FCA Cost Benefit Analysis Panel

Consultation Paper title	**Motor Finance Consumer Redress Scheme**
Summary of intervention	The consultation paper proposes establishing a consumer redress scheme for historic harm in the motor finance market.
Feedback date of issue	29/09/2025
CBA Panel reference number	CBAP-0009

Disclaimers

The version of the CBA referred to the Panel was subject to a number of important disclaimers:

1. *All numbers are subject to ongoing revision*
2. *Numbers have not been fully QA'ed*
3. *Methodology has not been reviewed by Chief Economist or fully QA'ed*
4. *Some costs/benefits are placeholders to be estimated shortly due to uncertainty on policy position until recently*

The Panel's advice is qualified by these disclaimers.

CBA Panel advice

Main recommendations

- **Ensure that the scope of the CBA is consistently clear.** This CBA analyses the FCA's proposed scheme for delivering redress to consumers deemed to have been unfairly treated by motor finance lenders. In technical terms, the *market* it concerns is the market for the provision of consumer redress; the *market failure* it concerns is the potential failure of that market to provide fair redress; and the *intervention* proposed to resolve this market failure is the proposed consumer redress scheme (CRS). While the CBA as a whole makes clear that this is its scope, there is a risk that readers may be confused by the extensive discussion of the market for motor finance itself, which is included as necessary background. The Panel advises that the CBA is closely reviewed to ensure that its focus on the costs and benefits of alternative redress scheme models, rather than on the market for motor finance itself, is consistently made clear.

- **Strengthen specification of counterfactual.** The specification of the CBA's counterfactual scenario has a number of weaknesses. Two in particular are:

    a. **Exclusion of estimate of consumer benefit from redress.** The quantum of consumer benefit from redress is estimated for the baseline in which the proposed CRS is introduced, but is explicitly omitted for the counterfactual. Relative to the baseline, the counterfactual is thus incompletely specified. The CBA argues that this is reasonable because the quantification of consumer redress in the counterfactual is not "practical, proportionate, or relevant". The Panel recommends that the CBA either provides a much stronger justification for this, or is revised to include an estimate of the consumer benefit from redress in the counterfactual so that it can be compared comprehensively with the baseline.

b. **Credibility of behavioural responses.** The counterfactual as specified is not fully credible because lenders are assumed to be purely reactive, the behaviour of intermediaries such as Professional Representatives (PRs) and Claims Management Companies (CMCs) is not sufficiently elaborated, and the caseload and implied resourcing increases for the FOS are not practically deliverable. Whilst specification of an impractical counterfactual is methodologically perfectly legitimate if it reflects the best expectation of what would happen in the absence of the proposed intervention, the Panel recommends that more realistic specification of lender, intermediary, and FOS behavioural responses would better support the FCA's proposed decision to prefer the baseline.

- **Analyse more closely the effects of the proposed redress calculation methodology.** The methodology proposed for redress calculation is not itself a subject of the CBA, because it reflects a discretionary policy decision concerning how to deliver "just redress for the harm suffered". However, the effects of the proposed redress calculation methodology on the functioning of the market for redress - and in particular on the consumer incentives - should be carefully analysed by the CBA. A key consideration is that the redress scheme proposed in the baseline would not preclude consumers from pursuing claims through existing channels. There may therefore be a risk of adverse selection whereby consumers who expect lower redress due via existing channels opt into the redress scheme, whilst those who expect higher redress pursue claims through the existing channels. The Panel recommends that the CBA analyses such effects of the proposed redress calculation methodology more closely, and considers alternatives which might mitigate such risks.

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Summary

Category	CBA Panel comments
The market	**The market.** The CBA presents a clear and comprehensive description of the motor finance market. This is essential background to the proposed policy intervention. However, in order to avoid confusion it is also critical that the CBA makes clear at the outset and throughout that (i) the *market* it concerns is the market for the provision of consumer redress; (ii) the *market failure* it concerns is the potential failure of that market to deliver redress fairly, quickly and consistently, in a manner which preserves market integrity and macroeconomic stability; and that (iii) the *intervention* intended to resolve this market failure it analyses is the proposed redress scheme. The CBA should make clear, that is, that it does not concern (i) the *market* for motor finance; (ii) a *market failure* in that market, which has led to consumer harm; or (iii) an *intervention* proposed to resolve such a market failure - because the existence of the redress liability in question does not derive from the diagnosis of a market failure in the motor finance market, but from historical non-compliance with the law and/or FCA rules. These distinctions are in general clearly made in the CBA as a whole. However, the CBA should be closely reviewed for cosmetic changes that could ensure that readers are not confused. The description of the motor finance market itself could be more closely focused on the most relevant context, such as linking the explanation of limited shopping around to intermediary strategies where vehicle price and commission bundling may influence consumer outcomes; providing more analysis of harm metrics such as APR uplifts and commission levels; and exploring market segmentation to show how harm varies across prime, near-prime, and sub-prime lending, and across loan sizes and terms.
	Problem and rationale for intervention. In establishing the rationale for introducing the proposed CRS, the CBA currently focuses solely on the difference in non-redress costs between the baseline and counterfactual scenarios. Given the scale of the redress liability as estimated for the baseline, and the *prima facie* likelihood that it will vary between the baseline and the counterfactual, it is not clear why this approach has been taken. It is likely to confuse readers who expect a discussion of the resulting consumer benefits and distributional effects as well. The Panel recommends revisiting the decision to focus solely on net non-redress costs and to exclude consumer benefit from redress from its analysis of the baseline and counterfactual. Either a much stronger and clearer justification for this approach should be offered, or the consumer benefit from redress should be included in the analysis.
	Proposed intervention and alternative options. The methodology for redress calculation under the proposed CRS is not itself a subject of the CBA, because it reflects a discretionary policy decision concerning how to deliver “just redress for the harm suffered”.

	However, the effects of the proposed redress calculation methodology on the functioning of the market for redress - and in particular on consumer incentives - should be carefully analysed by the CBA. A key reason for this is that the CRS proposed in the baseline would not preclude consumers from pursuing claims through existing channels, with or without the intermediation of PRs / CMCs. There may therefore be a risk of adverse selection whereby consumers who expect lower redress due via existing channels opt into the CRS, whilst those who expect higher redress pursue claims through the existing channels. Such an outcome would affect both the consumer benefit from redress and the non-redress costs under the baseline (likely making the latter closer to the counterfactual than currently estimated), as well as how benefits are divided between consumers and intermediaries. Alternative redress calculation methodologies might be less susceptible to such adverse selection and hence might avoid such outcomes. The Panel therefore recommends that the CBA analyses such effects of the proposed redress calculation methodology more closely, and considers such alternatives which might mitigate such risks.
Assessment of costs and benefits	**Baseline and counterfactual**. The specification of the baseline in which the proposed redress scheme is introduced is clear; but the specification of the counterfactual in which it is not has a number of weaknesses: • **Exclusion of estimate of consumer benefit from redress.** The quantum of consumer benefit from redress is estimated for the baseline, but explicitly omitted for the counterfactual. The CBA argues that this is reasonable because the quantification of consumer redress in the counterfactual is not "practical, proportionate, or relevant" (though the CBA is not completely consistent on this point, as an estimate is provided in Option 2 of the baseline for the 2007-14 period for which the counterfactual effectively applies). Relative to the baseline, the counterfactual is thus incompletely specified. The Panel recommends that the CBA either provides a much stronger justification for this, or is revised to include an estimate of the consumer benefit from redress in the counterfactual so that it can be compared comprehensively with the baseline. • **Relation of non-redress cost estimates to baseline.** Clarifying how the non-redress cost estimates in the counterfactual relate to those in the baseline would improve internal consistency and reader comprehension. • **Lender and intermediary behaviour.** The assumption that lenders will act purely reactively is unlikely to hold in practice: they could for example adopt bulk settlement processes, templated approaches, or group strategies to manage FOS and court exposure. Such initiatives would result in different (likely lower) non-redress cost estimates. The Panel recommends that a stronger justification is included for the current specification, or that more realistic assumptions are included. • **FOS caseload and capacity.** The expected 8.1 million caseload and FOS resourcing increases implied by the non-redress cost estimates in the counterfactual could not credibly materialize in practice. While there is

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nothing intrinsically wrong with presenting an impractical counterfactual if it reflects the best expectation of what would happen in the absence of the proposed intervention, the Panel recommends that more consideration is given to how the FOS might in practice adapt its behaviour, and incorporated into the specification.

Evidence and data. The sources of evidence used to produce the CBA are clearly and comprehensively set out. However, while prior experience from the provision of Payment Protection Insurance (PPI) redress is referenced throughout the document, it is unclear whether any specific evidence drawn from that experience has been used to inform assumptions or estimates in this CBA. The Panel recommends clarifying whether and how PPI experience has influenced the analysis and suggests considering its use where relevant to strengthen the robustness of the CBA.

Assumptions.

- The Panel recommends that the CBA clearly document the sources and rationale behind key quantitative assumptions, such as uptake rates, complaint volumes, and opt-in percentages, noting where these are covered in Annexes or supporting documents. Precise uptake estimates should be presented with appropriate caveats to avoid giving a false sense of accuracy.
- The Panel notes that the treatment of redress as a benefit to consumers rather than a cost to firms aligns with Green Book guidance, but suggests considering distributional impacts on both consumers and firms. In particular, assumptions regarding the number of firms that have exited or become insolvent should be clarified, particularly where the exit of a small number of large firms could materially affect consumer outcomes (the sub-prime sector being one example).
- While firm survey responses are assumed to be accurate; the Panel recommends addressing potential overstatement or understatement via sensitivity analyses.
- Finally, any assumptions about increased uptake due to PR / CMC advertising should be explicitly considered and quantified, with an explanation of how they affect the overall analysis.

Risk and uncertainty	The Panel recommends that the CBA is more explicit about the risk and uncertainty in its analysis arising from limitations in historical data from motor finance providers, particularly for the 2007-2014 period, and from the impact of these limitations on the feasibility of identifying eligible customers and calculating redress. The variability of such limitations - and therefore of resulting non-redess costs - between lenders may also be very significant.
Wider economic impacts	The proposed intervention this CBA analyses is one which may plausibly have very significant wider economic impacts. The CBA rightly notes that such impacts would derive in the first instance from the scale of redress liabilities (this is a further reason why the omission of a redress estimate for the counterfactual represents an important weakness), and that for this reason an external study was commissioned to review this area.

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The Panel recommends that the CBA gives more prominence to the analysis of the wider economic impacts of the baseline and counterfactual as they are likely to be material in discriminating between the market outcomes and social welfare implications in the two scenarios. It could be strengthened by exploring in more detail the following sources of wider economic impact:

- how the scale of redress liabilities compares with lender balance sheets;
- the degree to which lenders have already provisioned for liabilities, thereby likely mitigating their wider impact;
- the probability of market exit by liable lenders (especially in light of the fact that motor finance is not covered by the Financial Services Compensation Scheme (FSCS)); and
- the potential for pass-through of redress costs, such that the funding of redress through higher pricing of future motor finance products offsets some anticipated consumer benefits.