Transcript of a conference call led by Nikhil Rathi between the FCA and market analysts on motor finance, 7 October 2025

See also slides that were presented

FCA attendees:

- Nikhil Rathi, chief executive
- Sheree Howard, executive director
- Stephen Braviner Roman, general counsel
- Haris Irshad, our deputy chief economist
- Jon Pearson, policy
- Mario Theodosiou, supervision

Nikhil Rathi

Thank you for joining this evening at relatively short notice to talk about the consultation on the motor finance redress scheme that we have just published a short while ago after markets closed.

Many of you will be familiar with the format of these analyst briefings. We are recording this. We will have a transcript go up as soon as we can after this briefing and in good time before the markets open tomorrow. We will take questions shortly and please let us know your name and the institution that you are representing. I'm joined by a number of colleagues, so for those of you who don't know me, I'm Nikhil Rathi, chief executive of the Financial Conduct Authority. I'm joined by the general counsel here, Stephen Braviner Roman, Sheree Howard, our executive director of authorisations, who's been co-leading the work with Stephen, Haris Irshad, who is our deputy chief economist, Jonathan Pearson, who is a head of department in one of our policy teams working on this and Mario Theodosiou from our supervision team.

So we hope between us we'll be able to cover your range of questions. I'm conscious we've published a very large amount of material just a short while ago, so it'll take some time for you to fully digest it all. And as I said previously, we really value our engagement with this community. So we want to make sure not just today, but after this call that we're open to you your questions, and we'll certainly welcome those and your feedback. We've got a few slides, but we don't want to spend too long on them because we know you'll want to get straight into questions. I'll just ask the team to put those up.

So we've concluded that many motor finance firms did not comply with the law or disclosure rules in force at the time when they sold loans. That's why we are now moving forward to consult on a scheme to compensate eligible customers who were treated unfairly between the 6th of April 2007 and the 1st of November 2024. We feel able to do so now because we believe with the Supreme Court ruling and then other decisions, in particular the High Court decision in the Clydesdale case, we have sufficient legal clarity to move forward and we think a compensation scheme is the best way to ensure fair compensation efficiently, quickly, while also ensuring a well functioning and competitive market.

We have put a huge amount of data out today and so I'll only give you a couple of the headlines here. We estimate around 14.2 million agreements, which is 44% of the agreements made during this period will be considered unfair. We have estimated a participation rate of 85% in our scheme.

That is an estimate and our estimate also of the redress liability if that was to materialise is in the region of £8.2 billion and then there are non redress and implementation costs for firms which we estimate at £2.8 billion which takes us to an estimated central scenario cost around £11 billion. But as we said when we made our statement 48 hours after Supreme Court judgement in August, all of these estimates are highly indicative, susceptible to change, based on assumptions and estimates. And obviously as we work through the consultation now and as firms see the detail of what we're proposing, we will keep refining those estimates, such that when we come out with our final rules by early 2026, we will update them further based on the final scheme.

So I will now pass to Mario.

Mario Theodosiou

Thank you, Nikhil. I'm going to pick out three key findings from our diagnostic work. Number 1, in none of the cases that we reviewed where the broker had the ability to increase interest rates in exchange for increased commission, what are known as discretionary commission arrangements, in none of those cases was the customer told about that.

Number two, in 4% of cases across our DCA and non DCA case file reviews were customers told the amount of commission that the broker was earning. That does not necessarily mean that in each of those cases there is a failing. Our proposal is that there would only be a failing where the commission was high and it was not disclosed. And we'll come on in a moment to explain how we propose to define high commission for the purposes of the scheme.

And then finally, we also reviewed files to determine whether or not the broker had a contract with the lender which gave that lender right of first refusal to business the broker proposed. And we found in 570 DCA files that we identified an undisclosed right of first refusal arrangement in 13.5% of cases and 274 non DCA case files we reviewed in 9.5% of the cases that we that we reviewed. There's a wealth of other findings that we set out in papers that I wanted to highlight, I'm now going to pass to my colleague Haris, who is going to explain why we say that this means that consumers have lost out.

Haris Irshad

Thank you, Mario. So as we know, inadequate disclosure means consumers were unable to make informed decisions and were less likely to negotiate or shop around. So consequently, many may have ended up over paying for their car finance. So what our quantitative analysis, which was just one part of a wider analytical programme focused on, was whether consumers paid more than if the market was truly transparent. Now I think, as Mario hinted at, it's quite difficult to truly compare the effect of lawful disclosure versus unlawful disclosure, because there were so few cases of lawful disclosure. We therefore had to use a much wider range of economic analysis to inform our assessment on the impact of non disclosure. For those interested, our first technical annex does set out in quite extensive detail the details of the econometric and statistical analysis undertaken, but essentially to answer the question of whether the use of DCA did increase the cost of borrowing for consumers compared to similar flat fee loans. Our analysis examined approximately 230,000 agreements between January 2019 and January 21 and found that APRs on loans for two types of DCAs, so reducing DIC and scaled DIC were typically 20 to 24% higher than their comparable flat fee loans.

So in other words, what that meant was that borrowing costs on loans with a flat fee commission structure were on average 17% lower than comparable loans with DCA models. Now this analysis we subjected to quite significant robust checks and it has been scrutinised by at least 2 academics.

So when it came to the relationship between commission and the cost of credit for flat fee loans, we used 2019 to 22 data and looked at lender broker relationships. And there again we found evidence of loss or harm across certain subgroups. So when we sorted out the loan agreements according to the highest level of broker commission as a proportion of loan amount we find a statistically significant relationship at around the 75th percentile. Because it's at this point that the consumers total cost of credit rises by more than a pound for every pound of broker commission. So its at this point, at this particular decile subgroup, that this is occurring on average where 33% of the total cost of credit and 10% of the loan amount. This effect we see becomes stronger as the commission increases as a proportion of the total cost of credit and loan amount. So for example, in cases where the commission was at least 50% of the total cost of credit, an additional £1 of commission is linked to adding £1.54 to the borrowing cost.

Now it is worth noting there are some limitations to this analysis, so we have to treat this as indicative of the impact rather than conclusive evidence. However, what it does indicate is where commission is high as a proportion of the cost of credit and the loan, consumers are paying more for their loans. So this this doesn't mean that high commissions themselves were disproportionate or unjustified, we know brokers provide an important service, but it does provide an indication as why the adequate disclosure is essential as it might have prompted consumers to ask about the reasons for the high commission relative to the cost of credit to loan amount and how it impacts the cost. And I'll just end by just noting the figures we code are direct financial losses. We know there's other forms of harm consumers could have suffered around distress and inconvenience from having unsuitable products and an erosion of trust, so these figures may well be an underestimate. And with that I'll pass over to my colleague Jon.

Jon Pearson

So looking at what gives rise to liability under our proposed scheme, we consider that relationships would be considered unfair if there's an inadequate disclosure of one more of the following arrangements.

The first one is a discretionary commission arrangement as Mario touched on a moment ago. The second one is high commission and as mentioned earlier, the level of commission is a key pattern that's been recognised by the Supreme Court as a factor. We have completed our analysis to come up with a threshold for high commission for the purposes of the scheme as 35% of the total cost of credit and 10% of the loan. The evidence for this has been generated through our analysis of the relationship between commission and borrowing costs and in particular, we came up with a threshold of 35%, 10% as the point which our analysis best indicates that the borrowing costs may have been more strongly affected and in some cases disproportionately elevated by the commission, such as the size would have been a major consideration in the consumers mind had they been aware of it when they took out the loan.

We consider that both the total cost of credit and the loan amount thresholds suggested should be met for the scheme case to be considered as having a higher commission arrangement, and this will help ensure that false positives are not caught by the scheme, such as low cost credit agreements.

However, it's worth noting that liability could still be established under the scheme for a low cost credit agreement where another relevant arrangement such as DCA or a tied arrangement. It's also important to note that our proposed definition of high commission arrangement is for motor finance scheme cases only, and it's 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 judgements about the appropriate remuneration for brokers. Again within the CP, we've also provided data on alternative thresholds for high commission and would welcome views.

Where cases include one, or more of these three arrangements, there may be some limited circumstances where they may be able to prove that it was fair not to disclose, or that the customer did not suffer any loss and these include cases where the DCA was not itself acted upon, or potentially because the customer was sophisticated, as long as that meets certain criteria. There's also a possibility that the consumer did not suffer any loss as they could not have secured a lower APR for any other lender the broker had arrangements with.

Where none of these three factors are present, the lender would be expected to find that relationship was fair and consumers told that they are not owed compensation will only be able to get a different outcome from the Financial Ombudsman if it decides that the firm did not follow the scheme rules. People in this situation could still make a claim in court if they believe that they have lost out. We hope this approach would provide greater certainty for consumers, firms and we're seeking views on whether there are further factors beyond those listed above which should define an unfair relationship for the motor finance agreement.

Nikhil Rathi

What I might do is I might now jump to just talking about the redress methodology briefly, so I'll just take that slide and then we've got a couple more things to get through and then we'll open up to questions. I'm sure there's going to be lots. So as we've been thinking about this methodology, we've had to give due regard to what the courts have said, in particular the Supreme Court judgment in August. The Supreme Court made a conscious decision to decide the remedy itself and in their judgement at paragraph 337, they said one of the reasons for doing so at our request was to help aid our work and provide some authoritative guidance given the thousands of pending complaints. So we must take into account very carefully what the Supreme Court said, and there are unusually broad remedial powers under the Consumer Credit Act. And we've also, under our own statutory requirements for a redress scheme, must also think about the economic loss and harm that Haris took you through.

That has led us to the methodology that we have proposed for consultation this evening and we are proposing that the cases that align most closely with the Supreme Court Johnson case get awarded commission plus interest. Interest is defined as we set out at the beginning of August, as Bank of England base rate plus 1% based on a particular methodology for calculating that. And then for everything else that is eligible for the scheme, we propose to take a midpoint between the Supreme Court remedy of commission plus interest and our loss based remedy, which is APR -17%. So for example, it's estimated that a loan with an interest rate of 10% charged to the consumer should carry a market adjusted rate of 8.3% and we believe we can use that estimation also as a reasonable proxy for losses in the relatively small number of non DCA cases covered by our scheme that do not align closely with Johnson. And in all of this there will be a floor, that APR based remedy will be a floor for compensation in our scheme.

So that's the sort of summary of the methodology. We'll go into more detail in the questions I'm sure. And then I'll pass to Sheree, who's going to just talk through some of the aggregate numbers.

Sheree Howard

Yes, very high level. So that we can get to questions. You've already heard from Nikhil that we are estimating an 85% take up rate. We've done that based on consumer research, but also our experience of past redress schemes. We estimate a redress bill of £8.2 billion.

Obviously, if 100% of people did take up redress, that would be £9.7 billion. In addition, we are estimating the cost to firms of implementing and running the scheme to be £2.8 billion. So that would bring with the £8.2 billion to about £11 billion in total. Obviously, the take up rate is uncertain. It could be lower and if it was 70%, you can see the number on the slide there £6.8 billion. Couple of important things. I'd like to stress that gives us an average of around £700 per agreement. But it is also worth emphasising that, our view is that the cost of handling these same complaints through the FOS and the courts will be several billion higher. So we believe that this is a very efficient way of handling this process.

The other thing that we will be very open to is firms have talked to us about how they can automate the payment of redress, how they can get it to consumers quicker. Obviously, that would then reduce our estimation of the cost of implementing and handling the complaints.

On the next slide we give a high-level breakdown of the estimation breach rates for the three types of unfair relationship. That's inadequate disclosure of DCA, high commission or tied [arrangements]. And then you can also see on this the proportion of agreements that we think would qualify for the Johnson level remedy. For anyone who's doing quick maths, this will not sum to the total that we've highlighted because this is based on the agreements that had these breaches. Agreements can have more than one breach.

Next slide, all of this is in the CPI would highlighting annex 6. This gives you some scenarios under different types of redress. So, for example, if we look at line 3 here, this is based on 100% take up rate. If everyone was to get the Johnson remedy, we are estimating that at £13.2 billion. Obviously if we went for a different interest rate, we've got some factor values there just to give you some comparisons of numbers and all of those are laid out in the CP.

Nikhil Rathi

We said in August we estimated everybody would get on average less than £950. If everyone got the Johnson remedy plus the interest rate we said that's what our estimate is having looked at it. And that was obviously a very serious case, the Johnson case.

We think that the remedy we've proposed is fair and proportionate all round.

I will very quickly just say something about market functioning.

If I can go to the next slide, we are watching this really closely. We've seen Bank of England data come out recently, which has shown continued growth in the motor finance market.

The new registration data for September 2025 that came out from the motor manufacturers on Monday. They showed a very strong month.

We've seen a public securitization that market opening in September with very substantial transaction and we've seen, you know constructive equity market since our announcement in the beginning of August.

We we've also set out in quite some detail in quite some detail our competition analysis, the annexes that go through all of that, the shape of the market and why we're confident that with this proposal, we believe the market will continue to function well.

We've highlighted in the RNS the work we've done on non-prime non-bank, non-captive lenders who are typically much smaller, very small part of the market. We want to make sure our scheme works for the entire market and many of those lenders have told us they don't have tied arrangements and that they had adequate disclosure. And there's also an ability in the scheme if you can prove with evidence that the consumer didn't have any other source of credit that in those circumstances redress wouldn't be payable. We think we have looked carefully at the range of different elements in the market.

The consultation is now open for feedback, and that's the last one I wanted to make, which is the timetable. If I could jump to that last slide, please. Thank you.

The core consultation on redress scheme closes on the 18th of November. Obviously, we're expecting a lot of feedback. We're going to try and get it done as quickly as we can. So that by early 2026 the scheme can start and then the consumers will receive compensation later in 2026.

You'll see there's a whole set of timetables we set out in in the CP as to as to how all this will will work. What we've said in opt out opt in is if you already have a complaint in you will get a letter from your lender within three months and you'll have one month to opt out. Otherwise, you'll be assumed to be in. For everybody else who hasn't already complained by the time the scheme starts, your lender will seek to contact you. And you'll have a time period to opt in. And if you don't get any contact at all and you think you should have been contacted, you'll have a year from the time the scheme starts to get in touch with your lender to make a complaint.

I will leave it there. That's a huge amount, I know. Plus everything else we've released.

And I'll go to questions. Benjamin, over to you.

Benjamin Toms

Thank you very much for taking these questions. These sessions are really useful. First one is just to wrap up a little bit of some of the comments you made in that session. The range before you gave was 9 to 18 billion. Now there's an £11 billion number, but you can probably get to £13 billion if you prorate everything up to 100% claim rate.

If we're thinking about the movement down in your total impact assessment, is it, broadly speaking, driven by 1) before you assume that all cases were Johnson redress cases and now there's a hybrid approach for some cases where it's total compensation or the average of that and loss. And 2) is the other driver just that you've reduced the interest rate charged, so just the drivers are moving down the overall impact assessment.

Secondly, you've provided some definitions of what is an unfair agreement. To what extent are you comfortable that this won't end up back in the administrative courts with someone challenging those definitions relative to the Supreme Court judgement?

And then lastly, you characterise some areas of rebuttal in in your statement. What percentage of agreements are you assuming could get rebutted or does rebuttal represent pure upside to your impact assessment? Thank you.

Nikhil Rathi

Thank you. Just on the 1st question.

If I go back to what we said on the 3rd of August, Benjamin, you know we did put a range out and we gave £18 billion. But we said at the time it was very unlikely. We didn't see that as being the likely scenario and I reiterated that on the call here. But I did say there were plausible scenarios that might get us there. Slide 12.

Clearly on Sunday the 3rd of August, we had not decided between opt out, opt in. We had not decided on the remedy and we had not got modelled fully the range of non redress costs.

So, if you just take line 3 [on the slide] by way of example, that is, that is a 100% redress bill.

We're now going for opt out if you've already complained. And proactive opt in if you haven't, which is getting us to an estimated 85% participation rate.

Secondly, you'll see in our cost benefits analysis, there's a range of judgements around non redress costs. We get very different figures from lenders as to how much a unit cost of dealing with a complaint is. There's a range there. We've gone for an estimate of £2.8 billion, it may come down if we are able to work with lenders on automation. But some have given us even higher estimates.

Then obviously, the interest rate. We haven't changed the interest rate assumption of Bank of England base rate plus one. But what we have done in our modelling, which we weren't able to do that weekend, was look at precisely the agreements that would be covered under our eligibility criteria now they're finalised. And there is a greater weighting of those agreements to earlier in this period where interest rates were particularly low at 0.5%, which is what brings the benchmark interest rate down somewhat.

We have assumed for modelling purposes that 2.09% applies across the board. That is obviously not going to be the case because each agreement is going to be different. It may be a bit higher in some cases. We'll have to see how that works through. I hope that explains the the numbers.

There are some other elements. We have not yet fully modelled in the £8.2 billion the floor, because that's going to require us to work more with firms. That might notch it up a bit. Then the participation rate, there are some scenarios particularly going back where it could be a bit lower, we'll see what further information we get during the consultation.

I will turn to Stephen to talk about the unfair agreement and reversible presumptions.

Stephen Braviner Roman

I think your question on the rebuttable presumptions was how much have modelled how much that will move the redress bill.

That's a really difficult point for us to to model. That's one of the unknown unknowns Nikhil was alluding to. We'll have to see once we get into the detail of the consultation what information lenders are able to put forward to help firm up the numbers, so I can't give you any more on that.

On how secure are we that there won't be court challenges?

As Nikhil mentioned at the outset there have been two really helpful court decisions. One, the Supreme Court which dealt with high commission and with contractual ties. Pretty clear from that decision that those kind of arrangements, if not disclosed, are unfair. There's obviously a question about the precise level of how high is high enough to be relevant to consumers decision making.

We think we've made a really solid assessment of when that should be based upon proper analysis so we're relatively comfortable with that.

The other decision that has been relevant was a DCA case, a FOS decision that went to the High Court.

The methodology that we're proposing is not the same as the FOS methodology, as you know. But the High Court there said that their methodology was reasonable. It was a methodology that was based upon an attempt to hypothesise what the correct APR rate should have been in a particular case. The methodology was different, but, at base, there is a similarity to trying to establish what the consumers should have paid. Again, we take a lot of comfort from that, that the fact of the DCA not being disclosed will be upheld by a court as being unfair. And that the methodology broadly speaking is in the ballpark of where the High Court was in that case.

Nikhil Rathi
If you want to read more about the legal issues, I point to chapter eight of the consultation and the counsel opinion. We've had an independent KC give an opinion and that's published at annex 5 of the consultation paper.

Toms, Benjamin

Thank you.

Nikhil Rathi

Amit.

Amit Goel

Hi. Thank you and thanks again for all the materials. It's very helpful. I'm actually got some more questions coming back to that slide 12. My question is how close is the base case or scenario one to the final outcome, because obviously within the consultation there is a whole range of questions discussed. I just want to understand better what is the probability we will see scenario 2 or 3 in the final (outcome), and how you will make that judgment, because obviously there is a huge amount of variability between a £6.2 (bn) in scenario 2 and £14.3 (bn) in scenario 5. So how that gets set. And then again, just coming back to scenario 1, £9.7 (bn), as you've said there are still a bunch of variables that go into that. What is the confidence interval? There is a dataset sample which you've scaled up, but if you took that base case set of assumptions, what would be say, your 95% confidence interval? Is that £9.1 to £10.3bn? How does that measure up? Thank you.

Nikhil Rathi
First of all, I should say our base case or scenario 1 is what we have proposed. And the numbers we've given you here are based on 100% participation. So that's what you're seeing in the redress liabilities. And obviously we think that's very unlikely. So, we've gone for an 85%. 85% of £9.7 (bn) gets you to £8.2 (bn), which is what we've set out.

This is a consultation. And we've always said through this that we will set out alternatives. We've set out alternatives for not having a scheme in place. We've set out alternative remedies and given our guidance here as to our estimates around that. We've also explained in Chapter 8 why we think what we've proposed is fair, and proportionate, and just, which is one of the tests for us in terms of exercise of our legal powers. And we think we've struck the

right balance. But of course, we'll listen very carefully to all the feedback through the consultation on this. And I imagine we're going to get a very significant level of feedback. And in light of that feedback, we will take some final decisions.
On the confidence levels point, Haris, do you want to come in on that?

Haris Irshad
I can do. You probably saw me scribbling the right piece of paper. In our technical index, on page 102, we actually set out the 95% confidence intervals for the various models we do. We do set out over 100 model repeats. Our central estimate is stable to about £2 million pounds either side of that £9.7 (bn). It's probably worth going to read that that section in more detail but there are various graphs and lots of detail about the various sensitivities that we did around that central figure.

Nikhil Rathi
We understand you wouldn't have got to page 102 of the technical annex just yet an hour and a half after. But you know that's my point at the start. Look, there's going to be a lot of material here. And so this is just the first call. If there's any more questions you have on the detailed analysis, do file them in afterwards and we'll do our best to get back to you as quickly as we can to point you to where you can find the information.

Benjamin, do you mind putting your hand down? I think you've already asked a question. So, Jonathan.

Jonathan Pierce

Hello, thanks for letting me ask some questions. And I've got to say well done on getting a 360-page consultation out in two months. Good effort that. I've got two questions. The first, just to come back to how the numbers today differ from where we were in early August, I think if I take that third scenario, full compensation repayment, interest to base rate plus one percentage point, that's the sort of high watermark I think you were referring to back in August, but the total number you gave us then was £18 billion at the top-end which would suggest the delta of non redress admin cost was about £4.8 (billion). Is that right? I mean that feels like one of the major changes today is your original £4-5 billion of non redress admin cost is now being put at £2.8 billion, is that right?

Nikhil Rathi
So what we did in August was we gave an indicative estimate. We said at the time it was highly indicative and susceptible to change. So I wouldn't map across these numbers exactly to that because obviously we've done a huge amount more work and modelling since then. But if you take the Johnson remedy there, if you look at the cost benefit analysis, you'll see a range for non redress there. So we've landed on £2.8 billion, but that might come down if automation works really effectively. We're talking to some firms about that. But there are also scenarios where it could go up as well. And bear in mind that the interest rate as well, is for consultation. It's not set in stone. And

you've seen one of the reasons we wanted to give you some scenarios here - four and five – is to give you some sense of the delta for every percentage point of interest rate change.

So if you take all of those, the Johnson remedy for everybody, the potential high non-redress costs and flex on the interest rate, you can get to plausible scenarios which get you to the higher end of the range. But what we said in August, and we stand by it, is we don’t think those are very likely. And obviously we're making the final decisions on this at the end of the consultation.

We will listen to all the feedback, but we don't think that level is very likely and we've set out in detail why, in terms of our legal reasoning, we don't think going for Johnson remedy for everybody would be proportionate.

Jonathan Pierce
That's helpful. Thank you. The second question I have is more around the approach to redress, and I'm interested in particular as to why you've designed the APR adjustment in in the way that you have. You’ve started with the APR that was actually charged, and taking 17% off that to get to if you like to a sort of fair interest rate. As opposed to the other way around which given DCAs are 84% of these eligible cases you could have started with the minimum interest rate charged and adding something on in the other direction as your fair level of interest. Because it just strikes me that if you were a lender that had a minimum APR of say, 5%, and you charge the customer 6%, all the commission's going to have to be repaid based on that APR adjustment calculation, because 17% of 6% would get you back below 5%. Whereas if you're a lender that's had a minimum APR of 5% and the customer was charged 8%, the APR adjustment would take you back down to 6.5% and you only have to repay half of the commission. So it feels like it's been designed in a way that certainly on the APR adjustment punishes proportionally the lenders that were operating closer to the minimum APR. Have I read that right and if so, why have you gone about it that way?

Nikhil Rathi
I think Sheree and then Haris might want to jump in as well.

Sheree Howard
Yes. So as my colleague Haris explained, we've done some econometric analysis looking at how much consumers paid extra when they had a DCA versus a flat fee commission arrangement. So this is a pure comparison of the interest rate difference. And as Haris said, it ended up that DCAs are about 20% higher or if you wanted to compare a DCA interest rate down to what a flat fee would have been, it had been about 17% lower. So that is one methodology.

We then talked about the fact that we’ve also – because we're proposing a hybrid for a lot of these cases – looked at the Johnson remedy, which is the return of commission plus interest, and taken the average. I think it’s important to say that there isn’t not necessarily - and I hear what you say, if you look at the gap in interest rate, some would get half the commission, but it doesn't work like that. We're looking at the interest rate, and we're looking at the commission very separately, because there isn't necessarily a one-to-one relationship. It's just that on DCAs if the interest rate went up above the minimum, they could get higher commission.

Nikhil Rathi
I'd also say that on the data as well, I wouldn't say that we've got complete data on minimum APRs from all the lenders. And so, we have to do something where we can model this effectively system-wide to get to something which can be operationalised across the market.

And we've had a skilled person looking at this looking back at the data from over 30 million agreements, and I don't think we would have had the kind of data set that you have implied that we should have used, because I don't think lenders have been able to give us that. They haven't been able to give us the APR they actually charge. But Mario, do you want to come in on that?

Mario Theodosiou
Also we have some information from lenders that suggests minimum interest rate of 0% from the systems point of view. That might not necessarily have realistically operated in practice. And the final point I'll just make is that looking at the DCA market in the context of, as I said earlier, a kind of widespread disclosure failure, it's challenging drawing inferences from that market in terms of what an appropriate rate would have been. So what we're doing is looking at the outcomes that came from the non DCA ones and drawing that comparison.

Nikhil Rathi
There's a whole section in the consultation in Chapter 8 where we explain why we didn't go for that markets-based APR remedy that you suggested. So we set all of that out in a fair amount of detail there our reasoning for that. Sheel.

Sheel Shah
Great. Thank you. I've just got a question on the opt-in and opt-out design of the scheme. So, you've got 4 million complaints that are already sitting with the firms. You've got 14.2 million agreements that are in scope, and I believe the bulk of it would be sitting in that six-month time frame where lenders contact the underlying customers and they opt-in. So, I just wanted to get your thinking around why the opt-in design, and why a six-month time frame? I appreciate you've put the 9.7 billion in the base case with 100% participation rate, but just to get your understanding on the design of that scheme.

Nikhil Rathi
We said that we think the 100% is very unlikely and we've got consumer research, which we've also published today, which says that 14% of people don't intend to claim, which is why we've taken our central scenario to 85%.

But that's also uncertain, we'll see. Mario, do you want to take the broader question?

Mario Theodosiou
Yeah. We don't think it's right to propose a scheme where, through apathy, consumers who have not yet complained are automatically kind of brought into the scope of the scheme. I think the right thing to do is for their lenders to contact those consumers and give them the option of having their case considered in the scheme.

That's why, as you say, for the bulk of consumers, we're proposing an opt-in scheme, but there may be arguments on the other side of that fence that we'll consider through the consultation. On the other hand, for those consumers that have already complained, we also think it's right that lenders get on and contact those consumers really quickly, and make clear to those consumers, absent of an indication that they want to move out, they're going to be considered through the scheme. I think it's correct arguments either way [inaudible] consultation, and we'll consider them as their rights.

Nikhil Rathi
And on the timetable, these are obviously timetables for consultation, we want to, subject to the consultation as making final rules, we want this to be done quickly. You can see we're moving at quite considerable pace here, and we believe that the timetables and milestones we've set out are operationally deliverable from our survey of motor finance lenders. So that's what's informed the timetable assumptions here and we'll listen to the feedback that comes through the consultation.

Second, Benjamin; Benjamin Caven-Roberts, thank you.

Ben Caven-Roberts
Hi there, Ben Caven-Roberts from Goldman Sachs. Thank you very much for the presentation and taking the questions. Just two from me please, and apologies if these are covered somewhere in the documents and I haven't got some yet, but, firstly, how much grey area do you expect there to be for lenders considering whether the disclosure was in fact inadequate?

And then the second question would be, what is the average cost per firm for the £2.8 billion operational costs, and how would you expect that varies based on complaints volume? I know you mentioned the potential benefits of automation, I'm wondering how material you think that could actually be? Thank you.

Nikhil Rathi
Mario, do you want to take those?

Mario Theodosiou
If I pick the first one. So how much grey area will there be for lenders to determine adequately? So, what we're trying to do, through our proposal, is simplify something that could otherwise be really complicated if it wasn't for our intervention. So, with regard to the three areas – DCA, high Commission and right of first refusal - what we're saying is that there's a starting presumption of non-disclosure unless the lender can demonstrate through contemporaneous evidence that those issues were disclosed to the customer.

We say they can rely on secondary evidence if primary evidence doesn't exist in the form of processing, or template letters, and so on. We will supervise lenders' efforts in that regard to make sure that they're being done properly. We will hear from firms through the consultation with regard to grey areas.

In relation to your second question, was it in relation to the average cost of non-redress.

Nikhil Rathi
Haris, do you want to pick that up? We have set out in quite considerable detail how we get to that, but we recognise very significant level of variability in terms of our survey evidence from firms. So necessarily you need to speak to each lender - they'll give you their own guidance as to what they think this is going cost them and what they've spent already. But, Haris, maybe fill in the gaps.

Haris Irshad
I think that's right. So again, I would just point you to the main consultation paper - pages 211 onwards. So, where we use our standard breakdown between small, medium, large firms to sort of start to disaggregate particularly costs around sort of familiarisation, *[inaudible]*, things like that.

We don't have a single average cost per firm just because of the way we've calculated it. And obviously it's not linear because firms will be able to use automation and things like that, that large ones will not. You can hopefully get a sense from the data there, with the aggregate figures, and you can probably do your own calculations to work a quick back of the envelope to do that.

Nikhil Rathi
Rather regrettably, there are some firms who have very significant experience of dealing with mass redress episodes and so can give quite a lot of granular detail about what it would cost them. Others for whom this is probably a newer experience. One of the points we've made is with the Consumer Duty and looking at our own intelligence now, we're not seeing any other redress events

like this on the radar. I want to keep underlining that point. We want to get this done and closed.

Sheree Howard
The last thing I would highlight is obviously the breach rate can be very different by firms. Some firms didn't do a DCA at all. So therefore they would only be looking at high commission and potentially tied relationship breaches. So that's why it's very difficult to give you an average complaints handling cost.

Ben Caven-Roberts
Very helpful. Thank you.

Nikhil Rathi
Christopher.

Christopher Cant
It's Chris Cant from Autonomous. Thanks for the call and letting us ask questions. It's really helpful. Can I come in on point 7 on slide 9. So, why is it that, in terms of identifying unfair cases, one of the criteria you identify is there was a DCA arrangement, but obviously in some cases there could have been relatively limited commission paid, even if there was a discretionary commission arrangement, it could have been a relatively modest amount. So in the case of point 7, the redress could exceed the amount of commission. I thought the nub of this issue was it was the payment and non-disclosure of commission that made it unfair. So, why, in terms of designing it, have you decided to floor the redress at the APR calculation?

Secondary to that, is that really just the small minority of cases? So, I know there could be the odd edge case, and that's why you've had to specify that, to capture those. So if it's just really a de minimis number, maybe I'm barking up the wrong tree, just curious on point 7.

My second question was going to be: in terms of cases that are already in the court system, the August announcement seemed to imply that there was going to be some attempt to bring those into this scheme in some fashion or in some way to reduce the court time spent on this. I'm just curious and again, it may be like Benjamin, I can't pretend to have read all 500 odd pages yet, but what, if anything, are you doing about those cases, or should we expect a sort of an ongoing tail of litigation around this for those cases for the foreseeable future? Thank you.

Nikhil Rathi
I’ll ask Sheree to take the first and Stephen to take the second.

Sheree Howard
First of all, coming back to the conversation we had earlier around how we've estimated that loss - that has been looked at DCAs in general versus flat fee arrangements and what the difference in the APR was.

As Haris said earlier, we believe that's a broad floor of the loss that a consumer suffered. That's why we've set it as the floor, because the nature of the arrangement wasn't disclosed, and bear in mind that we will not allow the APR to go below the minimum APR either. So, if the 17% reduction takes it below the minimum APR.

The other thing I would highlight is, is that we don't believe that there are many cases where this would apply from that perspective, where the commission would come out lower.

I don't have exact figures to hand. We don't believe it is that many, but it is some based on our analysis. Obviously, we're also subject to the data we've been given. From our perspective, we are treating the data we have got from the firms but, as Nikhil has already said, there are gaps in that data. We don't have all the minimum APRs, for example. But we have thought that the floor should be the loss-based, on that theory.

Nikhil
And I'll to go to Stephen for the second bit.

Stephen Braviner-Roman
Just quickly on the second part. You're entirely right that the theory behind the build of this scheme and making it attractive and easy to use for consumers is that those who have already brought litigation or made the first steps down that road as well as those who haven't will look at this and think that this is a cheaper, securer, simpler way to secure a just outcome. They can set against this the uncertainties of litigation. And whatever nice words a lawyer may give to an individual, litigation is always an uncertain exercise. They don't know what they're going to get out of it. They don't know quite how much it's going to cost them, unless it's a fixed arrangement, which could be a sizeable chunk of any award they get. So, we can't stop people going to court, we can't take away that right. But the design of the scheme is intended to be an attractive option for those consumers.

Nikhil Rathi
At this juncture, I'd also point you to the announcement we made with a number of other regulators yesterday, about the action we're taking in relation to some concerning practices we've seen from some CMCs and law firms, when it comes to misleading statements about estimates of compensation, the way in which personal data has been used, fairness of exit fees or other terms in

their contracts. I just underline how closely we will be watching that kind of behaviour with our other regulatory partners to make sure consumers are treated fairly and are properly informed.

Christopher Cant
Just on the first point, to make sure I understood the answer to the first question correctly – so, there's a floor embedded within the floor? So, the APR -17% or scaled down 17%, that wouldn't go below the floor within the floor within the discretionary commission. That was the bit I hadn’t understood – it would be a 2nd derivative floor within that. OK. Thank you very much.

Sheree Howard
So obviously we're saying that if the lender only charged the minimum that they could have charged, there is no harm to the consumer.

Nikhil Rathi
There's a lot of technical terms in this, second derivative floor isn't one we've used. That's a good one. So maybe can we use that one for the final rules there?

I see four more questions. I'm going to close it after that, if that's OK. I know everyone's got families and other things to do this evening. So I see Perlie, Aman, Gary and Edward. And then I'll close it there. So Perlie over to you.

Perlie Mong
Hello. I just want to ask a bit more about operations and take up rate, because the take up rate on the 85%, it feels quite high because some of the cases are going back what 18 years, so are you assuming that the firms basically have quite a lot of data in terms of being able to reach out to customers quite easily; that's why you know maybe just everybody gets an e-mail and then you click the button and then you get the compensation. If that's the case, why would the operation cost be almost a third of the redress cost? Because that also feels quite high. So, just trying to understand some of the assumptions around the take-up rate and the operational costs of it.

And second one, just very quickly, tax implication - presumably the compensation would not be tax deductible, but the operational cost would be?

Nikhil Rathi
So, on the participation rate, that's obviously one of the variables around which there is considerable uncertainty. We've laid out why we have come to the conclusions we have, but we've also given you some scenario analysis so you can model different options. We do think on the data going back to 2007, our conversations with firms have been quite constructive. A very significant

number of them have got reasonable data. It can be supplemented with other sources of data, like credit reference agencies which can assist with tracing customers as well. So that is our feeling on that. But obviously we'll listen very carefully to the feedback during the consultation around that. And I'm sure when we publish our final rules, we'll give you a range of numbers because we won't know the participation rates until we know it, if you know what I mean - until the scheme is actually up and running.

On the non-redress costs, we've set out in quite some detail the analysis there. And again, there is some uncertainty around that as you have implied - if there's automation, if there's other things that could speed things up, that number could come down. At the same time, consumers have a right to go to the FOS *[Financial Ombudsman Scheme]* if they feel they've been unfairly excluded from the scheme or that the lender has not respected the scheme rules. That carries with it costs: a case fee cost and other potential costs. So, we have tried to model all of that and they are models, they are estimates. So, we'll see if firms come to a different view now they've seen the detailed shape of the proposed scheme.

Aman Rakkar
Hi Nikhil. Hi team. Thank you very much for this call and for the disclosure. I haven't had a chance to go through the technical annex yet and I'm keen to, because the calibration of 35% and 10%, to me is remarkable. It's probably a lot lower than what most of us were looking for. I'm not quite sure if I can perfectly make sense of that. That's not a question, that's a statement to you.

I was just more broadly interested in how satisfied you were with the redress scheme, in light of the fact that - my understanding is that the nature of the transaction is that often you're afforded a discount or offered a discount on the car purchase if you take it through credit - and there seems to be complete disregard for that element of the transaction. So, a lot of these transactions are going to look bad because a dealer has offered a discount on the car price. But this scheme just completely does not pay any regard to that. Is that an outcome that we're satisfied with? Do you think that kind of closely relates to this concept of harm - customers incurring harm that we're looking to compensate?

Nikhil Rathi
Firstly, on your 35 / 10 point, if you look at scenario 7 on slide 12. We've given you another threshold there of 40 and 11. You'll see the numbers aren't hugely different. What's important for us in setting this threshold is that anybody below this threshold, the relationship is deemed to be fair.

So those complaints will not be eligible for redress. It's very important that we get that calibration right. We'll listen to the feedback. And if we're going to be very clear about saying that you're not eligible for redress, we need to have robust evidence for doing that.

On your second point, these arguments were made in court by the lenders. They made various arguments around the discount, around the relationship with dealers. At the end of the day, we're running a scheme, as you can see, with tens of millions of agreements, the idea that you could prove the point you're making around discounts or some of the claims that were made in the court cases that the lenders contested, that the customer would walk or would have walked away, the court has given its view on that as far as the legal position is concerned.

So, where we are now with the Supreme Court and High Court, is we've got legal clarity and we now need to implement that through our scheme. And of course the source of the harm in most of these cases is the inadequate disclosure, and then there were these other features too. And, as Mario said right at the start, there were widespread disclosure failings.

Gary, last one for the night.

Gary Greenwood
Thank you very much for taking my question. I don't know if this is a bit sort of too obvious, everybody has been obviously asking very technical questions, but the thing I'm sort of struggling with is that you're sort of suggesting there's an £11 billion total industry cost here. And if I look at the sort of combined provisions that have been taken by industry participants so far it adds up to about £2 billion. We've heard from the largest lender Lloyds, after the last update, that they were quite happy with the level of provision they'd taken, which was just over £1 billion and that they were struggling to see sort of scenarios where it would be materially different to that. So, I'm just trying to understand from your perspective where you see effectively the missing £9 billion of industry provision that's required here? Where is that going to land? Is that landing outside of the banking industry - the participants that have just taken nothing so far and should have done?

Nikhil Rathi
So, first of all, there are rules around provisions and so some will be waiting until they have greater certainty on the scheme before they take provisions. Others have come to different judgments around that.

This consultation starts to provide some more clarity and some more direction of travel, but obviously there won't be certainty until we make the final rules.

We expect lenders will now take what we've done today and they'll look at their models and if they've got anything further to disclose, they should do so as appropriate.

I also understand that some lenders have expensed operational cost, they've put it through the P&L. There are different practices on that depending on the lender in question. Some may have different estimates. We've already talked about non redress costs. We've put certain cautious estimates in, as we are obliged to as we do our cost benefit analysis where we don't have data, we have to make certain cautious assumptions.

Others may have much more granular data about how they might automate and they may make their own judgements around non redress costs. Some may have better data than us, for example, as we heard earlier on rebuttable presumptions, and other things as to agreements that may be eligible. So, we'll see now where people come out.

For example, as we heard earlier on, rebuttable presumptions and other things as to agreements that may be eligible. We'll see now where people come out.

I'm going to turn to one of my colleagues just to give you the breakdown of the bank / non-bank liability to give you some sense of how we see it.

It's in one of the annexes. Can I go to the very final slide, please?

This is indicative and rough, but I hope that helps you, Gary.

There's also in our market impact analysis, there's another bit of analysis as well. We can send you the specific references at a later point if you want to.

We have looked at that and you know you can draw your own conclusions, there's different bits of data.

Gary Greenwood
So just a quick glance at that, it looks like there's quite a big amount from the OEM captives that basically not taken provision so far. I think that provisions have been very small, but so potentially that's where the black the hole is in the provisioning.

Nikhil Rathi
Potentially. Although some of those captives will have had commercial relationships with some banks, so there'll be commercial agreements there as well. This is obviously a very heterogeneous market with a very different set of relationships across them. I'd say it's roughly I'd say 45 to 50 for the banks, 45 to 50 for the captives and the small amount for the independents is roughly where we had thought it would be. But we will obviously see that now with more detailed modelling for the firms on our actual detailed scheme now.

Gary Greenwood
That's great. Thanks very much for your help.

Nikhil Rathi

Can we just put the slide up to remind everyone of the timetable for this? Again, welcome to give us your feedback. We always do appreciate if you send us your notes off the back of this, it's always useful for us to understand. And how you have interpreted on what we have announced.

As I say, our door is open, if you have any questions, just fire them into the team and we'll do our best to get back to you so you can analyse this as fully as you'd like to.

I'll probably call it a day. Let you get to reading the technical annex.

Thanks very much for joining us this evening.