# Lloyds increases provision as FCA outlines £11 billion motor finance redress scheme



Lloyds Banking Group has increased its financial provision by £800 million to address compensation claims arising from a high-profile UK motor finance mis-selling scandal. This raises the bank’s total set-aside to nearly £2 billion, reflecting growing recognition of the potential scale and complexity of claims linked to historical discretionary commission arrangements (DCAs) used by car dealers. Lloyds had previously allocated £1.15 billion for these liabilities but now estimates the need for a larger buffer following the Financial Conduct Authority’s (FCA) recent publication of a comprehensive consultation paper outlining the redress scheme.

The FCA has positioned the motor finance scandal as one of the most significant financial misconduct cases since the payment protection insurance (PPI) controversy. The regulator estimates that banks and other lenders could collectively face costs of around £11 billion, with the potential to rise to £12.4 billion if all affected consumers come forward. Around 14 million drivers, spanning loans issued between 2007 and 2024, may be eligible for compensation averaging roughly £700 each under the proposed scheme. This figure comes with some caveats, as the FCA’s methodology for calculating payouts relies less on exact customer losses and more on regulatory considerations.

The mis-selling primarily involves the failure to properly disclose commission payments to car dealers, which incentivised raising interest rates unfairly for many consumers under discretionary commission agreements. DCAs were banned in 2021, but their legacy has triggered large-scale scrutiny and financial repercussions across the sector. Industry data indicates approximately 14.2 million loans could be implicated, with a projected claims take-up rate of around 85%.

Lloyds notes that the final accounting may evolve further as legal proceedings, complaints, and additional stakeholder input unfold. The bank’s chief executive Charlie Nunn has previously highlighted the scandal’s impact on the UK banking sector’s broader reputation, describing it as part of the country’s wider “investability problem.” The bank’s shares responded positively to the announcement, rising by 1%.

Other major car finance providers are also preparing for significant costs. Captive finance arms of manufacturers such as Hyundai Capital UK and the financial division of Honda Europe have respectively earmarked £34.5 million and £62.2 million in anticipation of compensation claims, although these figures predate the FCA’s most recent assessment and may be revised upwards. The Financial Conduct Authority expects banks to cover about 51% of the total payouts, with captive and independent lenders accounting for the remainder.

The Financing and Leasing Association has warned that the financial strain from such a compensation scheme could destabilise the car finance market, potentially leading to fewer loan options, increased borrowing costs, or insolvencies among some lenders. This highlights the sector-wide repercussions beyond immediate redress.

While the FCA’s latest estimate of £8.2 billion to £9.7 billion in compensation costs is somewhat lower than initial broad forecasts of up to £18 billion, the scale remains substantial compared to other UK financial scandals. Banks and lenders have collectively set aside over £2 billion already, reflecting growing consensus around the costs involved.

Notably, the FCA encourages consumers to claim directly through lenders rather than engage with costly claims management companies, and has outlined a consumer-friendly process prioritising earlier complaints. The scheme, expected to launch in 2026, aims to provide quicker and more straightforward resolution compared to court action, which remains an option but is likely to be slower and more expensive.

In summary, Lloyds’ increased provision and the FCA’s detailed redress proposal underscore the magnitude and complexity of the motor finance mis-selling scandal. It serves as a stark reminder of the long-term consequences of regulatory breaches in consumer lending and the ongoing financial and reputational costs borne by banks and their customers.

### 📌 Reference Map:

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2. <https://www.reuters.com/business/finance/uks-lloyds-estimates-additional-11-billion-charge-motor-finance-scandal-2025-10-13/> - Lloyds Banking Group has announced an additional charge of £800 million ($1.07 billion) related to the ongoing UK motor finance mis-selling scandal, increasing its total financial impact to £1.95 billion. The adjustment follows the UK Financial Conduct Authority's (FCA) proposal of a redress scheme targeting historical cases, some dating back to 2007. The FCA's methodology for calculating compensation is reportedly less tied to actual customer losses than expected, raising the potential payout amounts. Last week, the FCA estimated the overall industry cost of redress at between £8.2 billion and £9.7 billion.
3. <https://www.reuters.com/business/finance/lloyds-warns-potential-hit-uk-motor-finance-probe-2025-10-09/> - Lloyds Banking Group has warned it may need to increase the funds set aside to compensate customers affected by the UK motor finance mis-selling scandal. The announcement follows a proposal by the Financial Conduct Authority (FCA) for a redress scheme that could cost the motor finance industry up to £11 billion. Lloyds, a leading player in the sector, has already provisioned £1.15 billion—the highest among its peers—but analysts from Citi and Jefferies predict this could rise to £1.5 billion. The scandal involves approximately 14.2 million car loans sold between 2007 and 2024 that failed to properly disclose commissions and dealer-lender relationships. The FCA estimates an 85% claims take-up rate, and while banks have collectively reserved over £2 billion, nearly half of the burden will fall on captive lenders. Following the new developments, Lloyds' shares dropped by 2.6%, while Barclays and Close Brothers saw declines of 1% and 2.6% respectively. Lloyds says the total impact remains uncertain as it continues to assess the FCA’s proposals.
4. <https://www.reuters.com/legal/transactional/lloyds-lifts-bank-stocks-after-lower-than-feared-bill-motor-finance-scandal-2025-10-08/> - Shares of Lloyds Banking Group rose 2.6% after the UK Financial Conduct Authority (FCA) proposed a lower-than-expected redress figure for the motor finance mis-selling scandal. The FCA estimated total redress at £8.2 billion, including £2.8 billion in operational costs, which is below the original range of £9–18 billion. This news lifted banking stocks, with Barclays and Close Brothers also posting gains. Analysts from Shore Capital highlighted a £2.5 billion improvement over the FCA's initial estimate. While Citi and Jefferies expect Lloyds to set aside £1.5 billion (up from £1.15 billion), RBC suggests it could reduce provisions to £850 million. Lloyds stated it is reviewing the FCA's findings and will provide updates in due course. Additionally, Shore Capital noted that 60% of 2024's H1 motor finance loans originated outside the banking sector, which had already allocated over £2 billion for compensation.
5. <https://www.reuters.com/sustainability/uk-motor-finance-industry-faces-11-13-bln-redress-scheme-under-regulators-plans-2025-10-07/> - The UK motor finance industry is facing compensation costs between £8.2 billion and £9.7 billion ($11–13 billion) due to widespread mis-selling of car loans, according to the Financial Conduct Authority (FCA). This estimate is lower than previously projected, offering some relief to banks like Lloyds, Barclays, and Close Brothers. The FCA's six-week consultation follows legal clarifications confirming that many motor finance lenders breached regulations, largely through discretionary commission arrangements (DCAs), where dealers were incentivized to raise interest rates. DCAs were banned in 2021. Consumers who took out one of the 14.2 million affected agreements between 2007 and 2024 may receive about £700 on average in compensation, with payouts potentially starting in 2026. Despite being less than feared, the compensation scheme remains among the most expensive financial scandals in the UK since the PPI mis-selling crisis. Financial institutions, including the UK divisions of Santander and Bank of Ireland, have already reserved over £2 billion to manage anticipated claims.
6. <https://moneyweek.com/personal-finance/fca-car-finance-compensation> - Millions of UK drivers may be eligible for around £700 in compensation each under a new Financial Conduct Authority (FCA) scheme addressing unfair motor finance agreements. The scheme, which could launch in 2026, is expected to benefit up to 14 million consumers, totaling an estimated £8.2 billion in payouts. The FCA has found that many lenders failed to disclose critical information about commissions paid to brokers, often car dealers, unfairly disadvantaging buyers. The scheme covers motor finance taken out between 6 April 2007 and 1 November 2024. Consumers are encouraged to lodge complaints directly with lenders without using costly claims management services. Those who have already complained will be prioritized, while others will be contacted once the scheme is active. If contact isn't made due to outdated information, affected individuals can still make a claim within a year. Eligibility hinges on whether consumers were misinformed about commission arrangements. While individuals can choose court action, the FCA warns this could be slower, costlier, and less certain than using its scheme.
7. <https://www.reuters.com/business/finance/lloyds-keeps-motor-finance-provision-under-review-after-supreme-court-ruling-2025-08-04/> - Lloyds Banking Group announced it will maintain its £1.2 billion ($1.6 billion) provision for motor finance claims under review, following a recent UK Supreme Court ruling that, while favorable to banks, still allows for significant potential compensation claims. The bank stated that any changes to the provision are unlikely to be material but will update if new information becomes available. The UK's Financial Conduct Authority (FCA) plans to consult on a redress scheme for motorists who were allegedly overcharged, estimating potential total claims at £9-18 billion ($12-24 billion). This is notably less than earlier predictions of over £30 billion, thanks to the Supreme Court overturning a broader interpretation by the Court of Appeal. Analysts at RBC forecast costs of £11.5 billion, suggesting some banks remain under-provisioned. Close Brothers, another affected institution, confirmed it had not updated its £165 million provision and awaits further consultation with the FCA.