Outline of Consumer Voice's Challenge to the FCA's Car Finance Redress Scheme

Consumer Voice supports the introduction of an FCA redress scheme. But it believes the FCA's current scheme is flawed and fails to deliver fair compensation to drivers. It is challenging the proposed rules on redress calculations, including compensatory interest payments. Consumer Voice has carefully targeted its challenge to focus only on the most important issues for consumers.

What our challenge is, and what it is not
On 27 April 2026, Consumer Voice filed a Reference with the Upper Tribunal (Tax and Chancery Chamber). We have applied for permission, under section 404D of the Financial Services and Markets Act 2000, for a review of the redress rules of the FCA's Motor Finance Consumer Redress Scheme (Policy Statement PS26/3, published on 30 March 2026). As far as we are aware, this is the first ever challenge on behalf of consumers of its kind.

We are not asking the Tribunal to stop or delay the start of the scheme. We are challenging only the rules that govern how redress is calculated. We have specifically asked the Tribunal to allow the FCA to begin the rest of the scheme, including the "back office" preparatory work of identifying affected motorists, while the Tribunal considers our challenge on an expedited basis.

Why we believe the FCA's scheme is unfair and unlawful
Our Reference outlines four grounds on which we say the FCA's redress rules are unlawful. Together, these flaws could leave consumers undercompensated on average by hundreds of pounds per claim. Across millions of agreements, that amounts to billions in lost compensation: a scandal on top of a scandal.

Ground 1: The FCA misread its own objective and puts lenders before consumers
Parliament has given the FCA a duty to protect the integrity of the UK's financial system. "Integrity" is not just about keeping lenders in business. It is also about consumer confidence, deterring future wrongdoing, transparency, and fairness in how the rules are applied.

In designing this scheme, the FCA has taken an unduly narrow view of "market integrity". It has focused almost entirely on supply-side concerns, such as lender certainty, product availability, and the avoidance of disruption, while disregarding the very factors that make a market trustworthy in the first place. That has shaped a scheme which prioritises the interests of lenders over the consumers it is supposed to protect, and which fails to give proper weight to the FCA's consumer protection objective.

Fuller redress would have advanced market integrity, not undermined it. It would have shown consumers that systemic rule-breaking has consequences, restored trust in the sector, and discouraged firms from cutting corners in future. That obvious benefit barely features in the FCA's analysis.

Ground 2: The FCA has shut the door on full redress for too many people
Under the scheme, only a narrow band of consumers will receive the full repayment of the commission their lender paid to the dealer. Everyone else falls into a "hybrid" formula that pays substantially less in most cases.

To draw that line, the FCA has taken the facts considered in the Supreme Court's judgment in *Johnson v FirstRand Bank* and treated them as a rigid benchmark, meaning full repayment of

commission is available only to cases that "align closely" with Mr Johnson's. In practice, this means a consumer must show their commission was at least 50% of the total cost of credit and 22.5% of the loan amount, and that there was either a tied arrangement with the lender or a discretionary commission arrangement (DCA), a hidden incentive agreement that paid the broker more if they put the customer onto a higher interest rate.

We think that approach gets the law wrong. The Supreme Court itself made it clear that the test for an "unfair relationship" under section 140A of the Consumer Credit Act 1974 is, in its own words, "highly fact-sensitive", and that there is no "precise or universal test". The Court did not lay down a formula to be applied to every motor finance case. The limits the FCA has derived from *Johnson*, the 50% and 22.5% thresholds, simply approximate features of Mr Johnson's contract. They were never set out as legal criteria for redress.

Crucially, Johnson was not a case where the DCA increased the customer's interest rate; the dealer there did not exercise that discretion. Yet DCAs are at the heart of this scandal. The FCA has acknowledged that around 61% of all motor finance agreements between April 2007 and the ban in January 2021 involved a DCA. By converting a fact-specific judgment into a scheme-wide gateway, the FCA has used *Johnson* to exclude from receiving full redress, rather than protect, the very consumers the scheme is meant to help.

Ground 3: The FCA's "loss" formula does not properly measure loss
For consumers who fall outside the narrow gateway above, redress is calculated using an average of the commission amount and an "APR adjustment". The "APR adjustment" is the FCA's attempt to estimate, on average, how much extra interest consumers were charged because of the way commission was paid. The FCA applies 17% for agreements from April 2014 (Scheme 2) and 21% for agreements from April 2007 to March 2014 (Scheme 1). Neither figure is properly anchored in the evidence.

The 17% rate is largely drawn from a narrow dataset covering 2019 to 2021, the very last years before DCAs were banned, when overcharging was already falling because lenders and brokers had been put on notice. The FCA's own annualised figures show APR effects ranging from around 24% in 2017 to 11% in 2020. A single flat rate cannot reasonably capture that variation, and independent economic analysis of the FCA's own data indicates that consumers' APRs were inflated by significantly more than 17% from 2014 to 2018.

The 21% rate for Scheme 1 was not measured by the FCA at all. The FCA accepted that 17% would understate harm in earlier years, but rather than gather better evidence, it picked 21% by taking the midpoint between two figures: a 17% rate it admits is too low, and a 26% rate which is simply the level at which the FCA says redress would meet the cap of full commission repayment (although the FCA does not explain how it derives the 26% figure); the FCA then rounded the average down to 21%. A midpoint between (a) a number that understates the overcharging of interest and (b) a number designed to reflect full commission repayment, is not a proper measure of consumer loss (still less when it is inexplicably rounded down). The FCA itself describes 21% as a "bounded regulatory judgment", which appears to mean that the FCA took its decision despite appreciating it does not have full information. The pre-2017 period was not analysed at all, despite evidence that APR uplifts were significantly higher than 21% in 2008 and from 2011 to 2014.
The same flat rate is then extended to non-DCA cases involving high commission or tied arrangements, for what the FCA calls "operational simplicity".

On top of this, hard caps apply. In around one in three hybrid cases, redress is capped at the lowest of three figures, including 90% of commission plus interest. We think there is no proper evidential justification for capping fair compensation at 90% of itself. The result is a

supposed “loss-based” remedy that, in fact, clearly equates to less than the loss many consumers suffered.

Ground 4: The interest rate is too low, and consumers can no longer prove otherwise

Compensation is meant to put a consumer back in the position they would have been in had they not been overcharged. That includes interest, a recognition that money kept from someone over many years has a real cost.

The FCA has set the scheme’s compensatory interest at the Bank of England base rate plus 1%, with a 3% floor in any year. This rate bears little resemblance to the real-world cost of borrowing for ordinary motorists. The FCA itself accepts that many consumers, especially those with weaker credit profiles, would have borrowed at significantly higher rates to make ends meet after being overcharged.

The courts recognise this reality. In the recent case in which Dr Rachael Kent succeeded against Apple, the Competition Appeal Tribunal concluded that 8% simple interest is a fair way to reflect what ordinary people lose when they are deprived of money over time. The same 8% rate was awarded by the Financial Ombudsman Service whose decision was upheld by the High Court in the *Clydesdale* judgment which the FCA itself relies on in other parts of its scheme.

What makes this worse is that the FCA has removed the only safeguard it had originally proposed. In its consultation, the FCA suggested that consumers should be able to rebut the standardised rate by showing, with evidence, that they had been forced to borrow at a higher cost. The FCA itself recognised at the time that this rebuttal mechanism “may be particularly important for consumers in vulnerable circumstances”. In its final rules, it has simply taken that mechanism away.

We think the impact will fall hardest on the people who can least afford it: vulnerable customers, those on lower incomes, and those with weaker credit profiles, who were most likely to have been pushed into expensive borrowing to cope with the financial strain of being overcharged in the first place. The FCA has acknowledged this but has decided to press ahead anyway in the name of simplicity and a lower financial burden on firms.

The scale of what is at stake

Across millions of agreements, the four flaws set out above could leave consumers undercompensated by on average hundreds of pounds per claim. We also now know that three car finance lenders are challenging the FCA Scheme and they have their own motive, which is to reduce the amount of redress for consumers still further.

The current FCA Scheme will result in a windfall of billions for the firms which exploited drivers in the first place. For many families already under financial pressure, that difference really matters which is why we are standing up for consumers by bringing this challenge.