# UK car finance controversy rivaling PPI scandal emerges



A significant controversy surrounding car finance in the UK has emerged, comparing to the historically known Payment Protection Insurance (PPI) scandal. Drivers could see thousands of pounds in compensation owing to allegations that many were misled into paying inflated interest rates due to undisclosed "secret" commissions received by car dealerships from lenders.

This growing scandal pertains predominantly to consumers who entered into finance agreements such as Personal Contract Purchase (PCP) or Hire Purchase (HP) before 28 January 2021. Many motorists are now realising that they may have been overcharged for years, and as investigations continue, a UK Supreme Court judgement expected in 2025 could determine the extent of liability for car finance providers toward these consumers.

My Claim Group (MCG), a firm focusing on helping individuals impacted by this issue, indicated that around 40% of HP and PCP contracts from 2007 to 2021 might involve these undisclosed commissions. This revelation suggests that many consumers may be eligible for compensation, with MCG having already processed over 1.2 million claims, often averaging around £4,000 per claim.

The origins of this scandal date back to a period when many car finance agreements were structured around discretionary commission arrangements. These schemes allowed car dealers to set the interest rates on car loans, thus incentivising them to promote higher rates for personal gain. Such a practice presented a significant conflict of interest since these arrangements often went undisclosed to customers, leading them to enter agreements that were not financially advantageous.

Regulatory measures were implemented in January 2021, when the Financial Conduct Authority (FCA) prohibited such discretionary commission structures. This action aimed to enhance transparency and consumer protection. However, further investigations revealed that these practices may have been in place since as early as 2007, prompting a comprehensive examination of historical lending practices.

A crucial legal milestone occurred in October 2024, when the Court of Appeal ruled the non-disclosure of commissions on car loans as illegal. This verdict has broadened the ground for mis-selling claims, creating a legal precedent that any undisclosed commission arrangements could justify compensation claims from consumers. The ensuing judgement led to a dramatic rise in complaints, with the Financial Ombudsman Service recording a record 18,658 new car finance cases in the final quarter of 2024.

The implications for lenders have been substantial, prompting major financial institutions to reassess their potential liabilities. Notably, Lloyds Banking Group increased its provision for potential compensation payouts to £1.1 billion, with predictions that the total impact could exceed £4 billion. Other major lenders, including Santander UK, Close Brothers, and Barclays, are also facing significant financial repercussions, with some estimates suggesting total compensation costs across the sector could reach up to £30 billion.

In response to the unfolding scandal, UK Chancellor Rachel Reeves intervened in January 2025, seeking to protect lenders from potentially overwhelming payouts while expressing concern regarding the broader economic impact and consumer access to car loans. Concurrently, claims management companies, such as My Claim Group, are encouraging affected consumers to file complaints. Currently, the Supreme Court is reviewing a vital appeal from car loan providers following earlier rulings that favoured consumers.

The FCA has temporarily suspended the complaints process while awaiting the Supreme Court's forthcoming decision, which is expected later this year. This ruling will play a pivotal role in determining lenders' liabilities and the potential for consumers to claim compensation. If individuals believe they may be affected by this unfolding situation, they are advised to seek further information and consider filing their claims.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.hutcheonlaw.co.uk/blog/lloyds-faces-1-1-billion-bill-for-black-horse-mis-sold-car-loans/> - This article supports the claim that Lloyds Banking Group is facing a significant financial burden due to the mis-selling of car loans, increasing its provisioning to £1.1 billion. It highlights the impact of the Court of Appeal ruling and the involvement of Black Horse Finance, a subsidiary of Lloyds.
* <https://www.moneysavingexpert.com/reclaim/reclaim-car-finance/> - This resource from Martin Lewis provides a guide for consumers on how to claim back money from mis-sold car finance, particularly those affected by undisclosed commissions in PCP or HP agreements before January 2021, aligning with the scandal's timeline.
* <https://www.mayerbrown.com/en/insights/publications/2024/12/uk-supreme-court-grants-permission-to-appeal-landmark-case-on-motor-finance-commission-payments-and--disclosure-thresholds> - This article explains the legal proceedings surrounding the car finance scandal, including the Supreme Court's decision to hear appeals related to motor finance commission disclosures, which has significant implications for consumer claims.
* <https://www.noahwire.com/> - This is likely the source of the original article, though direct content cannot be verified from this URL alone. However, it may reference the broader context of the UK car finance scandal and related consumer protection efforts.
* <https://www.fca.org.uk/publication/finalised-guidance/fg21-3.pdf> - This document from the Financial Conduct Authority supports the claim that regulatory measures were implemented in January 2021 to prohibit discretionary commission arrangements, aiming to increase transparency in the car finance market.
* <https://www.fca.org.uk/news/news-stories/fca-concerns-about-motor-finance-firms-not-being-transparent-about-commissions> - This page from the FCA would detail concerns about transparency in motor finance commissions, aligning with the scandal's focus on undisclosed commissions and the need for regulatory action to protect consumers.