further information on the sample and methodology, is available here.

1 As per FG21/1, we define a vulnerable consumer as someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care. Hence, in the Financial Lives 2024 survey, we report for adults with any characteristics of vulnerability, or with characteristics associated with one of the 4 key drivers of vulnerability (poor health, low capability, low resilience, negative life events (experienced in the last 12 months)).

58. Yonder's research showed that 76% of the current holders had used motor finance before their current motor finance agreement.

59. Consumers participating in the research generally viewed motor finance as a way to finance the purchase of a vehicle that they would otherwise not have been able to afford. Most (65%) current holders of motor finance reported that they would have not purchased a vehicle if motor finance or other credit had not been available to them. Around a quarter would have purchased a cheaper vehicle using cash, and around 6% say they would have borrowed money from friends and family to fund their vehicle purchase.

60. The value of monthly payments was found to be the most important factor in respondents' choice between different products (including both current holders of motor finance and those considering taking it). The length of the term of the agreement and the type of credit were also found to be important factors.

Understanding

61. Most holders of motor finance in the research felt that the provider had explained the terms of the finance clearly (78%) and that they had understood what was going on at each stage of the vehicle purchase process (82%). The Yonder consumer research, covering consumers who took out their motor finance agreements between 2019 and October 2024, found that while most consumers reported a good level of understanding of the terms of their agreement, this often proved to be more superficial when probed further. For example, some consumers noted overlooking key contract details and remaining unaware of negotiation opportunities.

62. The in-depth interviews also found that, while many consumers had low trust in brokers in relation to the vehicle purchase itself, they perceived them as not having influence or control over the finance being offered, which was assumed to be determined by the lender given the consumer's credit history.

Shopping around and negotiation

63. The Yonder in-depth interviews research highlighted that many consumers view motor finance as a process to go through – a means to an end to get a car. It found perceptions by consumers that interest rates were fixed by an external institution, meaning they believed rates would be similar even if they were to shop around. The role of the dealer (intermediary) was therefore viewed to be neutral and with limited ability to control the financing arrangement.

64. The Yonder survey found that around half (51%) of current motor finance holders had shopped around for their finance before taking it out. FLS 2024, meanwhile, found that 38% of adults who took out motor finance in the 12 months to May 2024 shopped around before doing so (2022: 34%; 2020: 37%; 2017: 44%). 57% of those who shopped around for their motor finance in the 12 months to May 2024 checked the websites of individual providers, and 45% used a price comparison website.

65. Both the Yonder research and the FLS found similar reasons as to why consumers did not shop around for motor finance: familiarity, loyalty to/satisfaction with their provider, or a belief that they didn't think shopping around would be beneficial (for instance, because they thought they would not be able to obtain the credit elsewhere or because they thought there was no real difference between credit providers). A small proportion (7%) of adults who took out motor finance in the 12 months to May 2024 reported not shopping around for it (in FLS 2024) because 'it takes too much time'.

66. The 60% of current motor finance holders in the Yonder research who negotiated when they bought their motor vehicle were more likely to secure up-front benefits, such as reductions in the price of the vehicle (54%) or extra add-ons (40%). Few (18%) reported achieving a reduction in the interest rate on the motor finance. The FCA's ban on discretionary commission arrangements (discussed further in Chapter 3 of the CP) means that since January 2021 dealers have not been able to adjust the interest rate on a discretionary basis at the point of sale in order to affect their commission. We note, however, that the ban does not prevent dealers from seeking a lower interest rate from a lender on behalf of a consumer where this is justified by a consumer or deal-specific circumstances. These findings suggest that where consumers negotiated, they often focused on the terms of the vehicle purchase rather than on the terms of the finance, things they may have perceived the dealer to be more able to control.

Trust and satisfaction

67. FLS 2024 found that there was a statistically significant decline between 2022 and 2024 in the mean trust score adults reported in their motor finance provider. Trust in their credit card and personal loan providers also declined in this period. In 2024, 33% of adults reported having high trust in their motor finance provider (2022: 44%), 36% moderate trust (2022: 33%), and 27% low trust (2022: 20%), with 4% saying don't know (2022: 3%).

68. Similarly, FLS 2024 found that consumers' satisfaction in their motor finance provider also saw a statistically significant decline between 2022 and 2024. In 2024, 38% reported having high satisfaction in their motor finance provider (2022: 46%), 36% moderate satisfaction (2022: 34%), and 24% low satisfaction (2022: 17%), with 3% saying don't know (2022: 3%) (numbers do not sum to 100% due to rounding).

The role of claims management companies (CMCs) and other professional representatives (PRs)

While not part of the motor finance market itself, PRs such as CMCs and law firms can be involved when a consumer experiences an issue with their motor finance. A consumer complaining to their motor finance provider or making a claim against their motor finance provider in the courts can do so using the services of a PR. CMCs are regulated by the FCA, while solicitors are regulated by the Solicitors Regulation Authority (SRA). We discuss the activity of PRs and the implications of their involvement in relevant complaints further below.

Lenders

Overview

Table 7: Overview of motor finance lenders

Number of active lenders in 2024	Over 100
Total number of lenders since April 2007	Around 200

Source: FCA desk-based review and analysis of regulatory returns

69. We estimate that over 100 lenders are currently active in the motor finance marketcost-of-living consumer credit data collection. Our best estimate is that around 200 firms have offered regulated consumer credit motor finance since 2007, meaning that around 100 firms have extended motor finance in the past but have since been bought out, exited the (motor finance) market, wound up solvently or failed. The figure for the number of lenders in the market since 2007 is only approximate because consumer credit regulation was transferred to the FCA on 1 April 2014, and the quality of our data prior to that date is limited.

70. Based on our motor finance lender survey, the top 10 lenders account for 73% of new motor finance agreements written in 2023. Measures of market concentration suggest low concentration in the overall market for motor finance.

71. Lenders offering motor finance can be grouped into three categories:

- **Captive lenders** – wholly or partly-owned subsidiaries of vehicle manufacturers that offer finance on sale of that manufacturer's vehicle on terms set by the manufacturer. In 2023, these firms accounted for 55% of agreements by number and 63% by value;
- **Banking lenders** – lenders that operate within a large banking group. Banking lenders may offer motor finance directly to consumers (typically through dealers) or enter into agreements with vehicle manufacturers to offer a captive product (known as white label agreements). These firms accounted for 36% of agreements by number and 30% by value in 2023; and,
- **Independent retail lenders** – lenders that offer finance independently and are not part of a banking group. In 2023, these firms accounted for 9% of agreements by number and 7% by value.

Competitive dynamics

72. Based on analysis using 2023/24 data (prior to several of the issues relating to consumer redress becoming widespread), we find that competitive dynamics in the motor finance market differ between segments of the market reflecting differences in market participants and consumer characteristics. We consider different potential market segments. Our analysis points to three distinct segments, which we identify as the market for motor finance: on new vehicles; on used vehicles; and a subset of the used vehicle segment that provides motor finance for consumers with sub-prime creditworthiness. We find that there are differences in how consumers interact with

the market across segments, including the extent to which consumers shop around for finance and the reasons for these decisions which reflect differences in the competitive dynamics.

New vehicle market

73. The new vehicle segment is largely served by captive lenders (subsidiaries of original equipment manufacturers (OEMs) offering finance on sales of their own vehicles) with motor finance being used in a large proportion of sales.

74. Strong competition between vehicle brands drives competitive pricing for motor finance. Around 630,000 new cars were sold with motor finance at the point of sale in 2024 (c.680,000 in 2023), accounting for around 80% of new car purchases. The top 10 lenders, including 7 captives, accounted for 90% of new motor finance business by volume in 2023 on new vehicles in our lender sample, based on latest available data at the time of survey. There is a tail of smaller bank and independent retail lenders that operate mainly in the used segment which offer a small number of agreements on new vehicles as well. The top captive lenders generally reflect the vehicle manufacturers with the largest market shares, with some variation in market shares which may reflect differences in approaches to motor finance and the characteristics of their target customer base.

75. Captive lenders commonly offer national, manufacturer-backed promotional campaigns for new vehicles. Multiple captive lenders in our sample referenced APR discounts subsidised by manufacturers. Lenders indicated that customers who meet the qualification criteria receive the same APR, with the segment almost exclusively serving prime customers with little or no customer-level risk pricing or flexibility for franchised dealers.

76. Almost all motor finance sales (94%) in the new segment in our Request for Information sample were through franchised dealers. Franchised dealers hold rights from brands or manufacturers to sell new vehicles. Franchised dealers typically arrange finance with the captive lender or white-label product offered by the OEM's finance partner. In most cases, the captive lender is the most common choice and default option for motor finance arranged through a franchised dealer. Based on the responses to our survey, we understand that this is typically due to captive lenders offering the lowest APRs for new vehicles or other benefits supported by manufacturer offers, rather than contractual ties. Some captive lenders referenced historic use of right of first refusal clauses, however most stated that these are no longer used and did not require exclusivity. Our analysis of loan-level data found commissions tend to be lower in the new segment, with weighted average commission as a share of loan of 1.2% and weighted average commission of £352 per agreement in 2024 in our sample.

77. Consumers in the new segment typically have access to alternative forms of financing such as personal loans under some of the best terms available given their prime credit profile. Despite this, the vast majority of consumers choose to use motor finance to buy a new vehicle because it is convenient, is perceived to offer a good deal and provides flexibility, as well as having features other types of finance cannot offer such as the option to upgrade or return the vehicle at the end of the agreement. Motor finance makes new vehicles more affordable to a broader potential customer base. One fifth of

respondents in the Yonder consumer research said they were considering motor finance as it would allow them to get a new vehicle rather than a used vehicle. Price competition may be constrained by consumers' alternative options but is also driven by the desire of vehicle manufacturers to sell their own brand of vehicle.

78. Consumers in the new segment appear to be sensitive to changes in price. The Yonder consumer research found that 46% of current holders of motor finance on a new vehicle said they had shopped around before selecting their motor finance deal. These consumers said that they did so to get confidence on their deal (68%) but also to improve their understanding of different options (56%) and to negotiate the cost of finance (39%). The most common reason given by those who did not shop around was that they were already very familiar with the provider or had bought from them before (57%).

79. Overall, competition in the new segment appears to be working well for the period we collected data prior to current market challenges. This was driven by strong competition between OEMs to secure vehicle sales. Price sensitivity and availability of alternatives to motor finance provide further competitive constraints on lenders.

Used vehicle market

80. Lenders of all types operate in the used segment, with captive and banking lenders accounting for the majority of agreements. Lenders compete on the basis of APRs and commission. This segment contains a wide range of consumers and finances vehicles of differing ages and prices.

81. Around 1.4m used cars were sold with motor finance at the point of sale in 2024, accounting for around 20% of all used car purchases. A wide range of lenders operate in the used segment, including a long tail of smaller independent lenders. The top 10 lenders represent three quarters of agreements on used vehicles. Almost all motor finance lenders operate in the used segment to some extent.

82. Banking group lenders have a more significant role in the used segment alongside captives that maintain a strong presence. Independent lenders also play a greater role with most of their lending on used vehicles. This marks a difference in market composition compared to the new segment. The segment is less concentrated and lenders compete more directly to win business through brokers. Lenders mentioned that competitive APRs are necessary to maintain the volume and quality of applications.

83. Motor finance sales in the used segment are supported by motor dealers and vehicle finance brokers. Independent and franchised dealers compete on the bundled cost of a sale for used vehicles including vehicle price, motor finance, part-exchange value and other add-ons such as servicing. Consumers tend to focus on monthly payments when choosing finance type rather than APRs, according to the consumer research. This means that motor dealers may have some flexibility to adjust other aspects of the motor finance terms or vehicle price to offset APR increases to maintain used vehicle sales if prices rise.

84. While vehicle sales is the primary activity for independent and franchised dealers, income from motor finance commissions is an important secondary revenue stream. Independent dealers operate on low margins and, in our intermediary survey, report that commissions underpin their business models allowing them to offer low prices on used vehicles.

85. Motor finance intermediation is the primary activity for vehicle finance brokers who mainly arrange finance on used vehicles for customers across the credit spectrum. Finance brokers compete on the range of lenders on their panel, approval rates and APRs. Arrangements between lenders and brokers vary substantially given the different types of motor finance providers that operate in this segment. Some lenders have or previously have had commercial ties with some of their brokers including a right of first refusal clause. However, many stated that these did not, in fact, require exclusivity.

86. Commissions in the used segment are typically higher than the new segment with significant variation, reflecting competition between lenders of different sizes to win business from brokers. In the loan level data, the weighted average commission for the sample of agreements in 2024 in the used segment was £980 compared to £352 in the new segment.

87. Consumers in the used segment have a wide range of choice of motor finance providers. Most customers using motor finance to buy a used vehicle have prime or near-prime credit profiles and have access to alternative forms of credit outside motor finance. The consumer research found that around 30% of current holders of motor finance on used vehicles had used personal loans to finance a vehicle purchase before and many would consider a personal loan to buy a vehicle outright as an alternative if the type of motor finance they currently hold was no longer available.

88. Consumers are generally engaged in the market with more than half of motor finance holders on used vehicles reporting that they had shopped around in the market, suggesting consumers may be sensitive to changes in price. This is supported by conjoint analysis undertaken as part of the Yonder consumer research which simulates how consumers react to different product configurations. The analysis suggests that if no alternative finance options were available, a 1 percentage point increase in APRs could see a drop in uptake of motor finance of between 1.5-3% for a typical Hire Purchase agreement. The reduction in uptake of motor finance is more pronounced when an alternative such as a personal loan on a typical market rate is assumed to be available due to consumers switching to the alternative credit product offered.

Sub-prime used vehicle market

89. The used sub-prime segment (which, as noted above, is a subset of the used vehicle segment) is the most concentrated of the three segments. In our sample of data from 2023, 86% of agreement volumes in this segment were associated with the 3 largest lenders. The providers active in this segment are generally sector-specialist bank and independent retail lenders.

90. Few providers who are active in the prime segments of the market operate in this segment. Risk-based pricing, whereby consumers assessed as having higher credit risk are subject to higher interest rates, is common. APRs are generally higher in this segment than in the prime segments; with a weighted average APR on sub-prime agreements in our lender survey of 33%. Our lender survey indicates the sub-prime segment is highly intermediated as customers in it have difficulty accessing credit.

91. Sub-prime consumers have fewer alternative options to motor finance to acquire a vehicle. The consumer research finds that 89% of current holders of motor finance with sub-prime characteristics had used some form of motor finance before. This suggests these consumers may rely on motor finance as a means to purchase a vehicle and may be likely to use motor finance again in future.

92. Despite this, the Yonder consumer research found that consumers with sub-prime characteristics were more likely to shop around for finance (reported by 67%) compared to the new and broader used segments. The reasons for shopping around included getting confidence that they are getting a good deal (66%), improving their understanding of different options (49%) and to negotiate the cost of finance (42%). However, half of those that did not shop around said the reason was that their provider or deal was the only option available to them. This suggests that while some consumers within this segment may be sensitive to changes in price, they may not have suitable alternatives available to them. This could impact their ability to respond to a price rise while some consumers may choose not to buy a vehicle at all.

93. Our intermediary survey indicates that finance brokers in the sub-prime segment typically perform soft credit checks and applications are sent to lenders simultaneously with 'best rate outcome' being presented to the customer. This provides finance brokers with some visibility of prices supporting a degree of price competition. Finance brokers typically receive commission from lenders which is a key source of income. However, lenders operating in the sub-prime segment reported that they do not have exclusivity agreements or tied arrangements with brokers for motor finance.

94. There has been limited entry to the segment in recent years. Finance brokers in our survey reported reduced risk appetite from lenders over time. They also noted a trend in sub-prime lenders increasingly targeting near-prime customers and tightening lending criteria. Some lenders implied they are selective about who they offer finance to within each risk tier to target the most profitable agreements, which may suggest they hold a degree of market power in this segment.

95. Technical Annex 2 sets out detailed competition analysis of the motor finance market.

Brokers

Overview

96. Brokers facilitate transactions between the lender and consumer. Brokers connect consumers to lenders, using qualifying questions on customer preferences and qualification characteristics to identify suitable finance options. Brokers can assist consumers with applications through explaining the differences between finance options and submitting the application on the consumer's behalf. Through the provision of this service, brokers may obtain a commission from the lender.

97. Using loan-level data from 2019-22, we estimate that there are approximately 11,000 brokers, including dealerships and vehicle finance brokers, in the motor finance market. Lender-broker relationships come in different forms depending on what is negotiated between them, and brokers may have relationships with several lenders.

Table 8: Overview of motor finance brokers

Number of brokers, including dealerships and vehicle finance brokers, based on loan-level data from 2019-2022	11,000
Percentage of motor finance transactions which include a commission payment to an intermediary, April 2007 – October 2024	77.9%

Source: FCA analysis of loan-level data from 2019-2022, and DD1 data

Broker types

98. Brokers can be categorised based on whether or not finance intermediation is their primary activity:

- **Vehicle finance brokers** act as motor finance brokers as their primary activity. They accounted for 14% of agreements in 2023. These brokers are more likely to work with a range of lenders and provide consumers with a wider product offering.
- For **dealerships**, selling vehicles is their primary activity, which they accompany with motor finance intermediation. Such firms accounted for 82% of agreements in 2023. There are two types of dealerships:
  - **Franchised dealers** hold rights to sell new vehicles and may also sell used vehicles, and
  - **Independent dealers** sell almost exclusively used vehicles.

99. For more information on the competitive dynamics of these brokers, see Technical Annex 2.

100. A minority of motor finance agreements are arranged without an intermediary, typically through direct selling models or private sales (4% of agreements in 2023).

Commissions

101. Intermediary commissions have historically played a significant role in the structure of motor finance deals. We estimate (based on data provided to us by firms) that more than three-quarters of the 32.5m motor finance agreements made since April 2007 involved a commission payment to an intermediary by the lender.

102. The table below summarises the average values of commission payable per agreement between April 2007 and October 2024. These estimates are representative of over 99.9% of the lender market. Note that it is not necessarily the case that a £1 increase in the commission payable to an intermediary is associated with a £1 increase in the cost of credit to the consumer; Technical Annex 1 presents our analysis of the relationship between commission and the cost of credit.

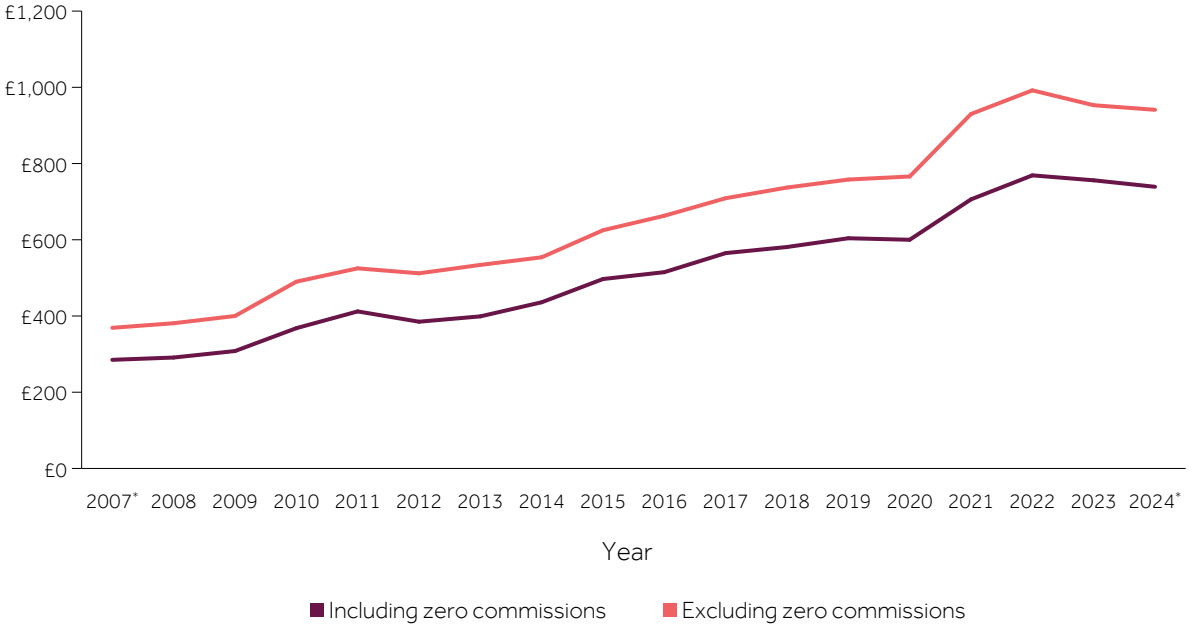
Table 9: Intermediary commission per agreement, April 2007 – October 2024

Average commission per agreement	Mean	Median
Total average	£541	£321
Average excluding zero commissions	£694	£473

Source: FCA analysis of DD1 data.

103. The average nominal value of commission tended to rise over the relevant period, though it levelled off in recent years.

Figure 6: Average nominal value of commissions per agreement, April 2007 – October 2024



Note: Asterisks are used to indicate years for which data does not cover the full year.
Source: FCA analysis of DD1 data

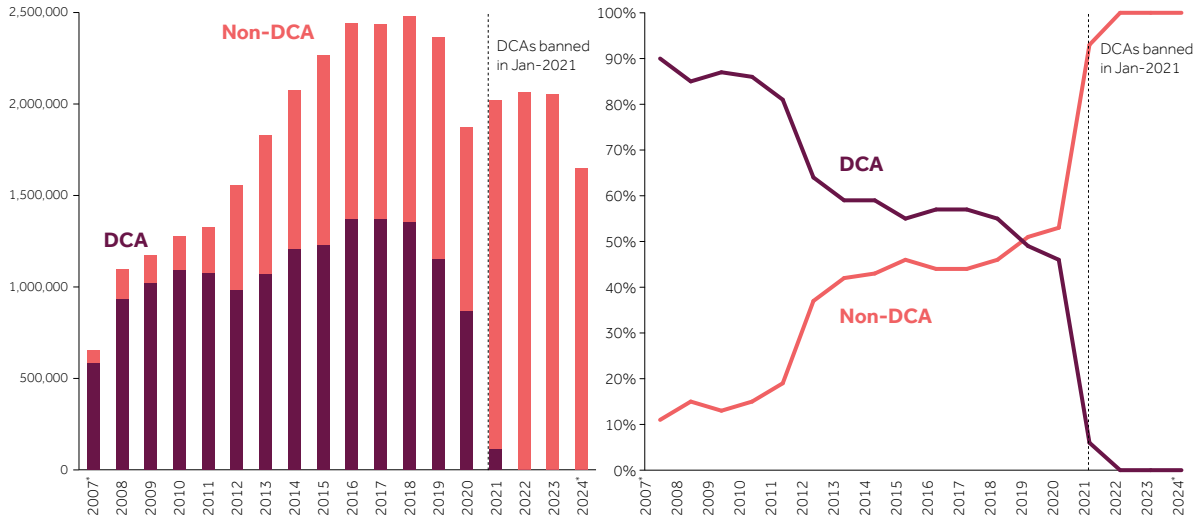
104. During this period, the arrangements by which commission is calculated and payable fall into two broad categories:

- **Discretionary commission arrangements (DCAs)** allowed brokers to vary the interest rate of the loan to earn more commission. We have identified around 15.4m DCA agreements entered into between April 2007 and October 2024 (approximately 47% of agreements in this period). In the period from April 2007 to January 2021, after which the use of DCAs was banned, around 61% of motor finance agreements were DCA agreements.

- **Non-discretionary commission arrangements (non-DCAs)** do not allow brokers to do this. The most common non-DCA commission model is a flat fee model, though other non-DCA models exist. We have identified around 17.2m agreements with non-DCAs were entered into between April 2007 and October 2024 (approximately 53% of agreements in this period).

105. The figure below presents the estimated number of DCA and non-DCA agreements for the period April 2007 to October 2024.

Figure 7: Number of agreements by commission arrangements (LHS) and proportion of agreement by commission arrangements (RHS), April 2007 – October 2024



Note: asterisks are used to indicate years for which data does not cover the full year.
Source: FCA analysis of DD1 data

Context

106. Complaints relating to motor finance and other forms of consumer finance entered the Financial Ombudsman's jurisdiction in April 2007 following legislative change. Motor finance subsequently came into the FCA's regulatory remit in April 2014, when the FCA took over responsibility for the regulation of the consumer credit sector from the Office of Fair Trading.

107. Chapter 2 of this CP describes relevant FCA rules, the work that the FCA has undertaken to improve outcomes in the motor finance market since 2017, and key events relevant to the market. In that chapter, we also summarise several relevant recent court judgments, including the High Court's judgment in the *Clydesdale* judicial review and the recent Supreme Court's judgment in the case of *Johnson* and others.

108. Chapter 3 of this CP sets out our legal and economic analysis of how consumers experienced unfairness and loss in the motor finance market because of inadequately disclosed DCAs, high commission arrangements, and tied arrangements.

Problem and rationale for intervention

Problems under consideration

109. The meaning and application of the unfair relationship provisions in the CCA have been considered in a number of court cases, including the High Court's judgment in the *Clydesdale* Judicial Review and, more recently, the Supreme Court's judgment on the factors which may be indicative of an unfair relationship in past motor finance agreements. In addition, FCA analysis suggests significant numbers of consumers are owed redress in relation to their past motor finance agreements. We estimate that there are 14.2m agreements that potentially involved an unfair relationship as defined in our CP.

110. The pause on the deadline for firms to respond to motor finance commission complaints is currently due to end on 4 December 2025. In the event of no further regulatory intervention, consumers would need to actively raise complaints with firms or bring cases in the courts to seek any redress owed (a "complaints-led approach").

111. To summarise, the problems under consideration are:

- Consumers facing inconsistent outcomes, unnecessary delays and higher-than-necessary costs making a complaint; and,
- Firms facing significant costs over and above the redress bill from a complaints-led approach, with a significant number of referrals to the Financial Ombudsman imposing further financial burdens on industry.

Market failures driving harm absent intervention

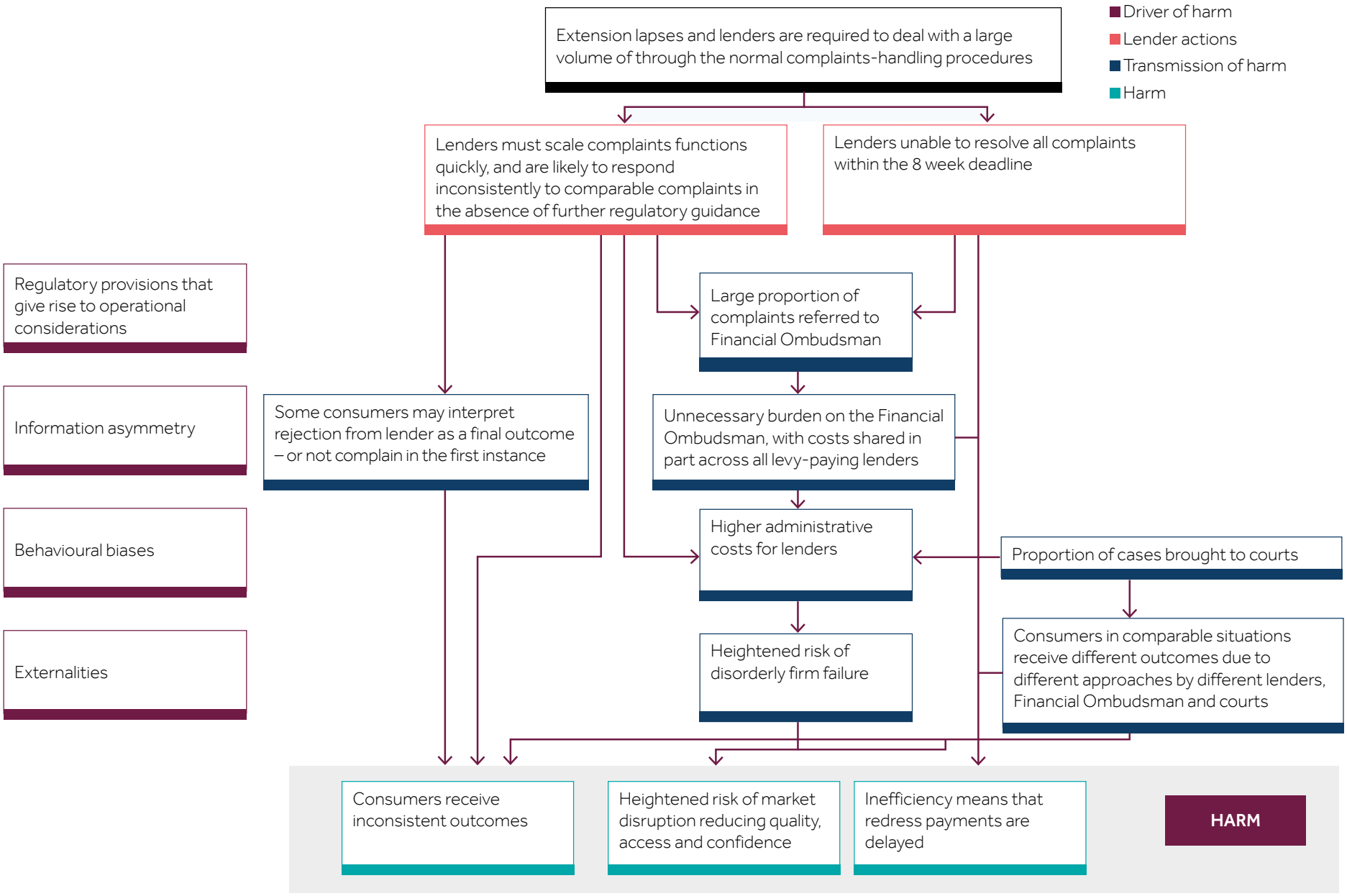
112. The potential harm from an inefficient redress approach absent intervention is driven by several market failures:

- **Regulatory provisions that give rise to operational considerations:** When large volumes of complaints arise, firms often struggle to scale their operations sufficiently to meet the standard 8-week resolution deadline, resulting in delays for consumers and increased pressure on the Financial Ombudsman as unresolved complaints are referred to them en-masse. Moreover, although the Financial Ombudsman seeks to some extent to improve matters by using what it terms "lead cases", it resolves complaints on a case-by-case basis, meaning it must invest significant time in gathering evidence and assessing individual claims. A more systematic approach guided by rules that balance case-specific and general features would improve the consistency, speed and fairness of outcomes.
- **Information asymmetry:** It is often difficult for consumers to assess whether they are owed redress or whether they ought to challenge firms' proposed resolutions. This can hinder access to fair outcomes.

- **Behavioural biases:** Inertia may mean that consumers who would be entitled to redress do not take action to obtain it. Consumers may interpret a firm's rejection of a complaint as final, without pursuing further avenues such as escalation to the Financial Ombudsman. This can result in under-compensation and inefficient resolution of harm.
- **Externalities:** Firms pay a case fee when complaints are referred to the Financial Ombudsman (normally up to £650 for the fourth complaint onwards). While this can create incentives for firms to quickly resolve complaints in a way that reduces the chances of consumers taking their case to the Financial Ombudsman, the sheer volume of expected complaints is likely to make this challenging. Thus, many complaints could still end up at the Financial Ombudsman, imposing unnecessary burdens on it. As the Financial Ombudsman is funded via an industry-wide levy, any increase in its costs will need to be recovered from a rise in costs to other firms, many of whom are not involved in motor finance. Reducing the volume of Financial Ombudsman referrals could internalise the cost of assessing complaints.
  There is a further externality with respect to the judicial system. A large volume of complaints going through the courts will impose significant costs and potentially cause delays in other, non-motor finance cases.

113. The figure below summarises the transmission of potential harm in the market.

Figure 8: Summary of expected harm in the motor finance market absent regulatory intervention



Rationale for intervention

114. In the absence of regulatory intervention, consumers face the potential of inconsistent outcomes, significant delays and higher costs. Firms will also face significant costs over and above their redress liabilities in terms of processing and responding to individual complaints, and there will be wider burdens on industry. With no specified end date to complaints, this could mean the industry experiences prolonged uncertainty (noting there will be limitation periods).

115. Drawing on our regulatory experience and judgement, we consider it unlikely that industry participants, acting individually or collectively, would be able to design or deliver a coordinated, time-bound, market-wide approach to redress. While firms have an interest in treating customers fairly and managing reputational risk, these incentives typically operate at the individual firm level rather than supporting collective, systemic solutions. Moreover, there are constraints within competition law which prohibit collusion between competitors that coordinate market behaviours. The experience with motor finance was that as complaints built up, firms were rejecting nearly all such consumer complaints, contributing to the high caseload at the Financial Ombudsman.

116. Without certainty on how to treat complaints and calculate redress, firms may respond inconsistently, leading to delays, consumer confusion, and inefficient resource use. This could, in turn, ultimately lead to poorer consumer outcomes and undermine wider market integrity as this would likely be accompanied by ongoing uncertainty for firms and high response costs.

117. We therefore consider there is a strong case for regulatory intervention to:

- Ensure consistent outcomes for consumers in comparable situations
- Reduce delays in complaints being resolved and consumers being paid redress where it is owed, and avoid potentially unnecessary administrative costs to firms
- Avoid disruption to the motor finance market and the Financial Ombudsman, including increased claims handling burden on firms and increased caseload and burden on the Financial Ombudsman, and
- Avoid increased caseload and costs in the courts system.

118. We set out the different regulatory options for achieving this below and identify our preferred option.

Regulatory options to address market failure

119. To uphold the FCA's statutory objectives, including our consumer protection and integrity operational objectives, as well as our secondary international competitiveness and growth objective, our proposals aim to introduce a structured approach to help ensure complaints are managed efficiently and facilitate consistent and fair redress outcomes. We discuss the key principles of designing our scheme design in chapter 3 of this CP.

120. Below we set out our options and preferred proposal for (i) ensuring complaints are resolved in an orderly, consistent and efficient way and (ii) improving consumer, firm and market outcomes relating to redress.

121. Chapter 3 of this CP sets out options we considered for addressing this market failure and explains why we favour our proposed approach over the alternatives.

Options to ensure complaints are resolved in an orderly, consistent and efficient way

122. We initially paused in January 2024 the 8-week deadline for firms to respond to customers with DCA complaints until 25 September 2024. We introduced the pause to prevent disorderly, inconsistent and inefficient outcomes for consumers, as well as knock-on effects on firms and the market, whilst we investigated the potential harm in the market, awaited legal clarity from key court cases and determined the best way forward. This pause was subsequently extended in September 2024 to 4 December 2025, and in December 2024, following the Court of Appeal's judgment in *Johnson*, its scope extended to include non-DCA agreements.

123. As set out above and in CP24/22 for the December 2024 extension, if this is not further extended, firms' capacity to resolve complaints may be exceeded leading to:

- Disruption to the market, including significant costs to firms and increased caseload for the Financial Ombudsman
- Inconsistent outcomes for consumers in comparable situations
- Delays in complaints being resolved and, where appropriate, redress being paid.

124. Accordingly, we do not believe allowing the extension to lapse is credible or in the interest of any market participant or consumers generally. We acknowledge that a longer extension means some consumers' complaints are resolved over a longer period than would have otherwise been the case. However, we believe a further extension makes an appropriate trade-off between consumer complaint resolution and prevention of an over run on the Financial Ombudsman and market integrity and orderliness.

125. We propose to extend the current deadline on the handling of relevant motor finance complaints until 31 July 2026 (excluding hire agreements). This extension is necessary to provide firms with sufficient time to prepare for and implement any industry-wide redress scheme, should one be confirmed following this consultation. We have not proposed a shorter period, as this would likely result in firms being required to issue final responses to complaints prematurely, potentially leading to inconsistent outcomes. It could also trigger a surge in complaints ahead of the scheme coming into effect, creating unnecessary pressure on firms and Financial Ombudsman.

126. If, having analysed the responses to our consultation on the proposed redress scheme, we think that firms should start sending final responses to complaints sooner, we will consult on ending the extension early.

127. See Chapter 11 of this CP for further detail on why we are proposing to extend the deadline for a final firm response to relevant customer complaints and what complaints this extension will apply to.

Options to improve consumer, firm and market outcomes relating to redress

128. Chapter 3 of this CP sets out our reasoning for why we believe an industry-wide consumer redress scheme is appropriate, and we consider that the three statutory tests for the use of our powers under s.404(1)(a) and (b) FSMA are met and our redress scheme is desirable. (see also Technical Annex 1).

129. In line with the principles set out in June 2025, a successful redress scheme must provide an accessible, efficient, and fair mechanism for consumers to receive compensation for the harm caused by motor finance arrangements. Its core objectives need to align closely with our statutory objectives and reduce the burden on both consumers and firms, thereby promoting confidence and stability within the motor finance market.

130. In designing any large-scale redress intervention, it is important to acknowledge that trade-offs are necessary to balance competing regulatory objectives. In the context of motor finance, this includes trade-offs between delivering redress efficiently and ensuring the best possible outcome for consumers in every individual case. For example, a redress scheme that aims for maximum precision may require firms to review all historical data in detail, significantly increasing complexity, timeframes, and cost – ultimately significantly delaying compensation for consumers. Conversely, a more standardised approach may result in some consumers receiving too much or too little redress relative to individual circumstances, but enables faster, fairer outcomes at scale. Equally, the choice of redress methodology, interest rates, time periods etc, will all involve balancing trade-offs.

131. For further detail on our design choices for our CRS see the following chapters of this CP:

- Chapter 3 – Why we are proposing a redress scheme
- Chapter 4 – What our consumer redress scheme will cover
- Chapter 5 – Overview of scheme stages and the role of the Financial Ombudsman Service
- Chapter 6 – Stage 1: Pre-scheme checks and inviting consumers to participate
- Chapter 7 – Stage 2: Assessing liability
- Annex 6 – Market-wide redress costs
- Technical Annex 1

132. We have considered two consumer redress scheme (CRS) options:

- **A s.404 firm-led opt-in CRS**

  Under this approach, the FCA can mandate firms to contact consumers, inviting them to participate in the redress scheme. Consumers must respond to confirm their participation. This generally achieves medium CRS join rates—higher than complaints-led but lower than opt-out schemes.

- **A s.404 opt-out CRS**

  Similar to the opt-in scheme, but consumers are automatically included unless they explicitly request to be removed. This approach is expected to deliver the highest CRS join rate from consumers.

133. Alternative options considered include:

- **Complaint guidance**

  We can support firms to resolve complaints in an orderly and consistent manner by providing guidance on how to handle complaints.

  In the absence of a CRS we could use complaints guidance to support firms in their responses to consumers complaints.

- **Individual firm engagement**

  We can engage with individual firms on their handling of redress exercises. We have a variety of powers we can deploy in this scenario.

134. Based on our analysis of these options set out in Chapter 3 of the CP, we propose a s.404 firm-led opt-out for consumers who have already complained and a s.404 firm-led opt-in for consumers who haven't yet complained as the best way forward to address the future harm of a disorderly and inefficient redress system.

135. Chapter 4 of the CP sets out in more detail what the proposed redress scheme covers and what it does not.

136. This meets our operational objective of protecting consumers as it will address the harm from a disorderly and inefficient redress system. This will also contribute to our strategic objective for markets to function effectively as it will provide firms with a consistent approach to who is eligible for redress and the amount owed. For brevity, we use 'eligible' and 'ineligible' as shorthand for having an agreement that does or does not have at least one of the relevant arrangementsfeature that we propose could give rise to an unfair relationship. We note that in practice. consumers with motor finance agreements without such arrangements may still be invited to opt into the scheme and have their case assessed (see Chapter 6 of the CP). Our use of this shorthand is not meant to be a description of scheme rules.

Our proposed interventions

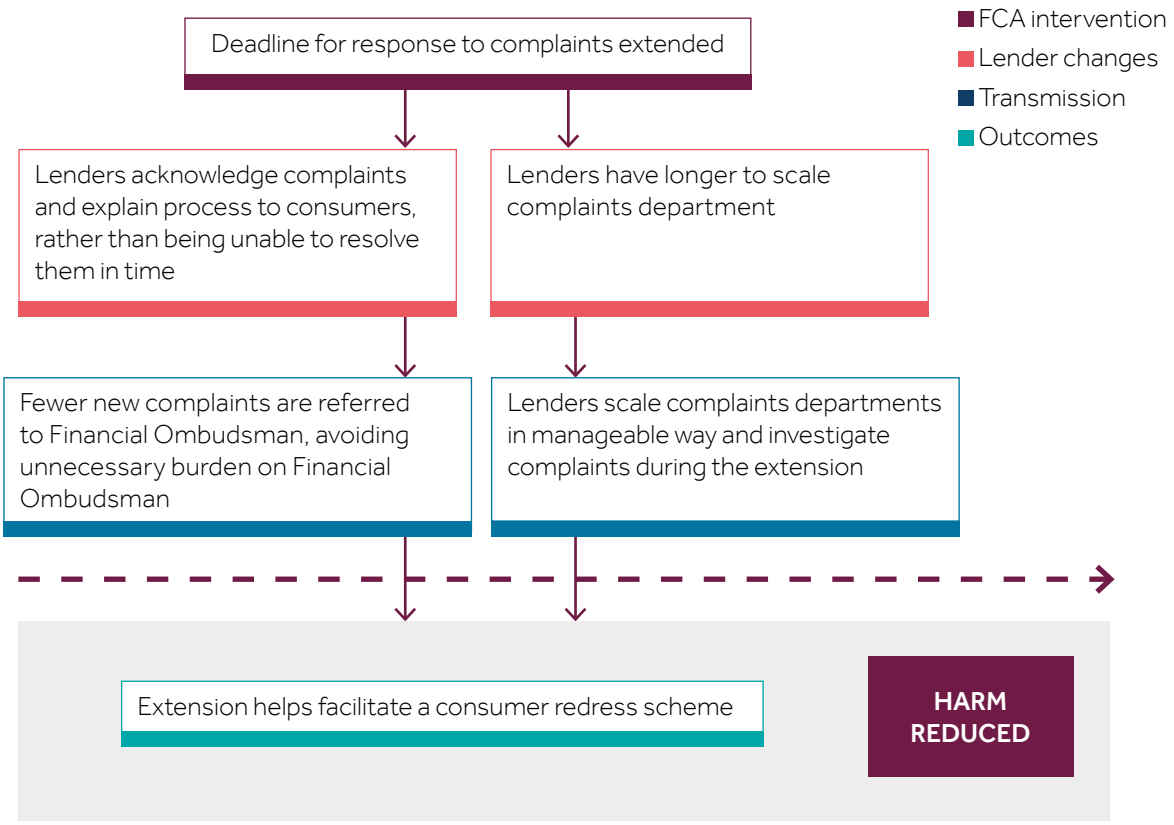
Complaints deadline extension

137. With the exception of leasing complaints, we are proposing to extend the deadline for firms to provide a final response to relevant customer complaints until 31 July 2026. On the assumption that, following consideration of consultation feedback, the FCA decides to implement a redress scheme, we believe this extension would allow sufficient time for the scheme rules to be finalise, and for firms to both understand and prepare for the obligations those rules place on them in dealing with complaints that fall within the extension.

138. This extension represents a delay in consumers receiving a firm's final complaint response, rather than a suspension of the firm's obligation to investigate. Firms should continue to progress their complaint investigations during this period. However, we believe the benefits of the additional time to implement our proposed CRS outweigh any delays consumers may experience. See Chapter 11 of this CP for further detail on why we are proposing to extend this period and what complaints this extension will apply to.

139. The figure below presents the causal chain of extending the deadline on complaints and outcomes we expect.

Figure 9: Causal chain for extension



Consumer redress scheme

140. Chapter 4 of this CP sets out the subject matter of the scheme and the conditions to be met for a case to be a scheme case. In summary, we are proposing using our s. 404 power to require firms to establish and carry out a CRS. Chapter 4 of the CP also sets out the rationale and detail for the scope of firms covered by the scheme and Chapter 5 what we expect firms to do once the scheme starts.

141. Our proposed redress scheme type is a firm-led opt-out for consumers who have already complained and are awaiting a decision. For consumers who have not complained we are proposing a firm-led opt-in. Some complaints will not be treated as scheme cases

142. We have set out our liability assessment in Chapter 7 of this CP and our proposed redress methodology and its underpinning rationale in Chapter 8 to ensure that complaints are assessed consistently. This will provide firms with certainty and consumers with fair redress.

143. Consumers who have not complained by the date the scheme starts will have 6 months from the date of the invitation letter to opt in. Save for exceptional circumstances, consumers who have been contacted will not be able to opt in after 6 months from the date of the opt-in letter has elapsed. If consumer does not receive an invitation to opt in, they will need to contact their lender within 1 year of the scheme start.

144. This will give firms sufficient time to assess complaints and if required, scale up complaints-handling, in order to assess complaints. Any complaint about the firm's handling of the scheme case would be determined by the Financial Ombudsman in accordance with rules of the scheme.

145. See chapter 6 of this CP for full details on the response window.

146. With respect to the period any CRS will cover, our primary option is:

- **Option 1:** Covering agreements from April 2007, aligning the date on which section 140A of the CCA came into force and the timeframe within which the Financial Ombudsman can consider complaints.

147. However, for completeness and to inform stakeholder feedback on this consultation and responses to this CBA, we also provide details of an alternative option:

- **Option 2:** Covering agreements from 1 April 2014. This period covers the time after the FCA took over regulation of motor finance and other consumer credit firms.

148. The figure below presents the causal chain of our intervention and outcomes we expect. This can be described as follows:

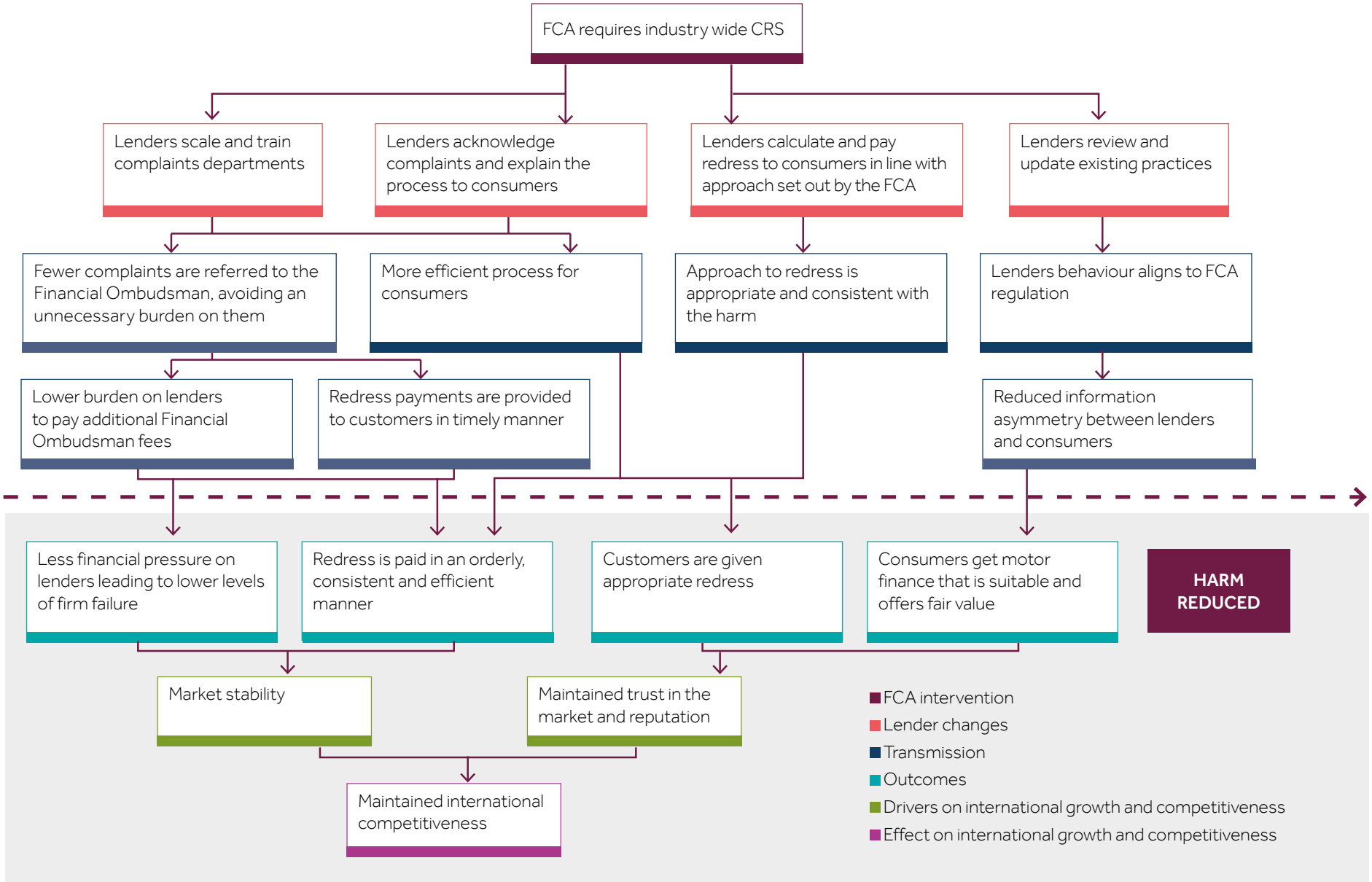
- We introduce an industry wide CRS.
- Firms scale and train complaints departments, and begin to contact consumers

- As a result, fewer complaints are referred to the Financial Ombudsman compared to the counterfactual, decreasing the burden on this organisation and reducing the Financial Ombudsman fees firms are required to pay.
- Consumers are paid consistent and fair redress in an orderly and efficient manner in line with our approach to redress calculations.
- Less financial pressure due reduced administration costs and lower Financial Ombudsman fees on firms.
- Market stability is maintained as firms and Financial Ombudsman aren't overburdened by complaints which helps maintain trust in the market
- Market reputation and international competitiveness are maintained in the long run.

149. For this to hold true we have made the following assumptions:

- Firms and consumers will respond to the proposed intervention in line with the spirit of the rules, i.e. we see high level of participation in and compliance with the scheme
- A critical mass of consumers opt-in to our scheme rather than going through the courts
- Fewer court claims made, reducing burden on county courts
- There are no major unintended consequences

Figure 10: Summary of causal chain interventions and outcomes



Key assumptions

150. Given the significant uncertainties involved, it is necessary to make several analytical assumptions. We group these assumptions into general modelling assumptions, those used in our assessment of the counterfactual, and those used in our analysis of the expected impacts of our intervention.

151. Whilst we assume firms provide accurate survey responses, we have considered possible overstatement or understatement. To address this, we have conducted sensitivity analyses which we discuss in our sensitivity analysis section below.

152. We would welcome stakeholder feedback on these assumptions and further evidence to inform them.

Scheme modelling considerations

153. **Redress liabilities estimates are not treated as a cost to firms** that arises from this intervention. This is because this intervention is about how to address liabilities that already exist, as firms who are required to pay redress were in breach of our rules and/or the law and therefore these represent impacts derived from historic non-compliance. **Any redress paid to consumers are considered a benefit to consumers and not a transfer, however we do not include them in our NPV**. In chapter 8 of this CP, we provide estimates of the maximum total redress liability totalling £9.7 billion and, in Annex 6, we show variations based on alternative scenarios. We note in practice, the total liability may be less than this maximum.

154. As noted earlier we do not compare this total redress liability figure to the counterfactual of a complaints-led approach because of the uncertainties around how firms, the Financial Ombudsman and courts would will treat and assess loss – and are consulting on this approach. Nonetheless, we recognise that the total redress liability that crystalises is likely to differ if we intervene versus the counterfactual.

155. Our analysis assumes that, both under a complaints-led approach and under our CRS, redress liabilities would **accrue to lenders rather than to brokers** such as motor dealerships. Contractual arrangements between lenders and brokers may provide for lenders to subsequently obtain contributions to their redress costs from brokers through indemnity agreements. However, it is not possible to model how management decisions may play out in the future. We assume it will often not be in lenders' commercial interests to pursue dealers. We do consider the incentive and ability of lenders to adjust commission levels to increase their margins and finance redress liabilities from future agreements. Technical Annex 3 considers how brokers may respond to commission changes, including their ability to recover lost revenue from other elements of a transaction where they have pricing discretion.

156. **Redress liabilities may be associated with both DCA and non-DCA agreements**, in light of the Supreme Court and High Court rulings that are relevant not only to DCAs but also to non-DCAs, such as high fixed commission arrangements.

157. In modelling non-redress costs we draw on responses from a survey of firms covering 89% of the market and that after reweighting, are broadly representative of over 99.9% of the market. We assume that firms' responses to the survey are **accurate** and that in-sample firms are **representative** of the wider market. We discuss the assumptions used in this modelling further in the Technical Annex 1.

General modelling assumptions

158. The appraisal period will start in 2025/26, with prices in financial year 2025/26. We consider the effects of our interventions over the standard **10-year appraisal period**, as described in our Statement of Policy. While the redress scheme is time-bound and we expect most of the impacts of our intervention to occur towards the beginning of the appraisal period, utilising a 10-year appraisal allows us to capture any impacts the scheme has beyond its lifetime.

159. For the purposes of calculating NPVs, we have assumed that the counterfactual scenario, as well as Options 1 and 2, extend over a 2-year period in relation to ongoing costs. This assumption was necessary to enable a consistent and comparable NPV analysis across the different options. We note that when consumers receive payment and firms incur costs may differ between our intervention and the counterfactual.

160. The standard **3.5% discount rate** is applied to future costs and benefits as per HM Treasury's Green Book.

Counterfactual assumptions

161. In the table below we provide the quantitative assumptions we have made in modelling the do-nothing counterfactual. We describe how we expect the do-nothing counterfactual would develop in the 'Counterfactual' section below. For a detailed discussion of these modelling assumptions and our rationale for them, see Technical Annex 1.

Table 10: Quantitative assumptions used to model the do-nothing counterfactual

Input	Low	Mid	High
Complaints incidence rate	59%	69%	79%
Working hours per month	134.17	134.17	134.17
Financial Ombudsman referral rate (out of time)	10%	30%	50%
NPV annual discount rate	3.5%	3.5%	3.5%
Financial Ombudsman referral rate (consumer disagrees)	10%	25%	40%
Complaints-handling full-time equivalent (FTE) employees	Calculated at the firm level using motor finance commission monitoring survey results		
Hourly cost per complaints-handling employee	Calculated at the firm level using motor finance commission monitoring survey results		

Input	Low	Mid	High
Time taken to process a complaint	Calculated at the firm level using motor finance commission monitoring survey results		
One-off investment for handling complaints	Calculated at the firm level using motor finance commission monitoring survey results		
Variable cost per complaint non-labour cost uplift	21%	21%	21%
Financial Ombudsman fee	£650	£650	£650
Financial Ombudsman scaling cost per complaint	£455	£455	£455
Average consumer complaint time (firm only), minutes	60	122.5	185
Average consumer complaint time (firm and Financial Ombudsman), minutes	100	187.5	275
Average consumer complaint time – using a PR, minutes	48	60	72
Value of consumer time (per hour spent complaining)	£7.49	£7.57	£35.20
Proportion of complaints submitted through a PR*	61.0%	75.5%	90.0%
Firm response deadline	8 weeks	8 weeks	8 weeks

* This figure is not applied in the firm cost model – the only channel through which estimates of the proportion of complaints submitted through PRs impacts costs is through the estimated impact on consumer time.

162. The complaint incidence rate refers to the occurrence of complaints relative to the total population of agreements. Comparable to the CRS join rate under the intervention scenario, this is a key indicator of the effectiveness of our CRS in delivering outcomes to affected consumers. See the Risks and Uncertainties section for more information of the complaint incidence rate and the CRS join rate.

163. Working hours per month refers to the number of hours which complaints-handling employees work per month. We assume that a complaints-handling employee would work 7-hour days for 230 days per year. 230 days per year is based on a 365-day year, with 104 weekend days and 31 days of holiday allowance (including bank holidays). The working hours per month is an input into the complaints-handling capacity of firms, which ultimately informs us of the proportion of complaints which would become available for Financial Ombudsman referral through the timing out channel.

164. Financial Ombudsman referral rate (out of time) refers to the percentage of complaints which are referred to the Financial Ombudsman, out of the number of complaints which are not resolved within 8 weeks from the point at which the firm receives the complaint (and hence become available to be referred). Through our non-redress cost model, we determine the number of complaints which are referred to the Financial Ombudsman through this channel. The Financial Ombudsman referral rate therefore provides a measure of consumer or PR dissatisfaction with firms' ability to handle complaints in

time. The Financial Ombudsman referral rate through this channel is material to our non-redress cost estimates.

165. NPV annual discount rate is the percentage used in our NPV calculations which determines the present value of cash flows. This is applied to our total costs and benefits to determine the NPV of costs and benefits.

166. Financial Ombudsman referral rate (consumer dispute) refers to the percentage of complaints which are referred to the Financial Ombudsman through the consumer disputing the final redress determination received from the firm, out of the number of complaints which firms provide a final redress determination for. Through our non-redress cost model, we determine the number of complaints which are referred to the Financial Ombudsman through this channel. The Financial Ombudsman referral rate therefore provides a measure of consumer or PR dissatisfaction with firms' redress determinations. The Financial Ombudsman referral rate through this channel is material to our non-redress cost estimates.

167. The complaints-handling full-time equivalent (FTE) employees refers to the number of FTE employees which firms employ to handle complaints related to motor finance. We obtained this input at the firm level from our motor finance commission monitoring survey. This is applied to our firm-level model, and it determines the number of complaints which can be handled before they become available for Financial Ombudsman referral.

168. The hourly cost per complaints-handling employee is applied at the firm-level in our model, and it determines the hourly cost of complaints handlers. We obtained this input at the firm level from our motor finance commission monitoring survey. We apply a variable cost uplift to account for overheads.

169. The time taken to process a complaint refers to the time it takes for firms to fully process a complaint from receipt to resolution. This is applied in our firm-level model, and it determines the number of complaints which can be handled before they become available for Financial Ombudsman referral. We obtained this input at the firm level from our motor finance commission monitoring survey.

170. The one-off investment for handling complaints refers to any investment in systems and infrastructure to manage motor finance complaints, such as investments into automated processes. We obtained this input at the firm level from our motor finance commission monitoring survey.

171. Variable cost per complaint non-labour cost uplift refers to the uplift applied to wages to account for overhead costs such as office rent. This uplift is applied to firms' own estimates of wage labour costs.

172. Financial Ombudsman fee refers to the Financial Ombudsman case fees charged to firms for each case referred to the Financial Ombudsman. This is multiplied by the estimated number of complaints which are referred to the Financial Ombudsman to obtain an estimate of the total Financial Ombudsman case fees which firms could incur in the counterfactual. We note that, for each firm, the first 3 complaints referred to the Financial Ombudsman each year are free of charge. We do not account for this in our

estimates given that i) the free complaints could be unrelated to motor finance and ii) the Financial Ombudsman fees (and associated Financial Ombudsman scaling fees) for 3 complaints represent a minor proportion of the total complaints which we expect to be referred to the Financial Ombudsman, including at the firm level.

173. Financial Ombudsman scaling cost per complaint refers to the costs which firms could incur if the Financial Ombudsman includes a supplementary case fee for each complaint referred to them. This is multiplied by the estimated number of Financial Ombudsman referrals to determine the estimated total Financial Ombudsman scaling fees.

174. Average consumer complaint time (firm only) refers to the average time incurred by consumers who complain directly to a firm without then referring their complaint to the Financial Ombudsman. This is multiplied by the number of complaints which we expect consumers to register directly to firms without then referring them to the Financial Ombudsman, to obtain the total minutes which consumers are expected to spend complaining to the firm only.

175. To estimate the time consumers spend on complaints, we mapped out possible complaint journeys and assigned time estimates to each, with upper and lower bounds. The lower bound reflects a higher proportion of more straightforward cases where consumers provide all necessary information upfront, while the upper bound reflects a higher proportion of complex cases requiring follow-up. We validated these estimates by comparing them with those from CP21/1, adjusting accordingly. We note that our previous lower-bound estimate in CP21/1 was 1.5 hours, while our central estimate in this analysis is just over 2 hours.

176. Average consumer complaint time (firm and Financial Ombudsman) refers to the average time which a consumer would incur, given the consumer complains directly to a firm and then refers their complaint to the Financial Ombudsman. This is multiplied by the number of complaints which we expect consumers to register directly to firms and then the Financial Ombudsman, to obtain the total minutes which consumers are expected to spend complaining to both firms and the Financial Ombudsman.

177. We estimate the time incurred by consumers as the firm-only complaint time, however we expect that consumers who subsequently complain to the Financial Ombudsman will spend more time making a follow-up complaint.

178. Average consumer complaint time submitted through a PR refers to the average time which a consumer would incur, given the consumer complains through a PR. This is multiplied by the number of complaints which we expect consumers to register through a PR, to obtain the total minutes which consumers are expected to spend complaining when represented by a PR.

179. We expect there to be less variation in time spent complaining between consumers who complained through a PR. This is because the PR will handle the majority of the claims process without the need for the consumer to act as much. Consumers may need to provide further information to the PR in order to progress their complaint.

180. Value of consumer time per hour refers to the value which consumers apply to time spent on the redress process. This is multiplied by the total consumer complaint time to obtain the total value of consumer time spent complaining. We estimate this using Department for Transport (DfT) estimates sourced from the TAG Data Book.

181. Proportion of complaints submitted through a PR refers to the percentage of complaints which are submitted to firms through a PR. This is used in our consumer value of time estimates to estimate the consumer cost of complaints which consumers register through a PR or not, which informs our estimate of the total value of consumer time spent complaining.

182. Our central estimate is based on responses to our motor finance commission monitoring survey, which suggests that, on average, firms within our survey sample have experienced 75.5% of complaints from PRs so far.

183. The Financial Ombudsman announced that around 90% of motor finance commission cases were submitted by PRs in Q1 2024/25. However, PRs are more likely than consumers who complain directly to firms to refer complaints to the Financial Ombudsman, such that the proportion of complaints submitted to the Financial Ombudsman via a PR is likely to be higher than the proportion of complaints submitted to firms via a PR. We note that Q1 2024/25 was before the Financial Ombudsman's new case fee structure for PRs came into force, which we expect would reduce the number of complaints referred to the Financial Ombudsman by PRs. As such, we take this as our upper bound estimate.

184. Our motor finance commission monitoring survey suggests that 75% of firms have experienced over 66% of their complaints so far from PRs. We deduct the difference between our central and high estimates from our central estimate to attain our low estimate of 61%.

185. Firm response deadline refers to the time between receiving a complaint and when it becomes available for Financial Ombudsman referral through the out of time channel. This is applied in our firm-level model which estimates the number of complaints handled by firms in time given firm complaint handling capacities and Financial Ombudsman referral rates through the out of time channel.

186. Under the counterfactual we do not make an explicit assumption on how the state of competition might change under a firm-led complaints approach.

Impact analysis assumptions

187. The table below summarises key quantitative assumptions we have made in modelling our intervention to estimate the costs and benefits we set out in the following sections. We describe the rationale for these assumptions in Technical Annex 1.

Table 11: Quantitative assumptions on the expected impact of our intervention

Input	Low	Mid	High
CRS join rate for opt-in process (consumer receives likely eligible letter)	69%	83%	95%
CRS join rate for opt-in process (consumer receives likely ineligible letter)	27%	41%	55%
CRS join rate for opt-out process (consumer receives likely eligible letter)	95%	95%	100%
CRS join rate for opt-out process (consumer receives likely ineligible letter)*	0%	0%	0%
Working hours per month	134.17	134.17	134.17
Financial Ombudsman referral rate (out of time)	0%	0%	0%
NPV annual discount rate	3.5%	3.5%	3.5%
Financial Ombudsman referral rate (consumer dispute)	0%	7.5%	15%
Average time per agreement for one-off screening costs	30	60	90
One-off investment for handling complaints	Calculated at the firm-level using motor finance commission monitoring survey results		
Complaints-handling full-time equivalent (FTE) employees	Calculated at the firm-level using motor finance commission monitoring survey results		
Hourly cost per complaints-handling employee	Calculated at the firm-level using motor finance commission monitoring survey results		
Time taken to process a complaint	Calculated at the firm-level using motor finance commission monitoring survey results		
Variable cost per complaint non-labour cost uplift	21%	21%	21%
Financial Ombudsman fee	£650	£650	£650
Financial Ombudsman scaling cost per complaint	£0	£0	£0
Average consumer complaint time (firm only) for opt-in process, minutes	20	75	130
Average consumer complaint time (firm only) for opt-out process, minutes	10	40	70
Average consumer complaint time (firm and Financial Ombudsman) for opt-in process, minutes	60	137.5	225
Average consumer complaint time (firm and Financial Ombudsman) for opt-out process, minutes	50	102.5	165

Input	Low	Mid	High
Average consumer complaint time – using PRs, minutes	48	60	72
Value of consumer time	£7.49	£7.57	£35.20
Proportion of complaints submitted through PRs**	12.0%	43.75%	75.5%

* These consumers are unable to proceed to obtain redress directly from the firm without Financial Ombudsman referral.
** This figure is not applied in the firm cost model – the only channel through which estimates of the proportion of complaints submitted through PRs impacts costs is through the estimated impact on consumer time.

188. We assume in our modelling that all relevant firms will comply with our rules and guidance and that firms will take reasonable steps to deliver fair outcomes to consumers in a timely manner.

189. The CRS join rate is defined as the proportion of motor finance agreements within the timeframe of the CRS which enter into the CRS (i.e. either accept the firm's invitation to opt into the CRS, or not opt out the CRS) under the proposed intervention. While the CRS join rates are market-level assumptions, we calculate the proportion of agreements in each of the four consumer groups at the firm level using firm-level data on i) the number of breached agreements and the total number of agreements, and ii) the number of complaints already registered to lenders and the number not registered to lenders. Similar to the counterfactual complaint incidence rate, this is a key factor in determining the success of delivering outcomes for consumers.

190. We separate consumers into 4 groups, based on whether the consumer has already registered a complaint or not, and whether the firm concludes that the consumer is likely to be owed redress or not in its initial letter to the consumer. Each of these consumer types is likely to have a different CRS join rate. We expect the CRS join rate for a s.404 opt-in CRS to be higher for relevant complaints than the counterfactual complaint incidence rate.

191. The average time per agreement for one-off screening costs refers to the period of time required to review agreements and determine consumer eligibility for redress. This time is incurred by firms prior to sending out consumer likely eligibility letters which enable consumers to opt into or out of the CRS. Our estimates vary by the level of automation which firms apply to their processes, with our low estimate (30 minutes) reflecting maximum automation, our central estimate (60 minutes) reflecting partial automation, and our high estimate (90 minutes) reflecting predominantly manual processes. The amount of time this takes between firms will vary depending on the proportion of non-disclosed DCA or high commission arrangements, as these are likely to be able to be assessed for likely eligibility quicker than non-disclosed tied arrangements, which require firms to identify the relevant broker-lender contract.

192. The one-off investment for handling complaints refers to any investment in systems, capital, or infrastructure made by firms to scale up their operations to handle complaints under a CRS, such as investments into automated processes. This input is from our motor finance commission monitoring survey and is applied at the firm level under the proposed intervention.

193. The scope of the Financial Ombudsman referral rate (consumer dispute) differs from that in the counterfactual. This is because consumers who receive the "you are unlikely to be owed redress" letter in the opt-out process are able to refer their complaint, at any time, to the Financial Ombudsman after receiving this letter. Additionally, the Financial Ombudsman would be required to review the firm's decision in the scheme by reference to what, in its opinion, the determination under the scheme should be or should have been, rather than based on what it thinks would be is fair and reasonable in all the circumstances of the case. We expect this narrower scope to also reduce subsequent Financial Ombudsman referral rates for consumer dispute.

194. We provide further descriptions of and reasoning for our point estimates and our lower and upper bounds in Technical Annex 1.

195. Relevant redress that may have already been paid as a result of the Supreme Court judgment is not included in our redress liability calculations. Similarly, we have not included any prior payment of redress which may have been made based on the interest charged on the loan (e.g. for an unaffordability or forbearance claim). We do not model this in our calculations of redress liabilities, though we assess the implications qualitatively.

Counterfactual

196. We have considered the impacts of our proposed policy intervention against a do-nothing "counterfactual" scenario, which describes what we would expect to happen in the market in the absence of our proposed intervention. That is, we compare a "future" under the proposed policy with an alternative "future" in which we do not intervene in the market.

197. There is significant uncertainty around exactly what would happen in the absence of a CRS because much would depend on the decisions of courts and firms, as well as consumers. As a result, in this section, we describe qualitatively how we expect the counterfactual would develop. As discussed above, we assume competitive dynamics remain the same as of 2023/24. We are consulting on these expectations of how the counterfactual might look.

198. Our counterfactual scenario takes account of the recent UK Supreme Court judgment in the case of *Johnson* and others, as well as the High Court's judgment in the *Clydesdale* Judicial Review in December 2024. It also takes as given that our extension on the deadline to respond to motor finance complaints is due to end on 4 December 2025.

199. In the do-nothing counterfactual scenario, consumers would continue to complain directly to firms or to the courts to receive redress – a **complaints-led** approach. We do not expect that there would be an industry-wide CRS (e.g., one set up by firms) absent our intervention.

200. Once the extension on the firm deadline to respond to motor finance complaints ends on 4 December 2025, firms would have 8 weeks to respond to new consumer complaints and any consumer complaints received during the pause that have not been

resolved by that time. For complaints made before the relevant pause, firms would have 8 weeks less the time period they had the complaint prior to the relevant pause coming into effect. After that time, consumers would be able to refer their complaint to the Financial Ombudsman. We assume, for the purposes of our analysis, that in the counterfactual the standard complaints handling rules and guidance would apply to relevant complaints, but that there would not be further specific guidance from the FCA on how to deal with relevant complaints.

201. We expect firms would see a surge in complaints and would be unable to respond to all of those complaints in the 8-week deadline. Many complaints would therefore be referred to the Financial Ombudsman, requiring individual consideration under the fair and reasonable test.

202. We note again that we do not directly compare the estimated total redress liability figure under our proposed scheme with that expected under the counterfactual.

Consumer behaviour

203. With respect to uptake levels, given the current high-profile nature of the motor finance issue, we may expect interest from consumers to be high. Findings from the Motor Finance Consumer Awareness Survey highlights that awareness of motor finance issues is high amongst current or previous motor finance holders; around four-fifths (79%) were aware of the possibility of being owed compensation for motor finance.

204. This interest may be increased further by more active involvement from PRs post the launch of our consultation (e.g. via increased advertisement designed to raise awareness and customer motivation to complain).

205. The FCA's Financial Lives 2024 survey found that many consumers perceive the role of CMCs as important for making claims. Over two-fifths (44%) of adults were not aware that they could make a compensation claim for the mis-selling of financial products or services directly (e.g. to a firm, an ombudsman such as the Financial Ombudsman or the FSCS) without using a CMC. Of those who had made a claim in the last three years using a CMC (for claims related to financial services and for claims not related to financial services), just under two-thirds (64%) agreed with the statement "I wouldn't have been confident enough to make the claim, without using a CMC". Just under three-fifths (57%) agreed with the statement "I wouldn't have thought about making the claim, if I hadn't come across the CMC". We explain further the likely role of CMCs and other PRs below.

206. The involvement of CMCs and other PRs notwithstanding, we expect that uptake by consumers would be lower in the do-nothing counterfactual than in a CRS. A complaints-led approach would require more active engagement from consumers in order to make a complaint to a firm or to bring a claim in the courts. Some consumers may not make a complaint because they are unaware that they have a potential claim or do not know who to complain to or how to complain. For example, findings from the Motor Finance Consumer Awareness Survey indicate that only around half (49%) of current or previous motor finance holders say they knew the name of some or all of their lenders and had the paperwork for some or all of their motor finance arrangements (either as a hard copy or stored on email or online).

207. Consumers dislike uncertainty and the feeling of "losing" something. Uncertainty about eligibility is therefore likely to affect engagement from consumers, especially if they risk ultimately being ineligible for compensation. Findings from the Motor Finance Consumer Awareness Survey indicate that almost half (46%) of respondents who were aware of the possibility of being owed compensation and had not yet made a claim cited a lack of information about whether they would be eligible for the [redress] scheme as a barrier to making a claim. Such uncertainty is likely to be highest in a non-intervention scenario.

208. These potential barriers are similar to those identified in consumer research commissioned by the FCA in 2015 around PPI.

209. There may be demographic differences in the types of consumers who do, or do not, engage absent an intervention. Findings from the Motor Finance Consumer Awareness Survey suggest that awareness of the possibility of being owed compensation for motor finance varies across numerous demographic groups. Younger individuals (18–24) and ethnic minority adults were notably less aware, while older age groups and homeowners showed higher levels of awareness. The FCA's Financial Lives 2024 survey also finds demographic differences in knowledge of claims processes. Adults aged 18-24, minority ethnic adults, and adults with low financial capability were least likely to be aware that you can claim compensation for mis-selling of financial products or services directly (e.g. to a firm, an ombudsman such as the Financial Ombudsman or the FSCS) without using a CMC. This all suggests that uptake across different demographics is likely to vary between non-intervention and intervention scenarios, as well as on their specific designs.

Role of CMCs and other PRs

210. CMCs and other PRs would likely play a significant role in the counterfactual, bringing an appreciable proportion of cases on consumers' behalf.

211. CMCs and other PRs have been very active in relation to motor finance commission complaints in recent years. In Q1 2024/25, 90% of motor finance commission complaints referred to Financial Ombudsman were made through a CMC or other PR. SRA-regulated law firms currently account for the vast majority of represented motor finance cases. The share of cases that are professionally represented (by a CMC or other PR) may fall in the counterfactual as a result of the Financial Ombudsman's new charging regime that means that CMCs and other PRs will be charged £250 to refer a case to the Financial Ombudsman after their first 10 cases each financial year. However, this may only affect the approach to referral, and we nonetheless expect that CMCs and other PRs would be involved in a significant number of relevant complaints in the counterfactual.

212. CMCs and other PRs would be likely to advertise the potential for redress payments to consumers heavily, increasing awareness of the issue and contributing to a relatively high uptake (albeit a lower uptake than we expect with a CRS).

213. To the extent that CMCs and other PRs submit poorly evidenced or unsubstantiated claims – as some industry stakeholders have suggested has been an issue – such that firms or the Financial Ombudsman need to request further documentation, this will further increase the burden on and costs to firms and the Financial Ombudsman in assessing those claims (see 'Problem and rationale for intervention' section above).

214. As part of our stakeholder engagement, lenders have highlighted the significant impacts CMCs and other PRs have on their operational costs. Increased CMC and PR involvement could lead to substantially higher costs to firms across all segments due to higher volumes of claims. The costs associated with CMCs and other PRs may disproportionately impact smaller lenders who may be unable to effectively deal with the volume of enquiries given more limited resources, particular if many are unsubstantiated complaints.

215. As noted above, where a consumer uses a CMC or other PR in making a complaint and receives redress, they will often need to pay some of their redress payment (around 30% in some cases) to that PR. Using a CMC or other PR may, though, reduce the amount of time the consumer needs to spend in navigating the complaints process, and the attendant stress.

Firm behaviour and costs

216. Despite the lower overall consumer uptake under the counterfactual, we expect that there would be a surge in complaints that would exceed some firms' capacity to resolve complaints adequately within 8 weeks of receiving them.

217. We assume, for the purposes of the modelling, that firms would process complaints as they received them rather than establishing their own form of CRS or similar. We note that in practice, firms may seek to manage their exposure and costs using initiatives such as bulk settlement processes. We further note that, in the event that complaints progress to litigation, litigation procedure (e.g. group litigation) may have the effect of increasing firm efficiency by consolidating claims and streamlining their resolution. Further Financial Ombudsman decisions may also provide additional clarity and guidance to firms which could lead to the earlier resolution of claims without recourse to the courts. We do not consider that it is reasonably practicable to model such firm responses given uncertainty about the form they would take and how widespread their adoption would be amongst forms. To the extent we have any evidence on firm behavioural responses, we can consider the approach firms were taking prior to our putting the complaints pause in place. In the period in advance of that, firms were rejecting around 99% of complaints, with a large and escalating number of complaints were being referred to the Financial Ombudsman. We would particularly welcome feedback on how we might reflect lender behavioural responses in our modelling of the counterfactual.

218. Firms would incur significant non-redress costs in the counterfactual, both due to the costs of assessing complaints that they receive and the cost of Financial Ombudsman case fees for cases that consumers refer to the Financial Ombudsman either because they are not satisfied with the firm's response or because the firm has not been able to respond to the complaint within the 8-week deadline (see below).

219. In the counterfactual firms would also incur appreciable costs associated with consumers and their PRs bringing cases against firms in the courts. Consumers and the courts themselves would likewise experience costs associated with these court cases, and these additional court cases would add to the work of the courts, potentially leading

to delays in resolution and in the payment of redress where it is owed. It is not reasonably practicable to quantify the costs associated with this court action.

220. We summarise our estimates of monetised non-redress costs to firms in the counterfactual in the table below. In our central scenario, we estimate non-redress costs to firms of around £9.2bn, of which around £5.0bn are associated with Financial Ombudsman case fees and £3.5bn are associated with Financial Ombudsman scaling fees in NPV terms. The remainder are administrative costs. Technical Annex 1 provides details of our methodology for these estimates. Court costs are not monetised.

Table 12: NPV estimates of non-redress costs to firms in the counterfactual

	Low case	Central case	High case
Total firm non-redress costs	£3,476.0 m	£9,188.9 m	£15,913.2 m
Administrative costs	£649.8 m	£697.7 m	£714.2 m
Financial Ombudsman fees (disagree)	£1,176.4 m	£3,110.5 m	£4,974.8 m
Financial Ombudsman fees (out of time)	£486.0 m	£1,884.3 m	£3,965.8 m
Financial Ombudsman scaling fees	£1,163.7 m	£3,496.4 m	£6,258.4 m

Note: NPV calculations presumes ongoing costs fall evenly over 2-year period.

221. The difference in the administrative costs between the low and central cases, and the central and high cases is driven by the fact that once a lender reaches their complaints-handling capacity, no further complaints can be handled by the lender. As such, all marginal complaints registered to that lender become available for Financial Ombudsman referral. As such, firms handle fewer marginal complaints in house once this threshold is reached. This threshold is reached for some lenders under the low case, more lenders under the central case, and more lenders under the high case. Our modelling uses firms' own estimates of the number and efficiency of complaints handlers. A limitation of our model is that firms may choose to hire more complaints-handlers, or take other steps, to reduce the number of complaints which become available for Financial Ombudsman referral through the out-of-time channel.

Impact on the Financial Ombudsman

222. Consumers are likely to refer significant volumes of cases to the Financial Ombudsman in a scenario without intervention, both because of large numbers of complaints not being resolved by firms within the 8-week deadline and because of inconsistent approaches by firms to complaint resolution. As a consequence, firms will incur significant costs from Financial Ombudsman case fees, which are, in a standard scenario, £650 per case for a firm's fourth case onwards in a financial year. We expect that over 7.8m cases would be referred to the Financial Ombudsman in the counterfactual (around 2.9m cases due to firms not responding to complaints within the deadline and around 4.9m cases due to consumer disagreement with outcomes). This is substantially more than the 305,726 new complaints in the Financial Ombudsman received in 2024/25, which was the highest level of complaints for six years.

223. Due to the higher volume of cases referred to it, the Financial Ombudsman would face an additional burden and have to scale up its operations. While the Financial Ombudsman has processes for dealing with surges in complaints about a particular type or product or about similar issues, it must nonetheless consider each complaint individually. The costs associated with this would be recouped from firms through the Financial Ombudsman annual levy, case fees and potentially a supplementary case fee for motor finance cases. As shown in the table above, we estimate that these costs will total nearly £8.5bn (in NPV terms) in the central counterfactual scenario.

224. We note that the referral of 7.8m cases to the Financial Ombudsman would represent a caseload far in excess of that which it normally receives. As such, we recognise that in practice, the Financial Ombudsman may adopt some new procedure or policy for dealing with such a large volume of referrals. Because of uncertainty around exactly what this response might be, we do not consider that it is reasonably practicable to model how any such new procedure or policy would affect the costs experienced by firms in the counterfactual. We would particularly welcome feedback on how we might consider this in responses to our consultation, including how firms may choose to make payments to minimise cases going to the Financial Ombudsman.

Market impacts – overall

225. Lenders' costs in the counterfactual scenario depend on factors that are hard to reliably predict, such as the rate of consumer complaints, the Financial Ombudsman referral rate and the number of complaints that are upheld, and the volume of cases that are taken to court. The uncertainty that individual lenders face over what their final liability and costs will be, and the time it will take to resolve matters, is likely to be translated into greater market uncertainty with wider consequences.

226. This uncertainty on redress costs and the higher non-redress costs anticipated in the counterfactual could lead to a higher perceived risk of repayment to investors (on the debt side) and/or lower returns (on the equity side), resulting in a higher cost of capital. Higher costs to lenders in this scenario could have knock-on impacts on lender profit margins across all segments which could lead some lenders to consider passing additional costs on to future consumers, restricting lending or, in the extreme, exiting the market.

227. We recognise that numerous lenders have set aside some provisions for redress and associated costs, which could mitigate market impacts. However, the additional uncertainty around the number of complaints and associated redress costs in the counterfactual could limit lenders' ability to accurately adjust provisions. This was seen during PPI, where firms made annual changes to provisions based on the scale of complaints received, every year.

228. Our qualitative assessment indicates that under the counterfactual, the potential total costs, and so the potential impacts arising from those, are likely to be higher (or at least similar) relative to the market impacts under our intervention, where we assess limited impact in the motor finance for new cars, and the potential for small to moderate price increases in motor finance for used cars and sub-prime customers. (See section below on market impacts in absolute terms).

Market impacts – sub-prime sector

229. In a do-nothing counterfactual there could be a disproportionate impact on the sub-prime segment. This segment is characterised by mostly smaller specialised motor finance lenders with lower loan values and higher complexity for brokers to arrange motor finance to meet customer needs. This means commissions are typically higher than in prime or near-prime segments relative to loan size. This could result in a higher number of complaints in the baseline without guidance on what constitutes an unfair relationship even though our assessment shows that the sub-prime segment has lower rate of breached agreements. Therefore, the number of unsubstantiated cases brought and associated operational costs, particularly if referred to the Financial Ombudsman or taken to court, could be higher than with an industry-wide CRS that sets out clear eligibility criteria.

230. A high volume of complaints driven by CMCs and other PRs could result in higher total cost to firms, particularly in the sub-prime segment, even if redress liabilities in this segment are low. This could exacerbate the potential for increased cost of capital for the sub-prime segment. The segment may be especially sensitive to uncertainty given the baseline credit risk is higher, so the additional uncertainty has a larger proportional impact and (according to lender responses to our motor finance lender survey) the concentration of independent lenders that rely on capital markets is higher, which means that there is an increased exposure to cost shocks. This could lead some sub-prime lenders to consider passing on higher costs to future consumers in the form of higher prices, restricting lending or exiting the market. This risk has been highlighted to us by some key lenders in this segment. They noted that CMC- and PR-associated costs were a potential reason that they would exit the market with potential implications for access to motor finance, at least in the short term.

231. Market impacts in the sub-prime segment could be more sensitive to a cost shock relative to prime and near-prime segments given that it is characterised by a high concentration of firms and consumers with a lower level of price sensitivity (due to lack of alternative credit options available to them). This is discussed in greater detail in Technical Annex 2, which sets out our assessment of competition in the market at present.

Wider impacts and spillover effects to other markets

232. The negative market impacts we expect in the counterfactual could extend beyond the motor finance market and contribute negatively to investment and growth.

233. Changes in price or access to motor finance could impact the demand for overall vehicle sales. This is especially significant for the new vehicle segment, where 80% of new car purchases were through motor finance in 2024. Consumer research undertaken by Yonder found that 65% of current motor finance holders on new vehicles thought they would not have purchased a vehicle if motor finance had not been available.

234. In the counterfactual there could also be negative impacts on other consumer credit markets or on business lending. In some cases, these impacts could be direct, as many motor finance lenders are active in other consumer credit markets or in business

lending. Cost shocks or increases to the cost of capital for these lenders could affect access to credit in other areas, at least in the short run.

235. This is supported by research we commissioned which involved interviews with investors in the motor finance sector. Multiple investors noted that a significant sector wide cost shock could lead to spillover impacts to the broader UK economy, with the potential for firms to slow lending into other credit markets in which they operate to be able to rebuild capital buffers. Without a redress scheme, costs to firms are anticipated to be higher in the counterfactual and we would therefore expect spillover impacts to be more severe.

236. There could also be indirect impacts on other consumer credit or on business lending to the extent that uncertainty or any impacts on consumer trust spill over to those other markets in the counterfactual. Any negative impacts on access to credit in other consumer credit or in business lending markets could then flow through into the real economy. The positive relationship between additional clarity of redress and non-redress costs and wider market stability is well documented in independent analyst reports. For example, following the FCA's decision in early August 2025 to publish an indicative range on the potential redress associated costs (£9-£18billion), DBRS Morningstar commented that "the Supreme Court's ruling and subsequent FCA announcement of a redress scheme reduces the expected overall economic impact on auto lenders and, more specifically, on UK banks."

237. The lack of clarity in the counterfactual could additionally negatively impact investment decisions in the wider market. The increased market uncertainty could lead to reduced trust in the UK's regulatory framework and ambiguity around how the regulator would react to any future widespread liabilities.

Data sources

238. Our analysis draws on a range of data sources, including data requests made by the FCA, publicly available and commercial data sets. In particular, these include:

- Loan Level Data (2024 Request for Information)
- Section 166 (s166) customer assessment form data / Skilled person review + DCA casefile review
- Data drop 1 (DD1)
- Data drop 2 (DD2) / Non-DCA casefile review
- Credit reference agency data (CRA)
- Cost of living consumer credit data collection
- Motor finance commission monitoring survey
- Motor finance lender survey
- Motor finance broker survey
- Financial Lives survey
- Motor Finance Consumer Awareness Survey
- Yonder consumer research

239. Technical Annex 1 contains a data guide discussing these data sources not included as standalone annexes or that we have not provided a link to above.

Summary of impacts

240. This section summarises the benefits and costs associated with our extension to the complaints deadline and our CRS, the present value (PV) and net present value (NPV) over the appraisal period (10 years) and the net direct cost to firms. We note again that these estimates are based on our assumptions and available evidence and are intended to inform our consultation – we welcome feedback and evidence from stakeholders on these estimates and approach taken.

241. The impacts covered in our analysis reflect those which we expect affected parties to incur because of our actions to extend the pause on complaints and the introduction of our CRS. While we do acknowledge that some firms, the FCA and other affected parties may have incurred some costs to date, as these are not derived from the intervention being consulted upon at this time, they are not captured in our appraisal.

Complaints deadline extension

242. We have identified benefits and costs associated with our proposed extension on giving final responses to complaints. We do not provide monetised estimates for these as we do not believe it is reasonably practicable or proportionate to do so.

243. The direct benefit of the extension is to allow the FCA to work with industry to conclude the design and implementation of its proposed CRS that should bring consistent, fair and timely redress to consumers.

244. We expect indirect benefits to accrue to firms from delayed and avoided Financial Ombudsman case fees during the extension period and intervention and so avoided disorderly resolution which could undermine market integrity. The Financial Ombudsman will also benefit from avoided operational burdens from referred cases during this period.

245. We note there will be indirect costs to some consumers who do not receive resolution to their complaint as quickly as they would have without the extension. However, we believe this is outweighed by the benefits from using the time during the extension to establish a robust CRS that should bring consistent, fair and more timeous redress to all consumers, with the net benefits set out below.

Consumer Redress Scheme

246. We consider benefits and costs of a CRS relative to the counterfactual of a complaints-led scheme across two options:

- **Option 1:** Covering agreements from April 2007, aligning the date on which section 140A of the CCA came into force and the timeframe within which the Financial Ombudsman can consider complaints.
- **Option 2:** Covering agreements from April 2014. This period covers the time after the FCA took over regulation of motor finance and other consumer credit firms.

247. Using data covering agreements until 24 October 2024, we estimate that under option 1, 14.2 million agreements involving an unfair relationship are within the time period covered by the scheme, whereas under option 2 8.9 million agreements involving an unfair relationship would be within the time period covered by the scheme (but the other 5.3 million such agreements remain liable for redress under a complaints-led approach). The total firm redress liability is estimated to be up to £9.7 billion. The total redress is the same under both options because firms' underlying liability does not change between the options, only the routes available to consumers who want to seek redress. See Chapter 8 of this CP for further detail on our redress methodology.

248. As discussed, we do not provide an estimate of the redress liability under the counterfactual. It is likely that there will be a difference in the quantum of redress liabilities paid under our proposed intervention and the counterfactual. As stated in the executive summary, given uncertainties around how redress will be assessed and treated by firms, the Financial Ombudsman, and the courts, it is extremely challenging to estimate the redress liabilities in the counterfactual with any level of certainty. Other assumptions around firm and consumer behaviour (including consumer take-up) would also impact redress liabilities paid out under the counterfactual. We believe that any estimate of the redress under the counterfactual could lead to an undue focus being placed on what may transpire to be a relatively small difference.

249. Under both options, benefits and costs accrue to and are incurred by firms in the motor finance market, consumers, the FCA and the Financial Ombudsman, as well as wider society and the economy. We categorise costs and benefits as either direct or indirect. Direct impacts are those which are immediate and unavoidable, whilst impacts are likely to be indirect where there are additional steps that must occur before they are realised. Some of costs and benefits will be one-off, whilst others will be ongoing.

Benefits

250. Under both CRS options, we expect firms to benefit from our intervention relative to the counterfactual through:

- Fewer complaints being referred to Financial Ombudsman due to dissatisfaction with outcomes, which will result in firms seeing a reduction in Financial Ombudsman referral fees and Financial Ombudsman scaling fees they are liable for.
- More time to respond to complaints, reducing the backlog and meaning fewer cases are timed out and go to the Financial Ombudsman, also triggering fees.
- Providing a redress methodology, enabling firms to have certainty when calculating redress.
- Having fewer ineligible complaints (unrelated to motor finance or outside the CRS' timeframe) from consumers or via CMCs and other PRs now the redress methodology and eligibility is clear.
- Fewer cases going into the courts system.
- Potentially less prevalent or no need for widespread use of compromises and restructuring tools which reduce redress to consumers.

251. In our central scenario (see below), we estimate a net benefit (savings) to firms from our proposed intervention as (in present value terms):

- £6.5 billion in option 1
- £5.1 billion in option 2

252. Consumers will be the other main beneficiaries of our proposed intervention. We presume a CRS will increase the likelihood that consumers who are owed redress actually receive it. We explain the rationale for our estimated complaint incidence rates under the counterfactual and CRS join rates in the proposed intervention in the Risks and uncertainties section, and in Technical Annex 1. Under both CRS options, we expect benefits to consumers to include:

- A higher number of consumers would be able to obtain redress compared to a complaints-led scheme due to the nature of the proposed CRS, as evident through our complaint incidence rate in our counterfactual and CRS join rates in the intervention. Vulnerable consumers are particularly likely to benefit from higher uptake arising from our CRS design,. As our FLS 2024 suggests, consumers with characteristics of vulnerability are less aware than those showing no characteristics of vulnerability of being able to claim compensation for the mis-selling of financial products or services directly (e.g., to a firm, an ombudsman such as the Financial Ombudsman or the FSCS), without using a claims management company [or other PR], as well as being less aware of the Financial Ombudsman.
- Alignment in the redress scheme meaning consumers will have confidence that they receive fair and consistent redress.

We do not quantify these benefits as it is not reasonably practicable to do so.

253. In our central scenario (see below), we estimate benefits (savings) to consumers from spending less time contacting firms about their complaint from our proposed intervention as (in present value terms):

- £73.1 million in option 1
- £58.0 million in option 2

254. The aggregate redress liability (note that this is an absolute figure, not relative to the counterfactual) payable to consumers under both options is estimated at a maximum of £9.7 billion (based on 100% uptake):

- £9.7 billion in option 1 through the CRS
- £6.7 billion in option 2 through the CRS between 2014 and 2024 and that a further £3.0 billion could be claimed through a complaints-led scheme from 2007 to 2014, totalling £9.7 billion

255. To stress again, these estimates of redress liability do not include assumptions around consumer take-up; they purely indicate potential redress payout if a 100% take up rate were to occur. We note this is highly conservative as it is unlikely we would still full take up on this scale – it is intended for illustrative and modelling purposes only.

256. We expect the Financial Ombudsman to benefit from fewer referrals meaning it would not have to scale its operations temporarily as significantly.

257. There could be benefits to the wider market from reduced uncertainty for firms and increased consumer trust and confidence.

Costs

258. We expect firms (lenders specifically) to incur additional costs relative to the counterfactual of a complaint-led scheme. This will include:

- Firms assessing cases to determine if they are likely eligible for redress (screening costs) as well as other administrative costs associated with the redress scheme. We expect that administrative costs relating to complaints handling for our redress scheme will be higher compared to a complaints-led process, but this cost is offset by the fact that far fewer complaints will incur Financial Ombudsman referral (and potentially Financial Ombudsman scaling) fees and far fewer cases will go into the court system. We also expect firms will be able to process more complaints in aggregate.
- Firms familiarising themselves with our rules and the redress system as well as legal costs associated with familiarising themselves with the rules.
- Firms conducting gap analysis to assess their current practices and processes against what is required under the scheme.
- Firms training staff on the rules of the redress scheme and how to determine whether a consumer is eligible or not as well as compliance costs associated with meeting the expectations of these rules.
- Board and Executive Committee reviews and approval.
- Firms will incur costs associated with our data requests. Our data requests will ensure that the proposed intervention functions as intended from the design phase to evaluation phase.
- Sunk costs incurred where consumers apply through the CRS before going to court. This would cause firms to incur unnecessary administrative costs.

259. In our central scenario (see below), we estimate additional quantified costs to firms from our proposed intervention as (in present value terms):

- £1.1 billion in option 1
- £0.8 billion in option 2

260. There may also be some overhead costs to brokers due to lenders requesting information, and some costs to lenders for the purchase of data from CRAs. Due to uncertainty surrounding CRA usage by firms, we have not quantified the cost to firms of using CRAs.

261. Consumers may also face costs relative to the counterfactual of a complaints-led process:

- Exit fees if they have already signed up with a CMC or other PR and choose to switch to our redress scheme. These fees may vary between different PRs but could prevent some consumers from taking up their complaint through our

proposed intervention. However, we expect that even accounting for this cost, individual consumers would still benefit from our proposed schemed as exit fees will be lower than the typical cost of using CMC and PRs, which is around 30%.
- Costs associated with taking a complaint through the court following an unsatisfactory outcome from the redress scheme.

262. The FCA will incur supervisory costs to oversee and ensure that firms within the remit of the CRS comply with the CRS. We estimate these costs to be £30.8m (in present value terms).

263. We do not think Financial Ombudsman will incur more costs from our intervention relative to the counterfactual, and instead will benefit from a reduced burden because of fewer referrals. The Financial Ombudsman is still likely to incur additional staffing and operational costs. However, we expect these to be lower as a result of our intervention. Due to the uncertainty around how this will develop, we have not quantified these costs.

264. The 'Impacts on the motor finance market' and 'Wider economic impacts' sections below present an assessment of how we expect the motor finance market and the wider economy could be impacted under our intervention.

Net impacts

265. Overall, our quantified central estimates for the two options are shown below:

Table 13: Estimated costs and benefits

	Option 1	Option 2
One-off benefits	-	-
Annual benefits (for 2 years)	£3,870.2 m	£2,983.9 m
One-off costs	£881.8 m	£652.4 m
Annual costs	£117.4m in year 1; £109.0m in year 2	£81.7m in year 1; £73.3m in year 2

266. Calculating the PV across the standard 10-year appraisal period, with a 3.5% discount rate we estimate our monetised impacts come to a NPV of £6.5 billion for option 1 and an NPV of £5.0 billion for option 2. Although we use the standard 10-year appraisal period, we consider ongoing impacts will occur over the first 2 years.

267. The distribution of these net benefits to firms will depend on how many complaints firms receive, and the proportion that are eligible for redress.

Table 14: NPV calculations

	Option 1	Option 2
PV benefits (excluding gains to consumer redress)	£7,609.5 m	£5,867.0 m
PV costs	£1,104.5 m	£804.9 m
NPV	£6,505.0 m	£5,062.1 m

268. Below we set out the different benefit and cost components across affected parties, including unquantified benefits, for both options.

Table 15: Summary of costs and benefits – Option 1

		Benefits (£)		Costs (£)	
Group affected	Item description	One-off	Ongoing (first 2 years)	One-off	Ongoing (first 2 years)
Firms	Complaints-handling administrative fees (direct)			£878.9 m	£97.6 m
	Reduction in Financial Ombudsman referral fees (consumer dispute) (indirect)		£1,096.4 m		
	Reduction in Financial Ombudsman referral fees (out of time) for firms failing to deal with complaints in relevant period (indirect)		£958.3 m		
	Reduction in Financial Ombudsman scaling fees (indirect)		£1,778.2 m		
	Familiarisation and gap analysis (including legal costs) (direct)			£0.9 m	
	Training and dissemination costs (direct)			£1.4 m	
	Board and Executive Committee reviews (direct)			£0.6 m	

Group affected	Item description	Benefits (£)		Costs (£)	
		One-off	Ongoing (first 2 years)	One-off	Ongoing (first 2 years)
Consumers	Less time dealing with complaints (direct)		£37.2 m		
FCA	Supervisory costs associated with CRS design, review and regulation (direct)				£19.8m in year 1; £11.4m in year 2
Financial Ombudsman	Fewer complaints referrals (indirect)		Unquantified		
Total			£3,870.2 m	£881.8 m	£117.4m in year 1; £109.0m in year 2

Table 16: Summary of costs and benefits – Option 2

Group affected	Item description	Benefits (£)		Costs (£)	
		One-off	Ongoing (first 2 years)	One-off	Ongoing (first 2 years)
Firms	Complaints-handling administrative fees (direct)			£649.5 m	£61.9 m
	Reduction in Financial Ombudsman referral fees (consumer dispute) (indirect)		£754.9 m		
	Reduction in Financial Ombudsman referral fees (out of time) (indirect)		£847.6 m		
	Reduction in Financial Ombudsman scaling fees (indirect)		£1,352.0 m		
	Familiarisation and gap analysis (including legal costs) (direct)			£0.9 m	

Group affected	Item description	Benefits (£)		Costs (£)	
		One-off	Ongoing (first 2 years)	One-off	Ongoing (first 2 years)
	Training and dissemination costs (direct)			£1.4 m	
	Board and Executive Committee reviews (direct)			£0.6 m	
Consumers	Less time dealing with complaints (direct)		£29.5 m		
FCA	Supervisory costs associated with CRS design, review and regulation (direct)				£19.8m in year 1; £11.4m in year 2
Financial Ombudsman	Fewer complaints referrals (indirect)		Unquantified		
Total			£2,983.9 m	£652.4 m	£81.7m in year 1; £73.3m in year 2

Table 17: Total benefits and costs of proposals, PV-adjusted.

	PV Benefits	PV Costs	NPV (10 yrs)
Option 1			
Total impact	**£7,609.5 m**	**£1,104.5 m**	**£6,505.0 m**
-of which direct	£73.1 m	£1,104.5 m	-£1,031.4 m
-of which indirect	£7,536.4 m	£0.0 m	£7,536.4 m
Option 2			
Total impact	**£5,867.0 m**	**£804.9 m**	**£5,062.1 m**
-of which direct	£58.0 m	£804.9 m	-£746.8 m
-of which indirect	£5,808.9 m	£0.0 m	£5,808.9 m
Both options			
Key unquantified items to consider	Reduced risk of firm failure and negative market impacts; reduced uncertainty	Cost of data requests; exit fees for consumers who have signed up with PRs/Courts; sunk costs incurred where consumers apply through the CRS before going to Court	

Table 18: Net direct benefit to firms.

	Total (Present Value) Net Direct Cost to Business (10 yrs)	EANDCB (negative number indicates net benefit to business)
Option 1	-£1,073.7 m	-£546.1 m
Option 2	-£774.1 m	-£393.7 m

269. For the purposes of estimating the Equivalent Annual Net Direct Cost to Business (EANDCB) for both of our options we have used an annuity factor corresponding to 2-years to annualise the net-direct cost to business, rather than one corresponding to the full 10-year appraisal period. We have opted to do so to reflect the period over which our quantified impacts are expected to occur and therefore not artificially diminish the annualised figure by spreading it over a longer timeframe. Business in this context encapsulates the firms which we expect to be affected by our proposed intervention.

Benefits

270. In this section, we provide a quantitative and qualitative assessment of the benefits that we expect from the introduction of a consumer redress scheme (both options), as compared to the counterfactual of a complaints-led process.

Benefits to firms

Quantified benefits to firms

271. The table below summarises the estimated quantified benefits associated with our proposed redress scheme intervention. Negative numbers below represent costs, with positive numbers indicating benefits.

Table 19: Summary of nominal quantified benefits to firms, direct and indirect (central estimates) (negative numbers are costs)

Benefit type	Counterfactual	Option 1	Option 2	Net benefit – Option 1	Net benefit – Option 2
Financial Ombudsman referral fees (consumer dispute)	-£3,164.0 m	-£971.2 m	-£1,654.3 m	£2,192.8 m	£1,509.7 m
Financial Ombudsman referral fees (out of time)	-£1,916.7 m	£0.0 m	-£221.5 m	£1,916.7 m	£1,695.2 m
Financial Ombudsman scaling fees	-£3,556.5 m	£0.0 m	-£852.5 m	£3,556.5 m	£2,704.0 m
Total firm benefits	-£8,637.2 m	-£971.2 m	-£2,728.4 m	£7,666.0 m	£5,908.8 m

272. As discussed above, firm benefits come primarily from savings made due to the establishment of a consumer redress scheme relative to a complaints-led process. The 3 categories of firm costs where we expect these savings will occur are:

- Financial Ombudsman referral fees (consumer dispute). This cost is incurred by a firm when a consumer receives a final redress determination (including a "no redress" determination), and the consumer disputes this redress determination through the Financial Ombudsman. This cost is charged by the Financial Ombudsman to firms for each complaint referred to them by a consumer or PR. This is an indirect benefit to firms.
- Financial Ombudsman referral fees (out of time). This cost is incurred by a firm when a complaint is not assessed within the time limit (8 weeks under the counterfactual), and the consumer (or PR acting on behalf of the consumer) refers the complaint to the Financial Ombudsman. This cost is charged by the Financial Ombudsman to firms for each complaint referred to them by a consumer or PR. This is an indirect benefit to firms.
- Financial Ombudsman scaling fees. This cost could be incurred by a firm if the Financial Ombudsman experiences a surge in the number of complaints and needs to temporarily scale its operations to deal with the increase in referrals. We expect that the Financial Ombudsman would only need to scale their operations under the counterfactual and in option 2 for complaints from April 2007 to April 2014, especially as under the CRS they have to follow the scheme rules. The reduction in this cost is an indirect benefit to firms.

273. Our redress estimates are based on available data and assume, in our central scenario:

- A complaint incidence rate of 69% for complaints registered under the counterfactual
- A CRS join rate of 83% under the s.404 firm led opt-in complaint journey for consumers who receive a letter telling them that they are likely eligible for redress
- A CRS join rate of 95% under the s.404 firm led opt-out complaint journey for consumers who receive a letter telling them that they are likely eligible for redress
- A CRS join rate of 41% under the s.404 firm led opt-in complaint journey for consumers who receive a letter telling them that they are likely ineligible for redress
- A CRS join rate of 0% under the s.404 firm led opt-out complaint journey for consumers who receive a letter telling them that they are likely ineligible for redress (these consumers are not invited to the CRS).

274. These percentages are based on analysis of previous redress schemes and behavioural analysis as detailed in here.

275. On the basis of these assumptions set out above and our analysis of the market impact we expect there to be generally low risk of firm failure. In the absence of our intervention, non-redress costs would increase which could lead to increased firm vulnerability. We do not quantify the costs associated with firm vulnerability.

276. In the following sections we summarise the analysis underpinning the above benefit quantifications – full details are in here. Other firm costs (e.g. familiarisation and gap analysis) are discussed in the firm cost section.

Financial Ombudsman case referral fees

277. Complaints can be referred to the Financial Ombudsman through two channels:

- The consumer disputes the firm's final response / redress determination. This is an indirect cost as the complaints which are referred to the Financial Ombudsman do not occur as a direct result of our intervention, with additional steps being required before these additional complaints are made and then referred. This is assessed in the indirect costs section below.
- The consumer has not received a final response / redress determination from the firm within the required time period. The avoidance of these case referrals is an indirect benefit to firms, as these complaints referred to the Financial Ombudsman do not occur as a direct result of our intervention, with additional steps being required before these benefits would be realised.

278. Our proposed intervention aims to be comprehensive and cover as wide a range of relevant complaints as possible. This approach supports fairness and consistency by ensuring that consumers have confidence their concerns can be resolved within the scheme itself, without needed to refer their complaint to the Financial Ombudsman. By embedding certainty and providing clear, evidenced based redress, we expect the overall referral rate to the Financial Ombudsman through both channels to fall under our proposed intervention, thereby delivering timely outcomes and strengthening market integrity.

279. We expect that our Rules surrounding the redress methodology will reduce the need for consumers to refer their complaint to the Financial Ombudsman after receiving their redress offer. Firms will be provided with strict assessment criteria which will determine the amount of redress which consumers are owed. As a result, consumers should only need to refer their complaint to the Financial Ombudsman through this channel if they believe that the firm has made an error in their redress determination. Imposing Rules removes the possibility that firms reject complaints or intentionally offer low redress to consumers to minimise costs. The absence of our Rules could ultimately lead to a higher proportion of Financial Ombudsman referrals as we saw in the initial phase of motor finance complaints to firms.

280. We also expect that lower rates of PR involvement will reduce Financial Ombudsman referrals through this channel, as market intelligence suggests that CMCs and other PRs are more likely to refer complaints to the Financial Ombudsman compared to consumers who complain without one. Despite the methodology being bound by our Rules, we expect some complaints to still be referred to the Financial Ombudsman due to specific individual circumstances. We also expect that some consumers will refer their complaint to the Financial Ombudsman almost regardless of the redress offered by the firm.

281. We note that the proportion of complaints submitted to the Financial Ombudsman through both channels stood at 30% prior to the pause on complaints. Overall, we expect that our proposed CRS would reduce the amount of Financial Ombudsman fees incurred by firms through the consumer dispute channel, as well as reducing the total amount of time consumers spend referring their complaint to the Financial Ombudsman. We expect that the Financial Ombudsman referral rate through this

channel would be around 25% under a complaints-led counterfactual, and around 7.5% under our intervention. Our reasoning behind these point estimates is detailed in Technical Annex 1.

282. We expect that a longer response window will enable firms to assess all of the complaints made to them, before they become available for referral to the Financial Ombudsman. The extended time period will provide firms with the opportunity to scale their operations to handle the complaints within the deadline. Moreover, firms will not be impacted by surges in complaints received, which would be expected in a complaints-led redress scheme. This compares to the counterfactual, where complaints can be referred after 8 weeks, and are therefore vulnerable to surges in complaints. We expect that the Financial Ombudsman referral rate through this channel would be around 30% under a complaints-led counterfactual, while there would be no complaints referred to the Financial Ombudsman under the intervention.

Financial Ombudsman scaling fees

283. We have estimated that firms would experience a significant backlog of complaints absent our intervention. If complaints cannot be handled within the given firm response deadline (8-weeks in the counterfactual), consumers have the option to refer the complaint on to the Financial Ombudsman for it to be assessed. Overall, we expect that extending the complaint handling time will reduce the number of Financial Ombudsman referrals relative to the counterfactual, and this is expected to offset higher the administrative costs associated with the scheme.

284. Given a lack of guidance to assess the amount of redress owed to consumers, we expect that a higher proportion of consumers would be dissatisfied with their redress offer in the counterfactual, compared to under our proposed intervention. Rules around redress methodologies are therefore expected to reduce Financial Ombudsman referral fees to firms.

285. We expect that significantly more complaints would be referred to the Financial Ombudsman in the counterfactual compared to the intervention. From their 4th referral onwards, firms would be required to pay a Financial Ombudsman fee (along with a possible scaling fee) for each complaint thereafter referred on to the Financial Ombudsman, regardless of the Financial Ombudsman's decision on the complaint. The standard Financial Ombudsman fee is currently £650, and is significantly higher than our own estimates for the cost of assessing a complaint in-house. Possible scaling fees implemented by the Financial Ombudsman will increase this difference between processing complaints internally and the fee further. The extended period for firms to respond to complaints under the proposed intervention allows time for firms to invest and scale their operations. This is therefore expected to provide significant cost savings to firms, while also delivering outcomes to consumers quickly.

Benefits to consumers

Redress payments

286. Our proposed intervention is intended to ensure consumers receive fair and proportionate redress. Based on our analysis, we estimate that firms could owe consumers up to £9.7bn if every case owed redress were to result in a claim. We anticipate that not all consumers will register a claim or obtain redress, due to factors such as attrition during the scheme or if consumers choose to not to opt-in or decide to opt-out of the scheme. We expect that a non-negligible percentage of these payments will be transferred to PRs (explored in a later section), but that this percentage will be lower than in the counterfactual. This reflects our principles of fairness and certainty, ensuring that both consumers and the wider market benefit from a transparent and well-structured process.

Time and effort costs

287. For consumers who have not registered a complaint yet, the complaints process will be more efficient under the intervention as firms are prepared for the submission of complaints through the scheme and may make it easier for consumers to opt-in through this scheme. For consumers who have already registered a complaint, we expect that consumers will incur less time in the intervention compared to the counterfactual as firms will be given time to organise the process. For consumers who decide to use a PR, we expect there to be no material difference in the time spent to complain as a result of the intervention.

288. As standard practice, we obtain the value of consumer time from the Department for Transport's (DfT's) TAG Data Book, which is £7.57 per hour as of May 2025 using 2025 as the base year. The table below displays the value of time savings which we expect each consumer to experience.

Table 20: Value of time costs per consumer (central estimates)

Complaint journey route	Complaints-led	s.404 Opt-in	s.404 Opt-out*	Net benefit per consumer (complaints-led vs s.404 opt-in)	Net benefit per consumer (complaints-led vs s.404 opt-out)
Directly to firm	£15.46	£9.46	£5.05	£5.99	£10.41
Directly to firm and the Financial Ombudsman	£23.66	£17.35	£12.93	£6.31	£10.72
PR	£7.57	£7.57	£7.57	£0.00	£0.00

* We assume that time already incurred on complaints is a sunk cost, and is not included in our estimates for either our counterfactual or intervention scenarios.

289. Time and effort costs to consumers at the individual level are lower under our proposed intervention. We also expect that fewer consumers who are ineligible to obtain redress will incur time and effort costs. As a result, we expect that consumers will save time under our proposed intervention.

Consumer time for those ineligible to obtain redress

290. We expect that consumers who obtain redress via complaining directly to firms will incur fewer time costs under our proposed CRS compared to the counterfactual. This is because the design of the scheme would mean consumers have fewer steps to follow.

291. The notion of firms directly contacting consumers with motor finance agreements in the period 2007-2024 will reduce the number of consumers with ineligible/erroneous claims registering a complaint to firms. For example, the CRS removes the possibility that consumers refer their complaint to the wrong lender. Consumers therefore do not need to take the first step in contacting the firm. Firms should therefore not experience a large influx of complaints which are not owed redress from consumers, given that firms take the first step to contact consumers, and will be given the chance to handle complaints methodically.

292. We expect that a significant proportion of complaints registered to firms under the counterfactual. For example, the complaint proportion of complaints upheld by firms for PPI in our PPI complaints deadline final report was 65% between July 2018 and November 2019. At the time, PRs were less commonplace compared to now, and it is possible that PR involvement could drive an increase in the proportion of complaints which are not eligible to obtain redress.

Benefits and distributional impacts which we do not quantify

Confidence in the redress system

293. We expect the proposed consumer redress scheme will give consumers confidence that their complaint will be assessed using a fair methodology as defined by us. This should provide both consumers and firms with greater certainty and finality. By ensuring complaints are assessed fairly, consistently, and in a timely manner, the scheme significantly reduces the likelihood that consumers perceive firms as providing unfair redress. In turn, this should lead to fewer referrals to the Financial Ombudsman, meaning consumers are less likely to incur the time and costs associated with Financial Ombudsman referrals, while also receiving redress significantly earlier.

294. We have identified a number of behavioural factors that are likely to make an intervention more attractive to consumers, supporting confidence. The table below lists these factors, their likely scale of impact resulting from the intervention relative to the counterfactual scenario, and any associated empirical evidence estimating the potential size of positive behavioural effects.

Table 21: Behavioural factors impacting the attractiveness of a CRS to consumers.

Behavioural factor	Reasoning	Impact of Intervention relative to Complaints-led	Relevant evidence for estimating impact.
Awareness	Awareness of the complaint or redress scheme is necessary for consumer engagement. This applies even in opt-out scenarios, as all cases require some level of consumer involvement.	**+ Low**. Direct communications to customers will increase awareness but already high and possible saturation. Those marginally impacted by additional awareness are less likely to engage.	Findings from the Motor Finance Consumer Awareness Survey suggest that awareness of potential compensation is already high (79%).
Motivation	Consumers need to feel that the benefits of engagement outweighs the effort to do so (**by increasing perceived benefit**).	**+ Low**. FCA/ firm-led communications may motivate consumers to take action over and above communications from PRs.	Previous FCA research on redress communications showed that highlighting key points of a redress communication, including wording to motivate consumers to take action, increased uptake by 4ppt.
Effort	Consumers need to feel that the benefits of engagement outweighs the effort to do so (**by reducing effort**).	**+ Medium**. Direct to customer, and more personalised, communication reduces the search and effort costs for consumers.	Very simple tweaks to reduce effort in customer journey can have positive impacts. E.g. just removing one web-click on a page increased completion of forms by +4ppt. Reducing amount of information to fill in increased completion by +8ppt. Increasing personalisation matters. Just adding someone's name to a communication (vs generic) can increase engagement by +10ppt.

Behavioural factor	Reasoning	Impact of Intervention relative to Complaints-led	Relevant evidence for estimating impact.
Trust	Consumers are more likely to engage in a process and with organisations that they trust.	**+ Low**. We would expect some positive impact of trust among those with positive perspectives of a 'centralised' scheme, but awareness and trust not universal.	FLS 2024 data suggests that two-thirds (65%) of adults were aware of the FCA in May 2024. Just under two-thirds (63%) of these adults had moderate to high levels of trust in the FCA to protect their best interests as consumers of financial products and services.
Endowed progress	Consumers are more likely to see something through if they feel as though someone has begun the process on their behalf.	**+ Medium**. Proactive firm-led communications may be seen as the commencement of the necessary customer journey, even if opt-in.	Endowed progress increased completion of tasks by +15ppt in a seminal paper.
Defaults	Consumers are more likely to stick with the pre-set option.	**+ High** (for opt-out only). Making engaging with redress the default means consumers will be required to actively opt-out in order to not obtain redress if eligible.	Changing the default from opt-in to opt-out can have a large impact on behaviour (a meta-analysis finds average increase as a result of defaults is +27.2%, or 0.63-0.68 standard deviations)
Emotional investment	Behavioural factors may influence the emotional investment required by consumers across different proposed options.	**+ Low**. We expect that emotional investment would be reduced as a result of our proposed intervention as a consequence of the reduced effort and time costs, increased motivation, and increased trust outlined above.	N/A

Behavioural factor	Reasoning	Impact of Intervention relative to Complaints-led	Relevant evidence for estimating impact.
Perceived eligibility	Consumers are more likely to feel more confident of the benefit of engagement, and stronger personalisation, if told they meet criteria suggesting eligibility	**+ Medium**. Claims of likely eligibility are likely to increase uptake through mechanisms of benefits of increased motivation, reduced effort, increased personalisation and endowed progress	Findings from health literature suggests that signposting eligibility of health screening increases uptake by +15% when patients given personalised reason for contact (although some evidence to suggest that interventions are more effective in health domain than finance. Eligibility focused communications for food stamps increased applications by +5-7ppt.

Distributional impacts

295. There exist competing mechanisms which could increase or decrease the amount of redress which vulnerable consumers ultimately receive. Without the initial nudge to claim redress received from a firm, vulnerable consumers may be especially likely not to claim at all. Status quo bias could lead to a relatively high proportion of vulnerable consumers missing out on redress owed to them. Both the proposed CRS and PRs will reduce the proportion of vulnerable consumers (and other segments of consumers) which do not obtain redress. We understand that consumers who are more daunted by the redress process (e.g., those who are less financially literate) are more likely to claim redress through a PR, and there is more possibility for PR involvement in the counterfactual. As a result, it is possible that on average, less financially literate consumers see a larger transfer of redress to PRs in the counterfactual.

296. Our Financial Lives 2024 survey shows that consumers with characteristics of vulnerability are less aware that they can make a claim for compensation for mis-selling of financial products or services directly (e.g. to a firm, an ombudsman such as the Financial Ombudsman or the FSCS), without using a claims management company and they are less aware of the Financial Ombudsman. This suggests they are less knowledgeable about matters relevant to redress and that the information provided as part of the proposed CRS may be particularly useful for supporting decision making for this group.

297. The design of our proposed intervention is simple and transparent for consumers. It is expected that the implementation of an industry-wide redress scheme in which consumers are directly contacted by firms would reduce the need for consumers to use PRs. PRs take a percentage of the redress owed to consumers, representing a transfer from consumers to PRs. Therefore, if PRs are less prevalent, if redress liabilities paid out by firms remain equal, a higher proportion of the redress paid out would go to the consumers that were initially harmed under a CRS.

298. The relationship between vulnerability and behavioural effects of a complaints-led or intervention scenario may also impact vulnerable consumer's interactions with PRs. Vulnerable consumers (and especially those with low financial literacy) may be more susceptible to behavioural biases, such as status quo bias and present bias. Where an intervention changes the perceived status quo towards or away from PR use might therefore have disproportionate impact on the choices of those less placed to give attention to the problem, such as those with lower levels of financial literacy. Consumers who value payment sooner may be more likely to use a redress scheme as payments are expected to be received quicker than under the counterfactual scenario (i.e., a complaints-led process). It may therefore be the case that more vulnerable consumers are more likely to use a CRS than under a complaints-led process.

Benefits to the Financial Ombudsman

299. An industry wide redress scheme would result in fewer complaints being referred to the Financial Ombudsman for assessment through any channel. This will save the Financial Ombudsman time and resource costs associated with servicing these complaints compared to the counterfactual, meaning that the Financial Ombudsman can prioritise resources elsewhere.

300. Due to fewer complaints being referred to the Financial Ombudsman under the intervention compared to the counterfactual, the Financial Ombudsman may not need to scale its operations as significantly/to the same extent. Similarly, firms would benefit from reduced costs from scaling fees imposed on them by the Financial Ombudsman. In CP15/39, we estimated that these costs were approximately £310 per complaint for PPI, where the complainant held PPI. We expect these costs to be around £455 per complaint for motor finance complaints under the counterfactual (where scaling requirements would be greater and they would not be bound by redress scheme rules). Technical Annex 1 has further details on this analysis.

301. It would be decided by the Financial Ombudsman as to whether these additional costs would be levied on the firms which have caused the wrongdoing, or whether these would be spread across all firms which are under the Financial Ombudsman's remit. We assume, for the purposes of this analysis, that the Financial Ombudsman would impose these costs directly onto the firms which each complaint is related to, through a supplementary case fee, which is what happened during PPI.

Benefits to other parties

Reduced court costs

302. In summary, our scheme principles aim to deliver comprehensiveness, fairness and consistency. As we note in Chapter 1 of the CP, consumers are not obliged to participate in our scheme however our scheme is also likely to be faster and simpler than going to court. They may instead choose to take their case to court, however court outcomes are inherently uncertain, and once legal fees are taken into account, consumers could ultimately end up with less. This benefit has not been quantified due to high levels of uncertainty around the prominence of cases which will go through the legal system for both the counterfactual and the intervention.

Broker overheads

303. Lenders are expected to have retained records for 6 years from the end of an agreement in line with limitation periods. They may not have retained information for older agreements, such that they may need to reach out to brokers to obtain agreement information for agreements which ended earlier than this.

304. We asked lenders to estimate the proportion of agreements requiring broker input for case assessment. Responses showed significant uncertainty, ranging from 0% to 100%.

305. To assess these potential costs to brokers, we surveyed 17 brokers using eight targeted questions. The broker sample is not representative of the broader market. We therefore assess broker costs qualitatively. Brokers expressed uncertainty in their responses because they did not have knowledge of the details of the potential redress scheme detailed in this CP.

306. Notwithstanding these limitations, we asked brokers for the proportion of agreements they anticipated lenders would need to ask them for information about. Responses indicated significant uncertainty, with some brokers not comfortable providing an estimate at this time. Where provided, estimates tended to be higher between 50% to 100%. 1 broker provided an estimate of 20%, and 2 brokers did not provide estimates.

307. Brokers generally expect to make low one-off investments to support record sharing and manage lender queries but they could not provide detailed cost estimates until further information on the potential CRS is available.

308. We asked brokers to provide estimates for the time they expect to incur to provide the necessary information to a lender regarding each complaint query received. Brokers provided estimates of between 3 and 120 minutes per complaint for digitally stored records, and a wider range upwards of 5 minutes for non-digitally stored records. Brokers told us that these estimates would depend on factors such as:

- The extent of the CRS and requested information, including:
  - the granularity and type of the information being requested (e.g., whether a copy of the IDD is sufficient, rather than the actual copy from the individual customer records)
  - the type of the CRS (e.g., s.404 opt-in)
  - the number of complaints which fall under the CRS' remit
  - the age of the data requested and timeframe from point of sale
  - what information is provided by the consumer
  - whether the data required is consumer-specific, or can be provided at cohort level
  - the length of the potential CRS, and the amount of time given to respond to information requests
- Brokers' internal file storage and labelling of documents systems and policies, including:
  - whether the information is stored digitally, and for information not stored digitally, where records are kept (e.g., off-site vs on-site)

  - what information is kept on records, and whether records exist at all
  - whether brokers have all the information, or need to ask other parties

- Brokers' own situations with other stakeholders, including:

  - which lenders brokers are working with, what information is stored by them, their willingness to share information, whether requests are accurate, and the format of the data requested
  - whether and which legal entity(s) are involved

309. In the survey, we also asked brokers to provide us with the year that they began digitally storing the majority of new records for cases "in scope" of a potential CRS. For the remaining brokers, answers were in the range of 2005 and 2024, with most providing an estimate of 2015 or later.

310. Overall, the results from the broker survey suggest that brokers would have varied exposure to a potential CRS. We are highly uncertain of the costs that brokers are likely to incur when providing information to lenders and whether these will be lower than in the counterfactual. We would particularly welcome feedback on this in our consultation.

Costs

311. In this section, we provide quantitative and qualitative assessments of the costs that we expect from introducing an industry wide CRS for motor finance agreements for consumers, firms, the FCA and wider society under our two proposed options, relative to the counterfactual of a complaints-led process.

Costs to firms

Quantified firm costs

312. The table below summarises the estimated quantified costs associated with our proposed redress scheme intervention.

Table 22: Summary of nominal quantified costs to firms associated with intervention, direct and indirect (central estimates).

Cost type	Counterfactual	Option 1	Option 2	Net cost – Option 1	Net cost – Option 2
Complaints-handling administrative fees*	£709.3 m	£1,783.4 m	£1,482.6 m	£1,074.1 m	£773.3 m
Other firms costs**	£0.0 m	£2.9 m	£2.9 m	£2.9 m	£2.9 m
Total firm costs associated with intervention	£709.3 m	£1,786.3 m	£1,485.5 m	£1,077.0 m	£776.2 m

* Complaints handling administrative fees can include variable administrative costs, one-off investments and costs which firms may incur to scale their complaints handling capability and screening costs to assess eligibility for the CRS.

** These include other direct costs for firms as a result of the redress scheme including familiarisation and gap analysis (including legal costs), training and dissemination and Board and Executive Committee review.

Note: the total firm costs associated with intervention only include the costs to firms that are expected to be higher under intervention scenarios than the counterfactual scenario. This is not the total costs to be incurred by firms under each option, which also includes Financial Ombudsman related fees.

313. In the following sections we summarise the analysis underpinning the above cost quantifications.

Complaints-handling administrative fees

314. Firms are required to assess all complaints made to them, except those which are referred to the Financial Ombudsman prior to a firm's assessment. Under our proposed intervention firms will be given time to assess complaints before they become available for Financial Ombudsman referral. This compares to the counterfactual scenario, where firms would be required to respond to each complaint in the 8 weeks after it is submitted.

315. During the redress scheme, firms will be able to scale their complaints-handling capabilities appropriately, reducing their exposure to Financial Ombudsman referrals as a result of peaks and troughs in complaint submissions. For example, Annex F of our PPI complaints deadline final report displays that there were peaks and troughs in the number of complaints submitted across time. Firms' own estimates suggest that handling complaints in-house is beneficial to firms, as in-house case assessment costs are far lower than the £650 per complaint usually charged by the Financial Ombudsman.

316. Under the proposed intervention, firms will be required to screen 32.5m agreements for eligibility for the CRS. This is higher than the number of agreements eligible to obtain redress, and motor finance agreements that will be excluded from receiving redress determinations will be identified early in the complaints journey. Our proposed intervention enables as many as possible consumers to be contacted directly (subject to data limitations), without the need for consumers to take the first step.

317. Given that firms would be given more time to assess complaints before they become available for Financial Ombudsman referral, we expect that more complaints will be assessed by firms in-house. This will increase case assessment and administrative costs

under the intervention scenario. However, we expect that firms will incur fewer Financial Ombudsman case referral fees as a result.

318. As well as case assessment costs, firms may also have to invest in new systems. Our motor finance commission monitoring survey suggests that one-off costs vary between firms and will make up a small portion of overall costs. We assume that fixed costs are equivalent across options 1 and 2, at £108.2m.

Familiarisation and gap analysis (including legal costs)

319. We expect that the new rules and guidance would be contained in a standard FCA publication. Firms will spend resources to ensure that they become familiar with the new rules, and identify any compliance gaps. As we are consulting on proposals, we expect that firms will undertake the familiarisation and gap analysis (including legal costs) following this consultation, and then repeat the process upon implementation of final Rules.

320. We use the standard assumptions from our Standardised Cost Model (SCM) to produce an estimate of costs associated with familiarisation and gap analysis (including legal costs). We assume these costs are the same across the 2 intervention options.

321. We anticipate that firms will have to read 100 pages of non-legal text in the consultation paper. We assume that there are 300 words per page and a reading speed of 100 words per minute. We assume that the paper will be read by compliance staff only, and that there are 20 compliance staff in large firms; 5 in medium firms; and 2 in small firms. Our assumptions for the hourly cost of compliance staff are based on the Willis Towers Watson 2022 Financial Services Report, adjusted for subsequent annual wage inflation (based on DBT analysis of the UK National Accounts and is consistent with the approach taken in other recent Impact Assessments), and adding overheads of 21%.

322. We anticipate 100 pages of legal text across our interim and end-state rules. Using our standard SCM assumptions, we estimate the legal costs associated with complying with our rules. We anticipate that 4, 2 and 1 legal staff will read the legal instrument in large, medium, and small firms respectively. We anticipate that it will take 4, 3, and 1 days per team member to review 50 pages of legal text in large, medium, and small firms respectively. We base the legal staff salary on the Willis Towers Watson 2022 Financial Services Report, and adjust for subsequent annual wage inflation and add overheads of 21%.

323. We expect that all firms which must assess complaints will incur familiarisation and gap analysis costs (including legal costs). For an individual firm, we expect this cost to amount to approximately:

- Small firm – £1,500
- Medium firm – £7,769
- Large firm – £24,524

324. Under our assumptions, we expect a total familiarisation and gap analysis (including legal costs) cost of £915,483 across all firms which must assess complaints. Given that this proposal affects the same firms as our prior communications to these firms (e.g., PS24/1 and CP24/22) and is similar in nature, this estimate is likely to be an overstatement of the familiarisation and gap analysis (including legal costs) costs.

Training and dissemination

325. We anticipate that firms will incur training and dissemination costs to ensure staff comply with our rules. We assume these costs are the same across the 2 intervention options.

326. Given the findings from our Round 5 motor finance commission monitoring survey, we assume that large firms will need to train 163 staff, medium firms will need to train 31 staff, and small firms will need to train 8 staff. We assume that all complaints-handling employees will require training. Under standard assumptions in our SCM, we assume that large firms will train their staff in-house, 40% of medium firms will train their staff in-house, and no small firms will train their staff in-house. We assume that the cost of premium external training per person per day is £700. We assume that class sizes comprise up to 15 people. We assume that staff will require 3.5 hours of training, and that staff will need 25% of this time to re-familiarise themselves after the training. We assume that the number of hours of design per hour of training is 8. We assume that the percentage of salaries assumed to be revenue loss due to the training is 100%. Basing the staff salary on the Willis Towers Watson 2022 Financial Services Report, adjusted for subsequent annual wage inflation, we calculate the total training and dissemination costs for individual firms to amount to approximately:

- Small firm – £4,192
- Medium firm – £12,547
- Large firm – £26,252

327. These estimates are likely overestimates, given that some complaints-handling employees will not require full training (for example, experienced complaints-handlers may not be required to attend all training sessions). Under our assumptions, we expect total training and dissemination cost of £1,361,130 for all firms which must assess complaints.

Board and Executive Committee reviews

328. We anticipate that our proposed rules will require firms to undergo changes which require board and/or executive committee approval. We assume these costs are the same across the 2 intervention options.

329. We assume that the Board and Executive Committee reviews required will take 4.7 total person days for large firms, 3.5 total person days for medium firms, and 1.1 total person days for small firms. Basing the compliance staff salary on the Willis Towers Watson 2022 Financial Services Report, adjusted for subsequent annual wage inflation, we calculate the total legal costs for individual firms to amount to approximately:

- Small firm – £817
- Medium firm – £7,275
- Large firm – £12,763

330. Under our assumptions, we estimate these costs to be £618,230 for all firms which must assess complaints.

Sales process, customer contact, and other changes

331. We assume that our proposed changes would have no direct impact on the number of minutes per sale, the type of staff undertaking the sale, and the number of completed sales per year. As a result, we estimate these costs to be £0.

Firm costs which we do not quantify

Cost of data requests

332. As part of the monitoring and evaluation intended to ensure that our intervention is functioning as intended, we plan to request data from firms which the CRS directly impacts. We expect to request data from firms from the design phase through to the evaluation phase. More information on the data which we plan to request is detailed in the monitoring and evaluation section below.

Credit Reference Agencies (CRAs)

333. Where data is missing from firms' records, firms may use CRA services to obtain historical data. Firms' own record retention policies will vary, such that we expect firms' requests to CRAs to vary between firms and based on the date of the agreement being assessed. Some firms may not require the services of CRAs at all. Charges from CRAs could vary based on the date and type of data requested, the size of the firm (in terms of volumes of data and size of the ask), and the lender's importance to the CRA in terms of the client relationship. We are unsure on the prevalence of CRA usage and the difference in CRA usage between the counterfactual and the proposed intervention, and what that might mean for costs incurred by firms. As a result, we have not estimated these costs.

Costs to consumers

Exit fees for consumers who have signed up with PRs/Courts

334. Consumers who have already sought redress through a PR or a Court may have to pay exit fees if they would like to join the redress scheme (depending on the terms and conditions of their agreement). This cost has not been quantified due to high levels of uncertainty around the proportion of cases which will go through the legal system for both the counterfactual and the intervention.

Costs to the FCA

335. We estimate the costs related to motor finance incurred by us to date. We estimate that these costs sum to between £20m and £25m from FY23/24 to August 2025. These estimates should be read with caution as they refer to our current position at the time of writing, and are subject to end-of-year validation. These costs include internal costs (resource, IT spend, and comms and other costs) and external costs (market analysis and research, legal counsel, and S166 Skilled Person costs). We do not include these costs within this CBA as they are sunk costs (similar to those incurred by firms and consumers to date), given the CBA is forward-looking.

336. We have provided our estimated budget for carrying out our proposed intervention over the next two financial years. Our estimates are provided in the table below. We do not disaggregate these by activity and believe they will not be materially different between option 1 and option 2.

Table 23: Nominal costs to the FCA

Financial year	£m
26/27	19.8
27/28	11.4
Total	31.2

Impacts on the motor finance market in absolute terms

337. This section assesses the potential market integrity impacts of the CRS. Our analysis looks at the impacts in absolute terms, which means we assess how the market could change relative to how it operated in the recent past, rather than relative to the counterfactual.

338. We analyse the potential market outcomes arising from the firms' strategic responses to redress and non-redress costs taking into account provisions firms have already made. We compare the market outcomes to those in the recent past before those cost liabilities emerged. In doing so, we note that firms would face redress and non-redress liabilities in the "do nothing" counterfactual scenario.

339. Under our proposed CRS, we estimate that total costs (redress and non-redress costs) amount to £12.4bn which informs our market impacts analysis. This includes redress liabilities costs of £9.7bn (including interest), and non-redress costs of £2.8bn. The redress liability estimate assumes that 100% of consumers with an agreement that has at least one feature we propose could give rise to an unfair relationship seek and receive redress through the scheme. The actual redress liability incurred across the market is likely to be lower.

340. In light of the redress and non-redress costs, lenders face a decision about how to meet liabilities, as well as broader strategic decisions. To reflect the inherent uncertainty in lender response to the proposed CRS, we have developed an analytical framework that allows us to test the key dimensions of firms' strategic responses and what that might mean for the integrity of the market and for consumer outcomes. These include decisions around whether to continue in the market, potential changes in lending volumes (e.g. due to reduced access to capital or reduced lending appetite) or their incentives and ability to change prices.

341. Through our motor finance commission monitoring information requests, we have undertaken financial resilience analysis of 32 FCA solo-regulated lenders covering c.90% of the market share. We have also engaged with a number of these lenders through our supervisory engagement. The analysis also compared individual firms' expected redress and non-redress costs to their current provisions. We understand that until the details of the intervention are finalised through the consultation and policy process, lenders can only provision for these costs on a best effort basis. Some lenders may also have already absorbed or will absorb in the future some of the operational and administrative costs through cost categories, other than provisions, in their profit and loss account. We have also commissioned research which involved additional resilience analysis on lenders' balance sheets, including some firms outside of the 32 lenders.

342. Our assessment indicates that banking and captive lenders are likely to face the largest liabilities (51% and 47% of total redress and non-redress costs, respectively), with independent lenders typically facing liabilities several orders of magnitude lower (2%). Banks and captive lenders with higher redress associated costs tend to have a high share of motor finance agreements in new and used segments. We consider these firms to be more resilient in relative terms, with potential for financial support from their group, greater access to funding and ability to absorb cost shocks, however we cannot accurately model how management actions may play out in the future.

343. To account for the significant uncertainty around strategic lender decisions, our modelling scenarios consider a range of alternative assumptions around the key dimensions of these decisions, including:

- Decisions whether to continue or withdraw from the market;
- Decisions regarding lending volumes, including the possibility of some firms contracting their lending; and
- Decisions regarding pricing for future consumers.

344. As part of these pricing decisions, we assess the scope for potential increases in costs of capital (marginal costs) and whether these may be passed on to consumers by lenders through increasing APRs for new consumers.

345. Redress and non-redress costs represent an increase in costs to lenders. In our modelling scenario, we also consider the possibility of these costs affecting lenders' pricing decisions. This includes the potential for lenders to absorb the cost of their liabilities, or to the extent they have the ability and incentive to attempt to finance liabilities from new motor finance agreements by increasing APRs for future consumers or through lowering commission payments to brokers. For further details on our rationale, please see Technical Annex 4.

346. The table below summarises our key modelling assumptions. These modelling assumptions have been informed by the information collected on the motor finance market. For further details on our rationale, please see Technical Annex 3.

Table 24: Key assumptions for market impacts modelling scenarios

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Decisions whether to continue or withdraw from the market	Lenders continue to operate in the market	Lenders continue to operate in the market	Lenders continue to operate in the market	Some small lenders decide to withdraw from market
Decisions around lending volumes	No changes to lending volumes	No changes to lending volumes	Small lending contraction in near and sub-prime segments	No changes to lending volumes
Pricing decisions – changes in cost of funds	Pass through to consumers in the form of higher APRs to the extent these materialise	Pass through to consumers in the form of higher APRs to the extent these materialise	Pass through to consumers in the form of higher APRs to the extent these materialise	Pass through to consumers in the form of higher APRs to the extent these materialise
Pricing decisions – financing redress and non-redress liabilities	No adjustment to prices in light of liabilities (new, used segments) Some adjustments to prices in light of liabilities (sub-prime segment)	Some adjustments to prices in light of liabilities across all segments	Some adjustments to prices in light of liabilities across all segments	Some adjustments to prices in light of liabilities across all segments

347. It is important to note that these are modelling scenarios to illustrate the potential direction and scale of market impacts of the proposed redress scheme and are not forecasts or predictions of market impacts.

348. In our analysis, we focus on key aggregate outputs to understand price and quantity outcomes, allowing us to consider potential effects in a structured, consistent way. However, by simplifying the market, we are not able to reflect some of its variance and complexity. We attempt to mitigate the risk of reaching potentially erroneous conclusions from relying exclusively on the stylised market model, by complementing model outputs with qualitative evidence and understanding of how these markets operate in practice. For further detail, please see Technical Annex 4 – Market Impact Methodology.

349. Our assessment of the potential market impacts of our proposed intervention across the new, used and sub-prime segments reflecting the range of modelling scenarios considered are summarised in the table below.

Table 25: Summary of illustrative market impacts of our proposed intervention in absolute terms (these are not forecasts or predictions)

	New	Used	Sub-prime
Decisions to continue operating in the market	Lenders continue to operate in the market under all scenarios	Lenders continue to operate in the market under most scenarios: some firms may restrict lending volumes or a few small firms may stop lending under some scenario	Lenders continue to operate in the market under most scenarios: some firms may restrict lending volumes or a few small firms (representing a combined small market share) may stop lending under some scenario
Volume of agreements and access to motor finance	No material change in volumes or access	Potential small reduction in volumes (up to 1.1%) under some scenarios No material change in access	No material change in volumes or access under most scenarios. However, in a scenario where lenders' access to capital or risk appetite reduce, potential reduction in volumes (up to 10%) and access for sub-prime consumers
Competition	No material change in concentration, market share or intensity of (price) competition	No material change in concentration, market share or intensity of (price) competition	No material change in concentration, market share or intensity of (price) competition
Price	Potential small increase in price under some scenarios	Potential small to moderate increase in price under some scenarios	Potential small to moderate increase in price
Illustrative impact on weighted average APR	Potential increase in weighted average APR of around 0.1-0.5pp (from baseline weighted average APR of 6.0%)*	Potential increase in weighted average APR of around 0.2-1.4pp (from baseline weighted average APR of 13.2%)*	Potential increase in weighted average APR of around 0.6-1.5pp (from baseline weighted average APR of 33.1%)*
Illustrative impact on monthly payments	Average monthly payments may increase by £2-5 (up to c.1%), equating to £74-258 per agreement	Average monthly payments may increase by £1-10 (up to c.3%), equating to £69-484 per agreement	Average monthly payments may increase by £2-6 (up to c.2%), equating to £116-285 per agreement

*Note: Baseline weighted average APRs are based on 2022/23 data.

New vehicles

350. We anticipate limited impacts in the new segment. We consider the likelihood of lenders deciding to withdraw from the market in the new segment to be very low. Captive lenders account for the majority of agreements and have strong incentives to continue to provide motor finance to support sales of new vehicles. While other types of lenders may decide to withdraw from the market under some of the scenarios considered, they generally have very small volumes in the new vehicle segment. Overall, we do not anticipate a material change in the volume of agreements or access to motor finance in the new segment.

351. We do not anticipate a material change in competitive dynamics, including in the nature or intensity of competition, driven by strong competition between vehicle brands.

352. We consider a significant increase in motor finance prices for new motor vehicles is unlikely. Any attempt by lenders to adjust prices to consumers to improve profits in the face of redress and non-redress costs is likely to be constrained to a significant degree by competition between OEMs, including new entrants, to sell vehicles. Consumers have access to alternatives to motor finance, with unsecured personal loans or leasing likely to be close substitutes for most consumers in this segment, placing further constraint on any potential price increase. However, reflecting the uncertainty in lender and broader market response to the proposed scheme, our analysis indicates that a small increase in prices may be plausible, reflecting a degree of brand loyalty from consumers.

353. Illustratively, the weighted average APR may increase by around 0.1-0.5 percentage points reflecting different assumptions around adjustments to prices to improve future margins in the face of redress and non-redress costs and a potential increase in the cost of funds. This would suggest an increase in monthly payments of around £1-5 or around £65-250 over the course of a four-year Hire Purchase agreement.[2]

354. Commissions in the new segment are lower compared to the used segment (a weighted average of £352 per agreement in 2024). There is a close interdependent relationship between franchised dealers, OEMs and their captive lenders given the central role of franchised dealers in supporting new vehicle sales. This is likely to limit the extent to which captive lenders can reduce commission without risk of damaging relationships with dealers, indicating limited opportunity to finance liabilities through commission squeeze.

355. Given limited impacts on access and prices for motor finance, we assess material impacts on the volume of new vehicle sales to be unlikely.

Used vehicles

356. In the used segment, there is the potential for more significant impacts than for new. We anticipate that most lenders will continue operating as they reported no plans to stop lending, suggesting the business currently meets their profitability and commercial criteria. However, there remains uncertainty around strategic lender

2 We note that a four-year Hire Purchase agreement is used for ease of computation, which is not reflective of market outcomes where a high proportion of deals are PCP agreements. For further details, please see Technical Annex 4.

response to the proposed redress scheme and significant liabilities could pose a threat to profitability in the short term and prompt lenders to consider their appetite to remain in the market.

357. Liabilities could also mean that lenders become more selective and narrow lending to only include lower risk consumers, putting the near-prime and sub-prime segments most at risk of a lending contraction. Therefore, we consider the possibility that some firms in the near and sub-prime segments restrict their lending, reflecting lower capital availability and reduced lending appetite.

358. We anticipate motor finance to remain profitable, with remaining lenders replacing lost volumes should some lenders decide to stop lending, reflecting their capacity and capability to expand lending. This indicates that a significant reduction in access to motor finance in the used segment is unlikely.

359. Although unlikely, if access to motor finance were reduced, we think that most consumers would have access to alternative forms of credit. This includes (unsecured) personal loans which are likely to be a close substitute for most consumers in this segment.

360. We do not anticipate a material change in the nature or intensity of competition (with lenders competing on price and commission) as the mix of lenders operating in the segment is expected to remain diverse.

361. Under the assumption that lenders do not attempt to pass through their liabilities to consumers, we consider that motor finance prices may not change materially in the used segment.

362. However, we consider that there is potential for a small to moderate increase in prices under the assumptions that lenders may attempt to adjust their future margins to improve profits in the face of redress and non-redress costs as well as any potential increases in their cost of funds to consumers. Our assessment indicates generally effective competition in the broader used segment, with consumers typically focusing on monthly payments and showing at least a degree of price sensitivity. Nevertheless, we have also identified some factors which could dampen consumers' response to changes in the price of motor finance. These include some discretion for brokers to adjust certain elements of the motor finance deal (e.g. length of terms, deposit, etc.) to keep monthly payments within consumer budgets indicating that a potential small to moderate increase in prices may be tolerated by consumers.

363. Illustratively, the weighted average APR may increase by around 0.2-1.4 percentage points reflecting different assumptions around adjustments to prices to improve future margins in the face of redress and non-redress cost and a potential increase in the cost of funds. This would suggest an increase in monthly payments of around £1-10 or around £55-465 over the course of a four-year Hire Purchase agreement.[3]

3 We note that a four-year Hire Purchase agreement is used for ease of computation, which is not reflective of market outcomes where a high proportion of deals are PCP agreements. For further details, please see Technical Annex 4.

364. Although average motor finance commission in the used segment is higher compared to the new segment (around £980 compared to £352 in the new segment in 2024), we consider that there is potentially limited opportunity for lenders to squeeze commissions in the used segment. Commission plays a key role in supporting intermediary profit margins. In our broker survey, dealers noted that commissions are an important secondary source of income which supports their used vehicle business margins.

365. We do not anticipate a significant impact on vehicle sales in the used segment as we assess that most consumer will continue to have access to motor finance. Should motor finance become unavailable, we anticipate that most consumers in the used segment will continue to have access to alternative forms of credit such as (unsecured) personal loans enabling them to purchase a vehicle.

Sub-prime consumers

366. In the sub-prime segment, there is the potential for market impacts to arise. The sub-prime segment is highly concentrated with three lenders making up 86% of agreements. Our assessment of factors that may impact strategic decisions about future lending suggest a low likelihood of these lenders withdrawing from the market completely. However, we consider a possibility that lenders may contract lending to sub-prime customers in response to any changes in their access to capital or risk appetite.

367. Some smaller lenders may withdraw from the segment but we do not anticipate a material change in competitive dynamics, including in the nature or intensity of competition, as a result. In a scenario where some smaller lenders decide to stop lending (accounting for a small combined share of the segment), remaining lenders including the three largest lenders in the segment are likely to expand lending to replace lost volumes. We assess that under most assumptions a significant reduction in access to motor finance for sub-prime consumers is unlikely.

368. However, a lending contraction if risk appetite falls could have a larger proportionate impact on sub-prime motor finance volumes and may reduce access for some consumers. In addition, any price increases may limit access for some consumers. As sub-prime consumers generally have fewer alternative sources of credit available, results from the Yonder consumer research indicate that they may delay their purchases or buy cheaper vehicles while a small number of consumers may not be able to buy a vehicle at all.

369. We consider that there is potential for a small to moderate increase in prices. It is plausible that lenders may attempt to adjust their future margins to improve profits in the face of redress and non-redress liabilities as well as pass through any potential increases in their cost of funds (see section on impact of cost of capital and the investability of the UK) to consumers. We assess the risk of pass through is highest in the sub-prime segment given the concentration of lending amongst smaller, niche providers and relatively price inelastic consumers with fewer outside financing options. The cost of capital in the sub-prime segment may also be particularly sensitive to cost shocks given the baseline credit risk is higher.

370. Illustratively, the weighted average APR may increase by around 0.6-1.5 percentage points reflecting different assumptions around redress and non-redress cost pass through and a potential increase in the cost of funds. This would suggest an increase in monthly payments of around £3-5 or around £115-280 over the course of a four-year Hire Purchase agreement.[4]

371. The importance of specialist finance brokers in supporting motor finance sales in the sub-prime segment suggest a material reduction in commission rates to be unlikely.

372. For further information, including reasoning, see Technical Annex 3.

Wider economic impacts, including upon our secondary objective

373. We anticipate that our intervention will contribute to supporting the UK's competitiveness and medium- to long-term growth (our secondary objective) compared to a counterfactual situation in which we do not intervene. It is not reasonably practicable to quantify the magnitude of this effect.

Impact on costs of capital and the investability of the UK

374. In interviews conducted prior to the Supreme Court judgment, motor finance investors reported having observed a rise in the legal risk premium applied to financial institutions (at an aggregate level) and an increase in the level of regulatory due diligence on deals.

375. There was a consensus among both debt and equity investors that a sizeable redress bill could cause an increase in the cost of finance as well as a decrease in the supply of finance offerings if certain lenders exit. This could reduce choice and value in the market for consumers especially in the sub-prime segment, potentially translating into higher APRs for consumers.

376. Share prices of select (impacted) high street banks and challenger banks moved up post Supreme Court judgment (1 August 2025) and FCA press release (3 August 2025). In the two weeks post judgment, the share price increases ranged from 2.1% to 29.7%, additionally the share price movement for a non-bank listed lender increased by c. 6.3% over the same period; this overall indicates improving equity market sentiment. For context and for relative perspective, the broader UK equity market was slightly up in the same period: the FTSE 100 was up 0.8% and the FTSE 250 was up 0.3%.

377. In August 2025, there were reports in the financial press of some lenders preparing for potential transactions, but no evidence of deals being brought to market, meaning it is too soon to tell when Mergers and Acquisitions (M&A) or equity transactions will return. Limited M&A in the motor finance market is a long-standing issue that has been contributed to by the uncertainty preceding Court of Appeal and Supreme Court judgments although also by general attractiveness of the market over the longer term.

4 We note that a four-year Hire Purchase agreement is used for ease of computation, which is not reflective of market outcomes where a high proportion of deals are PCP agreements. For further details, please see Technical Annex 4.

378. UK motor finance public Asset Backed Securities (ABS) are still in a "wait-and-see" mode following the Supreme Court's decision. However, in mid-September 2025, one large OEM Captive had issued a public UK ABS transaction, noting that the pool of receivables was originated after 1st February 2021 (when DCAs were banned).

379. Examining the secondary market spreads on the AAA-rated tranches of 3 public UK auto securitisations between July 2023 and September 2025, the time of the Court of Appeal decision in Q4 2024 shows wider (higher) spreads indicating more risk perceived by investors. The first part of 2025 saw those spreads tightening back in partially before a spike which seems to coincide with the US tariffs volatility. Recently, (Q2 2025 onwards) spreads have tightened significantly and retraced close to where they were one year ago.

380. Overall, the market sentiment (guided by the FCA's estimate at the start of August 2025 that the cost of any redress scheme, including running costs, is likely to be in the range of £9bn – £18bn with estimates at the top end of that range being less plausible) is that the size of the potential redress is expected to be much lower than the top end of the ranges estimated by the market pre-Supreme Court judgment. However, the market does not have visibility on how the FCA calculated its estimates and anecdotally lenders are waiting for the FCA's detailed consultation to be announced in early October 2025 in order to be able to understand the extent of their redress liabilities and consequently update any provisions already made.

381. Given the Supreme Court judgment's impact, the likelihood of spillover impacts arising in non-motor finance segments of the financial services sector has substantially reduced. However, we cannot definitively state there will be no spillover impacts as these will be dependent on the strategic and financial decisions made by motor finance lenders and investors in response to these costs, as discussed above.

GDP impacts

382. It has been proposed, for example in relation to PPI, that redress payments can increase GDP in the short-term by increasing consumers' disposable income and expenditure, relative to what it would have been without redress payments. We have not quantified this potential impact given it requires several assumptions over how consumers may use the redress payments they receive. For example, increasing spending, savings or reducing debt. It also depends on how lenders may change their behaviour in response to payments, for example by reducing lending or changing prices and the cumulative effect of these changes on the short-term real economy.

383. While we do not quantify these potential impacts, we recognise there could be a modest temporal benefit to wider GDP.

Risks and uncertainties

384. Our non-redress impact model uses a combination of firm-level and market-wide assumptions. The firm-level assumptions include number of complaints handling FTE, time taken to assess complaints, and administrative costs per complaint. These come

from a motor finance commission monitoring survey. The respondents to the survey held approximately 89% market share based on outstanding motor finance lending balances as of December 2023 as reported in the CoL dataset, and approximately 87 – 88% based on the number and value of new motor finance agreements in 2023. In the absence of data on agreements for some firms, we carry out a weighting exercise to ensure that our sample was representative. Following the weighting exercise in Technical Annex 1 our modelled non-redress costs are broadly representative of 99.9% of the market.

385. We recognise that estimating both potential costs and benefits before the intervention takes effect, is inherently subject to uncertainty. If our assumptions do not hold or if we have not accounted for all market dynamics, the costs and benefits discussed in this CBA may be over or understated. Moreover, data limitations and methodological limitations could lead to inaccuracies in our quantitative estimates. In recognition of this, we undertake scenario/sensitivity analyses to provide a credible range of cost and benefit values.

386. In this section we detail the key variables where there remains uncertainty and our approach to managing such uncertainty. These include:

- The CRS join rate and the counterfactual complaint incidence rate
- Consumer complaint times and the value of time
- Firm responses and the cost of assessing complaints
- The role of CMCs and other PRs
- The Financial Ombudsman referral rate
- Interest rates and the interaction with courts
- The existence of claims already in the system
- The use of compromises by firms
- CRA usage

387. The following section on sensitivity analysis combines these variables and ranges into high, medium and low scenarios.

The CRS join rate and the counterfactual complaint incidence rate

388. The complaint incidence rate is defined as the occurrence of complaints relative to the total population of agreements under the counterfactual.

389. The CRS join rate is defined as the proportion of the motor finance agreements within the timeframe of the CRS which enter into the CRS (i.e., accept the firm's invitation to opt into the CRS) under the proposed intervention.

390. These are measures of uptake of complaints, and have 2 key impacts on this CBA:

1. It determines the share of consumers that obtain redress they are entitled to and therefore the total redress consumers receive.
2. It influences the number of complaints firms must handle. This also affects how many complaints become available for referral to the Financial Ombudsman.

391. We have developed an evidence base which combines the CRS join rate and complaint incidence rate of our previous redress schemes with behavioural analysis to estimate the these under the counterfactual and our proposed intervention.

392. Factors such as financial literacy and willingness to join the redress scheme could impact the number of complaints. Similarly, the age of the agreement could impact the number of complaints. Consumers who have qualifying motor finance agreements from longer ago may feel less emotionally attached to the monetary loss, and so may be less encouraged to join a CRS.

393. Additionally, it is possible that consumers' perceptions of their likely value of redress influence their choice of whether to join a CRS or use an existing channel. In circumstances where consumers are able to accurately predict this, there could be risk of adverse selection, whereby consumers who expect lower redress via existing channels opt into the redress scheme, whilst those who expect higher redress pursue claims through the existing channels This could affect the CRS join rate and associated costs.

394. For our counterfactual complaint incidence rate, we rely on the proportion of qualifying PPI complaints made. The consumer landscape may also cause uncertainties in our estimates, and we think this has changed since PPI, with diminished barriers to complaining. For instance, the role of PRs in the complaints system has grown since PPI. These firms were present during PPI, becoming more prevalent towards the complaints deadline, but have become far more prevalent since. Moreover, digital communication has developed significantly which will lead to greater awareness of the availability of PRs, and hence a higher uptake. However, use of PRs transfers a proportion of the redress owed to consumers to the PR.

395. Given recent and ongoing cost-of-living pressures, we anticipate that consumers have become more financially capable since the PPI experience and therefore may lead to the complaint being greater than our estimate. This assumption is supported by findings from the Financial Lives 2024 survey, which highlights a slight increase in financial capability with 6.5m adults reporting low financial capability in 2024, compared to 7.4m in 2022.

396. The Yonder consumer research results suggest that 76% of motor finance consumers are repeat consumers. This allows some consumers to make multiple claims, thus increasing uptake. Moreover, consumers are likely to learn from their first claim and have information to hand, decreasing time and effort costs for consumers with multiple claims.

397. Our CRS join rate and counterfactual complaint incidence rate estimates are subject to uncertainty as consumers may opt to exercise their legal right to raise a claim via a court. These cases are outside the CRS, and thus have not been considered. However, it is possible that this could change our estimates substantially.

398. We expect that a media campaign would raise awareness of the CRS and encourage uptake further under our proposed intervention. Across the 2-year media campaign relating to PPI, we note that the campaign was recognised by around 32 million people.

399. Despite the findings listed above, the CRS join rate and the counterfactual complaint incidence rate for motor finance claims remains uncertain. Our evidence points towards a counterfactual complaint incidence rate of between 59% and 79% in the counterfactual. Under our proposed intervention, we expect this to be between 69% and 95% for consumers through the opt-in channel who receiving the "you are likely eligible letter", and between 27% and 55% for those who receive the "you are likely ineligible letter". Through the opt-out channel, we expect those who receive the "you are likely eligible" letter to have a CRS join rate of between 95% and 100%. For detailed reasoning behind our point estimates and ranges, please refer to Technical Annex 1.

Complaint incidence rate

400. The assumptions and estimates for our counterfactual scenario are based on reported behaviours during the complaints-led PPI experience in 2015 combined with a relative comparison of the similarities and differences between PPI and our present CRS.

401. Survey data from an FCA-commissioned study by ComRes in 2015 found that 47% of qualifying consumers said they had already registered a complaint about PPI, with a further 12% indicating that they intended to complain prior to the deadline, totalling 59%. The actual complaint deadline for PPI was not until November 2019. Annex F of our PPI complaints deadline final report shows that a large portion of the overall complaints were registered near the deadline.

402. We therefore take 59% as our lower bound estimate for the complaint incidence rate under the counterfactual. Another 16% indicated that they did not know whether they intended to complain at the time. For our central estimate, we assume that 59% (the proportion of the survey population who either had already complained or intended to complain) of the 16% who did not know whether they intended to complaint, did complain before the deadline. We round this up to 69%. For our high estimate, we add the difference between our low and central estimate to our central estimate to get 79%.

CRS join rate

403. The assumptions and estimates for the CRS join rate under our proposed intervention rely more heavily on our behavioural analysis. Given our proposed structure of the CRS, consumers can be split into 4 categories. Consumers who have not yet made a complaint will be placed in the opt-in channel, and consumers who have made a complaint prior to the CRS' inception will be placed in the opt-out channel. Following firm's initial assessment, consumers will either receive a letter stating that they are likely to be eligible for redress, or likely to be ineligible for redress.

404. To estimate the CRS join rate for each of these, we rely on the evidence set out above, as well as a behavioural analysis. We identify two main mechanisms which could impact CRS join rates relative to the counterfactual complaint incidence rate. Firstly, the impact of receiving a direct communication from the firm, and secondly, the additional benefit of receiving a communication that informs the recipient that they are likely to be eligible for redress. Each of these consumer types is likely to have a different CRS join rate.

We expect the CRS join rate for a s.404 opt-in CRS to be higher than the counterfactual complaint incidence rate.

405. We expect that the majority of consumers who are invited to join the CRS through the opt-in channel and who receive a letter stating that they are likely to be eligible for redress would join the CRS. Using empirical evidence, the behavioural impact of receiving a direct communication tends to be between 4ppt and 15ppt, and we estimate the benefit to be 9ppt. Further, using empirical evidence on the impact of 'eligibility' reporting in communications, we estimate that the CRS join rate could increase a further 5ppt. As such, our central estimate for the behavioural benefit being invited to the CRS and receiving a likely eligible letter adds to 14ppt. Our central estimate for the CRS join rate for opt-in consumers who receive an eligibility letter is therefore 83% (69% + 14ppt). We expect that the direct communication and eligibility letter will at least increase the CRS join rate above the counterfactual complaint incidence rate. As such, our lower bound estimate is 69% (in line with the counterfactual complaint incidence rate). Our high estimate is 95%, under the expectation that 5% of these consumers are uncontactable, choose to opt out of the CRS, or do not respond.

406. We expect that those receiving a likely ineligible letter who are invited to join the CRS through the opt-in channel would have a lower uptake than those who receive the likely eligible letter. We did not find any direct evidence to measure the impact on behaviour on receiving a communication suggesting that the recipient was unlikely to be eligible. Instead, we rely on the behavioural science principle of loss aversion, which suggests that consumers dislike losses twice as much as comparable gains, although this can be greater or less under different circumstances. We apply this principle to our estimate for the CRS join rate, which reduces uptake of the CRS by 28ppt compared to the counterfactual (i.e. that the dissuasive influence of being informed of likely ineligible is twice as impactful as the persuasive influence of being informed of likely eligibility). As such, our central estimate for the CRS join rate for opt-in consumers who receive a likely ineligible letter is therefore 41% (69% – 28ppt). Our low estimate of 27% is under the assumption that this effect is twice as great (69% – 42ppt). Our high estimate of 55% is under the assumption that the dissuasive influence of being informed of likely ineligibility is equally as impactful as the persuasive influence of being informed of likely eligibility (69% – 14ppt).

407. We expect that consumers who have already registered a complaint to firms are more likely to join the CRS than consumers who have not. This is because consumers who have already complained are likely to be highly motivated to obtain redress, and they are placed in the opt-out channel. Our central estimate for the CRS join rate for opt-out consumers who receive a likely eligible letter is therefore 95%, under the expectation that 5% of these consumers become uncontactable or drop out of the process. Our low estimate, under equal assumptions, assumes an equivalent CRS join rate of 95%. Our high estimate of 100% removes the possibility that consumers become uncontactable or drop out.

408. We expect that consumers who receive the letter which states that they are unlikely to be owed redress in the opt-out process do not join the CRS. As such, their CRS join rate is 0% in our low, central, and high estimates.

Consumer complaint times and value of time

409. The value of time spent in the redress process will vary between consumers. We expect the total time costs to consumers to vary based on the time taken to register a complaint and the value of time (measured per hour).

410. We undertook a consumer complaint journey exercise to understand how complaint times could differ between consumers, and between different CRS structures (i.e., complaints-led, s.404 firm led opt-in, and s.404 opt-out). This involved mapping out all possible complaint journeys which consumers could go through and assigning lower and upper bounds for each journey. We sense-checked our estimates with our analysis published in CP21/1, and adjusted our estimates accordingly. CP21/1 consults on the proposals to make rules about the fees charged by CMCs for claims about financial products and services, to secure consumers an appropriate degree of protection against excessive charges.

411. Our analysis indicates that consumer complaint journeys could vary significantly between consumers and between CRS structures. We provide our estimates for these in the table below.

Table 26: Consumer complaint journey time estimates.

Complaint journey	Counterfactual (complaints-led journey)		Proposed intervention (s.404 opt-in journey)		Proposed intervention (s.404 opt-out journey)	
Low / High estimate	Low	High	Low	High	Low	High
Average consumer complaint time (firm only), minutes	60	185	20	130	10	70
Average consumer complaint time (firm and Financial Ombudsman), minutes	100	275	60	225	50	165
Average consumer complaint time – using PRs, minutes	48	72	48	72	48	72

412. As displayed in the table above, we are uncertain about the time it could take for consumers to follow the complaints journey to the end, and have provided wide ranges as a result.

413. Our estimates on the value of consumer time does not change between our proposed intervention and the counterfactual. Our central estimate is taken from the Department for Transport's (DfT's) the TAG Data Book May 2025, using 2025 as the base year, at £7.57 per hour. To obtain the low estimate, we multiplied this by 0.9895 to adjust for sample representativeness. This sample adjustment is to account for the difference in the socio-economic descriptors for the population of interest in DfT's work, which focusses on transport users, versus those of interest to the FCA which is consumers of Financial Services. This adjustment yields an estimate to £7.49. For our high estimate, we multiply the DfT estimate by 4.65 in line with research we commissioned from Institute of Transport at the University of Leeds, yielding £35.20.

414. We present the full reasoning behind our point estimates for both our high and low estimates of the consumer complaint journey time and the value of consumer time under our proposed intervention and the counterfactual in Technical Annex 1. We provide the impact of both our high and low estimates of the consumer complaint journey time and the value of consumer time in the sensitivity analysis below.

Firm responses and the cost of assessing complaints

415. There is uncertainty surrounding firms' responses to our consultation and how they will implement any CRS. In the costs and benefits sections, we provided our estimated costs and benefits of our proposed intervention compared to the counterfactual. There is a cost to firms from assessing complaints made to them. There is inherent uncertainty in estimating these costs. Three successive rounds of surveys to 35 lenders which sell motor finance products have helped inform our estimations on the costs firms will incur to assess complaints, as well as their capacity to handle complaints.

416. We asked firms several questions, which were used as inputs for our non-redress model. While firm responses proved useful in calculating the non-redress costs which firms are likely to incur, we note that responses between firms were wide-ranging. Firms told us that their estimates were uncertain as they did not have sight of what our preferred intervention would be. As a result, firms responded using their best estimates but ultimately these are likely to change following the release of this CP. Many of our quantitatively estimated costs and benefits are dependent on these survey inputs therefore errors in firms' own estimates could impact the conclusions.

417. We used firms' own responses for the estimated one-off investment required, the FTE complaints-handlers which they expect to employ, the time to assess a single complaint, and the wages of complaints-handling staff. For any missing parameters within the motor finance commission monitoring surveys, we fill gaps with estimates from previous motor finance commission monitoring surveys with sufficiently similar questions (e.g., we use Round 4 motor finance commission monitoring survey responses for the FTE question if firms did not provide an estimate in the Round 5 motor finance commission monitoring survey). Where firms within the survey sample have never provided a response to a question (including in previous surveys with sufficiently similar questions), we use the median values for firms who have provided responses. Where firms reported as a group, we weight these responses between firms within each group based on the number of complaints submitted to each of them as of July 2025.

418. We have included a summary of the variation in firms' own responses in the table below.

Table 27: Firms' own responses to our survey questions.

Element used in our modelling	Lowest	Median	Highest
One-off investment	£0.0 m	£0.25 m	£25.0 m
FTE complaints-handling employees*	0.4	22	7,515
Complaint processing time, intervention (excluding complaint screening)	4 minutes	75 minutes	420 minutes
Complaint processing time, counterfactual**	4 minutes	60 minutes	350 minutes
Hourly cost of complaints-handling employees (including overheads)	£17.38	£29.58	£84.70

Note: Where firms have provided a range of estimates, we have taken their mid-point for this exercise. For our Round 5 survey estimates, we use our Round 4 survey estimates for at least 1 response for 12 firms, and median values for at least 1 response for 1 firm. For our Round 4 survey estimates for the complaint processing time, we use the Round 3 survey estimates for 2 firms, and the median for 1 firm.

* Firms which provided FTE responses which included wider teams (such as operations and programme support) have been excluded from this exercise.

** This question was asked in our May 2025 survey, prior to the SC decision. Where firms have provided different responses to their DCA and non-DCA responses, we take an average of the lower and upper bound provided for both.

419. Firms have provided a wide range of responses to each of these questions, displaying the variations in expectations of a CRS between firms. We note that smaller firms generally have reported lower one-off investments and FTE complaints-handling employees. As part of these costs, firms could employ people to focus on the monitoring and reporting of financial crime, such as handling suspicious activity reports.

420. Our non-redress costs model is therefore reliant on firms' responses, and if compliance costs differ significantly to our estimates, this could affect the costs and benefits which we have estimated under our proposed intervention. We will actively seek to gather evidence on this issue throughout the consultation process to better understand the potential range and impact of firm reaction. A full list of the limitations of our modelling is in Technical Annex 1.

421. We provide a summary of the key sources of uncertainty below, which include:

- Volume of complaints: The future number of complaints that may arise is uncertain and may depend on consumer awareness, media coverage, and firm conduct.
- Complexity of complaints: The time and resources required to assess a complaint can vary significantly depending on the nature of the agreement and the availability of electronic data and documentation.
- Staffing and operational costs: Labour costs for complaint handling may vary by firm, region, and internal process efficiency.
- Use of external services: Some firms may outsource parts of the complaints process, introducing variability in unit costs.
- Learning curve effects: Costs may reduce over time as firms develop more efficient processes or implement automation.

422. Possible options we had were to add a multiplier to the following inputs:

- Variable costs per complaint. Firms may overestimate or underestimate the complexity of complaints, which could cause firms to incur different costs to anticipated when assessing complaints.
- Complaints handling staff. Firms may decide to hire more staff if they do not assess complaints quickly enough and are at risk of many becoming available for Financial Ombudsman referral, or they may make some FTE redundant if they handle all complaints earlier than anticipated.
- Complaints handling efficiency. FTE may experience efficiency gains over time as they assess more complaints. The CRS could offer firms the opportunity to standardise or automate the way in which they respond to complaints, such that the bulk of their costs could be one-off set-up costs, with comparatively lower ongoing costs for maintenance.

423. We recognise that the actual costs firms incur may vary from our central estimate. Where we use firms' own estimates, we do not vary these in our low and high estimates. Instead, we incorporate sensitivity ranges on other inputs such as the Financial Ombudsman referral rate. We present high and low estimates above and in the sensitivity analysis section below.

The role of CMCs and other PRs

424. CMC and SRA-regulated PRs can bring complaints to firms on behalf of consumers. The proportion of consumers who will use a PR is highly uncertain. Use of an industry-wide scheme leaves less opportunity for PR involvement due to firms contacting consumers directly, as opposed to the consumer having to reach out to firms. Similarly, consumers may have less incentive to involve a PR if an industry-wide scheme is made accessible to them.

425. The uncertainties surrounding CMCs and other PRs are:

- How PRs and firms will react to the Financial Ombudsman's new fee structure for complaints referred to them by PRs. In April 2025, the Financial Ombudsman implemented a £250 fee to PRs which refer a case to the Financial Ombudsman, and PRs receive £175 back if the case outcome is in favour of the consumer. As such, it is plausible that this fee structure changes the incentives of PRs. It is possible that some PRs will only pursue higher value cases as the risk of needing to pay this new fee may not make low-value cases worth pursuing. It is also possible that incentives may be created for firms to delay responding to complaints submitted by PRs, or offer lower redress amounts in cases submitted by PRs, as they know that PRs will not want to refer their cases to the Financial Ombudsman. As a result, some PRs may not offer the Financial Ombudsman referral service or only offer the Financial Ombudsman referral service to claims with a sufficiently large value. CMCs may also be more likely to charge closer to the fee cap if they offer a Financial Ombudsman referral service. This could also be true for SRA-regulated PRs, which are subject to the fee caps imposed by the SRA.
- Some consumers might incur switching costs if they have already signed up to a CMC or other PR and wish to switch to our CRS. Exit fees may apply, which could

prevent some consumers from withdrawing from the PR. This could impact our estimated CRS join rate and counterfactual complaint incidence rate.

- Evidence found from consumers owed redress from the mis-selling of PPI indicates that those in more complex financial situations were more likely to complain via a CMC. We consider that this finding could be transferable to motor finance, such that there is a possibility that consumers who are in more financially vulnerable situations will be more likely to use a PR and therefore incur the costs of a PR to secure their redress.
- The amount which CMCs and other PRs charge consumers, and whether this is close to the fee caps imposed on CMCs by us in PS21/18. Our experience in regulating CMCs suggests that almost all CMCs operate on a no-win-no-fee basis and would not be able to pass the fee on in cases where no redress is awarded. Where redress is awarded, it could be possible for a CMC to increase its fees to the maximum allowed under the cap, if it currently charges below the cap.

426. To understand the likely prevalence of PRs, we asked firms to report the proportion of claims registered so far through PRs. Our motor finance commission monitoring survey suggests that the majority of in-sample firms have experienced 75.5% of their complaints so far from PRs. We take this as our upper bound for the prevalence of PRs under the proposed intervention, as we expect that the CRS would reduce this proportion. This is taken as the central estimate under the counterfactual, under the assumption that PRs could continue to be just as prevalent.

427. We expect that a small portion of consumers would seek help from a PR in the intervention. Our Financial Lives 2024 survey suggests that 12% of UK adults had low financial capability, and we use this figure as a proxy for our lower bound estimate. The mid-point of our low and high estimate is taken as the central estimate under the proposed intervention (43.75%).

428. The Financial Ombudsman announced that around 90% of motor finance commission cases were submitted by PRs in Q1 2024/25. However, PRs are more likely than consumers who complain directly to firms to refer complaints to the Financial Ombudsman, such that the proportion of complaints submitted to the Financial Ombudsman via a PR is likely to be higher than the proportion of complaints submitted to firms via PRs. As such, the prevalence of PR-submitted complaints was likely to be lower than 90% in Q1 2024/25. This is taken as the upper bound for PR prevalence under the counterfactual.

429. In the counterfactual, we deduct the difference between our central (75.5%) and high (90%) estimates from our central estimate to obtain the low estimate (61%). We present the reasoning behind our point estimates for the proportion of complaints submitted through PRs in Technical Annex 1.

430. As set out in PS21/18 (Table 1), our fee caps for CMCs are detailed below.

Table 28: CMC fee caps

Redress band	Consumer redress obtained		Max rate of charge	Max total fee
	Lower	Upper		
1	£1	£1,499	30%	£420
2	£1,500	£9,999	28%	£2,500
3	£10,000	£24,999	25%	£5,000
4	£25,000	£49,999	20%	£7,500
6	£50,000	NA	15%	£10,000

Note: The maximum charge for a complaint must be the lower of the "max % rate of charge" and the "max total fee", given the redress owed and the redress band which the complaint falls into.

431. Under the assumption that all agreements under a PR were to be registered via a CMC, all agreements fall into redress band 1, and CMCs charge the maximum possible for their services, we estimate that between 4% and 23% of redress claimed could be transferred from consumers to CMCs. This wide range reflects the high level of uncertainty in CMC usage and uptake in both the baseline and intervention scenarios which we present in our sensitivity analysis section below.

Financial Ombudsman referral rate

Firm runs out of time to assess the complaint

432. Under the counterfactual, complaints will be available to be referred to the Financial Ombudsman 8 weeks after the complaint is submitted. Due to constraints on how many complaints firms can handle in a given period of time, it is likely that many complaints will be referred to the Financial Ombudsman, particularly if complaints surge in particular periods.

433. We are aware that 30% of total complaints were referred to the Financial Ombudsman through either channel (the consumer disputing the firm's assessment or the firm running out of time to provide a response) prior to the pause on complaints, however this figure could grow in the absence of any intervention. The proportion of total agreements referred to the Financial Ombudsman also depends on how PRs interact with consumers under the counterfactual, and how this differs under our proposed intervention.

434. In the absence of our intervention, the probability of Financial Ombudsman referral through the firm running out of time to respond to the complaint is uncertain and will have a large impact on how much firms pay directly through the Financial Ombudsman fee and any associated Financial Ombudsman scaling fees. We expect that the Financial Ombudsman referral rate will fall below the rate before the pause under the counterfactual. As such, we estimate a lower bound of the Financial Ombudsman referral rate through the firm running out of time to provide a response channel to be 10% in the counterfactual. Our central estimate keeps Financial Ombudsman referral rate at 30%, in line with the rate from before the pause on complaints. Our high estimate accounts for the fact that consumers who initiate complaints may be more inclined

to follow up after the 8-week deadline, particularly with the complaint still fresh in mind. The absence of FCA guidance in the baseline may further heighten consumer uncertainty and urgency, increasing the likelihood of Financial Ombudsman referrals. As a result, we apply a wide range for the counterfactual referral rate, with our upper estimate of 50%.

435. Under our proposed intervention, we expect that firms will scale up operations to ensure that all complaints are dealt with within the timeframe of the scheme. In some cases, firms may underestimate the scaling of their complaints-handling capabilities which could lead to some Financial Ombudsman referrals through the firm running out of time channel. We therefore use a Financial Ombudsman referral rate through this channel of 0% in our low, central, and high estimates.

436. Full reasoning behind our point estimates under the two Financial Ombudsman referral channels is presented in Technical Annex 1.

Consumer disputes the firm's redress determination

437. Consumers (and PRs acting on behalf of consumers) are able to refer their complaint to the Financial Ombudsman if they disagree with the redress determination. We expect this to vary between the counterfactual and under our proposed intervention.

438. Under the counterfactual, firms would not be required to follow a prescribed redress calculation methodology. Firms could offer systematically low levels of redress to consumers, which could encourage Financial Ombudsman referrals through this channel. We expect PRs to be more prevalent under the counterfactual, which could increase Financial Ombudsman referrals through this channel. We are, therefore, highly uncertain about the proportion of complaints which could be referred to the Financial Ombudsman through this channel under the counterfactual, so provide a broad range of estimates ranging from 10% to 40%.

439. Under the proposed intervention, our prescribed redress calculation methodology should support consumer confidence. PRs are also likely to be less prevalent which could reduce the Financial Ombudsman referral rate through this channel further. We provide a range of estimates ranging from 0% to 15%.

440. Full reasoning behind our point estimates under the two Financial Ombudsman referral channels is presented in Technical Annex 1.

Financial Ombudsman caseload and capacity

441. In our analysis of the counterfactual, it is estimated that there will be 8.1 million cases referred to the Financial Ombudsman. We do however note that this will place increased strain on the Financial Ombudsman's resources and capacity to process these cases, as well as all others received for other disputes. The Financial Ombudsman if they were to receive this volume of referrals may look to adapt operating practices to meet increased demand, however this is not the subject of our analysis. The figures presented are thus unlikely to material but are shown to demonstrate the risk present in relying upon the current system in place to deliver redress.

Interest rates and the interactions with courts

442. Chapter 8 of the CP sets out our proposals for applying compensatory interest to redress payments to compensate consumers for being deprived of money by the lender's actions. This is likely to interact with the number of court cases, as consumers could prefer to take their complaint through the legal system if it yielded a higher level of interest. We propose that compensatory interest rate should be calculated using a set rate of simple interest each year covered by the scheme. This would be based on the time-weighted average of the Bank of England's base rate for that year plus 1 percentage point and rounded up to the nearest quarter percentage point. This approach aligns with the policy change announced by the Financial Ombudsman following its recent consultation, where a combination of the base rate and 1 percentage point will replace 8% as the rate for compensatory interest from 1 January 2026.

443. If the interest rate applied through a redress scheme methodology is less than the interest rate that would be applied if consumers went through the court, this could incentivise consumers to opt to file complaints through the court rather than go through a redress scheme.

444. This would undermine our intervention and would not prevent the harm from an inconsistent and disorderly redress system, and our costs and benefit estimations may be incorrect.

445. However, we do not know the proportion of consumers who may choose to pursue their complaint through the courts with the hopes of receiving higher interest, and therefore this remains an area of uncertainty within our estimates. As such, we do not quantify the impact of consumers going to court in place of the CRS. We aim to ensure that our proposed intervention is comprehensive, consistent and fair, to ensure that consumers do not feel the need to complain via the legal system.

Compromises

446. Some financially distressed firms may seek to use a court sanctioned restructuring tool or statutory compromise mechanism. These will allow financially distressed firms to reach a compromise with creditors, including consumers. We expect to see some proposed compromises in the market as a result of unfair relationships arising from inadequate disclosure of a relevant motor finance arrangement wrongdoing; however, the volume and impact of these compromises is highly uncertain.

447. It is difficult to predict which firms will propose a compromise. Firms must qualify, have sought sanction via the Courts or creditors where applicable. Compromises are not desirable for all firms. Some firms may prefer to wind down operations and exit the market due to the high expenses required to set up certain compromises.

448. Where consumers' options are either to become an unsecured creditor (because the firm would fail if required to honour redress liabilities in full) or obtain a substantially smaller percentage of the total redress liability agreed through a compromise, the latter is more likely. As such, it is possible that some compromises will be present.

449. There are 3 types of compromises which firms could feasibly attain:

- Court sanctioned restructuring tools such as Restructuring Plans
- Schemes of Arrangement
- Statutory compromises such as a Company Voluntary Arrangement

450. The features of each of these differs, and within each of the three procedures, features are likely to differ based on factors such as the capital and liquidity of the firm completing the compromise. Features which can differ between compromises include:

- Whether creditors are separated into classes. A court can decide to separate creditors into classes if interests vary between them. For instance, consumers could be split from HMRC, forming two separate classes.
- Claims deadlines can be reduced for a successful Scheme, which may result in a lower CRS join rate or counterfactual complaint incidence rate.
- The speed at which consumers are given redress payments can differ from the requirements set for firms without a compromise.
- Some compromises forfeit the right of the consumer to go to the Financial Ombudsman, instead appointing an independent adjudicator. Market intelligence suggests that adjudicators can be poor at sharing feedback on the firm's redress assessments, leading to consistent mistakes.
- It is possible that some compromises will be joint, which involves two or more firms attaining a compromise agreement together. This would reduce the costs to implement the compromise, meaning that some firms would otherwise exit the market could remain. However, the bar which the Court sets to approve a joint compromise is high.
- Due to the infancy and scarcity of some types of compromise, firms learn from each prior example of both successful and unsuccessful compromises. This makes it difficult to predict the shape which a compromise might take.

451. Compromises may limit the liabilities which a firm pays in order to continue trading viably and to result in a better outcome for creditors than an insolvency of the entity. As such, they represent a cost to the consumer, as the consumer may receive less redress. Nonetheless, the outcome under a compromise is hard to predict due to the factors listed above.

452. As a result of the uncertainty around the use of compromises, and associated impact on costs and benefits, we do not know their ultimate impact on the CRS. Thus, we do not quantify this cost.

CRA usage

453. If our CRS includes agreements back to 2007, there is uncertainty around whether firms will hold records for agreements for the full period. This may require firms to use CRA services to obtain historical data and could therefore impact the cost of assessing complaints.

454. Our estimated costs to firms of assessing complaints may be an underestimate if firms use CRA services. However, we remain uncertain about the prevalence of CRA

usage and the difference in CRA usage between the counterfactual and the proposed intervention, and what this may mean for subsequent costs incurred by firms. It is for this reason that we have not estimated the cost to firms of CRA usage.

Sensitivity analysis

455. We have carried out sensitivity analysis on a number of the key assumptions. For each of these key assumptions we identified a low, central, and high estimate. The central estimates are used to obtain our final figures on the costs and benefits.

456. The assumptions that are varied in our low and high estimates are displayed in the tables below. We provide the reasoning behind each assumption in Technical Annex 1. Assumptions which remain unchanged between the low, central, and high estimates are not listed here.

Table 29: Assumptions which change across high and low estimates.

Scenario	Proposed intervention		Counterfactual	
Low / High estimate	Low	High	Low	High
CRS join rate for opt-in process (consumer receives likely eligible letter)	69%	95%	NA	
CRS join rate for opt-in process (consumer receives likely ineligible letter)	27%	55%	NA	
CRS join rate for opt-out process (consumer receives likely eligible letter)	95%	100%	NA	
CRS join rate for opt-out process (consumer receives likely ineligible letter)	0%	0%	NA	
Counterfactual complaint incidence rate	NA		59%	79%
Financial Ombudsman referral rate (out of time)	0%	0%	10%	50%
Financial Ombudsman referral rate (consumer disputes)	0%	15%	10%	40%
Average consumer complaint time (firm only) for opt-in process, minutes	20	130	NA	
Average consumer complaint time (firm only) for opt-out process, minutes	10	70	NA	
Average consumer complaint time (firm only) for counterfactual, minutes	NA		60	185

Scenario	Proposed intervention		Counterfactual	
Low / High estimate	Low	High	Low	High
Average consumer complaint time (firm and Financial Ombudsman) for opt-in process, minutes	60	225	NA	
Average consumer complaint time (firm and Financial Ombudsman) for opt-out process, minutes	50	165	NA	
Average consumer complaint time (firm and Financial Ombudsman) for counterfactual, minutes	NA		100	275
Average consumer complaint time – using PRs, minutes	48	72	48	72
Value of consumer time	£7.49	£35.20	£7.49	£35.20
Proportion of complaints submitted through PRs*	12.0%	75.5%	61.0%	90.0%
Time involved in screening	30	90	NA	
Complaint response deadline	NA		8 weeks	8 weeks

* This figure is not applied in the firm cost model – the only channel through which estimates of the proportion of complaints submitted through PRs impacts costs is through the estimated impact on consumer time.

457. Under the assumptions in the table above as well as our assumptions that remain constant between our low, central, and high estimates, we present the low and high estimates for benefits under our proposed intervention (compared to the counterfactual) in both options in the tables below.

Table 30: Summary of costs and benefits – Option 1, low scenario

		Benefits (£)		Costs (£)	
Group affected	Item description	One-off	Ongoing (first 2 years)	One-off	Ongoing (first 2 years)
Firms	Complaints-handling administrative fees (Direct)			£480.3 m	£46.9 m
	Reduction in Financial Ombudsman referral fees (consumer dispute) (Indirect)		£598.3 m		
	Reduction in Financial Ombudsman referral fees (out of time) (Indirect)		£247.2 m		

Group affected	Item description	Benefits (£)		Costs (£)	
		One-off	Ongoing (first 2 years)	One-off	Ongoing (first 2 years)
	Reduction in Financial Ombudsman scaling fees (Indirect)		£591.9 m		
	Familiarisation and gap analysis (including legal costs) (Direct)			£0.9 m	
	Training and dissemination costs (Direct)			£1.4 m	
	Board and Executive Committee reviews (Direct)			£0.6 m	
Consumers	More time dealing with complaints (Indirect)		£44.5 m		
FCA	Supervisory costs associated with CRS design, review and regulation (Direct)				£19.8m in year 1; £11.4m in year 2
Financial Ombudsman	Fewer complaints referrals (Indirect)		Unquantified		
Total			£1,481.9 m	£483.2 m	£66.7m in year 1 and £58.3m in year 2

Table 31: Summary of costs and benefits – Option 1, high scenario

		Benefits (£)		Costs (£)	
Group affected	Item description	One-off	Ongoing (first 2 years)	One-off	Ongoing (first 2 years)
Firms	Complaints-handling administrative fees (Direct)			£1,277.5 m	£180.0 m
	Increase in Financial Ombudsman referral fees (consumer dispute) (Indirect)		£1,329.0 m		
	Reduction in Financial Ombudsman referral fees (out of time) (Indirect)		£2,017.0 m		
	Reduction in Financial Ombudsman scaling fees (Indirect)		£3,183.0 m		
	Familiarisation and gap analysis (including legal costs) (Direct)			£0.9 m	
	Training and dissemination costs (Direct)			£1.4 m	
	Board and Executive Committee reviews (Direct)			£0.6 m	
Consumers	More time dealing with complaints (Indirect)		£89.6 m		
FCA	Supervisory costs associated with CRS design, review and regulation (Direct)				£19.8m in year 1; £11.4m in year 2
Financial Ombudsman	Fewer complaints referrals (Indirect)				
Total			£6,618.7 m	£1,280.4 m	£199.8m in year 1 and £191.4m in year 2

Table 32: Summary of costs and benefits – Option 2, low scenario

		Benefits (£)		Costs (£)	
Group affected	Item description	One-off	Ongoing (first 2 years)	One-off	Ongoing (first 2 years)
Firms	Complaints-handling administrative fees (Direct)			£365.6 m	£25.6 m
	Reduction in Financial Ombudsman referral fees (consumer dispute) (Indirect)		£421.2 m		
	Reduction in Financial Ombudsman referral fees (out of time) (Indirect)		£220.2 m		
	Reduction in Financial Ombudsman scaling fees (Indirect)		£448.9 m		
	Familiarisation and gap analysis (including legal costs) (Direct)			£0.9 m	
	Training and dissemination costs (Direct)			£1.4 m	
	Board and Executive Committee reviews (Direct)			£0.6 m	
Consumers	More time dealing with complaints (Indirect)		£32.2 m		
FCA	Supervisory costs associated with CRS design, review and regulation (Direct)				£19.8m in year 1; £11.4m in year 2
Financial Ombudsman	Fewer complaints referrals (Indirect)				
Total			£1,122.4 m	£368.5 m	£45.4m in year 1 and £37.0m in year 2

Table 33: Summary of costs and benefits – Option 2, high scenario

		Benefits (£)		Costs (£)	
Group affected	Item description	One-off	Ongoing (first 2 years)	One-off	Ongoing (first 2 years)
Firms	Complaints-handling administrative fees (Direct)			£933.5 m	£128.5 m
	Increase in Financial Ombudsman referral fees (consumer dispute) (Indirect)		£829.7 m		
	Reduction in Financial Ombudsman referral fees (out of time) (Indirect)		£1,772.7 m		
	Reduction in Financial Ombudsman scaling fees (Indirect)		£2,406.0 m		
	Familiarisation and gap analysis (including legal costs) (Direct)			£0.9 m	
	Training and dissemination costs (Direct)			£1.4 m	
	Board and Executive Committee reviews (Direct)			£0.6 m	
Consumers	More time dealing with complaints (Indirect)		£76.9 m		
FCA	Supervisory costs associated with CRS design, review and regulation (Direct)				£19.8m in year 1; £11.4m in year 2
Financial Ombudsman	Fewer complaints referrals (Indirect)				
Total			£5,085.4 m	£936.4 m	£148.3m in year 1 and £139.9m in year 2

458. Our estimates of the NPV of our two options in the low, central and high scenarios are summarised in the table below.

Table 34: Net present values under sensitivity analysis.

Scenario	PV Benefits (excluding gains to consumer redress)	PV Costs	NPV
Option 1			
Low case	£2,826.2 m	£636.8 m	£2,189.4 m
Central case	£7,609.5 m	£1,104.5 m	£6,505.0 m
High case	£12,837.3 m	£2,835.6 m	£10,001.8 m
Option 2			
Low case	£2,206.9 m	£449.6 m	£1,757.2 m
Central case	£5,867.0 m	£804.9 m	£5,062.1 m
High case	£9,998.8 m	£1,219.9 m	£8,778.9 m

Monitoring and evaluation

459. Chapter 10 of the CP sets out our proposals to actively monitor the effectiveness of our proposed CRS in delivering the outcomes we are seeking in the market, specifically:

- There are consistent outcomes for consumers in comparable situations.
- Complaints are resolved and redress owed paid in a timely manner, without unnecessary administrative costs to the Financial Ombudsman and firms; and,
- The motor finance market avoids significant disruption due to complaints being handled in an orderly, consistent, efficient and timely manner.

460. We are proposing to introduce reporting requirements for motor finance lenders. This reporting would provide us with information that would help us to monitor the effectiveness of the scheme, as well as helping us to supervise firms' performance of their roles in the scheme. We would use this reporting to monitor (inter alia):

- Uptake of the scheme and amounts of redress paid to consumers;
- The timeliness with which firms check consumers' eligibility, assess complaints and (where relevant) pay redress; and,
- The financial impacts on firms and their resilience to those impacts.

461. We may also require firms to provide us with further information on an ad hoc basis to support our supervision and monitoring (for instance, if we require more detailed information on a specific issue or from particular firms where we have identified concerns). Chapter 10 of this CP sets out how we would supervise the activity of lenders and brokers in order to ensure that firms are meeting our expectations in ensuring the scheme functions as intended, and how we would use our supervisory or enforcement powers where justified.

462. We would use regular data collections such as the forthcoming Product Sales Data returns for consumer credit to monitor any impacts of the scheme on the motor finance market itself. This data would provide us with insights on any changes to the volume and cost of new motor finance being extended to consumers, and would supplement the information on firms' financial resilience gained through the proposed reporting requirements. As noted above, the number of new motor finance agreements each year has been relatively stable since 2020. Despite the average value of advances having generally increased year-on-year, reflecting rising vehicle prices, the total value of advances in each year remained slightly below its 2022 peak in 2024.

463. The Financial Lives survey would provide us with insights on several relevant aspects of consumers' attitudes towards and experiences of financial services, and how they have changed since 2024 following the proposed introduction of the scheme. Relevant metrics include, for instance, the following – both in aggregate and in terms of how they vary across different demographics:

- Amongst adults who are aware of the FCA, levels of trust in the FCA to protect their best interests as a consumer of financial products and services;
- Adults' trust in their motor finance providers; and,
- Attitudes of adults who have claimed using a claims management company towards their experience of using claims management companies.

464. We propose to work with the Financial Ombudsman to obtain timely data on the volume of relevant cases being referred to it, and the reasons for referral.

465. Lastly, we would engage widely with stakeholders during the scheme's operation in order to understand their experiences of it.

Consultation with the FCA Cost Benefit Analysis Panel

466. We have consulted the independent CBA Panel in the preparation of this CBA in line with the requirements of s138IA(2)(a) FSMA. A summary of the main group of recommendations provided by the CBA Panel and the measures we took in response to Panel advice is provided in the table below. In addition, we have undertaken further changes based on wider feedback from the CBA Panel on specific points of the CBA. The CBA Panel publishes a summary of their feedback on their website, which can be accessed here.

CBA Panel Main Recommendations	Our response
Ensure that the scope of the CBA is consistently clear. This CBA analyses the FCA's proposed scheme for delivering redress to consumers deemed to have been unfairly treated by motor finance lenders. In technical terms, the market it concerns is the market for the provision of consumer redress; the market failure it concerns is the potential failure of that market to provide fair redress; and the intervention proposed to resolve this market failure is the proposed consumer redress scheme (CRS). While the CBA as a whole makes clear that this is its scope, there is a risk that readers may be confused by the extensive discussion of the market for motor finance itself, which is included as necessary background. The Panel advises that the CBA is closely reviewed to ensure that its focus on the costs and benefits of alternative redress scheme models, rather than on the market for motor finance itself, is consistently made clear.	We have sought to clarify our use of motor finance as the relevant market for analysis within the CBA. Our view is that the relevant market is the provision of consumer redress. The market failure we are seeking to correct arises with respect to the provision of motor finance. The providers of motor finance are unable to collectively correct the market failure, hence the rationale for intervention. This is consistent with previous analyses of redress schemes such as for unsuitable advice to transfer out of the British Steel Pension Scheme. Similarly, the wider market impacts arise in and from the market for motor finance, not a hypothetical market for the provision of consumer redress.

CBA Panel Main Recommendations	Our response
Strengthen specification of counterfactual. The specification of the CBA's counterfactual scenario has a number of weaknesses. Two in particular are: **1. Exclusion of estimate of consumer benefit from redress.** The quantum of consumer benefit from redress is estimated for the baseline in which the proposed CRS is introduced, but is explicitly omitted for the counterfactual. Relative to the baseline, the counterfactual is thus incompletely specified. The CBA argues that this is reasonable because the quantification of consumer redress in the counterfactual is not "practical, proportionate, or relevant". The Panel recommends that the CBA either provides a much stronger justification for this, or is revised to include an estimate of the consumer benefit from redress in the counterfactual so that it can be compared comprehensively with the baseline. **2. Credibility of behavioural responses.** The counterfactual as specified is not fully credible because lenders are to be purely reactive, the behaviour of brokers h as Professional Representatives (PRs) and Claims Management Companies (CMCs) is not sufficiently elaborated, and the caseload and implied resourcing increases for the FOS are not practically deliverable. Whilst specification of an impractical counterfactual is methodologically perfectly legitimate if it reflects the best expectation of what would happen in the absence of the proposed intervention, the Panel recommends that more realistic specification of lender, intermediary, and FOS behavioural responses would better support the FCA's proposed decision to prefer the baseline.	We explain in the CBA why consumer benefits in the form of redress liabilities are not compared between the counterfactual and proposed intervention. The CP includes an estimate of what redress liabilities could reach in the counterfactual and under alternative redress methodologies. We are seeking more views during consultation. We have added, in our discussion of the counterfactual, a recognition of the issues raised regarding behavioural responses and are inviting feedback on how we might reflect them in our modelling.
Analyse more closely the effects of the proposed redress calculation methodology. The methodology proposed for redress calculation is not itself a subject of the CBA, because it reflects a discretionary policy decision concerning how to deliver "just redress for the harm suffered". However, the effects of the proposed redress calculation methodology on the functioning of the market for redress – and in particular on the consumer incentives – should be carefully analysed by the CBA. A key consideration is that the redress scheme proposed in the baseline would not preclude consumers from pursuing claims through existing channels. There may therefore be a risk of adverse selection whereby consumers who expect lower redress due via existing channels opt into the redress scheme, whilst those who expect higher redress pursue claims through the existing channels. The Panel recommends that the CBA analyses such effects of the proposed redress calculation methodology more closely, and considers alternatives which might mitigate such risks.	We are inviting feedback on our redress calculation methodology as part of the wider consultation and will revisit any outstanding issues such as adverse selection for the final policy decision. We have qualitatively acknowledged the potential risk of adverse selection affecting consumer uptake in CRS in intervention (although we note adverse selection does require consumers to accurately predict their redress amount relative to CRS or through existing channels).

Consultation questions

Question 89: Do you agree with the overall conclusions in this CBA, including the market impacts?

Question 90: Do you agree with the overall methodological approach taken?

Question 91: Do you agree with the choice and articulation of the counterfactual scenario?

Question 92: Do you agree with the modelling assumptions used and sensitivities applied?

Question 93: Are there impacts (costs or benefits) that you have evidence of that are missing or incorrectly estimated?

Question 94: Do you have feedback on assumed firm and consumer behaviours under the intervention?

Question 95: Is there further data we should use that could improve the analysis?

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include explanations of why it believes making the proposed rules comply with its legal requirements. This includes an explanation that the rules are (a) compatible with its general duty to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, so far as is reasonably possible, (section 1B(1) FSMA), (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective (section 1B(4A) FSMA), and (c) complies with its general duty to have regard to the regulatory principles in section 3B FSMA (section 1B(5)(a) FSMA). The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles

7. The proposals set out in this consultation paper are intended to advance our strategic objective of ensuring the relevant markets function well. They also further our consumer protection and integrity operational objectives, with the changes made, and our secondary objective to advance the international competitiveness and growth of the UK economy.

Strategic objective

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well by ensuring complaints are resolved consistently, quickly, and fairly, while avoiding widespread or disorderly firm failures and helping to maintain a functioning and competitive motor finance market in the long term.

Consumer protection objective

9. We consider our proposals help advance our objective to secure an appropriate degree of protection for consumers. In considering this, we are required to have regard to the matters listed in FSMA s1C(2)(a)-(h). Widespread and regular failure by firms to comply with the law and our rules have resulted in many consumers having lost out as a result of firms' failure to adequately disclose commission arrangements. As we set out in Chapter 3, it appears to us consumers have suffered (or may suffer) loss or damage in respect of which, if a consumer brought legal proceedings, a court would grant a remedy or relief, through the loss of the opportunity to negotiate lower borrowing costs or seek alternatives as a result of firms' inadequate disclosure. By providing clear rules for firms to follow, our proposed redress scheme aims to ensure consumers who have lost out receive appropriate compensation in an orderly, consistent, and efficient way. It is intended to be simpler for consumers than bringing an individual complaint, meaning more consumers, particularly vulnerable consumers, receive compensation. It is also intended to be comprehensive, so consumers do not need to go through the courts to secure compensation they are owed. We set out why we think a redress scheme is desirable in more detail in Chapter 3.

10. We recognise that consumers seeking to complain about the inadequate disclosure of commission arrangements that are not DCAs, high commission or contractual ties would have to take legal action through the courts if they wanted the individual circumstances of their case to be considered outside of the scheme. We cover this point more fully in Chapter 4 and invite representations on whether there are any other factors where inadequate disclosure could give rise to an unfair relationship. We consider that our proposal seeks to prevent the redress system from being overwhelmed by cases lacking the features most strongly associated with findings of an unfair relationship and as such this approach is intended to provide net benefits to both consumers and firms (as set out in more detail in Chapter 4).

Integrity objective

11. We also consider our proposals advance our objective to protect and enhance the integrity of the UK financial system. In considering this, we are required to have regard to the matters listed in s1D(2)(a)-(e) FSMA. The proposed scheme helps ensure that a very large number of disputes can be resolved quickly and proportionately, without the significant costs and risks involved in large numbers of court cases and/or complaints to the Financial Ombudsman. This in turn minimises the risk of disorderly or widespread firm failures, which could affect wider market integrity. By giving firms and the wider capital markets as much certainty as possible about the range of liabilities, our scheme also aims to enable them to plan and invest for the future. As we set out in Chapter 3, we are encouraged that since we announced we would consult on a redress scheme, there has been a generally positive response in equity markets. We set out our analysis of the market impacts of our proposed redress scheme in more detail in Technical Annex 3.

Secondary objective

12. We also consider our proposals are compatible with our secondary objective to advance the international competitiveness and growth of the UK economy. As set out above, our proposals aim to support the integrity of the UK financial system, give firms and investors the confidence they need to make decisions for the future, and ensure the motor finance market continues to work well for future consumers. By supporting the long-term health of the motor finance sector, our proposals would also indirectly support the UK's motor industry given the large proportion of purchases reliant on finance. In the absence of our intervention, the wider credit market could also be impacted. Lenders with exposure to motor finance may make business prioritisation decisions which impact cost and availability of finance in other markets.

13. In preparing the proposals set out in this consultation paper, the FCA has also had regard to the regulatory principles set out in s3B FSMA. We set out how we have considered these below.

The need to use our resources in the most efficient and economic way

14. Our proposed redress scheme sets out rules and guidance on how firms must determine whether customers have lost out due to specified firm failings, and if they have, how they must calculate appropriate compensation. We will supervise firms' compliance with our proposed scheme.

15. We consider this to be the most efficient use of resource to deliver an orderly outcome, and we set out our estimated budget for carrying out our proposed intervention in our CBA. As set out in Chapter 10, we are proposing to gather data to help us monitor firms' progress and compliance with the scheme rules, which will reduce resource burden by directing supervisory resource where it is most needed.

The principle that a burden or restriction should be proportionate to the benefits

16. We consider that the burdens imposed on firms by the proposed scheme are proportionate to the benefits that will result from it. Our proposals aim to ensure consumers who have lost out receive compensation in an orderly, consistent, and efficient way while maintaining a well-functioning motor finance market for the millions of people that rely on it. As part of this, we have engaged widely with stakeholders on the potential impacts on firms and wider market integrity and considered the pre-consultation feedback we have received as we have formulated our proposals. Our proposals are intended to be proportionate for firms themselves, and ensure the market continues to work well for future customers, who could indirectly bear the brunt of costs passed on to them. The analysis of potential benefits and costs of the proposals is set out in our CBA (Annex 2). We welcome feedback on the proportionality of our proposed scheme in response to this consultation.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

17. We have considered our duty under ss1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under s1 of the Climate Change Act 2008 and environmental targets under s5 of the Environment Act 2021. Overall, balancing all other factors, including crucially the aim of these proposals and the outcomes we want to achieve, we do not consider that there is any contribution, or impediment, the proposals in this CP can make to these targets. We will keep this issue under review during the consultation period and when considering whether to make the final rules.

The general principle that consumers should take responsibility for their decisions

18. As we set out in Chapter 3, we consider that when consumers in motor finance transactions are provided with the necessary information about commission arrangements and contractual ties, consumers can make informed choices about the agreements they are entering into and brokers are incentivised to act in ways that are more aligned with consumers' interests. Without adequate disclosure, consumers are less able to make informed decisions. Our proposed redress scheme aims to ensure consumers who lost out as a result of firms' failures to adequately disclose information about commission arrangements and contractual ties are fairly compensated.

The responsibilities of senior management

19. As set out in Chapter 10, we propose to require lenders to appoint a suitable Senior Manager (under the Senior Managers and Certification Regime) to have responsibility for oversight of the overall delivery of the scheme for their firm and compliance with its rules.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

20. We have had regard to this principle and do not believe that our proposals undermine it.

21. We are proposing that lenders will be responsible for delivering the scheme, rather than brokers. This will be simpler and deliver more timely and comprehensive redress, given there are many more brokers than lenders and some brokers are no longer operating.

22. We recognise, however, that while our proposed scheme applies to lenders, other regulated firms will play a key role in its successful operation and we have reflected this in our proposals. As set out in Chapter 5, for example, we recognise lenders may have to request documentation and information from brokers and have proposed rules requiring brokers to comply with such requests.

23. As we set out in Chapter 1, we recognise that brokers played a part in some of the failings and that lenders may wish to seek contributions from brokers.

24. We have also considered how complaints against brokers about breaches of our CONC rules on commission disclosure should be handled, and set out our proposal in Chapter 4 that they should be treated as falling within the subject matter of the scheme and remitted to the lender to be dealt with under the scheme rules.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

25. We set out in Chapter 10 our proposals to publish limited lender-specific data demonstrating firm progress under the scheme. This is intended to promote transparency and accountability, and help build consumer confidence in our proposed scheme. However, we know through our pre-consultation engagement with industry that some lenders have concerns with this approach. We recognise there is a balance to be struck between transparency and commercial impact, and we invite feedback on our proposals as part of this consultation.

The principle that we should exercise our functions as transparently as possible

26. We have engaged extensively pre-consultation with consumer groups, trade bodies, firms and their legal representatives. We have taken their views into account when designing the proposed scheme, and will continue to engage with a wide range of stakeholders throughout the consultation period.

27. We have set out our thinking and the evidence supporting it throughout this paper and the package of supporting materials published alongside it, and will carefully consider the feedback we receive as we work to finalise our rules.

28. As set out above and in Chapter 10, we are also proposing to publish data demonstrating firms' progress under our proposed scheme.

Section 1B(5)(b) FSMA

29. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA). We consider that this principle is not relevant to these proposals but will continue to keep this under review.

Further specified matters to which the FCA must have regard

s138EA and s143G FSMA

30. We have also considered our obligations under s138EA FSMA to have regard to matters specified in regulations made by the Treasury that are relevant to the making of the rules in question. We do not believe there are any specified matters relevant to the making of our proposed rules.

31. We have similarly considered our 'have regard' obligations under s143G FSMA. These do not apply as we are not making rules under Part 9C FSMA, which relates to the prudential regulation of FCA investment firms.

HM Treasury's letter of recommendations for the FCA

32. We have also had regard to the recommendations made by the Treasury in the November 2024 remit letter. While developing our proposals, we have, in particular, had regard to the government's policy towards the financial services sector, where the government's top priority is to promote its growth and international competitiveness. We set out how our proposals are compatible with the advancement of the international competitiveness and growth of the UK economy in paragraph 12 above.

Expected effect on mutual societies

33. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Compatibility with the duty to promote effective competition in the interests of consumers

34. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. While primarily intended to advance our consumer protection and market integrity objectives, we also consider our proposals to be compatible with our competition duty. While our

proposals are focused on addressing past failures by firms and are not intended to strengthen competition in the motor finance market going forward, we believe they will help minimise the risk of a reduction in competition that could have negative impacts on consumers. As we set out above and in our CBA, without a redress scheme firms would have to settle a very large number of claims by dealing with individual complaints, referrals to the Financial Ombudsman, and court cases. If firms restricted their lending or withdrew from the market (in extreme cases, because of firm failure) in the face of these costs, consumers could be left with a reduced choice in lenders. This could incentivise remaining lenders to increase prices, with fewer competitors customers could switch to in response to price rises.

Equality and diversity

35. The FCA is required under the Equality Act 2010 in exercising its functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it, and to foster good relations between people who share a relevant protected characteristic and those who do not share it.

36. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered.

37. Our proposed scheme aims to ensure that motor finance consumers who were treated unfairly receive appropriate compensation. A redress scheme would simplify the steps that consumers need to take to access redress and remove barriers that they might face in accessing compensation in a consistent, orderly and efficient way.

38. Our consumer awareness survey found that motor finance consumers are less likely to be aware of the possibility of being owed compensation if they are from a minority ethnic group or have a long-term physical or mental health condition. These cohorts of customers could be less inclined to raise a complaint even if they may be eligible for compensation.

39. Our Financial Lives 2024 survey (FLS) shows that when thinking about money and financial matters certain groups are more likely to report that they 'don't really understand the products they have taken out and whether they got a fair deal'. These include some groups with protected characteristics, including younger consumers (adults aged 18-34) and those from minority ethnic backgrounds, alongside consumers with low financial capability or other characteristics of vulnerability. FLS data also suggests that adults with regulated credit agreements reporting problems related to complex, high or unexpected fees or charges were more likely to have a household income of less than £50,000 or show one or more characteristics of vulnerability, in particular low financial resilience.

40. According to the FLS 2024, just 38% of motor finance holders shopped around before they took out their most recent finance. This proportion was lowest among adults aged 55+ (22%). It was higher (46%) among motor finance holders with any characteristics of vulnerability, compared with 30% motor finance holders with no characteristics of vulnerability.

41. Our proposals will help ensure consumers within scope of the scheme who were treated unfairly are appropriately compensated, regardless of their protected characteristics.

42. In providing a central route for complaints and requiring firms to proactively contact all consumers who may be eligible, the scheme will help the groups of consumers less inclined to complain access any compensation due and reduce the need for using claims management companies and professional representatives. The scheme will also mitigate the risks of frauds and scams, which, according to FLS 2024 (which asked about experiences of any banking or payments related, or any pensions or investments related, frauds and scams), were more likely to be experienced, in the previous 12 months, by semi-retired adults, black adults and those aged 75+.

43. We recognise that at some points in our proposed scheme consumers may be required to take action, for example, by making a decision to opt in to the scheme or needing to provide additional evidence or information to support assessment of their claims, and there is a risk some consumers may not act when they should to progress their case. We aim to mitigate these risks by requiring firms to proactively identify customers in scope and communicate with them as far as possible, and where appropriate, provide those communications in accessible formats.

44. We would also expect firms to take steps to consider the needs of all customers, including those that may be in vulnerable circumstances, to ensure they receive good outcomes and are supported to make informed decisions. This includes, for instance, consideration of any information firms held about the customer's characteristics in their assessment of claims. As set out in Chapter 7, when assessing the adequacy of disclosure we propose lenders should be required to take into account any personal characteristics known about the customer, such as sensory impairments, which would mean the standard of disclosure suitable for an average consumer would not have been sufficient for that customer.

45. We believe that overall, our proposals are likely to have a positive impact on protected characteristics under the Equality Act 2010 (and equivalent legislation in Northern Ireland), and other groups with characteristics of vulnerability, by mitigating the effect of the existing disadvantages faced by the consumer groups we have identified. Our proposals will make it simpler for consumers to access redress (regardless of whether they have a relevant protected characteristic or not), and, as above, will require lenders to consider certain characteristics such as disability in the assessment of claims (where they are known).

46. We will continue to consider the equality and diversity implications of our proposals during the consultation period and will revisit them when making the final rules. In the meantime, we welcome views on our equality and diversity considerations in response to this consultation.

Legislative and Regulatory Reform Act 2006 (LRRA)

47. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We consider that these parts of the proposals are compliant with the five LRRA principles:

- **transparent:** as set out above, we have shared our proposals in detail in this paper and the package of supporting documents, and have engaged with a wide range of stakeholders as we have developed our approach. We will continue to engage widely with relevant stakeholders and will consider all feedback we receive as we work to finalise our rules.
- **accountable:** we are acting within our statutory powers, rules and processes, and sought expert advice on key elements of our work, including a KC opinion on our proposals for a redress scheme and advice from an independent statistician on our review of the motor finance market. We are also consulting on our proposals and will consider any feedback we receive before finalising any rules. As set out above, we also propose to publish data on lenders' progress against our proposed scheme rules.
- **proportionate:** as set out in paragraph 16 above, our regulatory approach observes the regulatory principle of proportionality.
- **consistent:** as we set out in Chapter 3, our proposed approach aims to ensure that as far as possible, all cases follow a straightforward process and similar cases receive a similar outcome. Alternatives to a redress scheme would risk a greater number of consumers receiving inconsistent redress determinations.
- **targeted only at cases in which action is needed:** our proposed rules would require firms to assess liability based on whether they have failed to prevent an unfair relationship through adequate disclosure and, if so, whether that relationship resulted in loss or damage to consumers. While the use of presumptions (set out in chapter 7) reflects our assessment that firms' failures and resulting consumer losses were widespread, by allowing firms to rebut these presumptions our proposals preserve a fair opportunity for firms to present evidence that no failure or loss occurred, and as such conclude that no redress is due.

48. We have had regard to the Regulators'Code for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are consistent with the principles of the code. For example, we engage in a simple and straightforward way with firms during pre-consultation engagement. We aim to set out the considerations behind the design of the proposed scheme in a transparent manner, in this paper and the package of associated documents published alongside it. We also aim to design the proposed scheme in a way that is clear and proportionate, taking into account the operational challenges that firm would face when complying with the proposed scheme rules.

Annex 4

Abbreviations in this document

Abbreviation	Description
APR	Annual Percentage Rate
BR	Bank of England base rate
CBA	Cost Benefit Analysis
CCA	Consumer Credit Act 1974
CONC	Consumer Credit Sourcebook
CMC	Claim Management Company
COND	Threshold Conditions
CRS	Consumer Redress Scheme
CRA	Credit Reference Agency
DCA	Discretionary commission arrangement
DfT	Department for Transport
DISP	Dispute Resolution: Complaints Sourcebook
DiC	Difference in Charges
EANDCB	Equivalent Annual Net Direct Cost to Business
FCA	Financial Conduct Authority
FG	Finalised Guidance
Financial Ombudsman	Financial Ombudsman Service
FLS	Financial Lives Survey
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000

Abbreviation	Description
FLA	Finance and Leasing Association
HP	Hire Purchase
IRHP	Interest Rate Hedging Product
Johnson	Johnson v FirstRand Bank Ltd, Wrench v FirstRand Bank Ltd, and Hopcraft v Close Brothers Ltd
LRRA	Legislative and Regulatory Reform Act 2006
Non-DCA	Non-discretionary commission arrangement
NPV	Net Present Value
OFT	Office of Fair Trading
OEM	Original equipment manufacturers
PS	Policy Statement
ppt	Percentage point
PR	Professional representatives
PPI	Payment Protection Insurance
PCP	Personal Contract Payment
PRA	Prudential Regulation Authority
PRIN	Principles for Businesses
ROFR	Right of first refusal
SCM	Standardised Cost Model
SMF	Senior Manager Function
SRA	Solicitors Regulation Authority

Annex 5

KC opinion

SECTION 404 SCHEME FOR MOTOR FINANCE

OPINION

1. I am asked to provide an Opinion to the Financial Conduct Authority ("FCA") on proposals for a redress scheme under section 404 of the Financial Services and Markets Act 2000 ("FSMA") in relation to the adequacy of disclosure of certain motor finance arrangements ("the Proposed Scheme"). The Proposed Scheme would seek to provide redress to customers who received inadequate disclosure of certain arrangements, so as to give rise to an unfair relationship under s. 140A of the Consumer Credit Act 1974 ("CCA"). In particular, I am asked to consider whether the failures proposed to be addressed by the Proposed Scheme are those that a court or tribunal would find to constitute failures to comply with a requirement.

2. In preparing this Opinion, I have considered in particular the following materials which have been prepared by the FCA, and which I have reviewed in substantially final form prior to their publication alongside this Opinion:

   (a) A Consultation Paper, together with annexes, including a cost benefit analysis and various technical supporting materials ("the CP");

   (b) Rules for the Proposed Scheme.

Legal and Factual Background

Section 404 FSMA

3. Section 404(1) sets out three conditions which must be satisfied before the FCA can exercise its power to set up a scheme:

> "(1) This section applies if—
> (a) it appears to the FCA that there may have been a widespread or regular failure by relevant firms to comply with requirements applicable to the carrying on by them of any activity;
> (b) it appears to it that, as a result, consumers have suffered (or may suffer) loss or damage in respect of which, if they brought legal proceedings, a remedy or relief would be available in the proceedings; and

(c) it considers that it is desirable to make rules for the purpose of securing that redress is made to the consumers in respect of the failure (having regard to other ways in which consumers may obtain redress)."

4. If the s. 404(1) conditions are satisfied, the FCA can make rules requiring firms or categories of firms to establish and operate a consumer redress scheme (s. 404(3)). The FCA has published general guidance on the procedure it will adopt before implementing consumer redress schemes in the Consumer Redress Schemes sourcebook part of the FCA Handbook ("CONRED").

5. Under a consumer redress scheme, a firm will be required to take a number of prescribed steps. It is not necessary to detail the proposed steps here. For the purposes of this Opinion, the key steps would broadly require the firm to investigate whether it has failed to comply with relevant requirements (s. 404(5)). The FCA can specify the activities in question and provide examples of acts and omissions which constitute failures (s. 404A(1)(a) and (b)). Importantly, however, the examples must be such that a court or tribunal would hold them to be failures to comply with relevant requirements (s. 404A(2)). That is why CONRED 1.3.12G provides that the FCA will seek the Opinion of leading counsel on the issue of whether the failure identified would be recognised as a failure by a court or tribunal. Accordingly, this Opinion is provided under CONRED 1.3.12G.[1]

Factual and Litigation Background

6. Each year, around 2 million people in the UK use motor finance. In 2024, around 80% of new and 19% of used car purchases were funded through motor finance.

7. Between April 2007 and October 2024, approximately 32.5 million motor finance agreements were signed. The FCA estimates that more than three-quarters of these involved a commission payment from the lender to the broker, usually car dealers, who arranged the credit. April 2007 is when s. 140A of the CCA came into force, and when the Financial Ombudsman ("FOS") took on responsibility for handling complaints relating to consumer credit.

[1] I note that the FCA also has the option of seeking a court declaration to clarify the law (CONRED 1.3.13G). I do not at present see any reason why the FCA needs to take that step here. For the avoidance of doubt, the provision and publication of this Opinion does not constitute the waiver of privilege that attaches to any related legal advice that the FCA may have received.

8. The FCA inherited regulatory responsibility for consumer credit, including motor finance, from the Office of Fair Trading in 2014. In April 2017 the FCA commenced a review of the motor finance sector. This sought, among other things, to assess sales processes and the potential for conflicts of interest created by commissions paid by lenders to brokers.

9. Following the review and other work, the FCA decided to ban discretionary commission arrangements ("DCAs") with effect from January 2021. DCAs had linked the broker's commission to the interest rate under the credit agreement, and gave the broker discretion to set or adjust the interest rate.

10. A large number of consumers complained about motor finance agreements, and in particular about failure to disclose commission arrangements. By March 2025 over 80,000 such complaints had been referred to the FOS. In January 2024 the FOS issued two final decisions relating to DCA complaints, finding a breach of regulatory requirements and an unfair relationship under s. 140A CCA. At the same time, the FCA launched urgent investigative work to gather evidence relating to historical disclosure of DCAs between 2007 and 2021. The FCA also paused the usual 8-week deadline for motor finance firms to respond to customers with DCA complaints, and this pause was subsequently extended (currently due to expire on 4 December 2025).

11. Clydesdale Bank sought to challenge the FOS decision that had been taken in one of the lead complaints which had been decided by the FOS in January 2024. This judicial review claim, in which the FCA was an interested party, was rejected by Mr Justice Kerr (*R (Clydesdale) v FOS and ors* [2024] EWHC 3237 (Admin); [2025] Bus LR 1323 ("*Clydesdale*")). The Judgment held that the FOS was entitled to find that there had been a breach of both the regulatory rules, and also s. 140A CCA. Clydesdale initially sought to appeal against the Judgment, but decided in September 2025 not to pursue the appeal, so that the Judgment of Kerr J stands as binding authority.

12. A number of claims have also been brought before county courts relating to motor finance and failure to disclose. Three of these claims[2] were heard together by the Court of Appeal, which gave Judgment in *Johnson v FirstRand Bank Ltd (London Branch) (t/a MotoNovo Finance)* [2024] EWCA Civ 1282 in October 2024 ("*Johnson CA*"). The Court of Appeal found breaches under the common law and equitable principles, as well as in Mr Johnson's case under s. 140A CCA. The three claims

2 *Johnson v FirstRand Bank Ltd, Wrench v FirstRand Bank Ltd, and Hopcraft v Close Brothers Ltd*.

involved DCAs and non-DCAs, where the concerns were inadequate disclosure of both the size of the commission and of the contractual tie between the broker and lender (a right of first refusal). As a result of the Judgment in *Johnson CA*, the FCA expanded the scope of its diagnostic work to cover non-DCAs as well as DCAs.

13. *Johnson CA* was appealed to the Supreme Court, which handed down its Judgment in *Hopcraft and another v Close Brothers Ltd; Johnson v FirstRand Bank Ltd (London Branch) (t/a MotoNovo Finance); Wrench v FirstRand Bank Ltd; (London Branch) (t/a MotoNovo Finance)* [2025] UKSC 33 on 1 August 2025 ("*Johnson SC*"). The Supreme Court largely overturned the Court of Appeal Judgment on common law and equitable principles. However, it held that the relationship between Mr Johnson and his lender was unfair under section 140A of the CCA, albeit for different reasons from those of the Court of Appeal.

14. In particular, the Supreme Court confirmed that the mere non-disclosure of commission does not necessarily make a relationship unfair, but it is a factor to be taken into account amongst others.[3] The Court found that the relationship was unfair in Mr Johnson's case, particularly because of the failure adequately to disclose the high commission paid by the lender to the car dealer, and the concealment of a contractual tie between the dealer and the lender.[4] It also found that the inadequate disclosure of both the existence of the commission and the contractual tie was a breach of FCA rules (CONC 4.5.3R and CONC 3.3.1R, 3.7.3R, and 3.7.4G respectively).

15. On 3 August 2025 FCA announced that it would consult on an industry-wide redress scheme to compensate motor finance customers who were treated unfairly.

The CCA

16. The CCA provides a long-standing legislative framework for the regulation of consumer credit. It has the express object of advancing consumer protection by establishing a system for the regulation of traders involved in credit and hire transactions.[5]

3 *Johnson SC*, §320

4 *Johnson SC*, §§323-337.

5 The CCA was introduced following the recommendations of the Crowther Report (*Consumer Credit: Report of the Crowther Committee* (Cmnd 4596, March 1971)) to replace piecemeal legislation such as the Hire-Purchase Act 1965. See the description of the legislative history in *Johnson SC* §§243-5.

The Tripartite Arrangement

17. In general in motor finance there is a tripartite arrangement between: (i) the consumer who borrows funds to buy the vehicle; (ii) the lender who puts forward the financing; and (iii) the motor dealer broker who (from the consumer's perspective) sells the car and acts as an intermediary between the consumer and the lender. There is no uniform structure for these transactions, but it is commonplace for the motor dealer broker to sell the car to the lender, who in turn enters into an agreement in respect of that car with the consumer, typically a hire-purchase agreement[6] or a conditional sale agreement.

18. The motor dealer broker is usually not a party to the contract between the borrower and the lender.[7] Rather, the contract between the borrower and the lender is self-contained, including the lending terms as well as providing for the transfer of title to the goods. The commission arrangement, and the lender's oversight of the broker's interactions with the consumer, are set out in a separate agreement between the broker and lender.

Section 140A

19. The tripartite arrangements described above involve regulated consumer credit agreements[8] that finance a transaction between the debtor (the customer) and the creditor (the lender), and are therefore a form of "debtor-creditor-supplier"[9] agreement under s. 11(1)(a) and 12(a) of the CCA. These are a subset of "credit agreements" under the CCA.

20. Sections 140A–140C of the CCA provide for remedies in respect of "unfair relationships" arising out of credit agreements between creditors and debtors. The test under s. 140A(1) is whether the relationship between the creditor and the debtor arising out of the agreement "is unfair to the debtor". As Lord Sumption explained in *Plevin*,[10] the unfair relationship provisions are "deliberately framed in wide terms" and "undoubtedly

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6 Hire-purchase arrangements come in different forms, including the frequently used "personal contract purchase", which has lower monthly instalments and a larger balloon payment at the end of the term ("PCP").

7 See, e.g., the facts in *Clydesdale*, §3.

8 A consumer credit agreement is an agreement between an individual (the debtor) and any other person (the creditor) by which the creditor provides the debtor with credit of any amount: s. 8(1) of the CCA.

9 The FCA uses the term borrower-lender-supplier agreement as set out in Article 60L of Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 and replicated in the FCA Handbook Glossary, but nothing turns on the nomenclature.

10 *Plevin v Paragon Personal Finance Ltd* [2014] 1 WLR 4222 ("***Plevin***"), §§10, 29.

intended to introduce a broad definition of unfairness". The same breadth is apparent in the remedial provisions.[11] The Supreme Court recently confirmed this approach in *Johnson SC*.[12]

21. Under s. 140A(1)(c), the unfairness can arise because of "any other thing done (or not done) by or on behalf of the creditor", thus imputing to the lender the acts or omissions of third parties acting on the lender's behalf.[13] In conjunction with this, s. 56(1)(b) read with s. 56(2) provides that the acts and omissions of a broker when conducting "antecedent negotiations" are attributable to the lender.[14] This will apply to many brokers involved in cases that would be covered by the Proposed Scheme.

Analysis

22. Against this background, I turn to consider whether the failures proposed to be addressed by the Proposed Scheme are those that a court or tribunal would find to constitute failures to comply with a requirement.

The Regulatory Failure

23. The regulatory failure which could trigger the Proposed Scheme is defined non-exhaustively in s. 404F (emphasis added):

> "(3) References in [ss. 404 to 404B] to the failure by a relevant firm to comply with a requirement applicable to the carrying on by it of any activity include anything done, or omitted to be done, by it in carrying on the activity—
>
> (a) which is in breach of a duty or other obligation, prohibition or restriction; or
> (b) which otherwise gives rise to the availability of a remedy or relief in legal proceedings.
>
> (4) It does not matter whether—
> (a) the duty or other obligation, prohibition or restriction, or
> (b) the remedy or relief,

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11 The remedies available are listed in s. 140B and include repayment of sums or alteration of terms. The court is given "the broadest possible remedial discretion": *Smith v Royal Bank of Scotland* [2024] AC 955, §25.

12 *Johnson SC*, §§318, 338.

13 *Plevin*, §31 ("the Consumer Credit Act makes extensive use of the technique of imputing to the creditor for the acts or omissions of other parties who are not (or not necessarily) the creditor's agents").

14 In *Johnson SC*, the Supreme Court noted a concession by the Defendant in Mr Johnson's claim that antecedent negotiations with Mr Johnson carried out by the car dealer were deemed to have been carried out by the lender pursuant to section 56(1)(c): §293. In my view the correct provision is subsection (1)(b) rather than (1)(c), per *Clydesdale*, §§318-321, but nothing turns on that.

arises as a result of any provision made by or under this or any other Act, a rule of law or otherwise."

24. Accordingly, the failure with which the Proposed Scheme is concerned can be: (a) a duty or other obligation under law, or (b) something which gives rise to a remedy or relief in legal proceedings. This clearly includes legislative obligations and remedies as well as common law obligations under tort, for example a firm's duty of care in negligence, and associated remedies.[15]

25. In my view, where there is an unfair relationship under s. 140A CCA, giving rise to a remedy in favour of the consumer, there is plainly a failure to comply with a requirement within the meaning of s. 404 FSMA. The key question is therefore whether the FCA is right to have concluded, for the purpose of consulting on the Proposed Scheme, that it appears that there may have been a widespread failure by relevant firms adequately to disclose one or more aspects of motor finance arrangements so as to give rise to an unfair relationship under s.140A CCA and the remedies available under s.140B.

26. The Proposed Scheme broadly covers inadequate disclosure of three features of motor finance agreements which the FCA considers are strongly associated with an unfair relationship under s.140A ("the Relevant Arrangements"). They are:

    (1) DCAs;

    (2) High Commission payments, which are defined as " … 35% of the total cost of credit and 10% of the amount financed… " (CP §4.55);

    (3) Certain tied arrangements, which are defined as "… contractual requirements that materially constrain independence by providing a lender with exclusivity or near-exclusivity in the following ways: by obliging the broker to introduce customers exclusively to a single lender, or by requiring the broker to give a lender the opportunity to make an offer before approaching others (including rights of first refusal or equivalent right of priority)." (CP §4.62)".

15 See CONRED 1.3.7G.

27. In my view, the Relevant Arrangements are aspects of agreements which, alone or together, would constitute an unfair relationship under s. 140A CCA if they were not adequately disclosed. In particular:

    (1) In *Clydesdale* Kerr J held that it was open to the FOS to hold that inadequate disclosure of a DCA meant that the relationship was unfair within the meaning of s. 140A CCA as well as CONC;

    (2) In *Johnson SC* the Supreme Court held that the failure adequately to disclose a high commission paid by the lender to the car dealer and the concealment of the commercial tie between the dealer and the lender meant that the relationship was unfair under s. 140A CCA.

28. I note that the Proposed Scheme has various exceptions (for example where zero commission was payable), and also uses a number of rebuttable presumptions. Having considered these in some detail, and taking account of the evidence available to the FCA to date and the relevant case law, I consider that the approach taken under the Proposed Scheme is consistent with the approach that would be taken by a court or tribunal.

29. The Proposed Scheme would cover agreements taken out between 6 April 2007 and 1 November 2024. As noted above, the proposed start date aligns with the date on which section 140A of the CCA came into force and the FOS took on responsibility for handling complaints relating to consumer credit. The proposed end date is one week after the Court of Appeal judgment in *Johnson CA* (25 October 2024), after which the FCA considers firms should have been aware of and taken steps to amend their practices in light of the judgment. I note that the FCA is particularly seeking input during the consultation on including agreements entered into from April 2007.

30. I have considered the approach taken to limitation in the CP, and in particular the discussion of section 32(1)(b) of the Limitation Act 1980. The relevant caselaw[16] suggests that where any of the Relevant Arrangements were not adequately disclosed to a consumer in the terms of the Proposed Scheme, that would amount to deliberate concealment of a relevant fact for a s.140A claim, which a consumer could not with reasonable diligence have discovered until adequate disclosure of that feature took

16 Including, for example, *Potter v Canada Square* [2023] UKSC 41, [2024] AC 679, §§108, 154

place. In my view, the approach taken by the Proposed Scheme is in accordance with that which would be taken by a court or tribunal.

31. I note the FCA is consulting on a deliberately broad proposed scope for the scheme. It explains in the CP that this seeks to capture as many inadequate disclosure cases as possible within a single, coherent framework. As the CP explains, the scope of the Proposed Scheme would be:

> "… whether…there was inadequate disclosure of any of the following in connection with the entering into of a motor finance agreement:
>
> - a discretionary commission arrangement
> - the payment of commission;
> - a tied arrangement; or
> - any other arrangement between a lender and a credit broker under which the credit broker was incentivised (directly or indirectly) to introduce consumers wishing to enter into motor finance agreements to that lender." (CP §4.3)

32. If, instead, the subject matter were narrow and restricted only to the inadequate disclosure of features that the FCA considers strongly associated with an unfair relationship under s.140A, cases without these features could not be determined under the Proposed Scheme. Such cases would instead have to be dealt with through parallel dispute resolution processes (including firms' complaints processes, the FOS and potentially the courts), risking inconsistent outcomes and losing the benefits of the Proposed Scheme (including reducing the burden on the FOS and court system).

33. The FCA is consulting on the proposed scope, but at this stage and based in particular on the evidence of the volume of complaints, in my view the approach taken is appropriate and lawful.

JEMIMA STRATFORD KC

Brick Court Chambers

6th October 2025

Annex 6

Market-wide redress costs

1. This annex sets out:

- the sensitivity of our estimates to alternative policy choices on approaches to calculating redress, different compensatory interest rates, and varying thresholds for defining a high commission payment, and
- our estimates of market-wide redress costs (not including the administrative costs of paying redress) for different breaches

Sensitivity of our market-wide redress cost estimates to alternative policy choices

2. We set out below how our estimate of total, market-wide redress costs of £9.7bn arising from the proposals in this CP would vary if we had made different policy choices. Importantly, the £9.7bn figure assumes 100% of cases where there is an unfair relationship claim and receive redress under our scheme. However, we model that, after screening, 84.7% (85%) of unfair relationship cases are joined in the scheme. If we were to apply this figure to the £9.7bn redress figure, it would translate to £8.2bn.

3. The scenarios in Table 1 – which also assume a 100% uptake rate – reflect alternative approaches to calculating redress, to different compensatory interest rates, and varying thresholds for defining a high commission payment. This analysis illustrates the sensitivity of total redress liabilities to these key parameters. It is not intended to be an exhaustive assessment of all possible permutations.

4. Table 1 summarises the impact of these scenarios on:

- Breach rate (percentage of cases affected by a breach of requirements)
- Number of agreements eligible for redress
- Total redress costs
- Mean and median redress per eligible agreement (based on data representing 89% of the market)

Key observations

5. We highlight the following key observations for each scenario:

1. Base case: This scenario reflects our proposals, under which cases with a tied arrangement and a commission above 50% of total credit cost and 22.5% of the loan amount receive the commission repayment remedy and all other cases receive the hybrid remedy. It results in total redress costs of £9.7bn.

2. Commission repayment remedy for *Johnson* cases; APR adjustment remedy (APR-17%) for all other cases: This approach reduces total redress costs to £6.2bn compared to the base case by limiting redress to financial loss rather than incorporating the commission payment principles of *Johnson*.
3. Commission repayment remedy for all: Applying the commission repayment remedy universally (including to cases without a high commission arrangement) increases redress costs to £13.2bn, reflecting the higher redress levels associated with this approach.
4. Base case with 5.5% compensatory interest: Increasing the compensatory interest rate to 5.5% raises total redress costs above the base case to £12bn, demonstrating the sensitivity of outcomes to the choice of compensatory interest rate.
5. Base case with 8% compensatory interest: At an 8% interest rate, total redress costs rise further to £14.3bn, highlighting the impact of interest rate assumptions on overall redress costs.
6. Base case with commission repayment remedy for all cases with a tied arrangement and commission above 35% of total credit cost and 10% of loan amount: Applying the commission repayment remedy to cases that meet the high commission arrangement threshold (rather than the very high commission arrangement threshold of 50%/22.5%) and which have a tied arrangement results in total redress costs of £9.9bn, which is slightly higher than the base case.
7. Base case with high commission arrangement threshold of 40% of total credit cost and 11% of loan amount: A higher high commission arrangement threshold causes total redress costs to fall to £9.3bn, as fewer cases qualify for redress under these stricter criteria.
8. Smoothing redress in line with commission paid up to the very high commission threshold for the repayment of commission remedy (see paragraphs 8.64-8.66): Awarding redress closer to the commission repayment remedy for more cases increases total redress costs of £10.8bn.

Table 1: Sensitivity of our market-wide redress cost estimates to alternative policy choices

Scenario	Description	Breach rate (%)	Eligible agreements	Redress costs (£bn)	Mean redress[5] (£)	Median redress (£)
1	Base case: commission repayment remedy for Johnson cases; hybrid remedy for all other cases; compensatory interest at base rate plus 1ppt	43.6%	14,242,856	£9.7bn	£695.32	£541.53
2	Commission repayment remedy for Johnson cases; APR adjustment remedy (APR-17%) for all other cases; compensatory interest at base rate plus 1ppt	43.6%	14,244,095	£6.2bn	£441.81	£333.00
3	Commission repayment remedy for all cases; compensatory interest at base rate plus 1ppt	43.6%	14,243,898	£13.2bn	£948.91	£693.88
4	Base case with compensatory interest rate of 5.5%	43.6%	14,241,918	£12.0bn	£888.22	£700.05
5	Base case with compensatory interest rate of 8%	43.6%	14,244,229	£14.3bn	£1,029.44	£800.00
6	Base case with commission repayment remedy for all cases with commission above 35% of total credit cost and 10% of loan amount and a contractual tie	43.6%	14,243,385	£9.9bn	£714.18	£545.45
7	Base case with high commission payment threshold of 40% of total credit cost and 11% of loan amount	42.6%	13,903,440	£9.3.bn	£685.29	£532.81
8	Smoothing – redress increases in line with the commission paid up to the very high commission threshold (see paragraphs 8.64-8.66) (50%/22.5%)	43.6%	14,242,894	£10.8bn	£774.12	£529.48

5 The mean and median redress figures are estimated using the DD1 data set.

Market-wide redress cost estimates for different breaches

6. Table 2 provides a breakdown of market-wide redress cost estimates for different types of disclosure breaches (noting that these are not mutually exclusive, as some cases will have multiple breaches):

- Inadequate disclosure of a DCA is the most prevalent breach, affecting 37.2% of agreements and resulting in the highest total redress liability (£7.6bn), although the average redress per case is the lowest of all breaches.
- Inadequate disclosure of a high commission arrangement, while less common (9.5% breach rate), leads to higher average redress per agreement, showing how the commission refund element of the hybrid remedy influences total redress.
- Inadequate disclosure of a tied arrangement affects 10.5% of agreements, with average redress amounts similar to the DCA breach.
- Inadequate disclosure of a *Johnson*-level commission payment and a tied arrangement is rare (0.05% breach rate), but results in the highest average redress per agreement, indicating substantial individual compensation for the small number of cases that are broadly similar to *Johnson*.

Table 2: Market-wide redress cost estimates for different breaches

Breach	Remedy	Breach Rate (%)	Eligible Agreements	Redress Liabilities (£bn)	Mean Redress (£)	Median Redress (£)
Inadequate disclosure of a DCA	Hybrid remedy	37.20%	11.4m	£7.6bn	£665.62	£517.89
Inadequate disclosure of a high commission arrangement	Hybrid remedy	9.50%	2.9m	£3.2bn	£1,108.35	£960.14
Inadequate disclosure of a tied arrangement	Hybrid remedy	10.50%	3.2m	£2.1bn	£686.18	£526.72
Inadequate disclosure of a *Johnson*-level commission payment and a tied arrangement	Commission repayment remedy	0.05%	13,751	£34.8m	£2,532.23	£2,363.52

Notes: (1) Figures represent ~99% of the market; (2) Mean and median estimates are based on in-sample data (~89% of the market); (3) Data covers April 2007 to October 2024; (4) Totals may not sum due to multiple breaches per agreement.

Annex 7

Summary of scheme steps

1. This Annex details the steps that firms will need to take at each stage of the scheme. Further details on each step can be found in the relevant chapters.

Stage 1: Identification of scheme cases and consumer consent

Step 1: Assess whether case is within the subject matter of the scheme Firms will need to assess whether each motor finance agreement falls within the subject matter of the scheme.

2. Identify all consumers who entered into motor finance agreements on or after 6 April 2007 and before 1 November 2024.

3. Assess which agreements taken out during the above period are "scheme cases", ie those that fall within the subject matter of the scheme.

4. Identify whether the agreement featured at least one of the following relevant arrangements:

   a. a DCA
   b. a high commission arrangement
   c. a tied arrangement

Step 2: Send letters confirming whether client is in scope of scheme

5. Send letters to consumers in the following situations:

   a. For consumers with a pre-existing complaint:

      i. If the complaint is outside the subject matter of the scheme, confirmation of this, and that the firm will be handling their complaint under the normal complaint handling rules.
      ii. If the complaint is within the subject matter of the scheme and has 1 or more of the relevant arrangements present, a letter informing the consumer of the scheme, confirming the existence of at least 1 arrangement so may be due redress, and offering the option to opt out of the scheme.
      iii. If the complaint is within the subject matter of the scheme and has none of the relevant arrangements present, a "redress determination" letter confirming that the client is not owed redress because no unfairness under the scheme can be identified.

b. For all other consumers with a motor finance agreement:

i. For consumers with a motor finance agreement not within the subject matter of the scheme. A letter confirming they will not have their case assessed under the scheme.
ii. For consumers with agreements within the subject matter of the scheme, a letter informing the consumer of the scheme, whether at least 1 of the relevant arrangements has been identified on their account and an invitation to opt-in to the scheme.

6. The steps in 4.a. must be completed within 3 months of the scheme start date. The steps in 4.b. must be completed within 6 months of the scheme start date.

Stage 2: Liability assessment

Step 1: Identify relevant arrangements

7. Determine whether the scheme cases involved any of the following relevant arrangements:

a. a DCA
b. a high commission arrangement
c. a tied arrangement

8. If none of these arrangements are present on the agreement, conclude that that there is no liability, and the consumer is not entitled to redress under the scheme.

Step 2: Apply presumption of unfair relationship

9. Presume that failure to adequately disclose any of the above arrangements gave rise to an unfair relationship, unless:

a. adequate disclosure was made (see Step 3); or
b. the presumption can be rebutted because:

i. for DCAs, where the broker selected the lowest interest rate permitted under the DCA
ii. the consumer was sufficiently sophisticated to be aware of the arrangement(s) without disclosure (see Step 5)

Step 3: Assess adequacy of disclosure

10. Adequate disclosure must be:

a. clear and prominent – not hidden in small print or obscured in lengthy terms and conditions
b. provided before the consumer entered into the agreement

c. sufficient for the average customer to notice and understand, unless the lender/broker knew of personal characteristics requiring additional steps

11. Arrangement-specific requirements:

a. DCA – must disclose the link between commission and interest rate, and broker discretion
b. high commission arrangements – must disclose both the existence of the commission and the amount, or information enabling the consumer to easily calculate the amount
c. contractual arrangements – must disclose the existence and nature of the tie, including:

   i. whether the broker is required to introduce customers exclusively to one lender
   ii. whether the lender has a right of first refusal or equivalent right of priority
   iii. if the broker works with multiple lenders, the disclosure of the contractual tie must be at least as prominent as any statement about working with multiple lenders

12. If records are missing, firms must presume disclosure was inadequate.

Step 4: Consider if the unfair relationship presumption is rebutted

13. Lenders may rebut the presumption of unfairness if there is evidence that:

a. in cases only featuring a DCA, the broker selected the lowest interest rate permitted under the DCA, or
b. there was inadequate disclosure of a DCA, high commission arrangement, or tied arrangement, but the consumer was sufficiently sophisticated to have nonetheless been aware of the relevant feature(s)

Step 5: Apply presumption of loss or damage

14. If an unfair relationship is not rebutted, presume it caused loss or damage, unless rebutted (see Step 6).

Step 6: Consider if the presumption of loss or damage is rebutted

15. The presumption may be rebutted for high commission arrangements and tied arrangements with clear, contemporaneous, customer-specific evidence that the consumer would not have secured a more advantageous offer from any other lender the broker had arrangements with at the time of the transaction. If the broker did not work with other lenders, the presumption of loss or damage is irrebuttable.

Stage 3: Calculation of redress

16. For instructions on the following steps lenders will need to undertake to calculate redress see Table 10 of Chapter 8.

Step 1: Identify whether the refund of commission remedy is due

Step 2: Calculate the market-adjusted APR

Step 3: Create a schedule of payments under the agreement at the original APR

Step 4: Create a schedule of payments under the agreement at the market-adjusted APR

Step 5: Calculate payment differentials (overcharges) for actual and market-adjusted payments under the agreement

Step 6: Apply compensatory interest to each payment differential (overcharge)

Step 7: Calculate APR adjustment remedy redress amount

Step 8: Calculate hybrid redress amount

Stage 4: Communicating redress outcomes

Step 1: Provisional redress decision

17. If during Stages 1, 2 or 3 the firm reaches a point where it concludes that redress is due, or is not due, then it will send a provisional redress decision to the consumer.

18. This step must be completed within 7 months for agreements subject to a pre-existing complaint and within 15 months for all other agreements.

19. If consumer object to the redress determination, the firm must:

a. give the consumer 1 month to supply any supporting evidence
b. consider any evidence the consumer provides within 2 months of receiving the evidence.

Step 2: Final redress determination

20. If the consumer accepts the provisional redress decision or does not object within one month of being sent the provisional redress decision, then the firm should send a final redress determination.

Step 3: Paying redress

21. Where redress is payable firms will need to pay the redress to the consumer.

22. Firms will need to complete this step within 1 month of sending the final redress determination.

Annex 8

List of parliamentary correspondence

1. This annex provides a chronological overview of our past engagement on motor finance with the House of Commons Treasury Select Committee and the House of Lords Financial Services Regulation Committee.

- **8 May 2024** – **Treasury Select Committee oral evidence session on the work of the FCA** (Q718-723): exchange on a potential redress scheme and whether consumers will be sufficiently consulted.
- **13 November 2024 – Letter to the Treasury Select Committee and Letter to the Financial Services Regulation Committee** outlining the context and breadth of our work following the Court of Appeal's 25 October 2024 judgment.
- **10 December 2024 – Treasury Select Committee oral evidence session on the work of the FCA** (Q125-151): questions from members on clarity for consumers, potential redress, complaints pause extensions, consumer confidence, retrospectivity, Financial Ombudsman complaints, and the potential for further consumer redress schemes.
- **20 December 2024 – Letter from the Financial Services Regulation Committee**: response to our 13 November 2024 letter, seeking further information on FCA rules and principles and legal advice we had received.
- **17 January 2025 – Letter to Lords Financial Services Regulation Committee**: response to Committee letter from 20 December 2024, outlining relevant FCA rules and the nature of legal advice we received.
- **22 January 2025 – Financial Services Regulation Committee oral evidence session on its inquiry into the FCA and PRA's secondary competitiveness and growth objective** (Q331-Q332): exchange with members outlining the FCA approach to motor finance, retrospectivity, interpretation of the FCA Handbook and how it interacts with common law, and the relationship with the Financial Ombudsman.
- **21 February 2025 – Written evidence to the Financial Services Regulation Committee to its inquiry into the FCA and PRA's secondary competitiveness and growth objective, which discusses advanced commissions** (Q2).
- **25 March 2025 – Treasury Select Committee oral evidence session on the work of the FCA** (Q286-291): exchange on consumer redress scheme and consultation process, and our engagement with consumer law firms.
- **30 April 2025 – Letter to the Treasury Select Committee**: follow-up correspondence from March oral evidence session, outlining our engagement with consumer law firms ahead of a potential redress scheme.
- **10 June 2025 – Treasury Select Committee oral evidence session on the work of the FCA** (Q316-327) **and Nikhil Rathi reappointment hearing** (Q1): exchange on consumer redress panels and diagnostic motor finance report. Further clarification in reappointment hearing on consumer redress panel.
- **30 June 2025 – Letter to the Treasury Select Committee**: follow-up correspondence from the June oral evidence hearing on consumer group engagement on a potential redress scheme.

- **4 August 2025 – Letters to Treasury Select Committee and Financial Services Regulation Committee**: letters outlining our next steps and consultation timeline, following the 1 August Supreme Court judgment and our announcement we would consult on a redress scheme.
- **8 August 2025 – Correspondence from Financial Services Regulation Committee**: response to our 4 August letter, asking for further information on the potential redress scheme and calling for the FCA to appear before the Committee.
- **3 September 2025 – Letter to the Financial Services Regulation Committee**: our response to the letter from 8 August, with answers to the Committee's questions.
- **9 September 2025 – Treasury Select Committee oral evidence session on the work of the FCA, focused on motor finance**.

Appendix 1

Draft Handbook text – proposed redress scheme

MOTOR FINANCE COMMISSION CONSUMER REDRESS SCHEME INSTRUMENT 202X

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 138C (Evidential provisions);
(d) section 139A (Power of the FCA to give guidance);
(e) section 395 (The FCA's and PRA's procedures);
(f) section 404(3) (Consumer redress schemes);
(g) section 404A (Rules under s.404: supplementary);
(h) paragraph 23 (Fees) of Part 3 (Penalties and fees) of Schedule 1ZA (The Financial Conduct Authority); and
(i) paragraph 13 (FCA's rules) of Schedule 17 (The Ombudsman Scheme).

B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Consumer Redress Schemes sourcebook (CONRED) is amended in accordance with the Annex to this instrument:

Notes

E. In the Annex to this instrument, the notes (indicated by "**Note:**" or "*Editor's note*:") are included for the convenience of readers but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Motor Finance Commission Consumer Redress Scheme Instrument 202X.

By order of the Board
[*date*]

Annex

Amendments to the Consumer Redress Schemes sourcebook (CONRED)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise specified.

Insert the following new chapter, CONRED 5 (Motor finance commission consumer redress scheme), after CONRED 4. All the text is new and is not underlined.

5 Motor finance commission consumer redress scheme

5.1 Interpretation, application and subject matter of the scheme

Definitions used in this chapter

5.1.1 R For the purposes of this chapter:

(1) 'Annual percentage rate of charge' means the rate of the total charge for credit, expressed as an annual percentage of the total amount of credit, calculated in accordance with:

(a) in the case of an agreement entered into before 1 April 2014, regulations made under section 20 of the *CCA*; or

(b) in the case of an agreement entered into on or after 1 April 2014, *CONC* App 1.

(2) 'Consumer' means any individual falling within the meaning of 'consumers' in section 404E of the *Act* and includes:

(a) a partnership consisting of 2 or 3 persons not all of whom are bodies corporate; and

(b) an unincorporated body of persons which does not consist entirely of bodies corporate and is not a partnership.

(3) 'Commission' means any commission, fee or other financial consideration or remuneration payable (directly or indirectly) by a lender to a credit broker in connection with the entering into of a specific motor finance agreement.

(4) 'Compensatory interest rate' means the annual average of the daily Bank of England base rate plus 1 percentage point as set out in the Table in *CONRED* 5.4.18R.

(5) 'Credit broker' means:

(a) in the case of an agreement entered into before 1 April 2014, a person carrying on the business of credit brokerage pursuant to

a licence issued by the Office of Fair Trading ('OFT') under the *CCA*; or

(b) in the case of an agreement entered into on or after 1 April 2014, a *credit broker*.

(6) 'Disclosure information' means the information described in *CONRED* 5.3.11R(1).

(7) 'Early settlement payment' means any payment to fully or partially discharge the consumer's indebtedness under a motor finance agreement before the time fixed by that agreement, taking into account any rebate calculated in accordance with the formula at regulation 4 of the Consumer Credit (Early Settlement) Regulations (SI 2004/1483).

(8) 'High commission arrangement' means an arrangement under which the total amount of commission was at least:

(a) 35% of the total charge for credit; and

(b) 10% of the total amount of credit.

(9) 'Lender' means:

(a) in the case of an agreement entered into before 1 April 2014, a person carrying on a consumer credit business pursuant to a licence issued by the OFT under the *CCA*; or

(b) in the case of an agreement entered into on or after 1 April 2014, a *lender*.

(10) 'Motor finance agreement' means:

(a) in the case of an agreement entered into before 1 April 2014, a credit agreement which was a regulated agreement within the meaning of section 189(1) of the *CCA*; or

(b) in the case of an agreement entered into on or after 1 April 2014, a credit agreement which is not an exempt agreement under articles 60C to 60H of the *Regulated Activities Order*,

which, in whole or in part, financed the purchase of a motor vehicle or under which a motor vehicle was bailed or hired.

(11) 'Motor vehicle' means a mechanically propelled vehicle intended or adapted for use on roads to which the public has access.

(12) 'Opt-in' means a written notification from, or on behalf of, a consumer indicating that the consumer would like for their scheme case to be assessed for liability under the *consumer redress scheme* created by this chapter.

(13) 'Opt-out' means a written notification from, or on behalf of, a consumer indicating that the consumer does not want their scheme case to be assessed for liability under the *consumer redress scheme* created by this chapter.

(14) 'Primary records' means records of the type described in *CONRED* 5 Annex 1.1G(1) and (2).

(15) 'Relevant arrangements' means the arrangements specified at *CONRED* 5.2.3R(2)(a) to (c).

(16) 'Scheme case' means a case that satisfies each of the conditions in *CONRED* 5.1.11R.

(17) 'Scheme effective date' means [*Editor's note*: insert date] and is the date that the *consumer redress scheme* created by this chapter comes into force.

(18) 'Secondary records' means:

(a) contemporaneous records of the type described in *CONRED* 5 Annex 1.1G(1) and (2) relating to other consumers who were in a sufficiently similar position as the consumer in the scheme case, and which include information that demonstrates the standard practices of the lender or the credit broker at the relevant time; or

(b) records (of the type described in *CONRED* 5 Annex 1.1G(3)).

(19) 'Tied arrangement' means a contractual arrangement between a lender and a credit broker under which the credit broker is required to:

(a) introduce consumers exclusively to the lender; or

(b) give the lender the option to provide an offer of credit to the consumer before the credit broker is entitled to approach another lender in respect of that consumer (including a 'right of first refusal' or an equivalent right of priority).

(20) 'Total amount of credit' means the total sums made available under a motor finance agreement.

(21) 'Total charge for credit' means the true cost to the borrower of the credit provided, or to be provided, under an actual or prospective motor finance agreement, calculated in accordance with:

(a) in the case of an agreement entered into before 1 April 2014, regulations made under section 20 of the *CCA*; or

(b) in the case of an agreement entered into on or after 1 April 2014, *CONC* App 1.

(22) 'Total amount of commission' means the sum of all commission payable in connection with the entering into of a specific motor finance agreement, including where commission was payable under more than 1 type of commission arrangement (for example, where commission was payable under both a discretionary commission arrangement and a fixed fee commission arrangement).

(23) 'Unfair relationship provisions' means sections 140A to 140C of the *CCA*.

(24) 'Very high commission arrangement' means an arrangement under which the total amount of commission was at least:

(a) 50% of the total charge for credit; and

(b) 22.5% of the total amount of credit.

5.1.2 G The words and phrases that are in italics in this chapter have the meaning set out in the *Glossary*.

Further interpretation provisions on commission and calculating commission

5.1.3 R For the purposes of this chapter:

(1) References to 'discretionary commission arrangement' are to be read as including any arrangement which would, if it had been entered into on or after 28 January 2021, have constituted a *discretionary commission arrangement*.

(2) Where a single motor vehicle sales transaction was financed by more than 1 motor finance agreement, in order to identify whether the arrangement was either a high commission arrangement or a very high commission arrangement, the following must be calculated by aggregating the relevant amounts for each motor finance agreement:

(a) the total amount of commission;

(b) the total charge for credit; and

(c) the total amount of credit.

(3) Except as otherwise specified in this chapter, in any calculations relating to high commission arrangements or very high commission arrangements, any decimal points must be rounded to the nearest integer. For example, 38.4 is to be rounded to 38, whereas 38.5 is rounded to 39.

(4) All references to commission 'payable' refer to the amount of commission that the credit broker was entitled to receive under the arrangements providing for the payment of commission. In determining the amount of commission that was payable, the lender

may refer to evidence of the actual amount of commission paid to a credit broker in connection with a specific motor finance agreement contained in its financial records (see *CONRED* 5 Annex 1.1G(1)(c)) if it is a reasonable proxy.

Application to lenders

5.1.4 R (1) This chapter applies to a lender in respect of a motor finance agreement it entered into with a consumer:

(a) in the circumstances described in (2);

(b) where the unfair relationship provisions apply in connection with the motor finance agreement; and

(c) who, at the time the agreement was entered into, was habitually resident in the UK.

(2) The circumstances referred to in (1)(a) are that:

(a) there were arrangements between the lender and a credit broker in connection with the entering into of the agreement relating to the payment of commission; and

(b) the agreement was entered into on or after 6 April 2007 and before 1 November 2024.

5.1.5 G The provisions of this *consumer redress scheme* are without prejudice to any rights of indemnity or contribution a lender may have against a credit broker under the contractual arrangements between them or pursuant to the Civil Liability (Contribution) Act 1978.

Application to credit brokers

5.1.6 R The following provisions apply to a credit broker:

(1) *CONRED* 5.1.7R

(2) *CONRED* 5.2.4G;

(3) *CONRED* 5.2.9R;

(4) *CONRED* 5.3.7R;

(5) *CONRED* 5.5.6R; and

(6) *CONRED* 5.9.1R.

5.1.7 R Where a credit broker receives a *complaint* in relation to the subject matter of the scheme, it must:

(1) forward the *complaint* to the lender; and

(2) inform the consumer that the *complaint* has been forwarded to the lender.

Application to persons who have assumed a lender's liabilities

5.1.8 R (1) This chapter applies to a *person* ('P') who has:

(a) assumed a liability (including a contingent one) in respect of a failure by a lender to whom this chapter applies; or

(b) acquired, by legal assignment or operation of law, the rights and duties of a lender under a motor finance agreement.

(2) P must either:

(a) perform such obligations as the lender is required to perform under this chapter; or

(b) ensure that those obligations are performed by the lender and notify the *FCA* [*Editor's note*: insert prescribed method of notifying the *FCA*] within 7 *days* of the scheme effective date as to whether P or the lender, or both, will be performing those obligations.

(3) References in this chapter to a lender are to be interpreted as including a reference to P where the context applies.

Duration of the scheme

5.1.9 R The *consumer redress scheme* created by this chapter comes into force on the scheme effective date and has no end date.

Subject matter of the scheme

5.1.10 R The subject matter of the scheme is whether, in a scheme case, there was inadequate disclosure of any of the following in connection with the entering into of a motor finance agreement:

(1) a discretionary commission arrangement

(2) the payment of commission;

(3) a tied arrangement; or

(4) any other arrangement between a lender and a credit broker under which the credit broker was incentivised (directly or indirectly) to introduce consumers wishing to enter into motor finance agreements to that lender.

Scheme case

5.1.11 R A 'scheme case' is a case that satisfies each of the following conditions:

(1) It involves a motor finance agreement falling within *CONRED* 5.1.4R.

(2) There was a commission payable (directly or indirectly) by the lender to the credit broker in connection with the entering into of the motor finance agreement.

(3) (Except where *CONRED* 5.1.12R applies) the consumer has not, prior to the scheme effective date, accepted an offer of redress from the lender or the credit broker:

(a) for a claim in relation to a motor finance agreement that would fall within the subject matter of the *consumer redress scheme* created by this chapter; or

(b) in full and final settlement of all potential claims in connection with the consumer's motor finance agreement.

(4) The consumer has not, prior to the scheme effective date obtained a court judgment or order about a claim that would fall within the subject matter of the *consumer redress scheme* created by this chapter.

(5) The consumer has not, prior to the scheme effective date, asked the *Financial Ombudsman Service* to deal with a *complaint* falling within the subject matter of the *consumer redress scheme* created by this chapter.

(6) The lender determines, after having regard to the *rules* and *guidance* in *CONRED* 5.1.13G to *CONRED* 5.1.17R, that if the consumer brought a claim falling within the subject matter of the *consumer redress scheme* against the lender under section 140A of the *CCA*, the limitation period (in England & Wales and Northern Ireland) would not, before the scheme effective date, have expired or the claim is not precluded by a period of prescription (in Scotland).

5.1.12 R The condition in *CONRED* 5.1.11R(3) does not apply if a lender or the credit broker has defaulted in its obligation to make the payment within the agreed date.

Extension of limitation periods for unfair relationship provisions: general

5.1.13 G Pursuant to section 404(8) of the *Act*, a lender should conduct the assessment of limitation in *CONRED* 5.1.11R(6) with reference to the position on the day before the scheme effective date.

Extension of limitation periods for unfair relationship provisions: England & Wales

5.1.14 G (1) The limitation period for a claim under section 140A of the *CCA* seeking a monetary remedy is 6 years from the end of the motor finance agreement in England and Wales.

(2) Under section 32(1)(b) of the Limitation Act 1980, if any fact relevant to the claimant's right of action has been deliberately concealed from them by the defendant or its agent (which may include the lender or the broker), the period of limitation shall not begin to run until the claimant has discovered the concealment or could with reasonable diligence have discovered it.

(3) In an unfair relationship claim under section 140A of the *CCA* arising out of the inadequate disclosure of a discretionary commission arrangement, high commission and/or tied relationship, the facts relevant to the claimant's right of action will be the disclosure information described in *CONRED* 5.3.11R(1)(a) to (c) respectively.

(4) In applying section 32(1)(b) of the Limitation Act 1980, the lender must apply section 56(2) of the *CCA*, which deems that relevant antecedent negotiations have been conducted by the negotiator (for example, the credit broker) in the capacity of the creditor (for example, the lender) as well as in their actual capacity.

(5) The fact or facts relevant to the claimant's right of action are likely to have been deliberately concealed, and the claimant is likely to be able to show that they could not with reasonable diligence have discovered them, where the information in *CONRED* 5.3.11R(1)(a) to (c) (as applicable) was not prominently provided in the manner described in *CONRED* 5.3.11R(2) to (4).

(6) It is unlikely that, in such cases, the disclosure of the bare fact of, or possibility of, commission being payable (for example, that commission 'would', 'may' or 'is' payable) will be sufficient for the defendant to argue that a relevant fact has not been concealed, or that the claimant could with reasonable diligence have discovered it.

Extension of limitation periods for unfair relationship provisions: Northern Ireland

5.1.15 G (1) The limitation period for a claim under section 140A of the *CCA* seeking a monetary remedy is 6 years from the end of the motor finance agreement in Northern Ireland.

(2) Under article 71(1)(b) of the Limitation (Northern Ireland) Order 1989 (SI 1989/1339 (NI 11)), if any fact relevant to the plaintiff's, (for example, the consumer's) right of action has been deliberately concealed from them by the defendant (for example, the lender or its agent), the period of limitation shall not begin to run until the claimant has discovered the concealment or could with reasonable diligence have discovered it.

(3) The *guidance* set out at *CONRED* 5.1.14G(3) to (6) applies.

Prescription period in Scotland for unfair relationship claims

5.1.16 G (1) In Scotland, time limits – referred to as prescription – applicable to bringing a legal claim are governed by the Prescription and Limitation (Scotland) Act 1973 (as recently amended by the Prescription (Scotland) Act 2018) ('the 1973 Act').

(2) The 1973 Act does not impose a period of prescription on an unfair relationship claim under section 140A of the *CCA*, or a remedy awarded pursuant to section 140B of the *CCA*.

Applicable law

5.1.17 R For the purpose of *CONRED* 5.1.11R(6), the applicable law is:

(1) that of the *UK* territory where, in connection with the motor finance agreement:

(a) the consumer has agreed to the lender's *terms of business*; and

(b) those *terms of business* include a clause providing for the application of the law of a particular *UK* territory (that is, England & Wales, Scotland or Northern Ireland); or

(2) (if (1) does not apply) that of the *UK* territory where both the lender entered into the motor finance agreement and the consumer is habitually resident at the time the motor finance agreement was entered into; or

(3) (if neither (1) nor (2) apply) that of the *UK* territory where the consumer was habitually resident at the time the motor finance agreement was entered into; or

(4) (if neither (1), (2) nor (3) apply) that of the *UK* territory where the lender entered into the motor finance agreement.

Gibraltar firms

5.1.18 R This chapter applies to a *Gibraltar-based firm* in respect of motor finance agreements falling within *CONRED* 5.1.4R.

5.2 Consumer redress scheme: scheme steps and identifying scheme cases

Overview of scheme steps

5.2.1 R The lender must take the following steps in this chapter in respect of each motor finance agreement as applicable:

(1) First step: within 3 *months* of the scheme effective date, lenders are required to identify whether there is an existing *complaint* in relation to the motor finance agreement and must:

(a) identify those that are scheme cases;

(b) for all scheme cases identified under (a), determine whether at least 1 relevant arrangement is present;

(c) where the lender does not have the relevant records and information to identify the matters set out at (a) and (b), contact the credit broker as needed; and

(d) for all scheme cases which have at least 1 relevant arrangement as identified under (a) and (b), send opt-out letters, whereby consumers have 1 *month* to opt out from the date of receipt of the letter, failing which the lender should proceed to the third step as though the consumer has not opted out.

(2) Second step: within 6 *months* of the scheme effective date, for all other motor finance agreements with no existing *complaints,* the lender must:

(a) identify which of those agreements satisfy the criteria set out in *CONRED* 5.1.4R and are scheme cases;

(b) for all scheme cases identified under (a), determine whether at least 1 relevant arrangement is present;

(c) where the lender does not have the relevant records and information to identify the matters set out at (a) and (b), contact the credit broker as needed; and

(d) for all scheme cases identified under (a), send opt-in letters whereby consumers have 6 *months* to opt in from the date of receipt of the letter inviting them to opt in.

(3) Within 3 *months* of:

(a) no opt-out having been received from the consumer pursuant to step 1; or

(b) receipt of an opt-in pursuant to step 2,

the lender must carry out the third and fourth steps in respect of those scheme cases.

(4) Third step: determine whether an unfair relationship existed in the scheme cases and, if it did, whether the unfairness caused any loss or damage.

(5) Fourth step: calculate redress and send a provisional decision which allows the consumer 1 *month* to object.

(6) Fifth step: if no objections are received from the consumer in response to the provisional decision within 1 *month*, send a *redress determination* to confirm final redress calculations and make payment within 1 *month* (where appropriate).

Full and final settlement of motor finance agreements

5.2.2 R (1) In relation to any motor finance agreement, a lender may make an offer in a form that includes the information set out in *CONRED* 5 Annex 2.1R to the consumer to settle the claim in full and final settlement of all claims relating to the subject matter of the scheme at any time, including before conducting the first step.

(2) Where an offer is made under (1), the lender must be able to demonstrate that the amount of the offer is no less than the maximum redress that would be available under *CONRED* 5.4, subject to (3).

(3) The lender may make an offer in the amount of the total amount of commission and compensatory interest calculated using the interest rate formula at *CONRED* 5.4.15R.

(4) Where the lender relies on (3), the lender must explain to the consumer that the lender has not conducted a full assessment in accordance with the *consumer redress scheme* to calculate the maximum remedy that would otherwise be available to the consumer.

(5) If the consumer agrees to the lender's offer within 1 *month* of the offer having been made, the lender does not need to complete any of the remaining steps set out in this chapter in relation to that motor finance agreement and the lender must send a *redress determination* in the form that includes the information set out in *CONRED* 5 Annex 18.1R to confirm that there is no further redress due to the consumer under the *consumer redress scheme*.

(6) Where the consumer has not accepted within 1 *month* of the offer being made, the lender must withdraw the offer and continue with the remaining steps in the *consumer redress scheme*.

(7) The deadlines in this chapter are extended by 1 *month* where the lender relies on this *rule*.

First step: send letters to consumers who have existing complaints

5.2.3 R Within 3 *months* of the scheme effective date, for *complaints* that have been received before the scheme effective date, the lender must:

(1) identify whether it is a scheme case that meets the conditions set out in *CONRED* 5.1.11R;

(2) confirm whether the scheme case identified in (1) includes at least 1 of the following arrangements:

(a) a *discretionary commission arrangement*;

(b) a high commission arrangement; or

(c) a tied arrangement;

(3) where the lender does not have the relevant records and information to identify the matters set out at (1) and (2), follow the *rules* and *guidance* set out in *CONRED* 5.2.4G to *CONRED* 5.2.9R;

(4) where the *complaint* meets the conditions of a scheme case and:

(a) includes at least 1 relevant arrangement, send an opt-out letter containing the information set out in *CONRED* 5 Annex 3.1R to:

(i) inform the consumer that the *complaint* is a scheme case and includes at least 1 relevant arrangement;

(ii) indicate that the *complaint* will be dealt with under the *consumer redress scheme* unless the consumer opts out; and

(iii) request the consumer to indicate whether they are opting out of the *consumer redress scheme*;

(b) does not include any of the relevant arrangements:

(i) inform the consumer of that decision and the reasons for it in a provisional redress decision in a letter containing the information set out in *CONRED* 5 Annex 4.1R and which provides the consumer with 1 *month* to respond; and

(ii) send the *redress determination* in a letter containing the information set out in *CONRED* 5 Annex 5.1R as soon as reasonably practicable after:

(A) it has considered any representations made by the consumer in response to the letter required under (b)(i); or

(B) 1 *month* of sending the letter required under (b)(i), if the consumer does not reply to it;

(5) where the *complaint* does not meet the conditions of a scheme case:

(a) inform the consumer of that decision and the reasons for it in a provisional redress decision in a letter containing the

information set out in *CONRED* 5 Annex 6.1R which provides the consumer with 1 *month* to respond; and

(b) send the *redress determination* in a letter containing the information set out in *CONRED* 5 Annex 7.1R as soon as reasonably practicable after:

(i) it has considered any representations made by the consumer in response to the letter required under (a); or

(ii) 1 *month* of sending the letter required under (a), if the consumer does not reply to it;

(6) where the lender cannot determine whether the *complaint* meets the conditions of a scheme case in *CONRED* 5.1.11R, follow the process set out in *CONRED* 5.2.10R to *CONRED* 5.2.12E before issuing the *redress determination* to confirm that the consumer will get no redress under the *consumer redress scheme*; and

(7) where (5) applies, and the *complaint* is currently paused in accordance with *DISP* App 5, respond to the *complaint* in accordance with the *rules* in *DISP* App 5.

Relevant records and information to identify scheme cases and relevant arrangements

5.2.4 G In relation to a motor finance agreement that ended on or after:

(1) 11 January 2018 but before 28 January 2021, *lenders* and *credit brokers* are expected to have retained records which confirm whether the agreement contained a *discretionary commission arrangement* pursuant to the record retention rule in *DISP* App 5.3.1R; and

(2) 20 December 2018, *lenders* and *credit brokers* are expected to have retained records which confirm whether the agreement contained all other relevant arrangements pursuant to the record retention rule in *DISP* App 5.3.1AR.

5.2.5 E (1) In order to identify whether a particular motor finance agreement is a scheme case or the relevant arrangements are present in respect of scheme case in accordance with *CONRED* 5.2.3R, the lender must:

(a) first consider the primary records of the type set out at *CONRED* 5 Annex 1.1G(1); and

(b) where appropriate, consider whether reasonable assumptions can be made by relying on the secondary records.

(2) A lender may only rely on secondary records if it can demonstrate that it is has taken reasonable steps to verify that the record relates to a

period of time that is contemporaneous with the time the consumer entered into their motor finance agreement.

Requirement to contact credit brokers

5.2.6 R A lender, in circumstances where it does not have the records necessary to identify the matters set out in *CONRED* 5.2.3R(1) to (2), must request relevant records and information from the relevant credit broker.

5.2.7 G When making the request of the credit broker in *CONRED* 5.2.6R, the lender may also request the relevant records and information necessary to conduct the unfair relationship assessment in accordance with *CONRED* 5.3.2R.

5.2.8 R If a credit broker either does not respond to the request for information in *CONRED* 5.2.6R within 1 *month* or the credit broker only partially responds, the lender must send a further letter as soon as practicable, providing a further 14 *days* for the credit broker to respond.

5.2.9 R A credit broker, where it receives a request for information from a lender under *CONRED* 5.2.6R and *CONRED* 5.2.8R, must conduct a thorough search of their systems and respond to that request within the prescribed deadlines by either:

(1) providing the requested information in the format requested or, if that is not reasonably practicable, a reasonable format; or

(2) confirming that it does not hold the requested information.

Redress determination: missing or insufficient information

5.2.10 R Where a lender has:

(1) complied with the *rules*, *guidance* and *evidential provisions* in *CONRED* 5.2.3R to *CONRED* 5.2.5E;

(2) taken the steps in set out in *CONRED* 5.2.6R to *CONRED* 5.2.8R; and

(3) failed to receive from a credit broker the necessary evidence to establish whether the motor finance agreement is a scheme case,

the lender must determine that there is insufficient evidence to confirm that the conditions in *CONRED* 5.1.11R have been met.

5.2.11 R If it makes the determination referred to in *CONRED* 5.2.10R, the lender must:

(1) inform the consumer of that determination and the fact that there will be no redress payable and the reasons in a provisional redress decision containing the information set out in *CONRED* 5 Annex 8.1R; and

(2) give the consumer at least one *month* to respond to that provisional redress decision and provide any relevant records and information; and

(3) send the *redress determination* in a letter containing the information set out in *CONRED* 5 Annex 9.1R as soon as reasonably practicable after:

(a) it has considered any representations made by the consumer in response to the letter required under (1)(a); or

(b) 1 *month* of sending the letter required under (a) if the consumer does not reply to it.

5.2.12 E Where the evidence being relied on by the lender is of equal relevance to the evidence adduced by the consumer in accordance with *CONRED* 5.2.10R and where there is a conflict in the content of that evidence, the lender must resolve the conflict in favour of the consumer unless the lender can demonstrate a clear basis for not doing so.

Acknowledge opt-out

5.2.13 R Where the consumer responds to the opt-out letter referred to in *CONRED* 5.2.3R(4) within 1 *month* stating that they do not wish to have their case considered under this *consumer redress scheme*, the lender must within 7 *days* send the consumer a *redress determination* in the form set out in *CONRED* 5 Annex 10.1R to:

(1) acknowledge the opt-out; and

(2) explain that the *complaint* will not be dealt with any further.

Next steps for scheme cases that have not opted out

5.2.14 R For all other scheme cases, including a case where the lender does not receive a response to the opt-out letter in *CONRED* 5.2.3R(4) within 1 *month*, the lender should proceed to the third step in *CONRED* 5.3.1R.

Second step: send an opt-in letter to consumers with motor finance agreements where there is no existing complaint as at the scheme effective date

5.2.15 R In relation to all other motor finance agreements which are not identified as being the subject of an existing *complaint* pursuant to the first step, within 6 *months* of the scheme effective date, the lender must:

(1) identify whether the agreement meets the conditions of a scheme case in *CONRED* 5.1.11R;

(2) where a scheme case is identified in accordance with (1), determine whether there is at least 1 relevant arrangement;

(3) where the lender does not have the relevant records and information to identify the matters set out at (1) and (2), follow the *rules* and *guidance* set out in *CONRED* 5.2.4G to *CONRED* 5.2.9R.

(4) where a scheme case:

(a) includes at least 1 of the relevant arrangements, send a letter in the form set out in *CONRED* 5 Annex 11.1R to:

(i) inform the consumer that the agreement is a scheme case and includes one or more relevant arrangements; and

(ii) invite the consumer to opt into the *consumer redress scheme* within 6 *months* of the lender having sent the letter to the consumer.

(b) does not include any of the relevant arrangements, send a letter in the form set out in *CONRED* 5 Annex 11.1R to:

(i) inform the consumer that the agreement is a scheme case and does not include any of the relevant arrangements; and

(ii) inform the consumer of their right to opt into the *consumer redress scheme* nonetheless within 6 *months* of the consumer receiving the letter from the lender.

(5) where the agreement does not meet the conditions of a scheme case:

(a) inform the consumer of that decision and the reasons for it in a provisional redress decision in a letter in the form set out in *CONRED* 5 Annex 12.1R which provides the consumer with 1 *month* to respond; and

(b) send the *redress determination* in a letter in the form set out in *CONRED* 5 Annex 13.1R as soon as reasonably practicable after:

(i) it has considered any representations made by the consumer in response to the letter required under (5)(a); or

(ii) 1 *month* of sending the letter required under (5)(a), if the consumer does not reply to it;

(6) where the lender cannot determine whether the agreement meets the conditions of a scheme case in *CONRED* 5.1.11R, follow the process set out in *CONRED* 5.2.10R to *CONRED* 5.2.12E before issuing the *redress determination* to confirm that the consumer will get no redress under the *consumer redress scheme*.

5.2.16 R (1) This *rule* does not apply if the lender has already sent an opt-in letter to the consumer within the prescribed deadlines in this chapter, and the deadline for the consumer to opt in has expired.

(2) If a lender receives a *complaint* from a consumer relating to a motor finance agreement on or after the scheme effective date and within 12 *months* of that date, it must:

(a) determine whether the *complaint* is a scheme case in accordance with *CONRED* 5.2.15R(1) and (3);

(b) if it is, determine whether at least 1 of the relevant arrangements is present in accordance with *CONRED* 5.2.15(2) and (3); and

(c) presume that the *complaint* is an 'opt-in' under this step.

(3) Where (2) applies, the lender must send a letter containing the information set out in *CONRED* 5 Annex 11.1R to acknowledge the *complaint* and confirm to the consumer whether the *complaint* relates to the subject matter of the *consumer redress scheme* and set out next steps.

Opt-in reminders

5.2.17 R (1) Where the lender has not received an opt-in within 1 *month* of sending the letter in *CONRED* 5.2.15R(4)(a) or *CONRED* 5.2.15R(4)(b), the lender must, within 1 *month*, send the consumer an opt-in reminder (containing the information set out in *CONRED* 5 Annex 15.1R).

(2) Where the lender has not received an opt-in from the consumer within 1 *month* of the reminder letter in (1), the lender must follow the process set out in *CONRED* 5.7.3R to *CONRED* 5.7.5R in taking all reasonable steps to contact the consumer.

(3) In respect of any motor finance agreement where the lender has received an opt-in under the second step more than 6 *months* after the consumer was sent the opt-in letter in accordance with *CONRED* 5.2.15R, the lender must proceed to the third step if the consumer's failure to comply with that time limit was caused by exceptional circumstances as set out in *CONRED* 5.4.26G.

(4) Where (3) applies, the deadlines in this chapter are extended according to the length of the delay caused by the consumer's failure to comply with the time limit.

(5) For any scheme case where the firm has received an opt-in more than 6 *months* after the consumer was sent the opt-in letter in accordance with *CONRED* 5.2.15R, but the lender does not consider (3) requires it to proceed to the third step, and does not intend to do so, the lender must:

(a) inform the consumer of that determination and the reasons for it in a provisional redress decision in a letter in the form set out in *CONRED* 5 Annex 19.1R which provides the consumer with 1 *month* to respond; and

(b) send the *redress determination* in a letter in the form set out in *CONRED* 5 Annex 20.1R as soon as reasonably practicable after:

(i) it has considered any representations made by the consumer in response to the letter required under (5)(a); or

(ii) 1 *month* of sending the letter required under (a) if the consumer does not reply to it.

Next steps for scheme cases

5.2.18 R (1) Paragraph (2) applies where, with respect to all scheme cases identified in *CONRED* 5.2.15R, the consumer has opted in:

(a) within 6 *months* of being sent the opt-in letter in *CONRED* 5.2.15R(4)(a) or (b); or

(b) in accordance with *CONRED* 5.2.16R or *CONRED* 5.2.17R(3).

(2) The lender must:

(a) within 7 *days* of receiving the response, send the consumer an acknowledgment containing the information set out in *CONRED* 5 Annex 14.1R to confirm that the scheme case is being assessed under the *consumer redress scheme* and setting out the deadlines for next steps; and

(b) proceed to the third step.

5.3 Third step: assessing scheme cases under unfair relationship provisions

5.3.1 R (1) If the lender has previously identified that none of the relevant arrangements are present in respect of a scheme case in accordance with *CONRED* 5.2.15R(2) but the consumer has nonetheless exercised the right referred to in *CONRED* 5.2.15R(4)(b)(ii) to opt in, the lender must determine that there was no unfair relationship.

(2) If it makes that determination, the lender must:

(a) inform the consumer of that determination and the reasons for it in a provisional redress decision in a letter containing the information set out in *CONRED* 5 Annex 16.1R and which provides the consumer with 1 *month* to respond; and

(b) send the *redress determination* in a letter containing the information set out in *CONRED* 5 Annex 18.1R as soon as reasonably practicable after:

(i) it has considered any representations made by the consumer in response to the letter required under (2)(a); or

(ii) 1 *month* of sending the letter required under (2)(a) if the consumer does not reply to it.

5.3.2 R For each relevant arrangement that the lender determines is present in respect of a scheme case in its assessment under *CONRED* 5.2.3R, *CONRED* 5.2.15R and *CONRED* 5.2.16R(2)(b), the lender must determine whether it is more likely than not that:

(1) there is or was an unfair relationship under the unfair relationship provisions arising out of a failure to provide adequate disclosure of one or more of the relevant arrangements (stage 1); and

(2) the consumer suffered loss or damage as a result (stage 2).

Relevant records and information at assessment stage

5.3.3 R Before undertaking the stage 1 assessment, the lender must review the relevant records and information of the type set out in *CONRED* 5 Annex 1.1G to identify:

(1) whether there are any more relevant arrangements present in respect of the scheme case; and

(2) whether the lender has the necessary records and information to determine whether there was adequate disclosure of the relevant arrangements.

5.3.4 E (1) In order to identify whether any of the relevant arrangements are present in accordance with *CONRED* 5.3.3R(1), the lender must:

(a) first consider the primary records of the type set out at *CONRED* 5 Annex 1.1G(1); and

(b) where appropriate, consider whether reasonable assumptions can be made by relying on the secondary records and apply those presumptions accordingly.

(2) In order to identify whether the lender has documents that would show adequate disclosure in accordance with *CONRED* 5.3.3R(2), the lender must first consider the primary records of the type set out at *CONRED* 5 Annex 1.1G(2).

Requirement to contact credit brokers

5.3.5 R A lender, in circumstances where it does not have the records necessary to identify the matters set out in *CONRED* 5.3.2R, must request relevant records and information from the credit broker.

5.3.6 R If a credit broker does not respond to the request for information in *CONRED* 5.3.5R within 1 *month*, or only sends a partial response, the lender must send a further letter as soon as practicable, providing a further 14 days for the credit broker to respond.

5.3.7 R A credit broker, where it receives a request for information from a lender under *CONRED* 5.3.5R or *CONRED* 5.3.6R, must conduct a thorough search of their systems and respond to that request within 1 *month* by either:

(1) providing the requested information in the format requested or, if that is not reasonably practicable, a reasonable format; or

(2) confirming that it does not hold the requested information.

5.3.8 R Where a lender has taken the steps set out in *CONRED* 5.3.2R to *CONRED* 5.3.6R but does not have sufficient information to identify whether a relevant arrangement is present in respect of a scheme case, the lender may undertake the unfair relationship assessment required under this section on the basis that the relevant arrangement is not present.

Stage 1: the unfair relationship assessment

5.3.9 R The lender must presume that there was an unfair relationship in respect of a scheme case where:

(1) one or more of the relevant arrangements are present; and

(2) there was a failure to adequately disclose to the consumer that any of those arrangements that were present.

Assessing the adequacy of disclosure

5.3.10 R To assess whether there was a failure to provide adequate disclosure for the purposes of *CONRED* 5.3.9R(2), the firm must apply:

(1) the *rules* on assessing adequate disclosure in *CONRED* 5.3.11R and *CONRED* 5.3.12R; and

(2) section 56 of the *CCA* (see *CONRED* 5.3.13G).

5.3.11 R (1) There will not have been adequate disclosure of the relevant arrangements unless the following information (the 'disclosure information') was clearly and prominently provided to the consumer before the consumer entered into the motor finance agreement:

(a) in relation to a discretionary commission arrangement – the fact that commission was payable to the credit broker in respect of the consumer's agreement, and sufficient information about the discretionary commission arrangement for the consumer to understand that the credit broker was permitted to select the interest rate provided for under the motor finance agreement in

a way that affected the amount of commission that would be received by the credit broker;

(b) in relation to a high commission arrangement – the fact and amount of the commission payable to the credit broker in respect of the consumer's agreement, either by the disclosure of the amount of commission in monetary terms or by disclosure of the method by which the commission amount would be calculated such that the consumer was able to understand its size;

(c) in relation to a tied arrangement – the fact of the tied arrangement and sufficient information about the arrangement for the consumer to understand that the credit broker was required to introduce consumers exclusively to the lender or give the lender the option to provide an offer of credit to the consumer before the credit broker approached any other lender (as relevant).

(2) The disclosure information will not have been clearly and prominently provided unless it was presented, in relation to the other information provided at the same time, in such a way that it (subject to (3) and (4) below) was likely to have drawn the attention of the average customer to whom it was directed.

(3) The lender may base its assessment of whether there was adequate disclosure for the purposes of (1) on whether the disclosure was likely to have been adequate for the average consumer to whom the relevant communication was directed unless there is evidence in the records relating to the scheme case that:

(a) the consumer had characteristics which would have impaired the consumer's ability to meaningfully understand the information; and

(b) those characteristics would at the time have been apparent to the person making the communication.

(4) Where the circumstances in (3)(a) and (b) apply, the lender should further consider whether any additional information, further explanation or a different communication channel would have been required to meet the information needs of that consumer such that the disclosure can be assessed as adequate.

Assessing the adequacy of disclosure: approach to evidence

5.3.12 R (1) This *rule* sets out the lender's approach to evidence when assessing whether there was adequate disclosure of the disclosure information.

(2) The lender must presume that there was no adequate disclosure unless one of the conditions in (3) or (4) is met.

(3) The first condition referred to in (2) is that:

(a) one (or more) of the primary records of the type listed in *CONRED* 5 Annex 1.1G(2) contains the disclosure information; and

(b) either:

(i) there is evidence that the disclosure information contained in that record (or records) was provided to the consumer prior to the consumer entering into the motor finance agreement; or

(ii) the lender has reasonable grounds to believe that the consumer was made aware of the disclosure information contained in that record (or records) prior to that consumer entering into the motor finance agreement.

(4) The second condition referred to in (2) is that there are relevant secondary records which demonstrate that the disclosure information was more likely than not provided to the consumer before the consumer entered into the motor finance agreement.

(5) For the purposes of this rule, 'relevant secondary record' means:

(a) records (of the type described in *CONRED* 5 Annex 1.1G(3) (such as template disclosure materials or other records)) which set out clearly the policy of the lender or the credit broker to include information that would constitute adequate disclosure in the information provided to consumers at the relevant time; or

(b) contemporaneous records of the type described in *CONRED* 5 Annex 1.1G(2) relating to other consumers who were in a sufficiently similar position as the consumer in the scheme case, and which include information that demonstrates the standard disclosure practice of the lender or the credit broker at the relevant time.

(6) A lender may only rely on a relevant secondary record if it can demonstrate that it is has taken reasonable steps to verify that the record relates to a period of time that is contemporaneous with the time the consumer entered into their motor finance agreement.

Assessing the adequacy of disclosure: guidance on applying section 56 of the Consumer Credit Act

5.3.13 G The effect of section 56(2) of the *CCA* is that the acts and omissions of a credit broker when conducting 'antecedent negotiations' with the consumer are attributable to the lender for the purposes of the assessment of whether a credit relationship is unfair under section 140A of the *CCA*. As a result, where

section 56 of the *CCA* applies in the context of a scheme case, the lender must also consider any acts or omissions by the credit broker in conducting those negotiations.

Rebutting a presumption of unfairness

5.3.14 R (1) Where there is a presumption of unfair relationship arising out of a failure to adequately disclose more than one of the relevant arrangements, the presumption may only be rebutted if the condition for rebuttal applies in relation to each of those failures.

(2) A presumption of an unfair relationship is rebuttable by the lender where there is evidence that the particular consumer could reasonably be expected to have known about or foreseen the disclosure information about the relevant arrangements because of:

(a) their level of specific knowledge or experience (for example, from working in a relevant role within a vehicle dealership or the motor finance industry); or

(b) prior transactions with the lender or credit broker involving adequate disclosure of the relevant arrangements.

(3) A presumption of an unfair relationship arising out of a failure to adequately disclose a discretionary commission arrangement is also rebuttable by the lender where the lender can demonstrate on the basis of evidence that the interest rate that applied under the motor finance agreement was the lowest rate of interest in the range of interest rates that could have been selected by the credit broker under the discretionary commission arrangement.

(4) For the purposes of (3), the lowest rate of interest in the range is the rate at which the credit broker would not receive additional commission in respect of the motor finance agreement because of the exercise of its discretion under the discretionary commission arrangement.

5.3.15 R If the presumption applies and is not rebutted in accordance with *CONRED* 5.3.14R, the lender must determine that there was an unfair relationship.

Unfair relationship assessment: next steps

5.3.16 R (1) Where the lender determines that there was an unfair relationship in accordance with *CONRED* 5.3.2R(1), the lender must proceed to *CONRED* 5.3.17R (Stage 2: loss or damage assessment – presumption of loss or damage).

(2) If the lender determines there was not an unfair relationship in accordance with *CONRED* 5.3.2R(1) because there was adequate disclosure or the presumption of an unfair relationship was rebutted, the lender must:

(a) inform the consumer of that determination and the reasons for it in a provisional decision in a letter containing the information set out in *CONRED* 5 Annex 16.1R which provides the consumer with 1 *month* to respond; and

(b) send the final *redress determination* in a letter containing the information set out in *CONRED* 5 Annex 18.1R as soon as reasonably practicable after:

(i) it has considered any representations made by the consumer in response to the letter required under (2)(a); or

(ii) 1 *month* of sending the letter required under (2)(a) if the consumer does not reply to it.

Stage 2: loss or damage assessment – presumption of loss or damage

5.3.17 R Where the lender determines there was an unfair relationship in respect of a scheme case, the lender must presume that the unfair relationship caused the consumer loss or damage.

Stage 2: loss or damage assessment – rebuttal of presumption of loss or damage

5.3.18 R (1) The presumption of loss or damage set out in *CONRED* 5.3.17R is rebuttable by the lender if it can demonstrate on the basis of evidence that the consumer would not, in relation to the same transaction, have been able to obtain a lower annual percentage rate from another lender with which the credit broker had, at the relevant time, an arrangement relating to the introduction of consumers wishing to enter into motor finance agreements.

(2) The rebuttal in (1) cannot be relied upon in scheme cases involving a discretionary commission arrangement.

5.3.19 E (1) The basis for rebuttal described in *CONRED* 5.3.18R(1) only applies where the alternative annual percentage rate the lender wishes to rely on is one that would, at the relevant time, have been available to that particular consumer from another lender with which the credit broker had arrangements relating to the effecting of introductions (for example, where the credit broker had access to a 'panel' of other lenders as an alternative to the right of first refusal arrangement it had with the lender).

(2) Reliance on the rebuttal must also be supported by specific, relevant and contemporaneous evidence. This means evidence which:

(a) is clearly relevant to the consumer and transaction to which the scheme case relates;

(b) demonstrates the alternative rates that would have been available to the consumer for that transaction through the credit broker, taking into account, for example, the consumer's credit profile, the credit amount and product type;

(c) was created at or very close to the time of the transaction, not generated retrospectively.

(3) Examples are likely to include:

(a) dated and version-controlled lender rate sheets for the relevant period that provide information about rates for consumers with different credit profiles, credit amounts and product types, allowing rates to be matched to the individual consumer;

(b) timestamped broker platform screenshots showing the consumer's application and the range of offers available;

(c) timestamped communications (for example, emails or system notes) confirming the offers considered and the rationale for selection.

(4) For the avoidance of doubt, generic, expert or market-wide evidence indicating that the annual percentage rate the customer obtained was a competitive rate by reference to the market will not be sufficient for the purposes of *CONRED* 5.3.18R(1).

5.3.20 R Where the lender has determined that there was an unfair relationship arising out of a failure to adequately disclose more than one of the relevant arrangements, the presumption of loss or damage may only be rebutted if the condition for rebuttal applies in relation to each of those failures.

5.3.21 R If the presumption of loss and damage is not rebutted, the lender must determine that the unfair relationship caused the consumer loss or damage.

Stage 2: loss or damage assessment: next steps

5.3.22 R (1) If the lender determines that the unfair relationship caused loss or damage to the consumer, the lender must proceed to the fourth step in *CONRED* 5.4.

(2) If the lender determines that the unfair relationship did not cause loss or damage to the consumer (because the presumption was rebutted in accordance with *CONRED* 5.3.18R), the lender must:

(a) inform the consumer of that determination and the reasons for it in a provisional decision in a letter in the form set out in *CONRED* 5 Annex 16.1R which provides the consumer with 1 *month* to respond; and

(b) send the final *redress determination* in a letter in the form set out in *CONRED* 5 Annex 18.1R as soon as reasonably practicable after:

(i) it has considered any representations made by the consumer in response to the letter required under (2)(a); or

(ii) 1 *month* of sending the letter required under (2)(a) if the consumer does not reply to it.

5.4 Consumer redress scheme: calculating and paying redress

Overview of the fourth and fifth steps

5.4.1 R Where a lender has determined that, in relation to a scheme case, there was an unfair relationship under *CONRED* 5.3 and the consumer has suffered loss or damage as a result, the lender must:

(1) determine the provisional amount of redress owed to the consumer in accordance with *CONRED* 5.4.3R to *CONRED* 5.4.18R;

(2) send a provisional redress decision in accordance with *CONRED* 5.4.22R, which provides the consumer with 1 *month* to respond; and

(3) either:

(a) send a *redress determination* and pay redress in accordance with *CONRED* 5.4.24R where the consumer has not responded within 1 *month*; or

(b) acknowledge the consumer's response in accordance with *CONRED* 5.4.23R, consider the consumer's formal objection and then send a *redress determination* and pay redress.

Fourth step: calculating redress

5.4.2 G (1) The amount of redress owed to a consumer will depend on the nature of the unfair relationship, determined under *CONRED* 5.3, whether there was a very high commission arrangement and the outcome of the redress calculations in this section.

(2) Where it has been determined that there was inadequate disclosure of a high commission arrangement and a tied arrangement which caused loss and damage, the lender must then determine if the amount of commission was very high and, if so, the lender must calculate and pay redress in accordance with whichever is the greater of the commission repayment remedy (*CONRED* 5.4.4R) or the APR adjustment remedy (*CONRED* 5.4.12R).

(3) In all other cases, the lender must calculate and pay redress in accordance with the hybrid remedy (*CONRED* 5.4.14R), unless the APR adjustment remedy (*CONRED* 5.4.12R) is greater, in which case it should calculate and pay redress in accordance with that remedy.

(4) All references to redress or redress amount in this section include compensatory interest.

The commission repayment remedy

5.4.3 R Where the following conditions are satisfied, the lender must calculate the redress owed to the consumer in accordance with *CONRED* 5.4.4R (the commission repayment remedy) and *CONRED* 5.4.12R (the APR adjustment remedy):

(1) there was:

(a) a very high commission arrangement; and

(b) a tied arrangement; and

(2) there was an unfair relationship arising from inadequate disclosure of both:

(a) the high commission arrangement in accordance with *CONRED* 5.3.11R(1)(b); and

(b) the tied arrangement in accordance with *CONRED* 5.3.11R(1)(c); and

(3) it has been determined this caused loss or damage in accordance with *CONRED* 5.3.18R to *CONRED* 5.3.21R.

5.4.4 R (1) Subject to *CONRED* 5.4.5R, the amount of redress (the commission repayment remedy), is the sum of A and B, net of any sums owed by the consumer, where:

(a) 'A' is the total amount of commission payable; and

(b) 'B' is compensatory interest on that amount, calculated using the interest rate formula at *CONRED* 5.4.17R, applied from the date the consumer entered into the motor finance agreement until the date of redress payment.

(2) For the purpose of calculating redress for the provisional redress decision, the date of redress payment is 2 *months* after the date of that provisional decision.

(3) In (1) and *CONRED* 5.4.12R(2), 'sums owed by the consumer' means any undisputed arrears or default sums owed by the consumer to the

lender in relation to any motor finance agreement or any other *regulated credit agreement* with the lender.

5.4.5 R Where the amount calculated in accordance with *CONRED* 5.4.4R (the commission repayment remedy) is less than the amount calculated in accordance with *CONRED* 5.4.12R (the APR adjustment remedy), the APR adjustment remedy must be used to calculate and pay redress.

Overview – the APR adjustment remedy and the hybrid remedy

5.4.6 R Where the lender has determined in accordance with this scheme that there was an unfair relationship other than where the conditions at *CONRED* 5.4.3R(1) to (3) apply, the lender must calculate:

(1) the commission repayment remedy in accordance with *CONRED* 5.4.4R;

(2) the APR adjustment remedy in accordance with *CONRED* 5.4.7R to *CONRED* 5.4.12R;

(3) the hybrid remedy in accordance with *CONRED* 5.4.14R; and

(2) the amount of redress owed to the consumer in accordance with *CONRED* 5.4.15R.

The APR adjustment remedy

5.4.7 R (1) Stage 1: the lender must first determine the market adjusted APR for the motor finance agreement.

(2) The market adjusted APR is the annual percentage rate of charge paid by the consumer under the motor finance agreement with the lender multiplied by 0.83.

(3) Where the motor finance agreement includes a discretionary commission arrangement and the lowest rate of interest in the range of interest rates that could have been selected by the credit broker is higher than the figure calculated in (2), the lowest rate of interest should be used instead of the market adjusted APR.

5.4.8 R (1) Stage 2: the lender must create a schedule of the consumer's payments under the motor finance agreement.

(2) (a) Where all relevant payment dates and payment amounts are available, the lender must recreate the schedule of actual payments, using the annual percentage rate of charge under the motor finance agreement ('Option 1').

(b) This schedule must also include any early settlement payment(s) made by the consumer.

(3) Where it is not possible to create a schedule in accordance with (2), the lender must create an equivalent schedule by applying the amortisation formula at (4), using the annual percentage rate of charge under the motor finance agreement, and assume, when applying this formula, that the motor finance agreement remained valid for the period agreed and the lender and consumer fulfilled their obligations under the term of that agreement ('Option 2').

(4) The amortisation formula is:

$$M = (P \times r) / 1 - (1 + r)^{-n}$$

where:

(a) M = monthly payment;

(b) P = principal (amount borrowed);

(c) r = monthly interest rate (which is the annual percentage rate of charge paid by the consumer under the motor finance agreement divided by 12); and

(d) n = total number of monthly payments (term in months)

(5) Where at (3) (Option 2), there is information to suggest that the consumer made early settlement payment(s) under the motor finance agreement, the lender must calculate these using the formula at regulation 4 of the Consumer Credit (Early Settlement) Regulations 2004 and replace any monthly payments with the early settlement payment(s).

5.4.9 R (1) Stage 3: the lender must create a schedule of the consumer's market adjusted payments.

(2) Where *CONRED* 5.4.8R(2) applies (Option 1), the lender must calculate all market adjusted payments, including any early settlement payments, by substituting the annual percentage rate of charge with the market adjusted APR calculated at *CONRED* 5.4.7R.

(3) Where *CONRED* 5.4.8R(3) applies (Option 2), the lender must calculate all market adjusted payments using the amortisation formula at *CONRED* 5.4.8R(4), where r equals the market adjusted APR calculated at *CONRED* 5.4.7R, divided by 12. The lender must also calculate any early settlement payment(s) by replacing the annual percentage rate of charge with the market adjusted APR.

5.4.10 R Stage 4: the lender must create a schedule of payment differentials using the formula:

$$A - B$$

where:

(1) 'A' is the consumer's payments under the motor finance agreement calculated in accordance with *CONRED* 5.4.8R; and

(2) 'B' is the corresponding market adjusted payments calculated in accordance with *CONRED* 5.4.9R.

5.4.11 R (1) Stage 5: the lender must calculate the presumed compensatory interest payments on the payment differentials calculated in accordance with *CONRED* 5.4.10R.

(2) The presumed compensatory interest payments are calculated in accordance with *CONRED* 5.4.17R.

(3) For the purpose of calculating compensatory interest for the provisional redress decision, the date of redress payment is 2 *months* after the date of the provisional redress decision.

5.4.12 R (1) Stage 6: the lender must calculate the APR adjustment remedy.

(2) The APR adjustment remedy is the sum of A and B, net of any sums owed by the consumer, where:

(a) 'A' is the sum of all payment differentials in the schedule created in accordance with *CONRED* 5.4.10R; and

(b) 'B' is the sum of all presumed compensatory interest payments on those payment differentials calculated in accordance with *CONRED* 5.4.11R.

5.4.13 G The APR adjustment remedy should also be adopted in a scheme case where the conditions in *CONRED* 5.4.3R(1) to (3) are satisfied (an unfair relationship arising from inadequate disclosure of a very high commission and tied arrangement) and the APR adjustment remedy is greater than the commission repayment remedy (see also *CONRED* 5.4.5R).

The hybrid remedy

5.4.14 R (1) The lender must calculate the amount of redress payable under the hybrid remedy using the formula at (2).

(2) The hybrid redress amount is calculated by applying the formula:

$$(A + B) / 2$$

where:

(a) 'A' is the amount calculated in accordance with *CONRED* 5.4.7R to 5.4.12R (the APR adjustment remedy); and

(b) 'B' is the amount calculated in accordance with *CONRED* 5.4.4R (the commission repayment remedy).

5.4.15 R The amount of redress owed to a consumer where *CONRED* 5.4.6R applies is either:

(1) the amount calculated in accordance with *CONRED* 5.4.14R (the hybrid remedy); or

(2) the amount calculated in accordance with *CONRED* 5.4.12R (the APR adjustment remedy), where this amount is greater than the hybrid amount at (1).

Redress calculation evidential provisions

5.4.16 E (1) Where the annual percentage rate of charge or commission amount are not available, the lender must use the median annual percentage rate of charge or median commission amount, as applicable, for the relevant credit broker in the financial year the motor finance agreement was entered into.

(2) Where the original loan amount is not available, the lender must calculate this using an online motor valuation guide such as AutoTrader, CAP, Percayso and Glass's for the relevant motor vehicle and the relevant year, deducting 10% to reflect a typical deposit payment.

(3) Where the date the consumer entered into the motor finance agreement is not available, the lender must use:

(a) 48 *months* prior to the agreement end date, if the end date is available; or

(b) for new motor vehicles, the time period associated with the motor vehicle registration and assume the agreement was entered into on the first day of that registration period; or

(c) for used or second hand motor vehicles, any information that indicates when the credit broker acquired the motor vehicle, such as date of purchase.

(4) Where the agreement end date is not available, the lender must adopt a duration of 48 *month*s beginning with the date on which the consumer entered into the relevant motor finance agreement.

(5) Where the lowest rate of interest in the range of interest rates under a *discretionary commission arrangement* is not available, the lender must adopt the actual annual percentage rate of charge multiplied by 0.83.

(6) Where the amounts owed by the consumer for arrears or defaults are not available, the lender should assume a value of £0.

(7) Where necessary information to calculate early settlement payment(s) is not available, the lender must assume that the motor finance agreement remained valid for the period agreed, and the lender and consumer fulfilled their obligations under the terms and by the dates specified in that agreement

Calculation method for presumed compensatory interest – commission repayment remedy and APR adjustment remedy

5.4.17 R (1) This *rule* sets out how the lender must calculate presumed compensatory interest as part of the commission repayment remedy at *CONRED* 5.4.4R(1) and the APR adjustment remedy at *CONRED* 5.4.12R.

(2) (a) In relation to the commission repayment remedy, divide the period from the date the consumer entered into the motor finance agreement until the date of redress payment into calendar year segments.

(b) In relation to the APR adjustment remedy at *CONRED* 5.4.12R:

(i) for each payment differential in the schedule at *CONRED* 5.4.10R, identify the date the payment was made and the date of redress payment to create a list of interest periods; and

(ii) divide each interest period at (i) into calendar year segments.

(3) For each calendar year segment:

(a) identify the compensatory interest rate from the table in *CONRED* 5.4.18R that applies to that year;

(b) calculate the number of days for which that rate applies in that calendar year; and

(c) apply the formula at (4).

(4) The formula is:

$$Calendar\ year\ segment\ interest\ amount = principal \times compensatory\ interest\ rate\ for\ that\ year \times (\frac{days}{365})$$

where:

(a) the principal is either:

(i) the total amount of commission payable, when calculating interest in relation to the commission repayment remedy; or

(ii) each payment differential set out in the schedule produced in accordance with *CONRED* 5.4.10R, when calculating interest in relation to the APR adjustment remedy; and

(b) compensatory interest rate is the rate that applies for that calendar year as set out in the table at *CONRED* 5.4.18R

(5) Sum the interest amounts for all calendar year segments to calculate the presumed total compensatory interest.

5.4.18 R Table: Annual averages of the daily Bank of England base rate plus 1 percentage point

Compensatory interest rates 2007–2025			
2007	6.75%	**2017**	1.50%
2008	5.75%	**2018**	1.75%
2009	1.75%	**2019**	1.75%
2010	1.50%	**2020**	1.25%
2011	1.50%	**2021**	1.25%
2012	1.50%	**2022**	2.50%
2013	1.50%	**2023**	5.75%
2014	1.50%	**2024**	6.25%
2015	1.50%	**2025**	5.50%
2016	1.50%		

Rebuttal of presumed compensatory interest amount

5.4.19 R (1) A lender must allow for the presumed total amount of compensatory interest to be rebutted by a consumer if they can demonstrate, based on evidence, that they have incurred increased borrowing costs and the amount does not adequately compensate them.

(2) Increased borrowing costs requires a consumer to demonstrate that, as a result of the motor finance agreement, they were deprived of money and had to borrow funds at a higher cost.

5.4.20 G In accordance with *CONRED* 5.4.22R(4), the consumer must object to the total amount of compensatory interest set out in the provisional redress decision within 1 *month*.

5.4.21 E Contemporaneous evidence is required to support a consumer's rebuttal of the amount of compensatory interest. Evidence may include:

(1) bank statements showing insufficient funds following repayments under the motor finance agreement;

(2) evidence of subsequent borrowing;

(3) correspondence indicating financial distress linked to payments relating to the motor finance agreement.

Fifth step: sending the provisional redress decision, redress determination and paying redress.

5.4.22 R After calculating the amount of redress, the lender must send the consumer a provisional redress decision that contains the information set out in *CONRED* 5 Annex 16.1R, and includes:

(1) the basis for the lender's determination that there was an unfair relationship that caused loss or damage;

(2) the total amount of redress payable to the consumer;

(3) details of the calculations the lender made under *CONRED* 5.4.3R to *CONRED* 5.4.18R to determine the total amount of redress, clearly setting out the amount of compensatory interest included in these calculations; and

(4) that the consumer has 1 *month* from the date of the provisional redress decision to respond to it.

Objecting to the provisional redress decision

5.4.23 R (1) Where a consumer provides a response disagreeing with the provisional redress decision in accordance with *CONRED* 5.4.22R(4), the lender must:

(a) send an acknowledgment containing the information set out in *CONRED* 5 Annex 17.1R within 7 *days*, requiring the consumer to provide a formal objection, including any evidence in support of the rebuttal of the compensatory interest amount, within 1 *month* of the date of the acknowledgement;

(b) consider the consumer's formal objection and any supporting evidence and, where appropriate, amend the redress calculations, including interest calculations, created for the provisional redress decision;

(c) send the consumer the *redress determination* containing the information set out in *CONRED* 5 Annex 18.1R within 2 *months* of receiving the consumer's formal objection, which includes:

(i) an explanation of how the lender has considered the consumer's formal objection;

(ii) the lender's final determination of the amount of redress payable, including any changes made to the redress calculations included in the provisional redress decision; and

(iii) the information at *CONRED* 5.4.24R(1)(b); and

(d) comply with *CONRED* 5.4.24R(1)(c).

Sending a redress determination and paying redress

5.4.24 R (1) Where a lender does not receive a response within 1 *month* from the date of the provisional redress decision or does not receive a formal objection within the specified deadline, unless an exceptional circumstance under 5.4.25R applies, the lender must:

(a) send the consumer the *redress determination* containing the information set out in *CONRED* 5 Annex 18.1R, adopting the same approach to redress calculations as in the provisional redress decision but changing the redress payment date to the actual payment date for the purpose of calculating compensatory interest;

(b) consider providing the consumer with the option of either offsetting the amount of redress against any outstanding principal on the motor finance agreement or receiving it as a separate payment; and

(c) within 1 *month* of the date of the redress determination, pay the amount of redress to the consumer either by bank transfer or in accordance with the consumer's instructions.

(2) Where a consumer does not send a formal objection to the provisional redress decision by the specified deadline, the lender is not required to pay compensatory interest in relation to the period from the date of its acknowledgment of the consumer's response, to the deadline for the formal objection specified in the acknowledgment, unless an exceptional circumstance under *CONRED* 5.4.25R applies.

Handling a late formal objection

5.4.25 R Where the consumer does not provide a response or a formal objection to the provisional redress decision within the specified deadlines, the lender must

assess whether or not the reasons for this are exceptional, taking into account all the circumstances of the case.

5.4.26 G In the *FCA's* view, examples of circumstances that are exceptional under *CONRED* 5.4.25R might include:

(1) the consumer's incapacitation or other serious ill-health condition or a bereavement during the relevant period; or

(2) where the lender failed to comply with the requirements in this chapter.

5.4.27 R Where a lender has received a response to the provisional redress decision or a formal objection after the specified deadline and exceptional circumstances do not apply, the lender must send a redress determination in accordance with *CONRED* 5.4.24R.

5.4.28 R (1) Where the lender has received a response or formal objection after the specified deadline, exceptional circumstances apply and the lender has not sent the redress determination, the lender must comply with CONRED 5.4.23R as applicable.

(2) Where the lender has received a response or a formal objection after the specified deadline, exceptional circumstances apply and the lender has already sent the redress determination, the lender must send an updated redress determination complying with *CONRED* 5.4.23R(1)(b), (c) and (d).

Post redress interest until payment

5.4.29 R (1) Simple interest is payable on the amount of redress from the end of the 1 *month* period referred to in *CONRED* 5.4.24R(1)(c) until the date of payment of redress, at a rate of 8% per annum.

(2) After the expiry of the 1 *month* period in *CONRED* 5.4.24R(1)(c), the amount of redress, including interest, may be recovered as a debt due to the consumer and, in particular, may:

(a) if a county court so orders in England and Wales, be recovered by execution issued from the county court (or otherwise) as if it were payable under an order of that court;

(b) be enforced in Northern Ireland as a money judgment under the Judgments: Enforcement (Northern Ireland) Order 1981; or

(c) be enforced in Scotland by the sheriff, as if it were a judgment or order of the sheriff and whether or not the sheriff could themselves have granted such judgment or order.

5.5 Taking steps by or on behalf of the FCA

5.5.1 R (1) Where there has been a material failure by the lender or the persons referred to in *CONRED* 5.1.8R to take any of the actions required under this chapter, the *FCA* may:

(a) instead of the lender or the persons referred to in *CONRED* 5.1.8R, take any of the steps in *CONRED* 5.2 to *CONRED* 5.4; or

(b) appoint one or more competent persons to take any of the steps in *CONRED* 5.2 to *CONRED* 5.4.

(2) The *FCA* must give the lender notice before taking any steps under (1).

5.5.2 R If the *FCA* gives notice in the circumstances described in *CONRED* 5.5.1R(1), the lender must:

(1) not carry out (or, as the case may be, cease to carry out) any of the steps to be taken by the *FCA* or competent person, unless so directed by the *FCA* or the competent person (as applicable); and

(2) render all reasonable assistance to the *FCA* or competent person.

5.5.3 R A lender must, in rendering all reasonable assistance to the *FCA*, ensure that the *FCA* has access to all primary and secondary records and, to the extent that there are gaps in that information, request it from the appropriate person in accordance with the *rules* in this chapter.

5.5.4 R The competent person may request relevant records and information directly from the credit broker, providing them with 1 *month* to respond.

5.5.5 R If a credit broker does not respond to the request for information in *CONRED* 5.3.4R within 1 *month*, or the credit broker only partially responds, the competent person may send a further letter, providing a further 14 *days* for the credit broker to respond.

5.5.6 R A credit broker, where it receives a request for information from a competent person under *CONRED* 5.5.4R or *CONRED* 5.5.5R, must conduct a thorough search of their systems and respond to that request within the prescribed deadlines by either:

(1) providing the requested information in the format requested or, if that is not reasonably practicable, a reasonable format; or

(2) confirming that it does not hold the requested information.

5.5.7 R (1) If, where the *FCA* or a competent person takes any steps under *CONRED* 5.5.1R, the *FCA* proposes to make any determination of:

(a) whether there had been a material failure by the lender to take any actions required under this chapter in accordance with *CONRED* 5.5.1R;

(b) whether a failure by a lender has caused loss to a consumer; or

(c) what the provisional redress sum must be in respect of the failures,

the *FCA* must give the lender a *warning notice* specifying the proposed provisional determination.

(2) The provisional redress sum in (1) must be the amount that would be owed to a consumer if a *redress determination* was made pursuant to *CONRED* 5.4.24R on the same date as the *warning notice*.

5.5.8 R (1) If the *FCA* decides to make a determination of the matters in *CONRED* 5.5.7R, the *FCA* must give the lender a *decision notice* specifying the determination.

(2) If the *FCA* decides to make such a determination, the lender may refer the matter to the *Tribunal*.

5.5.9 G Part 26 of the *Act* (including the provisions as to *final notices*) applies in respect of notices given under *CONRED* 5.5.7R and *CONRED* 5.5.8R.

5.5.10 G Where, instead of the lender, the *FCA* or, where applicable, a competent person:

(1) communicates with a consumer, the *FCA* or the competent person:

(a) will do so in its own name, making clear in the case of a competent person its authority from the *FCA* to do so; and

(b) may make such amendments to the letters in the forms set out in the Annexes in *CONRED* 5 as are appropriate to reflect that they are being sent in the name of the *FCA* or competent person; or

(2) issues the *redress determination*, the *FCA* or the competent person will:

(a) update the redress sum in the provisional decision no earlier than 1 *month* after the issue of a final notice in respect of the *FCA's* decision to make a determination of the matters in *CONRED* 5.5.7R to reflect the amount that is owed at the time such *redress determination* is made; and

(b) send the lender a copy of the consumer's response to the *redress determination*.

5.5.11 G A fee is payable by the lender (or person falling within *CONRED* 5.1.8R(1) in any case where the *FCA* exercises its powers under *CONRED* 5.5.1R: see the table at *FEES* 3.2.7R.

5.5.12 G The completion of the steps in *CONRED* 5.2 to *CONRED* 5.4 by, or on behalf of, the *FCA*, as provided in *CONRED* 5.5.1R, does not affect the ability of the *Financial Ombudsman Service* to consider a *complaint*, in particular where the lender has not sent a *redress determination* in accordance with the time limits specified under the scheme.

5.6 Supervision and delegation of scheme process by firms

5.6.1 R (1) A lender must ensure that the steps required by this chapter are undertaken or supervised by the individual appointed by the lender under *DISP* 1.3.7R where that rule applies.

(2) Where *DISP* 1.3.7R does not apply, those steps must be taken or supervised by a person of appropriate experience and seniority.

5.6.2 G (1) Any lender intending to outsource any of the obligations imposed on it under this chapter must have due regard to the *rules* and *guidance* on outsourcing which are applicable to it, notably in *SYSC*.

(2) A lender which outsources any of the obligations imposed on it under this chapter in respect of communications with consumers must ensure that those communications are clear as to the identity of the lender.

5.7 Provisions relating to communications with consumers

5.7.1 R Whenever a lender is required by a provision of this chapter to send a letter containing information as set out in a specified Annex in *CONRED* 5, it must:

(1) do so enclosing any relevant documents and enabling the consumer to respond free of charge, where appropriate – for example, by including pre-paid envelopes;

(2) where the letter is a *redress determination*, insert a link to the *Financial Ombudsman Service* [*Editor's note*: insert link] in respect of such determination;

(3) complete the letter by following the instructions in the standard form set out in the specified Annex; and

(4) comply with any instructions in the specified Annex to insert, delete, select or complete text.

5.7.2 R All letters to consumers required under this chapter must be printed on the letterhead of the lender and dispatched by recorded delivery mail.

Communicating with consumers

5.7.3 R (1) Where a lender becomes aware that the contact details it holds for a consumer are out of date, it must take all reasonable steps to obtain up-to-date contact details, including contacting an appropriate third party such as a *credit reference agency* and, where appropriate, resend any

letter and repeat the steps to contact the consumer required by this chapter.

(2) If, having complied with (1), a lender is unable to contact a consumer, it need not take any further action pursuant to this chapter in relation to that consumer unless (3) applies.

(3) If, in reliance on (2), the lender has ceased taking action but subsequently becomes aware of up-to-date contact details for that consumer including due to receiving an opt-in or a *complaint* from the consumer within 12 *months* of the scheme effective date, or where it is later than 12 *months* of the scheme effective date and the exceptional circumstances guidance referred to in *CONRED* 5.4.26G applies, the firm must resend any letters and repeat the steps to contact the consumer required by this chapter.

(4) Where a firm is resending a letter and repeating steps pursuant to (3), each applicable deadline for those actions by the firm is extended according to the length of the delay incurred by the application of (2).

Taking reasonable steps to ascertain missing information

5.7.4 R The reasonable steps in *CONRED* 5.7.3R(1) must include, where applicable:

(1) checking public sources of information – for example, electoral rolls – but without incurring disproportionate cost;

(2) attempting to contact the consumer by telephone (at a reasonable hour when the consumer is likely to be available to receive the call) or by email; and

(3) attempting to contact any other party by telephone (during business hours) and by email.

5.7.5 R When taking reasonable steps to ascertain missing information and when it contacts a consumer, a lender must:

(1) not request more information than is sufficient for it to determine all of the outstanding matters;

(2) exercise sensitivity when requesting information about a consumer's personal circumstances;

(3) ensure the consumer understands what information they have been asked to provide and in what format;

(4) only ask for information that is likely to be readily accessible to the consumer (and obtain the consumer's authority to approach third parties for information on their behalf);

(5) allow the consumer at least 1 *month* to respond; and

(6) make clear why the lender is asking for the information and the consequence if the information is not provided.

Prohibition against influencing consumers against their interests

5.7.6 R A lender must not make any communication to a consumer which seeks to influence, for the benefit of the lender, the outcome of the processes undertaken pursuant to this chapter, either by seeking to influence the content of information provided by the consumer in response to the lender requests made under this chapter or otherwise.

Deceased customers

5.7.7 R Where a lender is required to contact a consumer under a provision of these rules whom the lender knows to be or becomes aware is deceased, it must take all reasonable steps to instead communicate with:

(1) a personal representative of the consumer's estate; or

(2) a beneficiary or beneficiaries of their estate or pension.

5.7.8 R The provisions of *CONRED* 5.7.2R also apply in respect of a lender's communications with persons referred to in *CONRED* 5.7.7R.

5.8 Impact of complaints to the Financial Ombudsman Service on scheme deadlines

5.8.1 R Where a consumer makes a *complaint* to the *Financial Ombudsman Service* following a *redress determination* by a lender under this chapter, the remaining time period for completing any subsequent scheme steps, is suspended between:

(1) the date the letter from the lender communicating the *redress determination* is sent to the consumer; and

(2) the date:

(a) the *complaint* is resolved by agreement between the lender and the consumer pursuant to *DISP* 3.5.1R; or

(b) the lender receives notification from the *Financial Ombudsman Service* of the outcome of the *complaint* in accordance with *DISP* 3.6.6R(5).

5.9 Consumer redress scheme: information requirements

Requests for information by the FCA

5.9.1 R In relation to any matter concerning or related to the *consumer redress scheme* created by this chapter, section 165 (Regulator's power to require information: authorised persons etc) of the *Act* and any provision of Part 11 (Information Gathering and Investigations) of the *Act* which relates to that section, apply to

any firm (or *person* in accordance with *CONRED* 5.1.8R) which is not an authorised person as if it were an authorised person.

Reporting requirements

5.9.2 R A lender must, within 6 weeks of the scheme effective date, report a delivery forecast to the *FCA*, which contains the following information:

(1) a breakdown of monthly forecasts until all motor finance agreements have reached the end of the scheme;

(2) the name and contact details of the *senior manager* responsible for oversight and overall delivery of the scheme;

(3) attestations from the *senior manager* referred to at (2) confirming that the lender:

(a) has the systems and controls to successfully identify the starting population of potentially impacted customers in accordance with *CONRED* 5.1.4R; and

(b) has the systems and controls to obtain relevant records and information required to assess motor finance agreements where these are not held by the lender;

(4) the number of motor finance agreements in the lender's starting population identified in accordance with *CONRED* 5.1.4R; and

(5) the starting population referred to in (4) broken down by month until the whole population of *complaints* is closed and all redress payments have been made, including:

(a) the number of letters that will be sent inviting the consumer to opt-in or opt-out to the scheme in accordance with *CONRED* 5.2.3R and *CONRED* 5.2.15R;

(b) the number of scheme cases that will be assessed and *redress determinations* are sent (based on existing portfolio of *complaints*); and

(c) cash flow forecast for redress payments.

5.9.3 R A lender must, within 1 *month* of the delivery forecast in *CONRED* 5.9.2R, report the following information to the *FCA*:

(1) the number of letters sent inviting the consumer to opt into the *consumer redress scheme*;

(2) the number of letters sent inviting the consumer to opt out of the *consumer redress scheme*;

(3) the number of motor finance agreements where a *redress determination* has been sent; and

(4) the value of redress paid (including the lender's calculation under this chapter or following an award by the *Financial Ombudsman Service*).

5.9.4 R The report referred to in *CONRED* 5.9.3R must be updated every *month* until such time as the lender has completed the scheme steps as set out in this chapter in respect of its entire population of consumers.

5.9.5 R The updated monthly report referred to in *CONRED* 5.9.4R must include the following information:

(1) in relation to all motor finance agreements, the number of agreements in respect of which:

(a) the lender requested relevant records and information from the credit broker (in accordance with *CONRED* 5.2.6R and *CONRED* 5.3.5R);

(b) the credit broker did not respond within the deadline of 1 *month* (in accordance with *CONRED* 5.2.9R and *CONRED* 5.3.7R);

(c) the lender sent a further request for relevant records and information from the credit broker (in accordance with *CONRED* 5.2.8R and *CONRED* 5.3.6R);

(d) the credit broker did not respond within the deadline of 14 days (in accordance with *CONRED* 5.2.9R and *CONRED* 5.3.7R);

(e) the number of full and final offers made in accordance with *CONRED* 5.2.2R(1);

(f) the number of full and final offers referred to in (e) that were accepted by the consumer; and

(g) the number of full and final offers referred to in (e) that were rejected by the consumer;

(2) in relation to existing *complaints* as at scheme effective date (see *CONRED* 5.2.3R), the number of *complaints*:

(a) received by the lender prior to the scheme effective date;

(b) where the consumer is represented by a professional representative;

(c) where the *complaint* has been referred to the *Financial Ombudsman Service* and been;

(i) upheld by the *Financial Ombudsman Service*; and

(ii) rejected by the *Financial Ombudsman Service*;

(d) where a *final response* has not been issued by the lender;

(e) where the lender has determined that there is at least 1 relevant arrangement;

(f) where the lender did not identify any of the relevant arrangements;

(g) where an opt-out letter is sent by the lender (see *CONRED* 5.2.15R); and

(h) where the consumer has opted out of the *consumer redress scheme* (see *CONRED* 5.2.13R);

(3) in relation to all other motor finance agreements where there were no existing *complaint*s as at the scheme effective date (as identified in accordance with *CONRED* 5.2.15R):

(a) the number of motor finance agreements where the consumer is represented by a professional representative;

(b) the number of scheme cases:

(i) where the lender did not identify any of the relevant arrangements;

(ii) where the lender has identified at least 1 of the relevant arrangements;

(iii) invited to opt into the scheme (in accordance with *CONRED* 5.2.3R);

(iv) where the consumer did not opt in within the deadlines (in accordance with *CONRED* 5.2.17(3) to (5)); and

(v) that have opted into the scheme (in accordance with *CONRED* 5.2.18R);

(4) in relation to all scheme cases which proceed to *CONRED* 5.3.1R:

(a) the number of redress determinations issued (in accordance with *CONRED* 5.3.1R) where the consumer obtained no redress because the lender did not identify a relevant arrangement;

(b) the number of provisional decisions issued in accordance with *CONRED* 5.3.16R(2)(a), *CONRED* 5.3.22R(2)(a) and *CONRED* 5.4.22R where:

(i) the lender has presumed or evidenced an unfair relationship;

(ii) the lender has rebutted the presumption of unfair relationship;

(iii) the lender has presumed or evidenced that loss or damage was suffered by the consumer;

(iv) the lender has rebutted the presumption of loss or damage;

(v) the consumer provides further evidence;

(vi) the further evidence provided by the consumer changes the liability assessment;

(vii) the provisional redress decision was made in accordance with compensatory remedy; and

(viii) the provisional redress decision was made in accordance with hybrid remedy;

(c) the number of final *redress determinations* issued in accordance with *CONRED* 5.3.16R(2)(b), *CONRED* 5.3.22R(2)(b) and *CONRED* 5.4.24R where:

(i) the lender concludes that there was no unfair relationship;

(ii) the lender concludes that there was no loss or damage;

(iii) the lender pays the redress in accordance with compensatory remedy; and

(iv) the lender pays the redress in accordance with hybrid remedy;

(d) the number of *redress determinations* issued where the lender made no offer of redress where the relevant arrangement was:

(i) a discretionary commission arrangement;

(ii) a high commission arrangement; or

(iii) a tied arrangement; and

(e) the number of redress determinations referred to in (c) or (d) which were referred to the *Financial Ombudsman Service* and were:

(i) rejected by the *Financial Ombudsman Service*; or

(ii) upheld by the *Financial Ombudsman Service*.

5.9.6 R The monthly reports referred to in *CONRED* 5.9.4R must further include the following information in relation to financial resources:

(1) the total estimated redress liability of the lender;

(2) the total liquid assets held (cash and cash equivalent);

(3) the net assets (or liability) position; and

(4) the total amount of non-redress liabilities or provisions.

5.9.7 R The monthly reports referred to in *CONRED* 5.9.4R must further include the following information in relation to timeliness:

(1) the number of provisional decision letters (sent in accordance with *CONRED* 5.3.16R(2)(a), *CONRED* 5.3.22R(2)(a) and *CONRED* 5.4.22R) that were issued:

(a) within 4 weeks of starting the fourth step;

(b) within 6 weeks of starting the fourth step;

(c) within 8 weeks of starting the fourth step; and

(d) over 8 weeks of starting the fourth step.

(2) the number of final redress determinations (sent in accordance with *CONRED* 5.3.16R(2)(b), *CONRED* 5.3.22R(2)(b) or *CONRED* 5.4.24R) that were issued:

(a) within 1 week of the deadline set out in the provisional letter;

(b) within 2 weeks of the deadline set out in the provisional letter;

(c) within 3 weeks of the deadline set out in the provisional letter; and

(d) over 3 weeks of the deadline set out in the provisional letter.

(3) the number of redress payments made:

(a) within 1 week of the deadline for the consumer to challenge the redress calculations;

(b) within 2 weeks of the deadline for the consumer to challenge the redress calculations;

(c) within 3 weeks of the deadline for the consumer to challenge the redress calculations; and

(d) over 3 weeks of the deadline for the consumer to challenge the redress calculations.

5.9.8 R In December 2026, a lender must send a one-off report to the *FCA* to confirm the number of scheme cases where the liability assessment has not been completed by 30 November 2026.

5.9.9 R In January 2027, a lender must send a one-off report to the *FCA* to confirm the number of scheme cases where the lender has failed to pay the redress due to the consumer by 31 December 2026.

5.9.10 R At 6 *months* of the scheme effective date, a lender must report the following information to the *FCA*, which may get published in accordance with *CONRED* 5.11:

(1) the number of motor finance agreements that were assessed by the lender under *CONRED* 5.2.2 to *CONRED* 5.4;

(2) the number of motor finance agreements where a *redress determination* has been issued; and

(3) the number of scheme cases where the consumer received a redress payment.

Notifications and reports to the FCA

5.9.11 R Notifications and other reports required by these rules must be sent to the *FCA* to [*Editor's note*: insert prescribed method of delivery] within the specified dates.

5.10 Record-keeping requirements

5.10.1 R (1) A firm must keep the following records:

(a) the certificate of posting for each letter sent in accordance with this chapter;

(b) a copy of each letter sent in accordance with this chapter;

(c) a record of any attempts to contact the consumer, or obtain further information in accordance with *CONRED* 5.7;

(d) a record of any full and final settlement offers made to the consumer under *CONRED* 5.2.2R(1);

(e) a record of any full and final settlement offers accepted by the consumer under *CONRED* 5.2.2R(5);

(d) the completed assessment for each scheme case assessed under the fourth step; and

(e) all information on the consumer file and information received from the consumer.

(2) Lenders and credit brokers must keep the records required by (1) for a minimum of 5 years from the date of their creation or (for the records in (1)(e)) the date when the information is located on the consumer file or obtained.

5.11 Publication of data

5.11.1 R The *FCA* may publish the following data that was reported to the *FCA* in accordance with *CONRED* 5.9.10R for each lender every 6 *months* during the period of the *consumer redress scheme:*

(1) the number of motor finance agreements that were assessed by the lender under *CONRED* 5.2.2 to *CONRED* 5.4;

(2) the number of motor finance agreements where a *redress determination* has been issued; and

(3) the number of scheme cases where the consumer received a redress payment.

5 Annex 1 Relevant records and information

5 Annex 1.1 G In gathering the information to determine whether a particular motor finance agreement is a scheme case, whether one or more relevant arrangements are present, and whether there has been adequate disclosure of the relevant arrangements, the lender may consider the following sources of information:

(1) records stored in a durable medium which detail the arrangements between the lender and the credit broker such as (but not limited to) the rates and terms and terms of business, setting out:

(a) the commission arrangements agreed between the parties and the minimum and maximum interest rates applicable;

(b) the terms of engagement or business between the lender and the credit broker, including (among other things) any ties or oversight arrangements by the lender with respect to the activities of the credit broker; or

(c) any financial records of the lender or the credit broker which show the amount of commission paid in respect of the motor finance agreement;

(2) personalised records stored in a durable medium with respect to the consumer, detailing the relationship between the consumer and either the lender or the credit broker such as, but not limited to:

(a) an initial disclosure document (IDD);

(b) any motor finance agreement;

(c) any agreement detailing the credit arrangements between the consumer and the lender (if different from (b) above);

(d) any pre-contractual documents or explanations provided to the consumer by either the lender or the credit broker such as, but not limited to, any credit-broking information notice provided in accordance with *CONC* 4.4.3R;

(e) any records or documents created by the lender or credit broker contemporaneously with the provision of information to the consumer, confirming that such information was provided (for example, a digital record generated by a data management system);

(f) any contemporaneous screenshots of data, extracted directly from the lender or credit broker's data management system, recording information directly referable to a motor finance agreement with a consumer;

(g) any personalised correspondence, file notes or other records recording communications between a consumer and either a lender or a credit broker with respect to a motor finance agreement with that consumer; and

(h) any creditworthiness assessment undertaken by either the lender or a credit broker with respect to a consumer (such as, but not limited to, any assessment undertaken under *CONC* 5.2A); and

(3) any other evidence which either supplements the evidence in (1) or, in the absence of that evidence, provides a basis upon which to make reasonable assumptions in accordance with these rules, such as (but not limited to):

(a) transactional data which indicates at least some degree of detail about the relevant arrangements with respect to a consumer, including (but not limited to):

(i) the execution date of a motor finance agreement;

(ii) the term of the loan or repayment;

(iii) the amount of credit provided;

(iv) the consumer's postcode (or portions of it); and

(v) the interest charges comprised in the total cost of credit;

(b) any structured data (for example, set out in spreadsheets) created by the lender or credit broker from data held on its data management systems relating to its general approach with respect to motor finance agreements at a particular point in time;

(c) any calculations undertaken by the lender or credit broker with respect to making reasonable estimations as to the commission that was likely payable, or the interest rate that likely applied, in a particular case;

(d) general corporate records setting out the lender's or credit broker's approach with respect to motor finance agreements at a particular point in time, such as (but not limited to) Board or committee papers or minutes and general policies and procedures;

(e) general corporate records setting out the lender or credit broker's approach with respect to due diligence, regulatory developments and regulatory compliance;

(f) records of 'welcome packs' (if any) provided by the lender or credit broker to the consumer;

(g) records of motor finance agreements and information relating to consumers who, by reference to the year of the transaction, the type and value of the vehicle purchased, bailed or hired, the amount of credit obtained and the cost of that credit, relative to the value of the vehicle, are in the same, or sufficiently similar, position as a consumer for whom information is missing; and

(h) any other records not otherwise covered above which may be relevant to the lender's assessment of scheme cases in accordance with *CONRED* 5.3 such as, but not limited to, vehicle sales invoices, profit sheets, credit checks and part-exchange documentation.

5 Annex 2 Full and final settlement offer

5 Annex 2.1 R This annex belongs to *CONRED* 5.2.2R(1). The letter must include the following information:

(1) A statement informing the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) An explanation that the lender is making an offer without completing all of the steps under the *consumer redress scheme*.

(3) Either:

(a) that the lender has calculated the offer being made is no less than the maximum redress that the consumer could receive under the redress scheme; or

(b) that the lender is making an offer based on the return of commission and compensatory interest, but has not conducted a full assessment to calculate the maximum remedy that would be available to the consumer.

(4) Notification that the consumer has 1 *month* to accept the offer from the date it was sent.

(5) An explanation of how the consumer can accept the offer.

(6) Notification that if the consumer does not accept the offer within 1 *month* or otherwise rejects the offer, the lender will continue with the steps under the *consumer redress scheme*.

5 Annex 3 Letter to customers who have already complained confirming they are a scheme case and have at least 1 relevant arrangement and asking if they want to opt-out

5 Annex 3.1 R This annex belongs to *CONRED* 5.2.3R(4)(a). The letter must include the following information:

(1) A notification to the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) A notification that all, or part of, the *complaint* relates to a subject matter which falls to be dealt with under the *consumer redress scheme*.

(3) An explanation that the lender has identified at least 1 arrangement that can lead to an unfair relationship.

(4) An explanation that the consumer does not need to do anything if they want their case reviewed.

(5) An explanation that the consumer can opt out of the *consumer redress scheme* and the mechanism for doing so.

(6) A notification that if the lender is not notified within 1 *month* that the consumer wants to opt out, the lender will continue with the next stage of the assessment.

(7) An explanation that if the consumer does opt out:

(a) the lender will not have to progress any element of the *complaint* within the subject matter of the *consumer redress scheme*; and

(b) if the consumer refers the *complaint* to the *Financial Ombudsman Service*, the *Financial Ombudsman Service* will consider the *complaint* against what, in its opinion, the outcome should have been under the *consumer redress scheme* rather than by reference to what is, in the Ombudsman's opinion, fair and reasonable in all the circumstances of the case.

5 Annex 4 Provisional redress decision to customers who have previously complained -no relevant arrangements – no redress due

5 Annex 4.1 R This annex belongs to *CONRED* 5.2.3R(4)(b)(i). The letter must include the following information:

(1) A notification to the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) An explanation of the relevant arrangements for identifying an unfair relationship.

(3) A statement that none of the relevant arrangements were identified in relation to the consumer's agreement and setting out the amount of commission that was paid in relation to the agreement.

(4) A statement that, as a result, no redress is due.

(5) An explanation that the consumer can challenge this decision and the process and timelines for doing so.

5 Annex 5 Redress determination to customers who have previously complained – no relevant arrangements – no redress due

5 Annex 5.1 R This annex belongs to *CONRED* 5.2.3R(4)(b)(ii). The letter must include the following information:

(1) A notification to the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) An explanation of the relevant arrangements for identifying an unfair relationship.

(3) A statement that none of the relevant arrangements were identified in relation to the consumer's agreement and setting out the amount of commission that was paid in relation to the agreement.

(4) A statement that, as a result, no redress is due.

(5) An explanation that the consumer can refer this decision to the *Financial Ombudsman Service*, provision of contact details for the *Financial Ombudsman Service* and an explanation of the time limits that apply.

(6) If there are other parts of the consumer's *complaint* that are not dealt with under the *consumer redress scheme*, the letter must explain how the lender is handling these.

5 Annex 6R Provisional redress decision to customers who have previously complained confirming they are a not a scheme case

5 Annex 6.1 R This annex belongs to *CONRED* 5.2.3R(5)(a). The letter must include the following information:

(1) A statement informing the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) A statement informing the consumer that the lender has assessed their *complaint* and it does not fall within the subject matter of the *consumer redress scheme*:

(3) An explanation of the reason the case is not within the subject matter of the *consumer redress scheme*.

(4) An explanation that the consumer can challenge this provisional redress decision and the process, and timelines for doing so.

5 Annex 7 Redress determination to customers who have previously complained confirming they are a not a scheme case

5 Annex 7.1 R This annex belongs to *CONRED* 5.2.3R(5)(b). The letter must include the following information:

(1) A statement informing the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) A statement informing the consumer that the lender has assessed their *complaint* and it does not fall within the subject matter of the *consumer redress scheme*.

(3) An explanation of the reason the case is not within the subject matter of the *consumer redress scheme*.

(4) An explanation that the consumer can refer this redress determination to the *Financial Ombudsman Service*, provision of contact details for the *Financial Ombudsman Service* and an explanation of the time limits that apply.

(5) Lenders may also treat this letter as the *final response* to the consumer's *complaint*, in which case the lender must include the content required by *DISP* 1.6.2R(1) in which case this could be referred to the *Financial Ombudsman Service*, to determine by reference to what is in the Ombudsman's opinion, fair and reasonable in all the circumstances of the case.

(6) If this letter is not a *final response* to the *complaint*, the lender must explain that they continue to consider the *complaint*.

5 Annex 8 Provisional redress decision to customers who have previously complained - missing information to determine if it is a scheme case - requiring further information

5 Annex 8.1 R This annex belongs to *CONRED* 5.2.11R(1) and *CONRED* 5.2.15R(6). The letter must include the following information, where relevant:

(1) A notification to the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) An explanation that the lender has not been able to determine that the agreement is a scheme case as the relevant records and information is missing or insufficient and therefore no redress is likely to be due to the consumer under the *consumer redress scheme*.

(3) Detail the steps that the lender has taken to obtain the records.

(4) An explanation that the consumer must notify the lender if they disagree with any aspect of the provisional redress decision, so that the lender can commence the process for dealing with objection.

(5) Notification that the provisional redress decision will be finalised as a *redress determination* after 1 *month* of it being sent if the consumer does not notify the lender within that period that they do not accept the provisional redress decision and wish to object.

5 Annex 9 **Redress determination to customers who have previously complained – missing information to determine if it is a scheme case – no redress due**

5 Annex 9.1 R This annex belongs to *CONRED* 5.2.11R(3) and *CONRED* 5.2.15R(6). The letter must include the following information, where relevant:

(1) A notification to the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) An explanation that the lender has not been able to determine that the agreement is a scheme case as the relevant records and information is missing or insufficient and therefore the consumer is not going to receive any redress under the *consumer redress scheme*.

(3) Detail the steps that the lender has taken to obtain the records.

(4) If the consumer has objected, an explanation of how the lender has considered any information the consumer has provided, and any changes the firm has made to its provisional redress decision.

(5) If the consumer has not objected within the 1-*month* timeframe, a statement to this effect.

(6) A reminder that the consumer has the right to complain to the *Financial Ombudsman Service*. A statement that if the consumer refers the *complaint* to the *Financial Ombudsman Service*, the *Financial Ombudsman Service* will consider the *complaint* against what, in its opinion, the outcome should have been under the *consumer redress scheme* rather than by reference to what is, in the Ombudsman's opinion, fair and reasonable in all the circumstances of the case. Given the lack of information, it may be that the *Financial Ombudsman Service* is unable to take any *complaint* any further.

5 Annex 10 **Acknowledge opt-outs from customers with existing complaints who do not want to be considered under the scheme**

5 Annex 10.1 R This annex belongs to *CONRED* 5.2.13R. The letter must include the following information:

(1) An acknowledgement of the consumer's opt-out.

(2) A statement that the parts of the *complaint* within the subject matter of the *consumer redress scheme* will not be dealt with any further.

5 Annex 11 Opt-in letters to customers who have not already complained confirming they are a scheme case and asking if they want to opt-in

5 Annex 11.1 R This annex belongs to *CONRED* 5.2.15(4)(a) and (b) and *CONRED* 5.2.16R(3). The letter must include the following information, where relevant:

(1) A notification to the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) A notification that the consumer's motor finance agreement is within the subject matter of the *consumer redress scheme*.

(3) An explanation that the lender:

(a) has identified at least 1 arrangement that can lead to an unfair relationship and that, as a result, the consumer may be owed redress; or

(b) has not identified any arrangements which indicate an unfair relationship and that, as a result, the consumer is unlikely to be owed redress.

(4) An explanation that the consumer will need to opt in to the scheme for the lender to proceed with further assessment work.

(5) An explanation of how the consumer can notify the lender if they want to opt in.

(6) A notification that the consumer must opt in within 6 *months* of the date of the letter.

5 Annex 12 Provisional redress decision to customers who have not previously complained confirming they are a not a scheme case

5 Annex 12.1 R This annex belongs to *CONRED* 5.2.15R(5)(a). The letter must include the following information:

(1) A notification to the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) An explanation of why the consumer's case is not within the subject matter of the *consumer redress scheme*.

(3) A notification that if the consumer disagrees with the lender's decision, they should inform the lender that they wish to dispute this decision within 1 *month*.

5 Annex 13 Redress determination to customers who have not previously complained confirming they are a not a scheme case

5 Annex 13.1 R This annex belongs to *CONRED* 5.2.15R(5)(b). The letter must include the following information:

(1) A notification to the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) An explanation of why the consumer's case is not within the subject matter of the *consumer redress scheme*.

(3) A reminder that the consumer has the right to complain to the *Financial Ombudsman Service*, even if redress is paid under the scheme. The reminder should also include that if the consumer wants to dispute any element of the final determination, they should refer the issue to the *Financial Ombudsman Service* and details on how to contact the *Financial Ombudsman Service*.

5 Annex 14 Acknowledge opt-ins from customers who want to be considered under the consumer redress scheme

5 Annex 14.1 R This annex belongs to *CONRED* 5.2.18R(2(a)). The letter must include the following information:

(1) An acknowledgement of the consumer's opt-in.

(2) An explanation of the steps and timelines the lender will be following.

(3) If the lender accepts there are exceptional circumstances and if therefore accepting an opt-in after the deadline, a statement of this position.

(4) If the consumer has made a *complaint* after the scheme effective date that is within the subject matter of the *consumer redress scheme*, an explanation of the *consumer redress scheme* and that all or part of the *complaint* will be dealt with under the scheme and that the consumer will be treated as having opted in to the scheme.

5 Annex 15 Opt-in reminder letters to consumers who have not responded

5 Annex 15.1 R This annex belongs to *CONRED* 5.2.17R(1). The letter must include the following information:

(1) A notification to the consumer of the existence of the *consumer redress scheme* and its subject matter.

(2) A notification of the lender's previous attempt(s) to contact the consumer.

(3) A notification that the consumer's motor finance agreement is within the subject matter of the *consumer redress scheme*.

(4) An explanation that:

(a) the lender has identified at least 1 arrangement that can lead to an unfair relationship and that, as a result, the consumer may be owed redress; or

(b) the lender has not identified any arrangements which indicate an unfair relationship and that, as a result, the consumer is unlikely to be owed redress.

(5) An explanation that the consumer will need to consent to the lender proceeding with further assessment work.

(6) An explanation of how the consumer can notify the lender if they want to opt in.

(7) A notification that the consumer must opt in within 6 *months* of the date of the original letter.

5 Annex 16 Provisional redress decision for scheme cases

5 Annex 16.1 R This annex belongs to *CONRED* 5.3.1R (2)(a), *CONRED* 5.3.16R(2)(a), *CONRED* 5.3.22R(2)(a) and *CONRED* 5.4.22R. The letter must include the following information, where relevant:

(1) The lender's assessment of:

(a) whether the scheme case included any of the features giving rise to an unfair relationship (ie, a DCA, high commission payment, or contractual tie); and

(b) whether there was an unfair relationship and the reasons for the firm's decision.

(2) If there was an unfair relationship, a statement as to whether it caused loss or damage (and, if not, why not).

(3) If there was not an unfair relationship that caused loss or damage, a statement that no redress is due.

(4) If there was an unfair relationship that caused loss or damage:

(a) the total amount of redress payable, with the amount of compensatory interest as part of that redress clearly specified; and

(b) details of the redress calculations made including compensatory interest calculations.

(5) An explanation that the consumer must notify the lender within 1 *month* if they disagree with any aspect of the provisional redress decision, so that the lender can commence the process for dealing with this which will involve the consumer sending a formal objection.

(6) A statement that the consumer can specifically disagree with the compensatory interest calculation on the ground that they have incurred increased borrowing costs and therefore the compensatory interest amount does not adequately compensate them. If they disagree with this aspect of the provisional redress decision they will need to supply contemporaneous evidence in support of their objection, which may include:

(a) bank statements showing insufficient funds following repayments under the motor finance agreement;

(b) evidence of subsequent borrowing;

(c) correspondence indicating financial distress linked to payments relating to the motor finance agreement.

The consumer does not need to provide this information when they initially notify the lender that they disagree with the provisional redress decision. They can provide this information when they formally object.

(7) Notification that the provisional redress decision will be finalised as a *redress determination* after 1 *month* of it being sent if the consumer does not notify the lender within 1 *month* that they disagree with the provisional redress decision.

5 Annex 17 Acknowledgement of challenge to provisional redress decisions

5 Annex 17.1 R This annex belongs to *CONRED* 5.4.23R(1)(a). The letter must include the following information:

(1) A statement acknowledging the consumer disagrees with the provisional redress decision.

(2) An invitation for the consumer to submit a formal objection and further evidence, including any evidence in support of the rebuttal of the compensatory interest amount, within a 1-*month* deadline.

(3) If the objection relates to compensatory interest, a requirement to provide contemporaneous evidence relating to increased borrowing costs on which the consumer seeks to rely, including:

(a) bank statements showing insufficient funds following repayments under the motor finance agreement;

(b) evidence of subsequent borrowing;

(c) correspondence indicating financial distress linked to payments relating to the motor finance agreement.

(4) A statement that the lender will, within 2 *months* of receiving the consumer's formal objection, send the consumer a *redress determination*. If the lender does not receive a formal objection by the specified 1-*month* deadline, they will proceed to issue a *redress determination*, unless an exceptional circumstance applies.

5 Annex 18 Redress determination: scheme cases

5 Annex 18.1 R This annex belongs to *CONRED* 5.2.2R(5), *CONRED* 5.3.1R(2)(b), *CONRED* 5.3.16R(2)(b), *CONRED* 5.3.22R(2)(b) and *CONRED* 5.4.24R. The letter must include the following information, where relevant:

(1) If the consumer has accepted an offer in full and final settlement, a statement that no further redress is due under the scheme

(2) The lender's assessment of:

(a) whether the scheme case included any of the features giving rise to an unfair relationship (ie, a DCA, high commission payment, or contractual tie);

(b) whether there was an unfair relationship and the reasons for the firm's decision.

(3) If there was an unfair relationship, a statement as to whether it caused loss or damage and the reasons for the firm's decision.

(4) If there was not an unfair relationship that caused loss or damage, a statement that no redress is due.

(5) If there was an unfair relationship that caused loss or damage:

(a) the total amount of redress payable, with the amount of compensatory interest as part of that redress clearly specified; and

(b) details of the redress calculations made including compensatory interest calculations.

(6) If the consumer has formally objected to a provisional redress decision, an explanation of how the lender has considered the objection including any evidence the consumer submitted and how any redress calculations have changed, where appropriate, from the provisional redress decision.

(7) A statement that the consumer may choose to offset the redress amount against any outstanding principal and how they should notify the lender, if the lender decides to provide the consumer with this option.

(8) A statement that the lender will pay the amount of redress within 1 month of the date of the redress determination by bank transfer unless the consumer provides alternative instructions.

(9) A reminder to the consumer that they are responsible for their own tax affairs and redress is declared if it needs to be (for example, a bankruptcy trustee).

(10) A reminder that the consumer has the right to complain to the *Financial Ombudsman Service*, even if redress is paid under the scheme. The reminder should also include that if the consumer wants to dispute any element of the final determination, they should refer the issue to the *Financial Ombudsman Service* and the timeframes for doing so.

(11) A statement that if the consumer refers the *complaint* to the *Financial Ombudsman Service*, the *Financial Ombudsman Service* will consider the *complaint* against what, in its opinion, the outcome should have been under the *consumer redress scheme* rather than by reference to what is, in the Ombudsman's opinion, fair and reasonable in all the circumstances of the case.

(12) Details on how to contact the *Financial Ombudsman Service*.

5 Annex 19 **Provisional redress decision: consumer is out of time to opt in**

5 Annex 19.1 R This annex belongs to *CONRED* 5.2.16R(5)(a). The letter must include the following information:

(1) A statement acknowledging the consumer's interest in opting in to the *consumer redress scheme*.

(2) A statement of the date the consumer was invited to opt in to the scheme, the date of any reminders the lender sent and the date the consumer needed to opt in to the scheme by.

(3) A statement that the consumer has not opted in to the *consumer redress scheme* in time and therefore no redress is due.

(4) An explanation that the opt-in time can be extended in exceptional circumstances but the lender does not believe there are any relevant exceptional circumstances in this case.

(5) An explanation that the consumer must notify the lender if they disagree with any aspect of the provisional redress decision, so that the lender can commence the process for dealing with the objection.

(6) Notification that the provisional decision will be finalised as a redress determination after 1 month of it being sent if the consumer does not notify the lender within that period that they do not accept the provisional redress decision and wish to object.

5 Annex 20 **Redress determination: consumer is out of time to opt in**

5 Annex 20.1 R This annex belongs to *CONRED* 5.2.16R(5)(b). The letter must include the following information:

(1) A statement acknowledging the consumer's interest in opting in to the *consumer redress scheme*.

(2) A statement of the date the consumer was invited to opt in to the scheme, the date of any reminders the lender sent and the date the consumer needed to opt in to the *consumer redress scheme* by.

(3) A statement that the consumer has not opted in to the *consumer redress scheme* in time and therefore no redress is due.

(4) An explanation that the opt-in time can be extended in exceptional circumstances but the lender does not believe there are any relevant exceptional circumstances in this case.

(5) If relevant, a statement of any objection made by the consumer, and an explanation of how the lender has considered that objection.

(6) A reminder that the consumer has the right to complain to the *Financial Ombudsman Service*, even if redress is paid under the scheme. The reminder should also include that if the consumer wants to dispute any element of the final determination, they should refer the issue to the *Financial Ombudsman Service* and the timeframes for doing so.

(7) A statement that if the consumer refers the *complaint* to the *Financial Ombudsman Service*, the *Financial Ombudsman Service* will consider the *complaint* against what, in its opinion, the outcome should have been under the *consumer redress scheme*, rather than by reference to what is, in the Ombudsman's opinion, fair and reasonable in all the circumstances of the case.

(8) Details on how to contact the *Financial Ombudsman Service*.

Amend the following as shown.

Sch 1 Record keeping requirements

Sch 1.3 G ….

Sch 1.4 G [*Editor's note*: insert the requirements from CONRED 5.10 in tabular form]

Sch 2 Notification requirements

…

Sch 2.2 G …

Sch 2.3 G [*Editor's note*: insert the notification requirements from CONRED 5.1.8R and CONRED 5.9]

Sch 3 Fees and other required payments

Sch 3 There are no provisions for fees in CONRED. As noted in CONRED 2.5.19G ~~and~~, CONRED 4.5.9G and CONRED 5.5.11G, a fee is payable in any case where the *FCA* exercises its powers under *CONRED* 2.5.12R or CONRED 4.5.1R or CONRED 5.5.1R to take steps instead of a firm, or appoint one or more competent persons to do so. This fee is as specified in the table at *FEES* 3.2.7R.

Appendix 2

Draft Handbook text – proposed changes to handling rules for motor finance complaints

DISPUTE RESOLUTION: COMPLAINTS SOURCEBOOK (MOTOR FINANCE COMPLAINTS HANDLING) INSTRUMENT 2025

Powers exercised

A. The Financial Conduct Authority ("FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 139A (Power of the FCA to give guidance);
(4) section 226 (Compulsory jurisdiction); and
(5) paragraph 13 (FCA's rules) of Schedule 17 (The Ombudsman Scheme).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Dispute Resolution: Complaints sourcebook (DISP) is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the Dispute Resolution: Complaints Sourcebook (Motor Finance Complaints Handing) Instrument 2025.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text.

Amend the following definition as shown.

motor finance non-DCA complaint	(in ~~*DISP*~~ *DISP* App 5) has the meaning in *DISP* App 5.1.3AR on or before 4 December 2025 and the meaning in *DISP* App 5.1.3BR on or after 5 December 2025.

Annex B

Amendments to the Dispute Resolution: Complaints sourcebook (DISP)

In this Annex underlining indicates new text and striking through indicates deleted text.

App 5 Relevant motor finance discretionary commission arrangement complaint handling rules

App 5.1 Purpose, interpretation and application

…

Interpretation

App 5.1.2 R (1) A relevant motor finance DCA complaint is a *complaint* where:

…

(d) the *respondent*:

(i) received the *complaint* in the period beginning with 17 November 2023 and ending with ~~4 December 2025~~ 31 July 2026; or

(ii) sent a *final response* to the *complaint* in the period beginning with 12 July 2023 and ending with ~~29 January 2026~~ 25 September 2026.

…

…

Motor finance non-DCA complaint: 26 October 2024 until 4 December 2025

App 5.1.3A R From 26 October 2024 to 4 December 2025 inclusive, a ~~A~~ motor finance non-DCA complaint is a *complaint* where:

(1) the subject matter of the *complaint* relates, in whole or part, to a *regulated credit agreement* or a *regulated consumer hire agreement*;

(2) the *regulated credit agreement* or the *regulated consumer hire agreement*, in whole or part, financed the purchase of a motor vehicle, or a motor vehicle was bailed or hired under the agreement;

(3) there were arrangements between the *lender* or *owner* and a *credit broker* relating to the entering into of that agreement that provided for the payment (directly or indirectly) of any commission, fee or

other financial consideration or remuneration including a benefit of any kind to the *credit broker*;

(4) the *complaint* is not a *relevant motor finance DCA complaint* as defined in *DISP* App 5.1.2R; and

(5) the *respondent*:

(a) received the *complaint* in the period beginning with 26 October 2024 and ending with 4 December 2025; or

(b) sent a *final response* to the *complaint* in the period beginning with 21 June 2024 and ending with 29 January 2026.

Motor finance non-DCA complaint: 5 December 2025 onwards

App 5.1.3B R On or after 5 December 2025, a *motor finance non-DCA complaint* is a *complaint* which has the same meaning as in *DISP* App 5.1.3AR except that:

(1) the references to a *regulated consumer hire agreement* in *DISP* App 5.1.3AR(1) and (2) are respectively omitted;

(2) *DISP* App 5.1.3AR(5)(a) is substituted with: 'received the *complaint* in the period beginning with 26 October 2024 and ending with 31 July 2026'; and

(3) *DISP* App 5.1.3AR(5)(b) is substituted with: 'sent a *final response* to the *complaint* in the period beginning with 21 June 2024 and ending with 25 September 2026.'

App 5.1.3C G (1) The definition of *motor finance non-DCA complaint* in *DISP* App 5.1.3BR does not include *regulated consumer hire agreements* on or after 5 December 2025.

(2) Accordingly, a *motor finance non-DCA complaint* which relates to a *regulated consumer hire agreement* will on or after 5 December 2025 no longer benefit from the effect of the *rule* in *DISP* App 5.2.1BR and instead will fall to be considered in accordance with *DISP* App 5.2.1CR.

(3) A *motor finance non-DCA complaint* which relates to a *regulated credit agreement* but not a *regulated consumer hire agreement* will on or after 5 December 2025 benefit from the effect of the extended pause in *DISP* App 5.2.1BR.

(4) *DISP* App 5.2.1BR, among other things, stops time running for the purpose of calculating the eight-week period that is relevant to when a *complainant* can refer their *complaint* to the *Financial Ombudsman Service*.

…

App 5.2 Complaint handling rules in respect of a relevant motor finance DCA complaint and a motor finance non-DCA complaint

Time limits for a final response~~, consideration by the Ombudsman and complaints records~~: relevant motor finance DCA complaint

App 5.2.1 R (1) This *rule* applies in respect of a *relevant motor finance DCA complaint*:

(a) that is received by the *respondent* in the period beginning with 17 November 2023 and ending with ~~4 December 2025~~ 31 July 2026; and

(b) in relation to which a *final response* has not been sent.

(2) For the purpose of calculating the eight-week period in:

(a) *DISP* 1.6.2R;

(b) *DISP* 1.6.7G;

(c) *DISP* 2.8.1R(2); and

(d) *DISP* 2.8.1R(4)(a),

time is to be treated as not running for the period beginning with 11 January 2024 and ending with ~~4 December 2025~~ 31 July 2026.

(3) The three-year period in *DISP* 1.9.1R(2) (Complaints record rule) is to be treated as not running for the period beginning with 11 January 2024 and ending with ~~4 December 2025~~ 31 July 2026.

App 5.2.1A G …

Time limits for a final response: motor finance non-DCA complaint

App 5.2.1B R (1) This *rule* applies in respect of a *motor finance non-DCA complaint*:

(a) that is received by the *respondent* in the period beginning with 26 October 2024 and ending with 4 December 2025; ~~and~~

(b) ~~in relation to which a *final response* has not been sent~~ where the *complaint*:

(i) relates in whole or part to a *regulated credit agreement*; and

(ii) does not relate to a *regulated consumer hire agreement*; and

(c) in relation to which a *final response* has not been sent.

(1A) This *rule* also applies in respect of a *motor finance non-DCA complaint*:

(a) that is received by the *respondent* in the period beginning with 5 December 2025 and ending with 31 July 2026; and

(b) in relation to which a *final response* has not been sent.

(2) For the purpose of calculating the eight-week period in:

(a) *DISP* 1.6.2R;

(b) *DISP* 1.6.7G;

(c) *DISP* 2.8.1R(2); and

(d) *DISP* 2.8.1R(4)(a),

time is to be treated as not running for the period beginning with 26 October 2024 and ending with ~~4 December 2025~~ 31 July 2026.

(3) The three-year period in *DISP* 1.9.1R(2) (Complaints record rule) is to be treated as not running for the period beginning with 26 October 2024 and ending with ~~4 December 2025~~ 31 July 2026.

Time limits for a final response: motor finance non-DCA complaint which relates to a regulated consumer hire agreement

App 5.2.1C R (1) This *rule* applies in respect of a *motor finance non-DCA complaint*:

(a) that is received by the *respondent* in the period beginning with 26 October 2024 and ending with 4 December 2025;

(b) where the *complaint* relates to a *regulated consumer hire agreement*; and

(c) in relation to which a *final response* has not been sent.

(2) For the purpose of calculating the eight-week period in:

(a) *DISP* 1.6.2R;

(b) *DISP* 1.6.7G;

(c) *DISP* 2.8.1R(2); and

(d) *DISP* 2.8.1R(4)(a),

time will continue to run on or after 5 December 2025.

(3) A *respondent* must send the complainant a *final response* in accordance with *DISP* 1.6.2R.

App 5.2.1D G (1) The effect of *DISP* App 5.2.1CR is that where the eight-week period for a *respondent* to provide a *final response* is, by virtue of the *rule* in *DISP* App 5.2.1BR, paused up to and including 4 December 2025, the time period for a response in respect of a *complaint* which relates to a *regulated consumer hire agreement* resumes on 5 December 2025.

(2) This means the *respondent* must send the *final response* to the *complainant* on or before the expiry of the eight-week period from receipt of the response, excluding any period beginning 26 October 2024 and ending with 4 December 2025 for which time was not treated as running by virtue of the *rule* in *DISP* App 5.2.1BR.

Time limits for referring a complaint to the Ombudsman: relevant motor finance DCA complaint

App 5.2.2 R (1) This *rule* applies where a *final response* to a *relevant motor finance DCA complaint* is sent in the period beginning with 12 July 2023 and ending with 29 January 2026.

…

(3) …

(4) If a *final response* is sent on or after 30 January 2026, *DISP* 2.8.2R(1) applies.

App 5.2.2A G (1) *DISP* App 5.2.2R has the effect of extending the time in which a *relevant motor finance DCA complaint* can be referred to the *Financial Ombudsman Service*. This includes those *complaints* in relation to which a *final response* was sent between 12 July 2023 and 25 September 2024 where the six-*month* period in *DISP* 2.8.2R(1) was previously extended to fifteen *months* (see Dispute Resolution: Complaints Sourcebook (Motor Finance Discretionary Commission Arrangement Complaints) Instrument 2024 (FCA 2024/1)).

(2) In respect of a *final response* to a *relevant motor finance DCA complaint* sent on or after 30 January 2026, the usual six-*month* period in *DISP* 2.8.2R(1) will resume. The *Ombudsman* cannot consider a *complaint* if it is referred to the *Financial Ombudsman Service* more than six *months* after the date on which the *respondent* sent the complainant its *final response*.

Time limits for referring a complaint to the Ombudsman: motor finance non-DCA complaint

App 5.2.2B R (1) This *rule* applies where a *final response* to a *motor finance non-DCA complaint* (as defined in *DISP* App 5.1.3AR) is sent in the period beginning with 21 June 2024 and ending with 29 January 2026.

…

App 5.2.2C R (1) This *rule* applies where a *final response* to a *motor finance non-DCA complaint* (as defined in *DISP* App 5.1.3BR) is sent on or after 30 January 2026.

(2) *DISP* 2.8.2R(1) applies to a *complaint* falling within this *rule*.

…

Communicating with consumers

App 5.2.4 R (1) A *respondent* must update any information it has published pursuant to *DISP* 1.2.1R(1) as soon as is practicable to:

(a) inform consumers of the pause to time limits for a *final response* to a *relevant motor finance DCA complaint* and a *motor finance non-DCA complaint* as set out in *DISP* App 5.2.1R(2) and *DISP* App 5.2.1BR(2); and

(b) refer them to fca.org.uk/carfinance, which explains the reason for the pause.

(2) This *rule* applies until 23:59 on ~~29 January 2026~~ 25 September 2026.

Communicating with complainants about a relevant motor finance DCA complaint received between 17 November 2023 and 4 December 2025

…

App 5.2.5A R (1) This *rule* applies where a *respondent*:

(a) received a *relevant motor finance DCA complaint* in the period beginning with 17 November 2023 and ending with 25 September 2024; and

(b) has not sent a *final response* in relation to that *complaint*.

(2) …

(3) This *rule* applies until 23:59 on 4 December 2025.

…

App 5.2.5C R (1) This *rule* applies where a *respondent* receives a *relevant motor finance DCA complaint* in the period beginning with 26 September 2024 and ending with 4 December 2025.

(2) …

(3) This *rule* applies until 23:59 on 4 December 2025.

Communicating with complainants about a relevant motor finance DCA complaint received on or after 5 December 2025

App 5.2.5CA R (1) This *rule* applies where a *respondent* receives a *relevant motor finance DCA complaint* on or after 5 December 2025.

(2) When sending a written acknowledgement in accordance with *DISP* 1.6.1R(1), a *respondent* must:

(a) promptly inform the complainant in writing of the extension to the pause to time limits as set out in *DISP* App 5.2.1R(2); and

(b) direct the complainant to the information published at fca.org.uk/carfinance, which explains the reason for the pause.

Communicating with complainants about a motor finance non- DCA complaint received between 26 October 2024 and 4 December 2025

App 5.2.5D R (1) This *rule* applies where a *respondent* receives a *motor finance non-DCA complaint* in the period beginning with 26 October 2024 and ending with 4 December 2025.

…

(4) …

(5) This *rule* applies until 23:59 on 4 December 2025.

Communicating with complainants about a motor finance non-DCA complaint received on or after 5 December 2025

App 5.2.5E R (1) This *rule* applies where a *respondent* receives a *motor finance non-DCA complaint* (as defined in *DISP App* 5.1.3BR) on or after 5 December 2025.

(2) When sending a written acknowledgement in accordance with *DISP* 1.6.1R(1), a *respondent* must:

(a) promptly inform the complainant in writing of the extension to the pause to time limits as set out in *DISP* App 5.2.1BR(2); and

(b) direct the complainant to the information published at fca.org.uk/carfinance, which explains the reason for the pause.

App 5.2.5F G *DISP* App 5.2.5ER means that a *respondent* who received a *motor finance non-DCA complaint* which does not relate to a *regulated consumer hire agreement* on or after 5 December 2025 should when sending a written acknowledgement inform the complainant in writing that the pause to the eight-week period to send a *final response* ends on 31 July 2026.

Communicating the Financial Ombudsman Service temporary time limits for a relevant motor finance DCA complaint: where a final response is sent between September 2024 and January 2026

…

App 5.2.7 R ~~(1) This *rule* applies to a *relevant motor finance DCA complaint* where a *final response* was sent in the period beginning with 12 July 2023 and ending with 25 September 2024.~~

~~(2) A *respondent* must:~~

~~(a) promptly inform the complainant in writing that the time limit to refer the *complaint* to the *Financial Ombudsman Service* now ends with 29 July 2026; and~~

~~(b) direct the complainant to the information published at fca.org.uk/carfinance, which explains the reason for the extension.~~ [deleted]

App 5.2.8 G ~~*DISP* App 5.2.7R means that a *respondent* who sent a *final response* to a complainant in the period beginning with 12 July 2023 and ending with 25 September 2024 should update that complainant that the time limit to refer the *complaint* to the *Financial Ombudsman Service* pursuant to *DISP* 2.8.2R(1) has been extended to 29 July 2026.~~ [deleted]

App 5.2.9 R ~~(1) This *rule* applies to a *relevant motor finance DCA complaint* where a *final response* is sent in the period beginning with 26 September 2024 and ending with 29 January 2026.~~

~~(2) When providing a *final response* in accordance with *DISP* 1.6.2R(1), a *respondent* must:~~

~~(a) inform the complainant that the time limit to refer the *complaint* to the *Financial Ombudsman Service* has been extended in accordance with *DISP* App 5.2.2R;~~

~~(b) set out the date by which the complainant must refer the *complaint* to the *Financial Ombudsman Service*;~~

~~(c) explain that the six-*month* time limit contained in the *Financial Ombudsman Service's* standard explanatory leaflet does not apply; and~~

~~(d) direct the complainant to the information published at fca.org.uk/carfinance, which explains the reason for the extension.~~

~~(3) For the purpose of complying with *DISP* 1.6.2R(1)(e) and (f) (if applicable), the wording to include in a *final response* is modified so that:~~

~~(a) references to 'within six months of the date of this letter' in *DISP* 1 Annex 3R(1) and (2), are substituted with either:~~

~~(i) 'on or before 29 July 2026' if a *respondent* sends a *final response* on or before 29 April 2025; or~~

~~(ii) 'within fifteen months of the date of this letter' if a *respondent* sends a *final response* on or after 30 April 2025; and~~

~~(b) the reference to 'is usually six months' in *DISP* 1 Annex 3R(3) is substituted with either:~~

~~(i) 'is, in this case, on or before 29 July 2026' if a *respondent* sends a *final response* on or before 29 April 2025; or~~

~~(ii) 'is, in this case, fifteen months' if a *respondent* sends a *final response* on or after 30 April 2025.~~ [deleted]

App 5.2.10 R ~~(1) This *rule* applies to a *motor finance non-DCA complaint* where a *final response* is sent in the period beginning with 21 June 2024 and ending with 29 January 2026.~~

~~(2) Where, in accordance with *DISP* 1.6.2R(1), a *respondent* has on or before 19 December 2024 sent a complainant a *final response*, the *respondent* must promptly in writing inform the complainant that:~~

~~(a) the time limit to refer the *complaint* to the *Financial Ombudsman Service* has been extended to end with 29 July 2026;~~

~~(b) the six-*month* time limit contained in the *Financial Ombudsman Service's* standard explanatory leaflet does not apply; and~~

~~(c) the information at fca.org.uk/carfinance explains the reason for the extension.~~

~~(3) Where a *respondent* has not on or before 19 December 2024 sent a complainant its *final response*, it must, when complying with *DISP* 1.6.2R(1):~~

~~(a) explain that the time limit to refer the *complaint* to the *Financial Ombudsman Service* has been extended in accordance with *DISP* App 5.2.2BR;~~

~~(b) provide the information contained in (2)(b) and (c); and~~

~~(c) modify the wording required by *DISP* 1.6.2R(1)(e) and (f) (if applicable) so that:~~

~~(i) references to 'within six months of the date of this letter' in *DISP* 1 Annex 3R(1) and (2) are substituted with:~~

~~(A) 'on or before 29 July 2026' if a *respondent* sends a *final response* on or before 29 April 2025; or~~

~~(B) 'within fifteen months of the date of this letter' if a *respondent* sends a *final response* on or after 30 April 2025; and~~

~~(ii) the reference to 'is usually six months' in *DISP* 1 Annex 3R(3) is substituted with:~~

~~(A) 'is, in this case, on or before 29 July 2026' if a *respondent* sends a *final response* on or before 29 April 2025; or~~

~~(B) 'is, in this case, fifteen months' if a *respondent* sends a *final response* on or after 30 April 2025.~~ [deleted]

App 5.2.11 R (1) This *rule* applies to a *relevant motor finance DCA complaint* where a *final response* is sent in the period beginning with 26 September 2024 and ending with 29 January 2026.

(2) When providing a *final response* in accordance with *DISP* 1.6.2R(1), a *respondent* must:

(a) inform the complainant that the time limit to refer the *complaint* to the *Financial Ombudsman Service* has been extended in accordance with *DISP* App 5.2.2R;

(b) set out the date by which the complainant must refer the *complaint* to the *Financial Ombudsman Service*;

(c) explain that the six-*month* time limit contained in the *Financial Ombudsman Service's* standard explanatory leaflet does not apply; and

(d) direct the complainant to the information published at fca.org.uk/carfinance, which explains the reason for the extension.

(3) For the purpose of complying with *DISP* 1.6.2R(1)(e) and (f) (if applicable), the wording to include in a *final response* is modified so that:

(a) references to 'within six months of the date of this letter' in *DISP* 1 Annex 3R(1) and (2), are substituted with 'within fifteen months of the date of this letter'; and

(b) the reference to 'is usually six months' in *DISP* 1 Annex 3R(3) is substituted with 'is, in this case, fifteen months'.

Communicating the Financial Ombudsman Service time limits for a relevant motor finance DCA complaint: where a final response is sent on or after 30 January 2026

App 5.2.12 R (1) This *rule* applies to a *relevant motor finance DCA complaint* where a *final response* is sent on or after 30 January 2026.

(2) When providing a *final response* in accordance with *DISP* 1.6.2R(1), a *respondent* must:

(a) inform the complainant that the time limit to refer the *complaint* to the *Financial Ombudsman Service* is in accordance with *DISP* 2.8.2R; and

(b) direct the complainant to the information published at fca.org.uk/carfinance, which explains why the six-*month* time limit contained in the *Financial Ombudsman Service* applies.

App 5.2.13 G *DISP* App 5.2.12R means that a *respondent* who sends a *final response* in respect of a *relevant motor finance DCA complaint* to a complainant on or after 30 January 2026 must inform that complainant of the usual six-*month* time limit to refer the *complaint* to the *Financial Ombudsman Service* pursuant to *DISP* 2.8.2R(1) (see *DISP* 1.6.2R).

Communicating the Financial Ombudsman Service temporary time limits for a motor finance non-DCA complaint: when a final response is sent between June 2024 and January 2026

App 5.2.14 R (1) This *rule* applies to a *motor finance non-DCA complaint* where:

(a) the *complaint*:

(i) relates in whole or in part to a *regulated credit agreement*; and

(ii) does not relate to a *regulated consumer hire agreement*; and

(b) a *final response* is sent in the period beginning with 21 June 2024 and ending with 29 January 2026.

(2) When providing a *final response* in accordance with *DISP* 1.6.2R(1), a *respondent* must:

(a) explain that the time limit to refer the *complaint* to the *Financial Ombudsman Service* has been extended in accordance with *DISP* App 5.2.2BR;

(b) explain that the six-*month* time limit contained in the *Financial Ombudsman Service's* standard explanatory leaflet does not apply; and

(c) direct the complainant to the information published at fca.org.uk/carfinance, which explains the reasons for the extension.

(3) For the purpose of complying with *DISP* 1.6.2R(1)(e) and (f) (if applicable), the wording to include in a *final response* is modified so that:

(a) references to 'within six months of the date of this letter' in *DISP* 1 Annex 3R(1) and (2), are substituted with 'within fifteen months of the date of this letter'; and

(b) the reference to 'is usually six months' in *DISP* 1 Annex 3R(3) is substituted with 'is, in this case, fifteen months'.

Communicating the Financial Ombudsman Service time limits for a motor finance non-DCA complaint: when a final response is sent after 30 January 2026

App 5.2.15 R (1) This *rule* applies to a *motor finance non-DCA complaint* where a *final response* is sent on or after 30 January 2026.

(2) When providing a *final response* in accordance with *DISP* 1.6.2R(1), a *respondent* must:

(a) inform the complainant that the time limit to refer the *complaint* to the *Financial Ombudsman Service* is in accordance with *DISP* 2.8.2R; and

(b) direct the complainant to the information published at fca.org.uk/carfinance, which explains why the six-*month* time limit contained in the *Financial Ombudsman Service* applies.

App 5.2.16 G *DISP* App 5.2.15R means that a *respondent* who sent a *final response* in respect of a *motor finance non-DCA complaint* to a complainant on or after 30 January 2026 must inform that complainant of the usual six-*month* time limit to refer the *complaint* to the *Financial Ombudsman Service* pursuant to *DISP* 2.8.2R(1).

App 5.3 General record retention

App 5.3.1 R (1) *Lenders* and *credit brokers* must retain and preserve records:

…

(2) The requirement in (1) applies:

(a) regardless of whether a *relevant motor finance DCA complaint* has been made; and

(b) in the period beginning with 11 January 2024 and ending with 11 April ~~2026~~ 2031.

App 5.3.1A R (1) *Lenders*, *owners* and *credit brokers* must also retain and preserve records:

…

(2) The requirement in (1) applies:

(a) regardless of whether a *motor finance non-DCA complaint* or a *relevant motor finance DCA complaint* has been made; and

(b) in the period beginning with 20 December 2024 and ending with 11 April ~~2026~~ 2031.

…

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