

# Investor Handbook UK CAR- FINANCE SCANDAL



Blue Lakes

# AT A GLANCE

A recent Supreme Court decision has brought much-needed clarity to the complex UK car-finance scandal.

The scope is now more targeted, and the areas where claims remain valid are easier to identify. For investors, that means the opportunity is still very large and profitable, but also more clearly defined.

This handbook explains the background, the ruling, and the routes to compensation, highlighting where the real opportunities now lie.

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# WHAT IS THE “PCP SCANDAL”?

For over a decade, millions of UK drivers financed cars using Personal Contract Purchase (PCP) or Hire Purchase Agreements (HP). These products made cars affordable, but they also created one of the largest consumer mis-selling scandals in UK history.

The issue lay in the way car dealers charged commissions. Many dealers operated under what became known as discretionary commission arrangements (DCAs). In these deals, financing companies allowed dealers to adjust the interest rate that was charged to customers. Crucially, the size of the dealer’s commission could increase if the dealer raised the customer’s interest rate. The higher the customer’s monthly payments, the more money the dealer made.

## The Practice got Banned

In January 2021, the Financial Conduct Authority (FCA) banned these commission structures, acknowledging they created an unfair conflict of interest. By then, it was too late for millions of borrowers who had already overpaid.

## The Legal Storm Began

Regulatory investigations followed, and the issue snowballed. Early estimates suggested potential costs for lenders that could be as high as £30 billion.<sup>1</sup> Media coverage began to compare it to the PPI debacle that lasted a decade and ended up costing over £50 billion in redress costs.<sup>2</sup>

Then came the legal battles. Several test cases would decide the scope of valid claims. The industry hoped the courts would shut the door; claimants hoped the law would confirm their rights.

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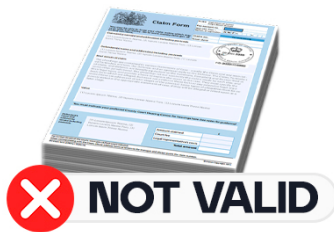
<sup>1</sup> See for example, *The Times*, "Car finance scandal could cost lenders £30bn, warns Moody's", November 19th, 2024

<sup>2</sup> *Id.*

On 1 August 2025, the UK Supreme Court gave its verdict.<sup>3</sup> For the first time, the legal landscape became clear.

## THE SUPREME COURT DECISION: CUTTING THROUGH THE NOISE

The UK Supreme Court handed down its judgment in three test cases. This separated the two main legal approaches that had been argued: **“fiduciary duty and bribery”** claims under tort and/or equity on one side, and **“unfair relationship”** claims under the Consumer Credit Act on the other.



### **Fiduciary Duty and Bribery Approach**

Two of the cases, Hopcraft and Wrench, relied on the “fiduciary duty and bribery” argument under tort and/or equity. The claimants said dealers had acted as trusted advisers and therefore breached their duties by earning hidden commissions. The Supreme Court disagreed. Dealers, it said, are salespeople, not fiduciaries. That line of attack was rejected.



### **Unfair Relationship under the Consumer Credit Act Approach**

The third case, Johnson, was different. Here, the claimant argued that his lender relationship was unfair under the Consumer Credit Act because the commission was unusually high, it had not been properly disclosed, and those facts would have mattered to his decision. The Supreme Court agreed. It ruled that the commission plus interest should be repaid.

<sup>3</sup> See, [Supreme Court Judgment \(2025\)UKSC 33, dated August 1st, 2025](#)

The outcome is now final. There is no higher court of appeal. For investors, this clarity is gold: the uncertainty over which claims would succeed has been removed. The scope is narrower than some had hoped, but it is now clear, stable, and enforceable.

## WHAT THE HEADLINES MISSED: BILLIONS STILL AT STAKE

The day after the Supreme Court ruling, many headlines declared that “millions were denied compensation” and suggested the banks were off the hook.<sup>4</sup> That was only half the picture.

It’s true that the Court ruled out claims based on fiduciary duty and bribery. But at the same time, it confirmed that claims based on an “unfair relationship” under the Consumer Credit Act remain valid. This is the category that matters most.



The FCA has estimated that out of around 30 million finance agreements written between 2007 and 2020, roughly 14 million could still qualify for compensation. The total cost to the industry is expected to be in the range of £9–18 billion<sup>5</sup>.

<sup>4</sup> See for example, BBC "Millions denied car finance compensation payouts after Supreme Court ruling", August 1st, 2025

<sup>5</sup> FCA, Press Release "FCA to consult on motor finance compensations scheme", last updated 04/08/2025

In other words: while the scope has narrowed, the pool of potential claims is still enormous.

Far from being “off the hook,” lenders are now certainly still on the hook for billions. The only question is how much, how soon, and through which route.

## TWO ROUTES TO COMPENSATION: SCHEME VS LITIGATION

With the Supreme Court judgment delivered, there are now two clear routes for consumers, and by extension, for investors, to pursue compensation. Each are valid and depend on the strategy that is being pursued.

### A. The FCA’s Redress Scheme

The regulator is consulting on an industry-wide scheme to standardise compensation, with consultation set for October 2025. The FCA aims to launch the scheme in 2026, with consumers expected to start receiving compensation shortly thereafter.<sup>6</sup>

This route will be straightforward for consumers, with lenders expected to identify and pay affected borrowers directly. Consumers may also opt to sign up with law firms and claims-management companies who will represent their interests and obtain compensation for them through the scheme. The trade-off appears to be in the payout size: the FCA has signalled that the average compensation per agreement is likely to be under £950.<sup>7</sup>

**Investor view:** For investors, the opportunity resides in volume and clarity. Those who can build a strong book of claimants will be able to utilise a streamlined and pre-defined process to obtain compensation on behalf of millions. A little patience is required however, until the scope and design of the process is clearly defined.

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<sup>6</sup> FCA, Press Release “FCA to consult on motor finance compensations scheme”, last updated 04/08/2025

<sup>7</sup> Id.

## B. Litigation

Consumers can also bring claims in court, individually or in groups, using the unfair relationship framework confirmed by the Supreme Court. This route requires more evidence and legal work but can deliver higher awards.

A specialised fund shared with Blue Lakes that, based on its portfolio analysis, average commissions paid out to dealers stood at around £1,800 per agreement, with total recoveries, once statutory interest is added, potentially reaching £2,300 or more.

**Investor view:** Litigation is the more hands-on route. Portfolios can be built around stronger cases where recoveries are potentially higher, with no predefined cap: in Johnson, the Supreme Court ordered full repayment of commission plus interest. The trade-off is complexity and duration, as cases must be evidenced and argued in court. But unlike the FCA scheme, litigation is available immediately, allowing investors to act now and capture value ahead of the regulator's process.

### **Both pathways are open today.**

The FCA scheme will take time to launch and will likely provide more modest, formula-based outcomes, but that taken in high volume remain attractive. Litigation, by contrast, is already available and has the potential to deliver higher recoveries on strong cases.

For investors, there are opportunities with either channels, or even with a mix of both. Some may decide to prioritise litigation for strong cases now, while keeping the redress scheme as a complementary channel once it comes online.

## WHAT NOW?

The story of the UK car-finance scandal is not one of collapse after the Supreme Court. It is one of clarification.

The uncertainty is over. The rules of the game are set. Fiduciary and bribery claims are out, but unfair relationship claims, especially with regards to DCAs, the claims at the heart of the scandal, are very much in.

The numbers remain vast: up to 14 million agreements, worth £9–18 billion in compensation. The FCA will deliver one pathway through its scheme, while litigation offers another. Both are valid, and both will move forward.

For investors, the message is simple: Motor vehicle finance claims are a clarified, court-approved, regulator-supported opportunity that is ready to be acted on now.

If you would like to discuss how to position your capital in this strengthened opportunity, reach out to our team:

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