Grant Thornton

The UK consumer credit sector

Market update and sector insight

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Content

In this report

Welcome to the latest edition of our UK consumer credit market report, where we provide an overview of the current market environment, as well as a more in-depth look at matters relevant to the following consumer credit sub-sectors:

- **Developments in motor finance** – as the sector awaits the outcome of the FCA review into discretionary commission arrangements and the Supreme Court judgment in relation to a landmark Court of Appeal ruling, we highlight some of the issues and outline key actions directors and senior management can take now;
- **Buy now pay later** – as regulation by the FCA draws closer, we look at what the key pillars of regulation will be, what impact these may have on BNPL firms and how management can prepare; and
- **Premium finance** – we look at what the FCA review into premium finance, together with wider consequences of the Supreme Court judgment could mean for premium finance firms, insurers and intermediaries.

We also include key regulatory developments in the sector for 2025 and a spotlight on retirement-related products, an area which has been of interest to the FCA in recent years.

Our Financial Services Restructuring team are market leaders in consumer credit restructuring and have led many of the largest and most high-profile assignments in the sector. These include LCC Trans-Sending Ltd (trading as Small World), Non-Standard Finance (trading as Everyday Loans), Wonga, CashEuroNet (trading as QuickQuid, Pounds to Pocket and On Stride), MMP Financial (trading as My Money and Swift Sterling), Brighthouse and S.D.Taylor (trading as Loans at Home).

Our team have also been engaged on notable assignments in the wider financial services sector, for example as Administrators for Greensill Capital (UK) Ltd.

We help lenders, investors, directors and management teams navigate challenging situations arising from financial or operational issues. Our expertise includes turnaround services, restructuring solutions, supporting wind down and contingency planning, business reviews and formal insolvency appointments.

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Current market environment

- UK economy showing modest growth, but expected to be negatively impacted by imposition of trade tariffs
- Business confidence shows signs of recovery but concerns remain
- Consumer confidence more positive as real wage growth returns, but disposable income still set to fall in 2025 and into 2026 when measuring 'broad living standards'
- Mortgage costs continue to rise for many, but consumers show resilience with reduced arrears
- Credit card monthly spending and balances at record highs
- Consumer complaints to the FOS rise significantly, driven by complaints about motor finance commissions and perceived irresponsible lending by credit card companies
- Use of buy now pay later (BNPL) continues to rise – half of all UK adults have used BNPL at some point, a significant increase from 35% at the start of 2023

Uncertain macro-economic environment

The UK is facing sluggish economic growth and a high debt burden. Latest available figures showed GDP is estimated to have grown 0.2% in March 2025, after growth of 0.5% in February 2025.[1]

The introduction of tariffs for trading partners to the US by the US administration in April 2025 is causing significant market turmoil and could directly impact the UK's output. The full implications remain unclear, but inflation, interest rates, mortgages and consumer prices are all expected to be impacted.

Business confidence shows signs of recovery

According to the Institute of Directors economic confidence index, business confidence improved in May 2025 (rising to -35 from -51 in April 2025), the highest the index has been since August 2024. However, business leaders are still concerned about the global trade environment, higher inflationary pressures and rising costs. Employment costs are currently one of the biggest drivers of higher costs for firms as increases in national insurance contributions (NIC) and the national minimum wage (NMW) were implemented on 1 April 2025.[2] As a result, headcount and investment intentions remain well below the average of the last decade.

According to the Office for Budget Responsibility[3], the Government's growth plans, including planning reforms and prioritising major infrastructure projects are due to deliver some element of growth to 2029, recognising that significant uncertainty around domestic and global economic developments remains.

Consumer confidence improved but remains fragile

Consumers' confidence about their own financial situation has improved. According to the UK Finance Household spending review, in Q4 2024 consumer spending on goods saw annual growth for the first time since the middle of 2021. Spending on entertainment also saw modest growth (after a significant contraction during the cost-of-living crisis) which illustrates a gradual improvement in disposable income.[4]

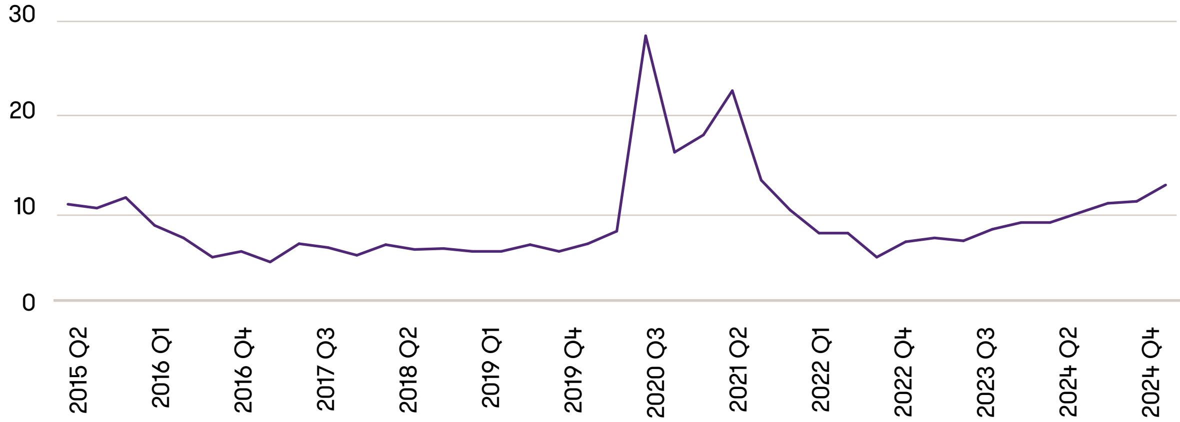
Household savings have also increased and are currently at their highest rate since Q3 2021 as illustrated by the graph on the next page.

After record highs during the pandemic, these swiftly declined due to the cost-of-living crisis but have been rising since Q2 2022 - by November 2024 they had risen past the previous pre-pandemic peak.

However, it should be noted that after adjusting for inflation, the real terms value of household deposits has hardly changed since 2016.[5]

1 Office for National Statistics
2 Institute of Directors Economic Confidence index, 1 June 2025
3 Office for Budget Responsibility, Economic and Fiscal Outlook, June 2025
4 Household Finance Review, Q4 2024, UK Finance, March 2025
5 ONS, Household savings ratio, 28 March 2025

Households' saving ratio (per cent)



Source: Office for National Statistics

Despite recent improvements, consumer confidence remains fragile. The increase in employers' NIC and rise in the NMW is expected to soften the labour market and dampen growth which will impact consumers.

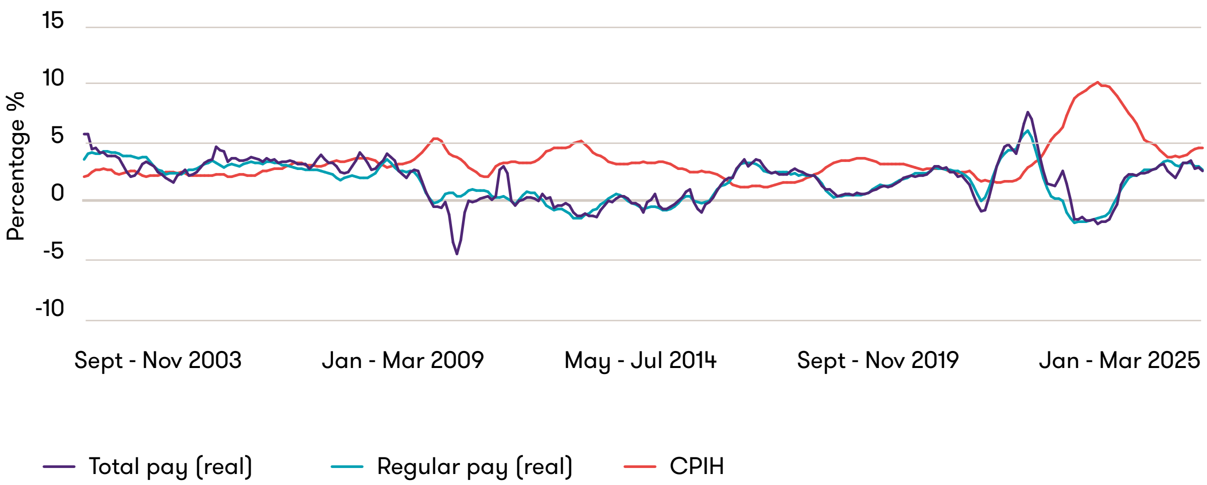
Slower wage growth…

As inflation has reduced, wage growth in real terms has returned, however latest figures shows the labour market is cooling.

Annual growth in employees' average total earnings (including bonuses) was 5.5% in January - March 2025, down 0.2% from February. Annual growth in real terms (adjusted for inflation) for total pay rose by 1.7% over the same period. [6]

The graph below illustrates the recent movements in real total pay taking inflation into account.

UK real average earnings annual growth rate (seasonally adjusted), and inflation



Inflation measured as Consumer Prices Index including owner occupiers' housing costs (CPIH).
Source: Office for National Statistics

6 Office for National Statistics, release 20 March 2025

… disposable income set to fall across the income distribution

Analysis by the Resolution Foundation expects disposable incomes to fall throughout 2025, when measuring 'broad living standards'.

This measure includes disposable income as well as household benefits in kind, for example using public services such as education or healthcare. It is the same type of analysis that the ONS and Treasury use when looking at the effects of taxes/ benefits on household income.

This analysis shows that disposable income is set to fall across the income distribution from 2024/25 to 2025/26.

Higher income households are expected to benefit less from public services (due to using them less), are less impacted by the rise in the NMW and will see income from savings decrease due to lower interest rates.

At the other end of the spectrum, lower income households are already being impacted by rising housing costs and tax rises (for example, council tax increased by 5% in April 2025) – with the investment in public services not bringing enough benefits to offset this reduction in disposable income.[7]

Benefit cuts, such as the local housing allowance freeze, current two child limit for universal credit and benefit cap contribute to lack of disposable income for those lower down the income distribution.

While the full impact of the introduction of US trade tariffs is not yet known, consumers rarely win from any possible 'trade war' that ensues, which may reduce disposable income further.

Unemployment rises slightly

The unemployment rate has been increasing since mid-2022. The unemployment rate was 4.5% in January to March 2025, up from 4.3% year on year. [8] This is consistent with softer hiring intentions reported by business surveys due to concerns about the economy in 2025.

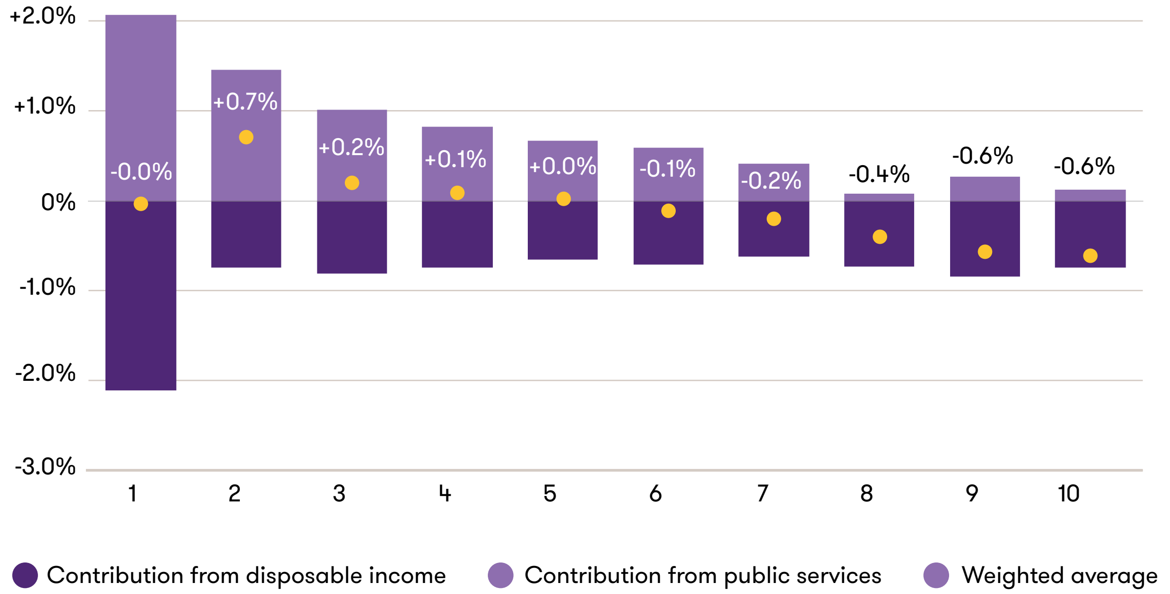
Increased housing costs, but lower mortgage arrears

Despite interest rate cuts seen since August 2024, households average mortgage bills are still expected to rise throughout 2025, driven by 570,000 households rolling off cheap five-year fixed rate mortgages secured in 2020. Households coming to the end of a five-year fix are expected to see their annual bill rise by £2,700 on average a year. [9]

Mortgage arrears are on a downward trend, having decreased in both Q3 and Q4 2024, a trend expected to continue in Q1 2025.[10]

The resilience of mortgage customers when faced with cost pressures is testament to the rigorous lending standards that have been in place for the past decade. As part of this, new loans have an affordability buffer, assessing ability to pay in higher interest rates, or other material changes in incomes or expenditure. As a result, consumers facing higher variable rates,

Estimated change in weighted average of disposable income and benefits-in-kind from public services among non-pensioners, by household income decline: UK, 2024-25 to 2025-26



Source: Resolution Foundation

7 Resolution Foundation, Public Pivot, January 2025
8 Office for National Statistics
9 Resolution Foundation, The macroeconomic policy outlook Q1 2025
10 UK Finance household finance review, March 2025

or needing to remortgage in a materially higher rate environment have been able to absorb these increased mortgage payments. According to UK Finance, where arrears did rise, these increases were concentrated in the small proportion of overall mortgage customer base whose loans were originated before current lending standards came into force.[11]

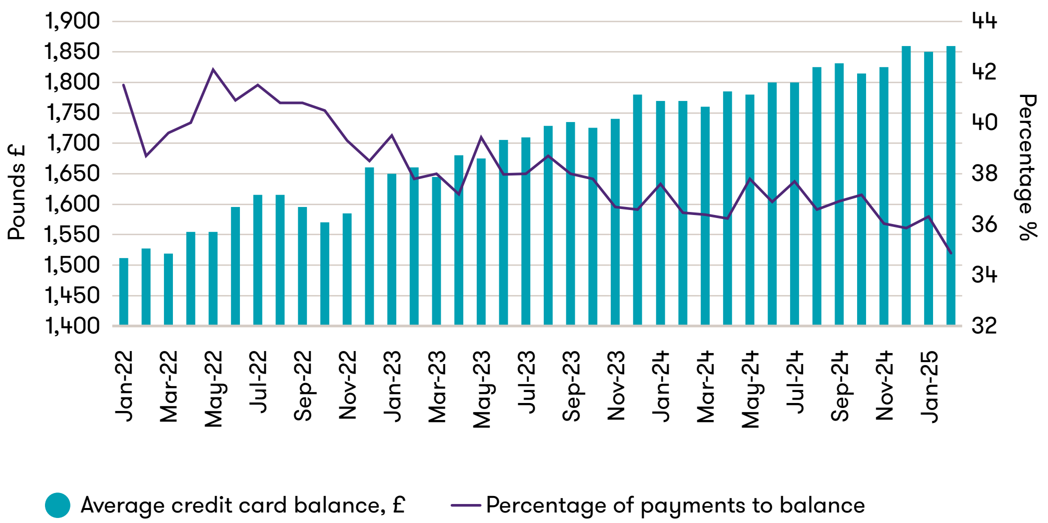
The average private monthly rent for England for the 12 months to December 2024 was £1,362 compared with £700 in the 12 months to March 2020 – nearly double. Inflation in the private rental market is levelling off but remains high, with average rents increasing 9.0% in the 12 months to December 2024 (9.1% in 12 months to November 2024).[12]

Credit card spending and balances at record highs

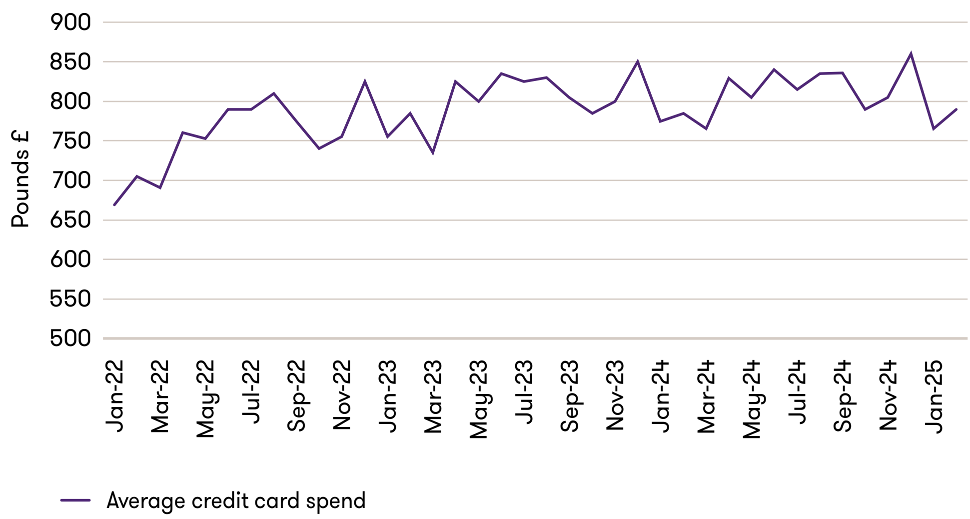
Average credit card balances were on an upward trajectory throughout 2024. Data from the FICO UK credit card market report showed that at the end of 2024 both spending and credit card balances reached the highest averages since FICO records began in 2006 - as illustrated in the two graphs below - showing the ongoing impact of the extended period of high inflation.

However, spending fell in January 2025 and rose in February, following usual seasonal patterns. The average balance in February 2025 was £1,860 (an increase of 5.0% year on year) and average monthly spend was £790.[13]

UK credit cards - average balance and percentage payments to balance



UK credit cards - average credit card spend



11 UK Finance household finance review, March 2025

12 Office for National Statistics

13 FICO UK credit card market report Nov/Dec 2024 and Jan/Feb 2025

There were increases in missed payments across one, two and three months in January 2025 which could be an indicator of financial pressures faced by consumers throughout 2024. In February 2025, there was evidence of consumers prioritising card payments, with decreases in card holders missing one and two payments. However, an area of concern for lenders is the persistent rise in customers missing three payments.

The average balance for one missed payment in January and February 2025 was £2,345, a 4% increase year on year. The average balance for two or three payments overdue also increased in February by 3% and 1.3%, to an average balance of £2,805 and £3,195 respectively.[14]

Older customers missing credit card payments

An interesting development is that consumers who have had their card for five years or more have the highest delinquent balances for those missing two or three payments. According to FICO, this group also has the highest average credit limit, although average active balances are lower than for newer card holders. These customers may be missing payments for the first time, and lenders should be aware that they may therefore need tailored support – potentially reviewing credit limits and also collections contact strategies.[15]

14 FICO UK credit card market report Nov/Dec 2024 and Jan/Feb 2025

15 FICO UK credit card market report, October 2024

Consumer complaints rise by 46%

The Financial Ombudsman Service (FOS) received 273,984 new complaints about financial products and services for the 12 months ending December 2024, representing a 46% increase year on year[16]. Complaints in 2024 about hire purchase, credit cards and current accounts are all at record highs.

Hire purchase was the most complained about product between October and December 2024, with 15,956 complaints received, almost three times higher than the previous quarter. 78% of these complaints were brought by professional representatives. This increase in hire purchase complaints has been driven by complaints against motor finance firms relating to commission arrangements.

Further information about this matter can be found under the section 'Developments in motor finance' on pages 10-11.

Credit card complaints have also been at record highs. Between October and December 2024, 10,957 new complaints were received, with 68% brought by professional representatives. The previous quarter (July-Sept 2024), saw 22,366 new complaints, 85% of which were brought by professional representatives.

The vast majority of these complaints relate to perceived irresponsible and unaffordable lending. In particular, consumers believe lenders should have intervened over persistently high credit balances, high credit limits or provided lower interest rates.

Since 1 April 2025, professional representatives have been liable for a case fee for each complaint they bring to the FOS which is intended to reduce the number of duplicate or ill-founded complaints brought to the FOS.

More details on the fee structure can be found under the section 'Case management fee introduced for professional representatives' on page 17.

The market knew for some time that a case fee was due to be introduced. The delay in the final implementation caused concern to lenders, who believed professional representatives submitted as many claims as possible before the deadline. The notable rise in complaints reported by the FOS in 2024, in particular the proportion brought by professional representatives would seem to bear this out.

Sector outlook for the rest of 2025

Consumer finance new business grew by 13% in March 2025 compared to the same month last year.[17]

However, the imposition of tariffs is expected to weaken an already soft economic outlook, with uncertainty about jobs and higher inflation having a negative impact on consumer confidence and spending for the rest of 2025.

Research from the Finance & Leasing Association (FLA) (conducted before the imposition of tariffs) suggested that total UK new consumer credit by value is expected to grow by 6% in 2025, with the credit card finance market increasing by 5%. These are both slightly lower growth rates than those seen in 2024.

However, respondents to the FLA's sector outlook survey[18] also reported seeing growth opportunities from reduced competition, product innovation and investing in new sustainable technology.

Consumer credit firms need to continue to carefully manage the risks facing their business from default rates, with just over half (52%) of survey respondents expecting an increase in the number of consumers in arrears throughout 2025.

16 Financial Ombudsman Service: Quarterly complaints data, published March 2025

17 Finance and Leasing Association, Consumer finance new business statistics, 20 March 2025

18 Finance and Leasing Association, Industry Outlook Survey, Q4, 2024

Developments in motor finance

The FCA's review into discretionary commission arrangements, together with the outcome of the Supreme Court's review of a landmark Court of Appeal ruling regarding motor finance commissions could have widespread consequence for the motor finance sector.

In January 2024, the FCA launched a review into historical motor finance discretionary commission arrangements (DCAs) which were banned in 2021 to determine whether there has been 'widespread misconduct'.

In a significant development in October 2024, the Court of Appeal ruled in favour of consumers in relation to three motor finance commission claims, stating that commission arrangements were unlawful unless they had been disclosed to the consumer, and that they had given informed consent to the payment. While this ruling goes beyond the scope of the FCA's review into historical use of DCAs by motor finance firms, it has raised further concerns for the sector and the possibility of widespread liability where commissions were not properly disclosed.

In response to the Court of Appeal's ruling, the lenders involved appealed to the Supreme Court and these cases were heard over several days in early April 2025. A decision by the Supreme Court is currently expected in July 2025.

The FCA announced in March 2025 that it will confirm within 6 weeks of the Supreme Court handing down a decision whether they will be proposing a redress scheme and how it would be taken forward. The FCA has indicated that if, considering the Supreme Court's decision, they conclude motor finance consumers have lost out from widespread failings by firms, then it is likely they will consult on an industry-wide redress scheme.

In the meantime, complaints relating to motor finance are expected to remain high, noting FCA rules mean motor finance firms have until after 4 December 2025 to respond to both DCA and non-DCA motor finance complaints.

Potential impact on the viability of current motor finance operating models

While the decision of the Supreme Court and the FCA's announcement are eagerly awaited, firms may be grappling with some of the following strategic and operational issues:

- The ongoing use of commission models and how this may impact broker engagement, deal flow and loan origination
- The impact of an increase in operational and compliance related costs driven by complaint volumes, processing of data subject access requests (DSARs) and enhanced disclosure requirements
- The repercussions of any possible remediation exercise and likely challenges with the implementation (e.g. data, resources, scope and quantum of compensation)
- How can the firm remain competitive and retain market share?
- How can the firm manage ongoing liquidity and working capital requirements, including identifying possible cost efficiencies across the business?

The FCA has noted its concern about the financial impact of their review on firms. In a 'Dear CEO' letter sent in April 2024 to motor finance firms the regulator highlighted the importance of conserving cash and maintaining adequate financial resources in light of increased commission complaints, and the associated costs for handling and resolving those complaints.

Director duties

In times of uncertainty, it's particularly important that directors (and senior management) take a proactive and well-informed approach to governance. Directors need to be mindful of their duties which are designed to protect stakeholders, promote good corporate governance, and maintain accountability. These include:

Promoting the success of the company: Directors must act in a way they believe will benefit the company's members, having regard for the interests of stakeholders such as consumers, employees, and suppliers.

Exercising independent judgement: Decisions should be supported by critical evaluation of all information, for example assessing current commission models or reviewing compliance and risk management functions to ensure they're fit for purpose.

Exercising reasonable skill, care, and diligence: Directors are expected to apply their expertise effectively, act prudently and remain informed about their company's affairs, for example remaining up to date with regulatory matters, market trends and other risk factors impacting the business.

Actions directors can take to guide their firm through these challenges

Considering the FCA's recent announcement about the likelihood of a redress scheme, and forthcoming Supreme Court decision, the following are key actions that directors (and senior management) can take now:

- Assess the extent to which your firm has used brokers, together with their potential exposure to the recent ruling. Map the sales journey to understand if brokers are compliant with this new interpretation of common law
- Review and reconfirm your firms' products and services are fully aligned with the Consumer Duty's requirements to reduce the likelihood of future claims
- Identify your population of consumers whose agreements may have been subject to DCAs
- Triage and investigate complaints, and process DSAR requests proactively
- Ensure timely access to relevant financial and operational MI reporting
- Identify the operational requirements to undertake a remediation exercise, including the need for additional internal resource or third-party support
- Consider the format, quality, and availability of data, including any reliance on legacy systems
- Undertake detailed scenario analysis, with cash flow and liquidity modelling, to understand the potential level of claims arising from these matters and what the business can withstand, both financially and operationally. This exercise may also highlight areas of potential stress or vulnerability and triggers that may lead to business distress
- Establish how any possible remediation exercise will be funded
- Reassess your wind-down plan (and/or solvent exit plan as relevant) to consider how it may be affected. A robust and deliverable wind-down plan can act as a tool to build stakeholder confidence at a time of uncertainty and ensure that all risks have been appropriately considered.

Where a firm may be experiencing financial difficulties or have concerns about the impact on future performance, directors should engage with their advisors (both legal and financial) early to consider options available and how best to navigate the challenges.

BNPL: Regulation back in focus

The regulation of the buy now pay later (BNPL) sector moves closer in 2025.

In May 2025, the Government published its consultation response on the regulation of BNPL, summarising the feedback it had received and setting out its final position on the proposals. Once the Government has laid the relevant instruments in Parliament, the FCA will have 12 months to consult on and finalise its rules for BNPL lending.

Meanwhile, spending via BNPL continues to gain momentum. Half of all adults in the UK have used BNPL at some point, a significant increase from 35% at the start of 2023.[19]

Research shows that only 52% of BNPL users are aware of late payment fees, 15% have incurred late fees, rising to 22% for those with 'poor' or 'very poor' credit scores.[20]

However, the Government and FCA recognise the benefits that BNPL can bring when used responsibly and want to ensure their approach to regulation is proportionate.

Regulation will be limited to agreements offered by third-party lenders. Agreements provided directly by merchants will continue to be exempt from regulation.

BNPL lenders should be aware of, and prepare for, the impact of implementing these key pillars.

The key pillars of future regulation

While final rules have yet to be designed by the FCA, the key pillars that the Government intends will apply to the future regulatory regime for BNPL are set out below. BNPL lenders should be aware of, and prepare for, the impact of implementing these key pillars.

Affordability and creditworthiness assessments
To reduce the risk that borrowing is unaffordable

Credit reporting
Lenders will be required to report fully on BNPL to credit reference agencies

Consumer Duty
Firms will have to comply with the Consumer Duty, acting to deliver good outcomes to consumers

Independent complaints handling
Consumers will be able to take complaints to the FOS

FCA supervisory oversight
BNPL firms will need authorisation from the FCA and will be subject to ongoing supervision

Key statutory rights
Consumers will benefit from key protections in the Consumer Credit Act 1974 (CCA), such as section 75 which allows consumers to claim refunds from their lender

Clear and sufficient information about the risks involved
Complying with certain information and disclosure requirements in the CCA, noting certain will be disapplied as the FCA wants to ensure a more proportionate approach for BNPL, given the short-term nature and lower value of credit provided

19 Adobe Analytics, reported by Springfair.com – BNPL and its impact on e-commerce in the UK
20 Finextra.com – Half of BNPL users unaware of late fees, 16 January 2025

Assessing the impact of affordability assessments

Many BNPL lenders already conduct affordability assessments, with major industry players welcoming the change to level the playing field. However, some lenders will need to implement or undertake more rigorous affordability checks and have clear and effective policies to ensure fair and appropriate treatment of customers in vulnerable circumstances or financial difficulty.

There will be certain cohorts of borrowers utilising BNPL who will not meet affordability criteria, especially when coupled with the greater visibility of BNPL loans from alternative providers due to the requirement to report to credit reference agencies. This is borne out by research from Citizens Advice which shows that nearly a third of BNPL users who were due to make a payment borrowed money to repay their instalments.[21]

BNPL lenders have always had to balance originating enough loans to support sales while ensuring default rates and credit losses are limited. Considering the high-volume, low-margin nature of the sector, firms must carefully model and assess the impact of the new affordability requirements on their business.

Financial implications of Section 75 and access to the FOS

Section 75 of the CCA is a well-known and widely used consumer protection which will apply to newly regulated BNPL agreements. BNPL lenders will become jointly and severally liable with the retailer, meaning consumers will be able to claim refunds from their lender if a product is faulty, or does not arrive. While these consumer rights will apply to purchases over £100 (and therefore above the £70 typical average value of a BNPL transaction[22]), many firms facilitating retail payments voluntarily offer protection for lower value purchases. BNPL firms will need to carefully consider the implications of this as it could have a significant financial impact on firms given the volume of retail returns in the UK.

Consumers will also be able to access the FOS to make complaints. Every complaint to the FOS over the first three complaints per financial year generates a case fee of £650 (once the FOS confirms it will take the complaint on), noting this may vary depending on outcome and whether the complaint was referred by a professional representative.

While the introduction of a case fee for professional representatives from 1 April 2025 may impede the volume of spurious complaints, lenders will be aware that a high level of consumer complaints and associated compensation payments can have significant financial implications. Historically, this has been a major issue for some consumer credit providers.

Lenders need to be aware of the administrative costs associated with Section 75 claims and FOS complaints and put in place efficient processes, together with the staff training to manage them.

They should also undertake careful consideration and due diligence when choosing retail partners. Lenders may need to disassociate themselves with retail partners who generate a disproportionate number of returns or claims relative to their financial contribution.

21 Citizens Advice: 15 million people likely to use unregulated BNPL to help ease seasonal spending, 30 November 2023

22 UK's BNPL market booms ahead of crunch year, Bloomberg.com, 17 January 2025

Reporting to credit reference agencies

The FCA is proposing mandatory data sharing with designated credit reference agencies for BNPL agreements to enhance the coverage and consistency of information in consumers' credit files. It will also support lenders with credit checks by providing a clearer view regarding consumers' creditworthiness, reducing the ability of consumers to take out BNPL or other credit beyond their means.

Consumers are well informed about their credit file. Poor reporting or data quality from lenders can affect the availability or cost of credit and can lead to complaints to the FOS. While some BNPL firms already report to the credit reference agencies, it is important that all lenders ensure they put adequate processes in place to collate and extract accurate data which they can report on a timely basis.

Complying with the Consumer Duty

Lenders will be subject to the Consumer Duty, raising the regulatory bar further for firms as they will need to ensure that their products are delivering good consumer outcomes. The Duty also requires firms to ensure communications allow consumers to make effective decisions and that consumers are appropriately supported throughout the life of the loan.

Consideration should be given to how lenders can evidence good outcomes to the FCA. This is especially in light of FCA research showing that BNPL usage was associated with higher use of other credit products, including high-cost credit, and signs of falling into difficulty with debt.[23]

Information requirements

Certain information requirement provisions in the CCA are not relevant for BNPL, and many of these will be disapplied. Instead, the FCA will design bespoke requirements for BNPL, drawing on Consumer Duty guidelines.

Lenders who offer other regulated credit agreements (which must comply with CCA information requirements) alongside BNPL may therefore find themselves having to adhere to two separate standards.

In order to simplify internal systems and processes, BNPL lenders may choose to provide information in accordance with the CCA's information requirements for their BNPL lending rather than the proposed BNPL information regime. However, the Government has stated that it is not going to legislate to allow firms to voluntarily comply with the CCA's information requirements, and it remains to be seen whether the FCA will allow for this when it finalises rules for the sector.

In May 2025, the Government published its long-awaited consultation on the review of the Consumer Credit Act, recognising it has failed to keep up with the changing ways people engage with credit. However, any reform of the CCA is not due to follow the same timeline as BNPL regulation and there may be yet more change for lenders to navigate in the future.

23 Deferred Payment Credit: findings from the Financial Lives Survey, FCA, October 2023

Premium finance market review

The FCA is conducting a market study into premium finance amid concerns that it is not offering fair value to customers and that competition in the market is not functioning properly.

The regulator estimates that over 20 million adults in the UK use premium finance to spread the cost of their insurance. It is a vital product for many consumers who would not otherwise be able to afford an annual premium.

Regulatory concerns around fair value and competition

The FCA is concerned that premium finance is expensive in relation to the low credit risk associated with the product, raising questions about fair value. The average APR for premium finance is 20-30% - but certain providers offer the product for free on some policies. When a consumer defaults, there is not a long grace period before the policy is cancelled leaving no further risk to insurers or intermediaries. This is in contrast to other credit products, where if a consumer defaults, the lender bears that risk until any default is corrected.

The cost of premium finance disproportionately affects vulnerable consumers, with the FCA noting that 79% of adults in financial difficulty have used the product.[24]

The FCA is also concerned that complex commercial arrangements between parties across the supply chain and poor consumer information is limiting customers' ability to make effective decisions. The review is looking at how providers set their prices, how they compete in the market and whether customers are able to compare prices and shop around.

In particular, the study will investigate whether commissions between intermediaries and premium finance providers might create conflicts of interest and misalign incentives leading to customer harm.

Supreme Court judgment widens uncertainty around commissions

The question around commissions was amplified by a Court of Appeal ruling stating that commission arrangements are unlawful unless they have been disclosed to the consumer, and that they have given informed consent to the payment. Although this ruling was in relation to commission arrangements in the motor finance sector, it potentially affects all credit agreements introduced by third party brokers in receipt of commission, including premium finance providers.

The Supreme Court heard an appeal on this ruling in early April 2025, and a decision is expected in July 2025. (More information on the Court of Appeal ruling and Supreme Court appeal on page 10 of this brochure).

If the judgment holds, it could have significant consequences across the credit market for the payment of commissions, opening the door for complaints and remediation, creating potential market instability.

Premium finance providers should monitor developments carefully to see how it may impact commission structures in the sector and in turn the impact on business viability and profitability for both brokers selling premium credit, supporting a significant percentage of their revenue stream, and underlying lenders.

24 FCA press release: FCA launches premium finance market study alongside new Government insurance taskforce, 16 October 2024

What does this mean for premium finance firms, insurers and intermediaries?

The onus will be on firms to demonstrate how premium finance related charges provide fair value to the end consumer, and make it clear to consumers that this makes the contract more expensive. It is important that firms get this right to avoid the risk of remediation down the line, and preparatory work now will reap benefits later.

- Management should undertake granular financial forecasting and scenario modelling to understand what the consequence would be to their working capital, profitability and business model as a whole if premium finance charges need to change
- This should include modelling different redress scenarios in the event that consumer remediation is necessary
- Prepare for the possibility of an APR cap - for some insurers and intermediaries, revenues made from selling premium finance to consumers can be a significant portion of their overall income. Firms may be reliant on the income generated by the premium finance to compensate for smaller margins on the underlying insurance product. For example, research reported by the FT has shown that should the FCA limit the APR on premium finance to 15%, it could reduce earnings of two major insurers by 8%.[25] Again, detailed financial forecasting and modelling should be undertaken to give the business visibility as to what a potential cap on APR could mean for the firm
- Lenders and investors to premium finance providers may want to undertake due diligence to understand what proportion of revenue derives from premium finance, and if this ancillary business were reduced, how it might affect their ability to comply with covenants or repay any loan.

This foresight gained by detailed 'what-if' scenario analysis can help firms be prepared for any impact on the financial and operational resilience of the business.

Firms will be expected to proactively respond

Over the years, the FCA has repeatedly raised concerns around fair value in premium finance. For example, in 2018, the Insurance Distribution Directive required firms to undertake product value assessments of all add-ons, including premium finance. Since then, the General Insurance Pricing Practices Rules (2021), several Dear CEO letters (2019, 2021 and 2022) and most recently, the Consumer Duty have all strengthened the requirement to show that premium finance offers 'fair value' to the consumer.

However, the FCA is clear that "the premium finance market is falling short of the standards we want to see from firms", and this market study should be seen as a statement of intent that the market will be expected to proactively respond to the review's findings.

While we do not know the conclusions of the FCA market study or how any decision by the Supreme Court will impact the premium credit market, the direction of travel for premium finance providers is clear and firms should do what they can now to prepare.

25 Why the cost of insurance is driving UK motorists to distraction, FT, 19 October 2024

Key regulatory developments in 2025

Case management fee introduced for professional representatives

The FOS has implemented a case management fee for professional representatives, effective from 1 April 2025. The charging structure is as follows:

- Professional representatives are now subject to a £250 case fee by the FOS. If the case is found in favour of the complainant, £175 will be credited to the professional representative
- If a complaint is not upheld, the firm against whom the complaint was made will incur a reduced case fee of £475, instead of £650
- The free case provision for professional representatives has increased from three to 10 cases per year.

While recognising the role that professional representatives can play in the redress system, the intention behind these reforms was to counter poor practices where there was little incentive to ensure the complaints were well founded or had merit. Up until 1 April 2025, each complaint to the FOS had generated a case fee of £650, payable by the firm regardless of outcome. Together with resources required for the complaints handling process, consumer complaints have been and remain a significant issue for the sector.

For more information on consumer complaints, see under the section 'Consumer complaints rise by 46%' on page 9.

FCA 5-year strategy to support growth

On 25 March 2025 the FCA launched its 5-year strategy. This comes against a backdrop of the Government's growth agenda and public discourse about the balance of risk versus regulation.

During the period 2025-2030, the regulator will focus on four priorities:

- **Smarter regulator:** the FCA will improve its processes and embrace technology to become more efficient and effective
- **Support sustained economic growth:** by enabling investment, innovation and ensuring the continued competitiveness of the UK's financial service sector
- **Helping consumers navigate their financial lives:** by working with industry to boost trust, product innovation and ensuring the right information and support is available for people to take financial decisions
- **Fight financial crime:** focusing on those who seek to use the fact they are regulated to do harm. The FCA wants to go further to disrupt criminals and support firms to be an effective line of defence.

The FCA is intending to take a less intensive approach for those firms seeking to do the right thing, significantly streamlining how it sets its supervisory priorities, and reviewing whether it can stop requiring certain data returns. There are also plans to digitise and simplify the authorisation processes so it is easier and quicker to apply.

Following the Government's announcement in March 2025 that the Payment Systems Regulator (PSR) will be abolished, the functions of the PSR will be consolidated into the FCA.

Consumer Duty focus areas 2025

With the Consumer Duty now fully in force, the FCA is now examining their wider rules to see how they can use the Consumer Duty to simplify their requirements.

Focus areas for 2025

Embedding the Duty and raising standards. As part of this, there are three cross-cutting projects:

- A review of board reports and complaints and root cause analysis (looking at how firms use insight from their complaints to identify systemic issues and improve business practices)
- A review of treatment of customers in vulnerable circumstances
- A review of consumer support outcome and supporting informed decision making.

Enhancing understanding of the price and value outcome

The FCA wants firms to use robust analysis to assure themselves, and the FCA, that they are offering fair value and take action where they are not. A market study into premium finance forms a key part of this priority area.

Sector specific priorities

Areas of existing concern are to be tackled by the FCA in 2025, including:

- **Retail banking** – work on bereavement and power of attorney: FCA findings and areas of good and poor practice were published in April 2025
- **Consumer finance** – the findings of the FCA's 'digital journeys assessment' – looking at whether digital tools help consumers to understand credit agreements - is due to be published in H1 2025
- **Payments and digital assets** – looking at the clarity of foreign exchange pricing in payment services - areas of good and poor practice in international payment pricing transparency were published in May 2025
- **Consumer investments** – consulting on rules for better support for consumers in retail investments and pensions
- **General and life insurance** – findings on claims handling arrangements will be published in Q2 2025

Realising the benefits of the Consumer Duty

After the call for input in 2024 asking firms where the Duty could be used to simplify existing rules, the FCA will set out its next steps in September 2025.

Implementing FCA feedback on Consumer Duty board reports

The FCA has provided initial feedback from their review of Consumer Duty board reports from 180 firms.[26]

The review emphasises the importance of strong governance, customer understanding and proactive monitoring to improve consumer outcomes.

However, the FCA's findings show that many smaller firms, including lenders, need to improve their oversight, ensure board reports contain actionable insights and develop better methods for assessing customer needs. The FCA believes that there is a lack of specific data, an insufficient focus on vulnerable customers and a reactive rather than proactive approach to risk identification.

The FCA has confirmed that it no longer expects firms to have a Consumer Duty Board champion.

The FCA recognises that smaller firms have resource constraints but still expects them to take proportionate and practical steps towards compliance.

26 Consumer Duty Board Reports: good practice and areas for improvement, published 11 December 2024

Feedback on FCA review of its guidance for the fair treatment of vulnerable customers

On 7 March 2025 the FCA published the findings of their 2024 review into how firms are acting and responding to customers in vulnerable circumstances. The aim of the review was to test the effectiveness of firm implementation of the guidance that was issued in February 2021: FG21/1 Guidance for firms on the fair treatment of vulnerable customers (the Guidance).

The review looked at firms' understanding of consumer needs, the skills and capability of staff, product and service design, communications and customer service and whether these support the fair treatment of customers in vulnerable circumstances. It also looked at what outcomes consumers in vulnerable circumstances received, and whether they are as good as the outcomes of other consumers.

After discussions with stakeholders, the FCA concluded that the Guidance remains useful and will not be updated. However, more case study examples of good practise and areas for improvements have been published to help support firms in meeting expectations.

Final operational resilience deadline

The final deadline of the FCA's operational resilience framework was 31 March 2025. Firms must now have carried out mapping and scenario testing to a level of sophistication that enables them to remain within the impact tolerances they set for their important business services.

However, the FCA emphasises that firms should review and develop their mapping, testing and impact tolerances on a continuous basis, refreshing their severe but plausible scenarios regularly.

The importance of operational resilience was highlighted in the FCA's annual report for 2023/24. The number of operational disruptions reported to the regulator in 2023 was 1,018, compared to 785 in 2022, driven by the increased reliance on technology and more complex systems. The growth of AI will only add to the challenges.

Operational incident and third-party reporting

The PRA and FCA are currently consulting on operational incident and third-party reporting (FCA CP24/28 and PRA CP17/24). These consultations aim to create a structured framework for financial services firms to report operational incidents and material third-party relationships.

The proposals plan to expand the requirement to notify regulators of 'material outsourcing arrangements' to 'material third-party arrangements'.

This would enable the regulators to have more visibility on third-party relationships across the sector. These proposals apply only to a subset of firms which regulators believe have the biggest consumer and market impact.

The consultations closed on 13 March 2025, with policy statements due to be published in H2 2025.

Critical third parties

A new designation regime for critical third parties (CTPs) came into force on 1 January 2025, meaning that these service providers will increasingly be subject to regulation. However, HMT is still to decide which companies will qualify as CTPs.

Regulated firms will still need to comply with their own third-party oversight obligations, including assessment and monitoring of the risks associated with using CTPs.

Reform of the Consumer Credit Act

In May 2025 the Government launched a consultation on the review of the Consumer Credit Act (CCA). The purpose of reform is to facilitate innovation in the credit sector, increase accessibility of credit products and contribute to growth in the sector and economy more broadly.

Given the scale and complexity of the CCA and the desire to move forward at pace, the Government intends to take a phased approach to consulting on its policy approach. Specifically, proposals for a new regime will be outlined across two consultations:

Phase 1: The consultation published in May 2025 outlines the Government's overall vision for a reformed regime, as well as its approach to information requirements, sanctions and criminal offences.

Phase 2: A further consultation will follow which will set out how the Government intends to reform the scope of regulation and rights and protections under the CCA.

The proposition is to move the majority of the CCA into the Financial Services and Markets Act 2000 model. This will involve repealing much of the CCA and recasting it in the FCA Handbook, allowing the regulator to quickly respond to developments in the consumer credit market rather than having to amend existing legislation.

Spotlight on retirement-related products

In recent years, the FCA has been reviewing products aimed at older consumers, which could become more of a focus for the regulator given an aging population.

Lending into retirement

There has been a notable rise in longer mortgage terms, with mortgages lasting longer than 30 years making up 50% of total sales in 2024, compared to 12% in 2005.[27]

The proportion of mortgage customers over 67 is currently less than 2% of all loans, but is estimated to rise to 5% by 2040 and almost 10% by 2050 according to the FCA.[28]

The FCA has stated that extending mortgage terms can be "a symptom rather than a solution to today's affordability challenge". [29]

Lenders have responded to the fact that people are living far longer, and in many cases have a good retirement income, benefiting from defined benefit pension schemes. Lenders will be aware that fewer households will own their home with a mortgage in the future – as more mortgages mature and older generations own outright, and younger generations find themselves less able to buy their first home.

The regulator and the lenders it supervises will be considering what the trade-off should be between home ownership, long-term debt and the risk of unaffordable mortgages.

Later-life mortgages – equity release

Later-life mortgages allow consumers to release equity in their homes to help meet later life needs. The FCA has had concerns around this sub-sector for a while, with exploratory work being undertaken in 2020.

In 2023, the FCA undertook a further review of later-life mortgages which revealed continued poor advice and misleading promotions. The majority of firms in the review required changes to the way advisors were incentivised.

Since the FCA started this review into later-life mortgages, the Consumer Duty has come into force and requires firms to be delivering good outcomes.

Given that these products are often sold to consumers with a higher risk of being in vulnerable circumstances, we believe that this area will be a continued area of focus for the FCA.

27 FCA product sales database, quoted by bankunderground.co.uk '30+ year mortgages – are these the new norm?', October 2024

28 FCA speech to Building Societies Annual Conference: Building our societies through lending and saving, 9 May 2024

29 FCA speech to Building Societies Annual Conference: Building our societies through lending and saving, 9 May 2024

Pre-paid probate plans

The FCA has explicitly stated their concerns about the pre-paid probate plan sector – which allows consumers to pay an upfront fee to cover the legal costs of administering their estate after they die.

In January 2023, the FCA issued a consumer warning, advising people carefully consider whether pre-paid probate plans will meet their needs and offer good value, reminding them there are no regulatory protections in place.

The FCA started regulating pre-paid funeral plans in July 2022. Since then, some firms and individuals associated with funeral plan firms that were not authorised by the FCA have transferred their activities to pre-paid probate plans and are actively marketing these services. According to the FCA, these include firms whose customers lost money when they collapsed.

Risks to consumers who buy pre-paid probate plans include funds being invested in unsuitable investments which could put future benefits at risk. The FCA saw cases where this happened with funeral plan trusts before regulation began.

The fee for a pre-paid probate plan is usually based on the value of the estate at the time of purchase. However, this may change significantly, for example due to the need to pay for care costs. This could mean probate is not needed and the plan would be worthless. In addition, probate is not always needed as some banks pay out a certain amount without the need for applying for probate.

Self invested personal pension (SIPP) operators

In November 2024, the FCA wrote to SIPP operators, highlighting their key focus areas for 2025, and outlining their concerns for the sector.

This follows on from portfolio letters in December 2020 and May 2023, and a SIPP data request in July 2024. The regulator's concerns about the sector have been heightened by firm failures in recent years, often after FOS decisions have identified failings.

The FCA states it has not seen enough progress from the sector around these concerns, particular in relation to redress payments being made to consumers for due diligence failings. For example, the FCA notes that there are approximately 800 open complaints with the FOS, some of which are over 24 months old.

The regulator also has growing concerns about the handling of pension scheme money and assets by some firms, as well as the accuracy of firms' books and records.

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