

FCA PUBLISHES MOTOR FINANCE REDRESS SCHEME POLICY STATEMENT

Key points

- Estimated redress and administration costs have reduced to £9.1 billion (from £11 billion in the consultation paper) with the FCA assuming a reduced number of eligible loans but an increased average consumer redress payment.
- Redress principles are not fundamentally changed from the consultation, although there are new exceptions.
- The APR adjustment element of the hybrid remedy has increased to 21% for pre-2014 agreements (remaining at 17% for the period from April 2014 onwards), but redress under the hybrid remedy is now subject to a cap.
- Compensatory interest is now subject to a 3% floor.
- Whether the impact of changes on firms is positive or negative will be highly dependent on their books of business. However, subject to the availability of evidence, captive lender exposure is likely to be substantially reduced.

Following the publication of the FCA's consultation paper ([CP 25/27](#)) in October 2025 regarding a proposed £11bn motor finance consumer redress scheme, the FCA published its policy statement ([PS 26/3](#)) and final rules on 30 March 2026 for what is now a £9.1bn redress scheme or, more accurately, schemes. While the FCA has estimated that the changes will reduce the overall price tag for firms, with an estimated 12.1m eligible agreements under the final schemes as against 14.2m under the proposed rules in the consultation paper, the changes are complex, and the impact for firms may likewise be nuanced.

As trailed in the FCA's previous announcements, the final rules have streamlined some aspects of the schemes operationally while introducing a variety of additional exceptions, not least in relation to commercial ties where captive lenders will, subject to satisfying evidential requirements, be able to rely on an exclusion from the scheme. The rules also introduce a cap on the hybrid remedy under the schemes as well as de minimis commission requirements for a relevant arrangement to be found. Conversely, the rules have undergone consumer-friendly changes in the form of a minimum floor of 3% compensatory interest and an increase in the APR-adjustment component of the hybrid remedy to 21% for pre-April 2014 customers. Calls for more fundamental changes to the scheme's redress methodology or eligibility requirements from lenders and consumer groups have not however been reflected in the final rules. In light of this, and particularly in respect of pre-April 2014 agreements, firms will be alive to the potential for a legal challenge whether by lenders or consumer groups, which may delay payment of redress under the scheme, even as firms prepare for implementation.

Key changes to the scope of the redress scheme

- **Structure and timeframe of the scheme:** In an express recognition of the "elevated risk" of a legal challenge in relation to agreements beginning before 1 April 2014 (in respect of which the FCA has noted respondents have argued that, absent legislative change, the FCA lacks the power to implement a scheme under section 404 of the Financial Services and Markets Act 2000), the FCA has decided to implement two schemes, where "Scheme 1" redresses customers whose agreements began between 6 April 2007 and 31 March 2014, and "Scheme 2" redresses customers whose agreements began between 1 April 2014 and 1 November 2024. The FCA, whilst dismissing the respondents' arguments as to the limitations on the FCA's legal powers, has not explained its own rationale for why it considers it has the power to enact a scheme in respect of this earlier period.
- **Definitions of relevant arrangements:**
 - **Discretionary commission arrangements ("DCAs") and tied arrangements** have remained unchanged from definitions in the consultation paper.
 - **High commission arrangements:** The thresholds for high commission arrangements have been revised up from 35% of the total cost of credit and 10% of the amount financed to 39% of the total cost of credit and 10% of the amount financed, reflecting the distribution of commission at the 85th percentile of the market.
- **Exclusions from the scope of scheme:** Exclusions from the scope of the schemes have been introduced or amended as follows, and, in each case below, referral to the Financial Ombudsman Service ("FOS") for determination on a "fair and reasonable" basis, outside the scope of the scheme, remains open to excluded customers.

- **High value loans:** Loans with values exceeding the 99.5th percentile across a given year, rounded to the nearest £1,000, are now excluded from the schemes on the basis that these are, by definition, not mass market and therefore best dealt with outside of the scheme. An exception is made for vehicles which have accessibility adaptations, which remain within the schemes regardless of loan value.
- **Limitation:** Although the previous approach to limitation has broadly been retained, the final rules provide guidance for cases involving only a high commission arrangement that clear and prominent disclosure of the fact or possibility of commission, without disclosure of the amount of commission, is sufficient to put the customer on notice of relevant information for their claim such that the limitation period will not be extended under section 32(1)(b) of the Limitation Act 1980. Relevant agreements fulfilling these requirements and ending over six years prior to the date that the scheme rules were made are therefore excluded from the scheme.
- **Exclusions from relevant arrangements:** A number of new exclusions from the schemes have been introduced in the final rules in the form of agreements which are deemed not to constitute relevant arrangements on the basis that no unfairness could arise from those agreements. In each case, affected customers remain in scope of the schemes such that any FOS referral made by the customer would be subject to determination under the rules of the scheme.
 - **Tied arrangements and captive lenders/franchised dealers:** Captive lenders and white label lenders now have the option to demonstrate prominent branding and trading name use on premises, marketing materials and the motor finance agreement itself, in order to demonstrate that no relevant arrangement applies. Crucially, evidence of standard practice, as opposed to individual, case-by-case evidence, will suffice.
 - **Customers with zero APR:** Where the customer receives a 0% APR, the customer is deemed not to have a relevant arrangement regardless of whether a DCA, tied arrangement or high commission was present or disclosed.
 - **DCA arrangements with no discretionary commission:** The final rules retain the option for firms to show that no redress is payable on the basis that the customer paid the minimum rate under the DCA arrangement such that the broker in fact received no discretionary commission. This has been reclassified from a ground for rebuttal of a presumption of unfairness to an exclusion from being a relevant arrangement.
 - **De minimis commission thresholds:** Under the new rules, a de minimis commission threshold of £120 for pre-April 2014 agreements and £150 for agreements from April 2014 applies. Where commission charged is below this threshold, the agreement will not be treated as involving a relevant arrangement and will be excluded.
- **Rebuttals of presumptions:**
 - **Non-operative tied arrangements:** For cases with only tied arrangements, and no other relevant arrangements, firms will be able to rebut the presumption of an unfair relationship by providing evidence that (1) the lender expressly, or by implication through course of dealing, agreed to forgo any reliance on the tied arrangement or (2) the broker had a policy or practice of disregarding the tied arrangement when introducing consumers to lenders. Firms will have to consider carefully their ability to retrieve such evidence, including the need for verification of the sufficiency of that evidence by the internal audit function or by an independent auditor appointed by the firm.
 - **No better deal rebuttal:** For cases with either a high commission arrangement or a tied arrangement, the “no better deal” rebuttal of a presumption of loss or damage included in the consultation remains available. This requires firms to prove that the customer could not have received a better APR from other lenders with which the broker in question had arrangements, and only applies where the broker is not exclusively tied to a single lender. The evidential requirements to rely on this rebuttal have, to some extent, been loosened to allow for broader evidence as to the broker’s practices to be relied on, without customer-specific evidence.

Changes to redress

- **Commission remedy:** The commission remedy, which previously required repayment of commission plus interest only where there is very high commission alongside an inadequately disclosed tied arrangement, now also applies where there is very high commission alongside an inadequately disclosed DCA.
- **Hybrid remedy:** For all other cases where the commission remedy does not apply, the hybrid remedy applies with the following changes:
 - **21% APR differential for pre-April 2014 customers:** The FCA has revisited its technical analysis underlying its APR adjustment calculation, outlining a further 2 years of transactions it has covered in its analysis (now spanning 2017 to 2021) in support of the 17% APR differential for the duration of the period from April 2014 onwards. However, the FCA now considers that this underestimates the level of loss experienced by consumers in the years before April 2014 and so, based on its regulatory judgment, has applied an increased APR adjustment of 21% for the years prior to April 2014.
 - **Caps on redress:** Redress available under the hybrid remedy will be capped at the lower of:
 - (i) 90% of the commission plus interest;
 - (ii) the realised total cost of credit adjusted to account for a minimal cost of credit offered to only 5% of the market at the time, excluding 0% APR deals (for which the FCA has provided figures); and
 - (iii) the unadjusted realised total cost of credit.
- **Compensatory interest:**
 - **3% interest floor:** Compensatory interest remains at 1% above the Bank of England base rate. However, the FCA has introduced a 3% floor to compensatory interest on the grounds that this better reflects borrowing costs to customers

and in order to minimise the risk of customers pursuing claims through the courts. This is likely to represent an increased cost for lenders compared to the rules in the consultation paper, given the low Bank of England base rate across much of the relevant period.

- **No ability for consumers to challenge:** The final rules (in contrast to the consultation position) do not provide for an ability for consumers to be able to rebut the compensatory interest rate awarded, given the 3% floor now applies.

Procedural / Operational changes

- **Implementation period:** In line with expectations, a voluntary implementation period has been introduced of five months for pre-April 2014 agreements and three months for agreements beginning on 1 April 2014 or later.
- **Customer outreach:** As trailed in prior [announcements](#), the FCA has streamlined certain aspects of customer communications, for instance, by (1) replacing previous requirements for recorded delivery and hard copy letters with a more flexible approach, including allowing for the use of digital portals and emails, as long as customers receive communications in a “durable medium” which enables them to store information for future reference; (2) removing the requirement to invite customers who have already complained to opt out; and (3) limiting customer outreach in relation to customers who have not already complained to those with relevant arrangements who are not subject to an exception and customers who are excluded on account of the limitation period.
- **Acceptance of redress in full and final settlement:** In addition, the final scheme rules provide for firms to make offers to customers in full and final settlement of all claims against the firm within the subject matter of the schemes relating to the agreement, and for customers to provide their acceptance to those redress offers actively, as opposed to the position under the consultation paper, where customers were deemed to accept the offer if they took no action.
- **Supervisory approach of the FCA:** The requirement for a Senior Manager to approve firms’ approaches and to provide attestations as to the firm’s readiness for the schemes remains in place. Moreover, firms are required to notify the FCA within 15 working days of publication of the policy statement whether they intend to implement any scheme steps during the implementation period for either scheme and to provide the name and contact details of the relevant Senior Manager responsible for scheme oversight. Firms will further be required, among other things, to submit a Scheme Implementation Plan within six weeks of publication of the final rules alongside their delivery forecast and one-off information, providing an opportunity for supervisory engagement with the FCA during the implementation period.

While a sense of proportionality has prevailed in respect of certain aspects of the schemes such as customer communications and the approach to captive lenders, the impact of the remaining changes to the schemes are likely to be highly lender-specific and will require firm-level analysis to quantify. Given the continued breadth of the schemes, however, there will be continued robust scrutiny from industry and consumer stakeholders alike. Firms will wish to monitor closely any developments in relation to potential legal challenges of the schemes and any action by HM Treasury, including in respect of legislative change for the pre-2014 period.

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