The UK consumer credit sector

Market update and sector insight

July 2026

Content.

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In this report

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Welcome to the 2026 edition of our UK consumer credit market report. We provide an **overview of the current market environment** as well as **key regulatory developments** in the sector for 2026. We also take a more in-depth look at the following issues relevant to the consumer credit sector right now:

- **Motor finance: Legal challenges bring uncertainty to redress scheme** – The latest developments in the FCA's redress scheme
- **Motor finance: Undertaking a business health check** – Why firms should consider undertaking a business health check now to determine whether they can absorb their obligations in different scenarios depending on the outcome of the tribunal decision. This can help ensure directors are fulfilling their duties during a period of heightened scrutiny and uncertainty.
- **Remediation: A more structured, proactive era** – The FCA is seeking to modernise the redress framework, shifting from a reactive, firm by firm approach to a more coordinated and, in some cases, industry wide approach
- **Debt collection at a crossroads: AI and the race for efficiency** – The debt collection sector is undergoing a period of transition. We look at why significant investment in digital transformation and AI is becoming a prerequisite for attracting capital, particularly as the sector approaches a material refinancing wall in 2028-29
- **Buy now pay later** – A look at the final rules applicable from regulation day on 15 July 2026

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 are also engaged on notable assignments in the wider financial services sector, for example as Administrators for Trident Funding Limited, a funding entity for Market Financial Solutions, and 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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02

Current market environment

Current market environment

- The UK economic outlook is being shaped by geopolitical uncertainty, with GDP growth fragile and uneven
- Business confidence remains subdued amid rising input costs, particularly in energy and labour, compressing margins
- Consumer confidence is at its lowest level since July 2023, and spending intentions remain below long-term averages
- Wage growth has fallen to its lowest level since the end of 2020. Unemployment is 5%, but rises to 16.2% for workers aged 16-24
- Housing costs remain high, but consumers show resilience with low mortgage arrears
- Credit card payment rates continue to decline, while balances on accounts with missed payments remain above prior-year levels

Uncertain macro-economic environment

The UK economic outlook is being shaped by heightened geopolitical uncertainty, particularly the ongoing conflict in the Middle East. This has driven volatility in global energy markets, with oil prices rising sharply and supply chains facing renewed disruption. As a result, inflation expectations have rebounded, reversing earlier improvements and reinforcing a more uncertain outlook for monetary policy.

Inflation has already begun to rise again, reaching 3.3% in March 2026, with further increases expected as higher energy costs feed through to households and businesses. The Bank of England has emphasised that the scale and duration of the energy shock remain uncertain, but that higher inflation could persist in the near term, potentially requiring a more cautious or restrictive policy stance.

Against this backdrop, the economic recovery remains fragile and uneven. GDP grew unexpectedly by 0.6% in the first quarter of 2026, supported by a 0.8% expansion in the services sector. However, the outlook has weakened, with the IMF revising its 2026 UK growth forecast down from 1.3% to 0.8%, citing the disproportionate impact of the Middle East conflict on the UK relative to other advanced economies.

Business confidence subdued

Business confidence remains subdued in this uncertain environment. Rising input costs, particularly energy and labour, are compressing margins, while interest rate uncertainty and weaker demand are constraining longer-term investment decisions.

Supply chain pressure is a key concern, with around a third of manufacturers, wholesalers, retailers and construction companies having already experienced shortages.

The Institute of Directors' Economic Confidence Index remains close to historic lows. While sentiment improved modestly from -76 in March to -64 in April 2026 – driven in part by investment in AI and opportunities in renewable energy and international markets – overall sentiment continues to reflect ongoing cost pressures, fragile demand, hiring freezes and regulatory burdens.[1]

1 Institute of Directors: Business confidence lifts but supply chain concerns rise, 1 May 2026

Weaker consumer confidence

UK consumer confidence has weakened further, reflecting growing financial strain across households. In May 2026, consumer sentiment fell to its lowest level since July 2023, with households increasingly pessimistic about their financial position amid inflationary pressures and ongoing economic uncertainty.[2]

This deterioration is being driven by a combination of rising cost pressures and weakening household resilience. Savings are being depleted at the fastest pace in nearly three years as higher living costs erode disposable incomes, while financial strain is expected to intensify over the next 12 months.[3]

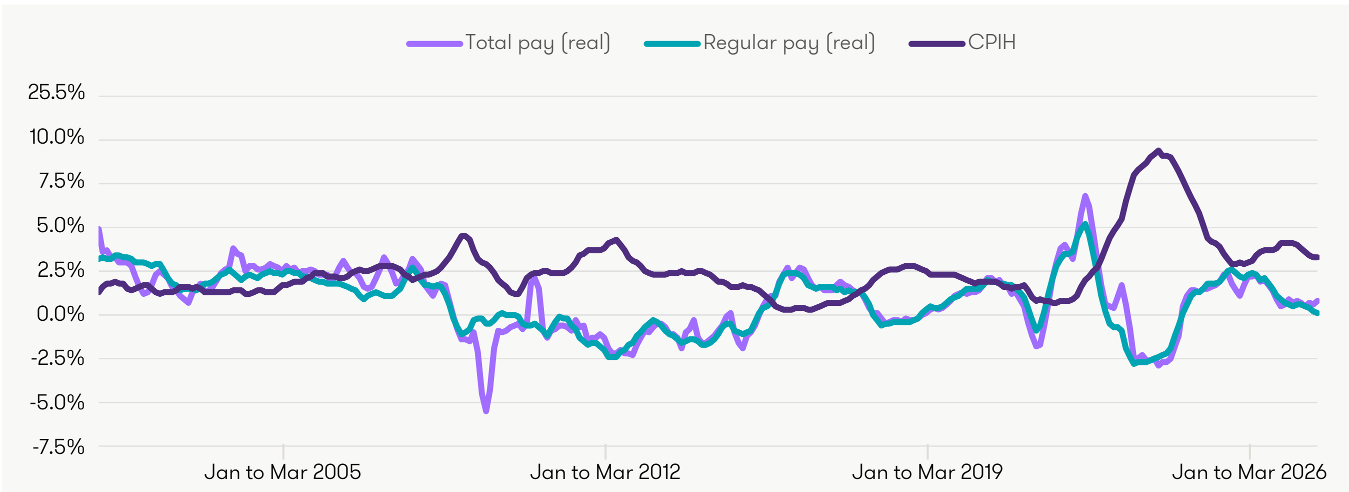
At the same time, job insecurity has risen to its highest level since March 2023, reinforcing cautious behaviour and limiting appetite for spending.

Slower wage growth

Wage growth has fallen to its lowest level since the end of 2020, with regular pay rising by 3.4% annually in Q1 2026, down from 3.5% in the previous quarter. This continues the reduction seen in annual growth rates over the last year. The last time it was lower than 3.4% was August-October 2020, when it was 2.8%. Including bonuses, wages grew by 4.1%.

In real terms, earnings growth remains subdued, at just 0.1% for regular pay and 0.8% including bonuses. The last time it was lower than 0.1% was March-May 2023.[4]

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



Inflation measured as Consumer Prices Index including owner occupiers' housing costs (CPIH). Source: ONS

Unemployment rises, particularly for younger workers

The UK unemployment rate edged up to 5% in the three months to March 2026, from 4.9% in the previous quarter. While still below the 5.2% peak recorded in December 2025, further increases are expected as higher energy costs weigh on both business activity and consumer spending.[5]

Youth unemployment has risen more sharply, reaching 16.2% for those aged 16–24—the highest level since January 2015. This reflects a softening labour market, driven by higher wage costs, increased national insurance contributions and structural shifts such as AI adoption. Lower-paid sectors, including hospitality and retail, have seen some of the most significant declines in vacancies.[5]

The Bank of England expects unemployment to peak at 5.1% in Q2 2026.[6]

2 Trading Economics: United Kingdom Consumer Confidence
3 S&P Global UK consumer sentiment index, 18 May 2026
4 Office for National Statistics, release 19 May 2026
5 ONS, May 2026
6 Bank of England Monetary Policy Report, April 2026

Disposable income growth is weak, leaving consumers with low resilience

Disposable income growth remains constrained, leaving many households with limited capacity to absorb further economic shocks. Outcomes vary regionally, with London experiencing the sharpest declines, while the North-East and Wales have seen comparatively stronger growth.

Research conducted before the outbreak of the conflict in the Middle East showed disposable income was projected to increase by just £160 over the decade to 2029/30 - equivalent to growth of only 0.4% - contrasting sharply with historical trends where incomes typically rose much more significantly over comparable periods.[7]

This is now considered to be a best-case scenario. The current instability in the Middle East has negatively impacted inflation, employment and earnings, meaning incomes could fall across the country.

These pressures are expected to outweigh the benefits of increases in universal credit and welfare reforms, leaving households more vulnerable to future shocks.

Housing costs remain high, but mortgage arrears are low

Housing affordability remains stretched despite some resilience in mortgage performance. Mortgage rates eased during 2025 but reversed course in 2026 as inflationary pressures re-emerged. The Bank of England held rates at 3.75% in April but signalled the likelihood of further increases.

Approximately 1.8 million fixed-rate mortgages are due to expire in 2026, exposing many borrowers to higher repayment costs.

Despite this, arrears remain low. In Q1 2026, 79,110 homeowner mortgages were in arrears of 2.5% or more – 2% fewer than in the previous quarter – representing 0.91% of all homeowner mortgages and 0.47% of buy-to-let mortgages.[8]

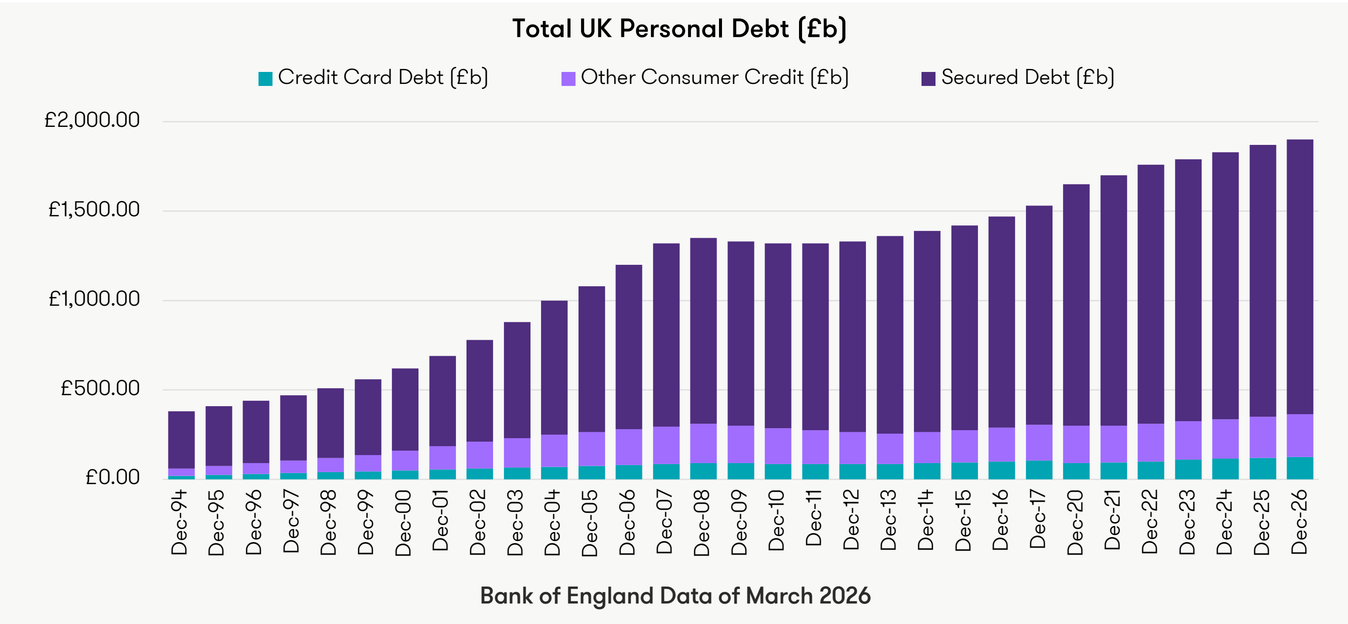
Rental costs also remain high, averaging £1,350–£1,375 per month, with rents accounting for 36.1% of average earnings. With supply shortages and strong demand, rental costs are expected to remain high, albeit with growth stabilising.[9]

Consumer debt levels

Consumers have faced significant turmoil over the past five years: the pandemic, cost-of-living crises, and current economic and political uncertainty which has had a direct impact on consumers' financial lives. Although wages and state pensions have risen for some, many consumers feel financially stretched.

The average total debt per household, including mortgages was £67,328 in February 2026, up from £66,430 a year earlier.

According to the Office of Budget Responsibility's March 2026 forecast, household debt of all types will rise from £2,377 billion in Q1 2026 to £2,792 billion in Q1 2031. This would raise the average total household debt to £93,537, assuming household numbers track ONS population projections.[10]



7 Joseph Rowntree Foundation: Weak income growth leaves people with little resilience to shocks, April 2026

8 UK Finance: Mortgage Arrears and Possessions Update Quarter 1 2026

9 Sky News: Rents reach highest-ever level relative to earnings, driven by lack of housing supply, 26 March 2026

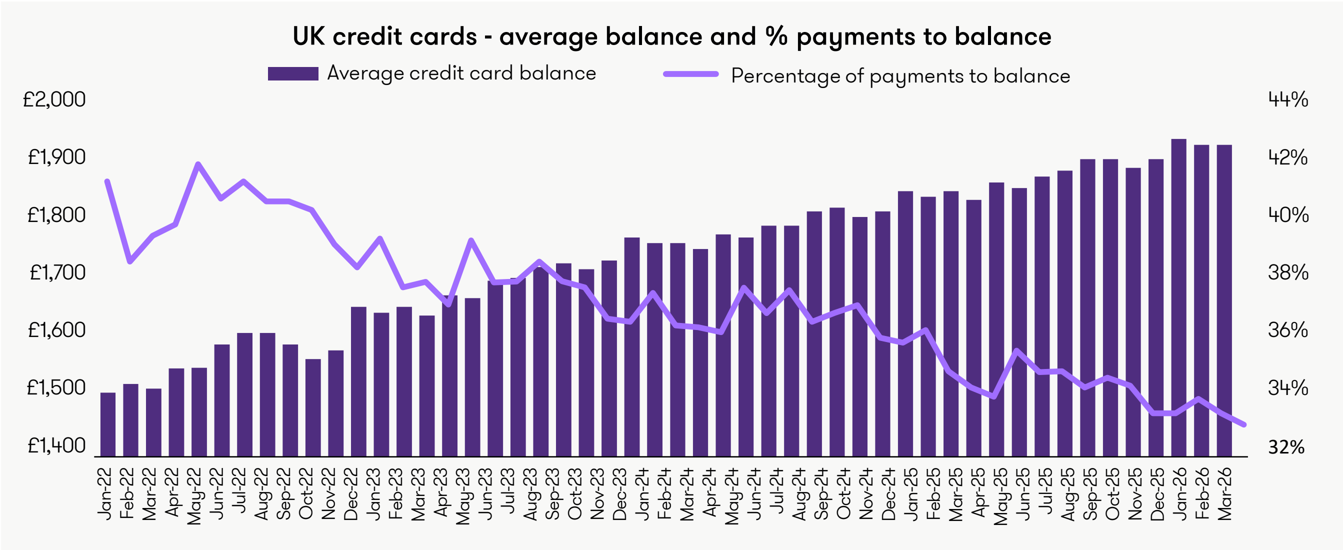
10 The Money Statistics, April 2026

Credit card payment rates and missed payments rise

Reflecting the affordability challenges that many consumers face, payment rates continue to trend down, and balance levels for accounts with missed payments remain higher than this time last year. This is expected to continue as energy prices remain high.

While February 2026 saw month-on-month improvements for accounts missing one and two payments, there was a 2% increase in accounts missing three payments, underlining the challenge for individuals already facing financial difficulties. This indicates a concerning trend that those already in debt are unable to recover. [11]

Another indicator of financial stress is that balances for all accounts with missed payments increased both on a monthly and yearly basis.

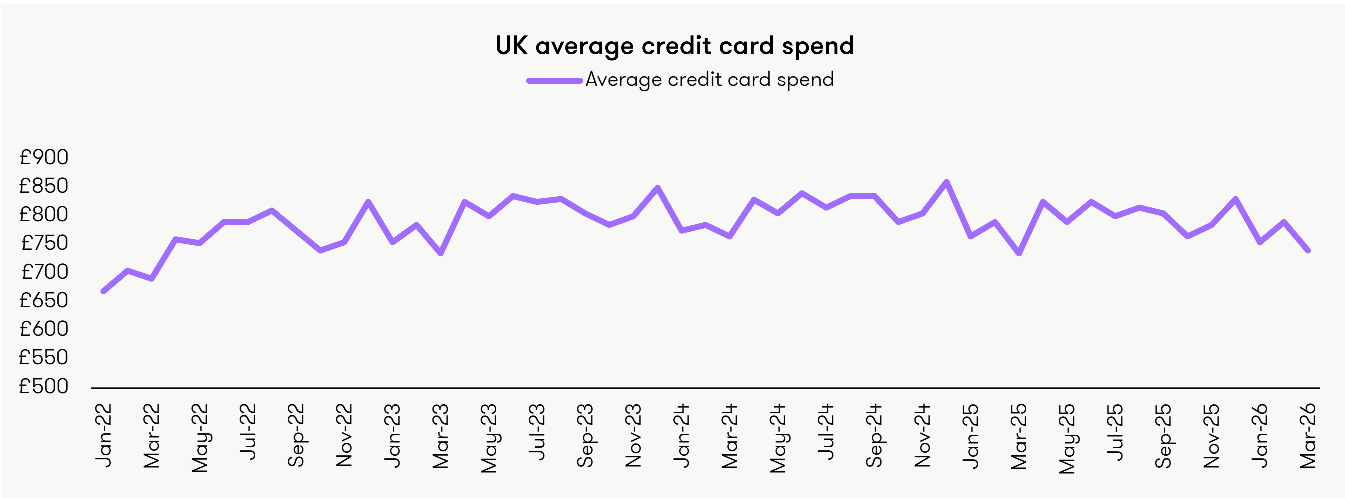


Consumer finance new business 2026

To meet this demand, according to the FLA, new lending reached £122.5 billion in 2025, 6% higher than in 2024. This was a record level of new business and the strongest annual growth since 2022, representing 30.1% of total UK consumer credit and 56.3% of outstanding balances.[12]

Growth was broad based across most major products, with non-bank lenders providing 43% of all new business in 2025.

In Q1 2026, consumer finance new business in this market was 6% higher than in Q1 2025. The credit card and personal loans sectors together reported new business 6% higher in March than in the same month in 2025, while the retail store and online credit sector reported an increase in new business of 3% over the same period.



11 FICO UK credit card market report February 2026

12 FLA: State of the Market 2026. FLA consumer finance data includes personal loans & credit cards, point of sale finance, retail store and online credit and second charge mortgages. It excludes asset finance and motor finance.

03

Key regulatory developments: 2026

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FCA sets out regulatory priorities for consumer finance

In March 2026, the FCA published its regulatory priorities, setting out a clear, outcomes-focused supervisory agenda for the consumer credit sector, centred on three core priorities:

- **Ensuring consumers can access credit that meets their needs**

  The FCA expects firms to continue to offer well-designed credit products that are fair value and meet consumers' needs. Lenders are also expected to consider how to help currently excluded consumers, whether through innovation and new products, budgeting tools, checking eligibility for grants and benefits or by making referrals. Firms may also find alternative data sources (e.g. open banking data) helpful in lending decisions for consumers with limited or thin credit histories.

- **Requiring firms to support consumers who struggle with debt**

  The FCA expects firms to provide appropriate and accessible support for consumers. Firms should make sure consumers can access support without unnecessary barriers, acting proactively to help borrowers in financial difficulty. Debt advice must be appropriate to consumers' circumstances. It also needs to include clear communications so consumers can make well-informed decisions, at the right time, and get good outcomes.

- **Consumers can complain when things go wrong and get appropriate redress**

  The FCA expects firms to properly identify and deal with complaints. They should keep adequate records, undertake root cause analysis and hold sufficient financial resources to meet potential and actual liabilities.

  CMCs should deliver high-quality, fair-value services that help consumers pursue legitimate claims for redress. This includes ensuring robust client-sourcing and onboarding processes, avoiding misleading financial promotions and progressing only complaints with genuine merit.

The regulatory priorities report also highlights other areas of focus for the FCA:

Regulation of buy now pay later: firms must review final rules and update their systems and controls.

Consumer duty: the appointed representative (AR) population in consumer finance has grown more than other sectors. The FCA reminds firms that weak oversight could risk principals failing in their Duty obligations.

Monitoring strategic harms through data: The FCA will use the improved credit regulatory returns data to make more targeted interventions.

Setting clearer expectations: The FCA recognises the difficulties for smaller firms in applying outcomes-based regulation, particularly the Consumer Duty. They will pilot a new approach to help smaller firms understand regulatory expectations, which is due to launch in 2026.

Impact of AI: The FCA is encouraging firms to experiment with AI, using the sandbox services and 'innovation pathways' – a service to help firms introduce new products/services.

Reform of the Consumer Credit Act

The reform of the Consumer Credit Act 1974 (CCA) has begun. The aim is to facilitate innovation in the credit sector, increase accessibility of credit products, align with the Consumer Duty principles and contribute to growth in the sector and economy more broadly.

- In May 2026, the policy statement for Phase 1 was published. The reforms will: Transfer most CCA provisions into FCA rules and guidance
- Replace prescriptive legal requirements with principles and outcomes-based regulation
- Reduce reliance on strict statutory disclosure and documentation rules
- Shift enforcement away from technical breaches toward FCA supervisory judgement
- Embed the Consumer Duty as the key test for consumer credit firms (fair value, consumer understanding, avoidance of harm)
- Enable more flexible updating of credit rules without new primary legislation

The government had originally intended to publish a Phase 2 consultation on the remaining provisions of the CCA not covered in Phase 1. However, they have decided there is sufficient evidence to take forward changes in some areas without the need for further consultation.

The Mills review – AI in financial services

The Mills review, launched by the FCA in January 2026 and led by Executive Director Sheldon Mills, is a forward-looking assessment of how AI could reshape UK retail financial services through to 2030 and beyond.

The intention is to explore how rapidly advancing AI technologies may transform market structure, firm operations, consumer behaviour and regulatory approaches, while ensuring innovation is supported within an outcomes-based framework that continues to protect consumers and maintain market integrity.

Rather than introducing new AI-specific rules, the review will test whether existing frameworks (for example, the Consumer Duty and SM&CR) remain fit for purpose in an AI-driven environment.

The review signals greater scrutiny in regulatory expectations around the use of AI in areas such as credit decisioning, pricing and customer engagement, with greater focus on transparency, bias, governance and customer outcomes. Consumer credit firms will need to demonstrate that AI-driven models deliver fair value and do not exacerbate financial exclusion or vulnerability.

FCA scale up unit

In May 2026, the FCA launched its scale-up unit, designed to provide tailored, practical regulatory support to fast-growing financial services businesses. The scheme is open to firms that meet the following criteria:

- Regulated by the FCA and have been in operation for at least 3 years
- Average income growth over the last 3 years must be greater than 20% year-on-year, with projections to continue at that pace
- Firms must either generate gross annual revenue of over £50 million or have been valued at greater than £300 million in a recent funding round

Dual-regulated firms (banks, building societies, insurers) participate via a separate pilot cohort, as the FCA scales this initiative to help innovative firms navigate regulation and grow sustainably.

Modernising the redress system

On 16 March 2026, the FCA and the Financial Ombudsman Service (FOS) jointly published CP26/9: Modernising the redress system, alongside finalised guidance FG26/2 on good and poor practice in identifying and rectifying harm caused by firms to consumers. CP26/9 is both a consultation and a part-policy statement, finalising elements of the earlier joint consultation CP25/22 (July 2025) while introducing new proposals.

Key measures include:

- A new pre-registration stage for FOS complaints, designed to triage cases before full investigation
- Updates to the 'fair and reasonable' test, removing reference to 'good industry practice' so that only standards applicable at the time of the act or omission will apply
- A revised framework for identifying and reporting potential mass redress events (MREs) to the FCA, with new SUP 15 notification thresholds
- The initial implementation of a referral mechanism to allow the FCA to intervene earlier in large-scale redress scenarios

Some rule changes took effect from March and June 2026. A policy statement confirming final rules is expected later in 2026.

Reforms to complaints reporting for firms

In December 2025, the FCA reformed its complaints reporting rules. The new process is designed to modernise and streamline how firms report complaints data under the DISP framework, to improve data quality, consistency and regulatory insight while reducing duplication and administrative burden.

There is now a single consolidated complaints return, alongside fixed six-monthly reporting periods, updated complaint categories and new requirements to identify complaints involving vulnerable customers.

By standardising and enhancing the granularity of data, the FCA intends to enable better comparability across firms and earlier identification of emerging consumer harm.

Latest complaints data from the FOS

Latest complaints data published in May 2026 showed that the Financial Ombudsman Service (FOS) resolved over 220,000 complaints in 2025/26, as volumes returned to more typical levels following a spike in the prior year, driven by motor finance related complaints.

New complaints fell to approximately 214,600 (down around 30%), reflecting fewer speculative or poorly evidenced claims and a shift towards consumers bringing cases directly (approx. 82%), rather than via professional representatives.

Complaint trends remain concentrated in consumer credit and banking, with hire purchase (motor finance), current accounts (driven by fraud and scams) and credit cards accounting for the largest volumes. The FOS also reported a reduction in withdrawn or abandoned complaints and a rising proportion of vulnerable consumers (around 25% of cases), highlighting increasing complexity in case handling.

Overall, the data points to a stabilising complaints environment, but with continued scrutiny on affordability, lending practices and customer outcomes – reinforcing the importance of robust complaints handling, clear record-keeping and sufficient provisioning for compensation.

Claims management services market study

In May 2026, the FCA launched MS26/2, a market study to understand the root causes of practices in the claims management market and how they impact competition and consumer outcomes.

The study is to inform whether interventions are needed to promote effective competition, support customer choice, and ensure claims management services firms serve consumers in a way that the FCA would expect.

Over many years, large-scale redress exercises have created market conditions where the volume of claims has been more commercially viable than the quality of claims. This has driven aggressive marketing, speculative and duplicate claims, increasing both financial and operational pressure across the wider market.

The FCA expects to consult on potential proposals later in 2026 and publish the final market study report by May 2027.

Financial inclusion strategy

HMT published the Financial Inclusion Strategy in November 2025, setting out its approach to ensuring individuals and households can access the financial products and services they need to participate fully in the economy, manage their money effectively and build financial resilience.

It brings together a cross-sector package of initiatives spanning access to banking, savings, insurance, credit, debt support and financial capability, with a particular focus on removing barriers for underserved and vulnerable groups, including those facing digital exclusion, mental health challenges and economic abuse.

The strategy signals a shift towards greater expectations for the consumer credit sector around access, affordability and inclusive design.

Firms are expected to play a more active role in delivering safe, affordable credit, particularly for customers who may otherwise rely on high-cost or illegal lending, and to embed accessibility and customer support within product design from the outset, aligned with Consumer Duty outcomes.

More broadly, it implies increased scrutiny of lending practices, customer journeys and vulnerability frameworks, alongside opportunities for firms to innovate in lower-cost credit products and support mechanisms that enhance financial resilience and long-term customer outcomes.

High-cost short-term credit price cap review

The FCA is currently undertaking a review of the UK high-cost short-term credit (HCSTC) price cap, which was introduced in 2015 to limit the cost of payday lending.

The review will assess whether it continues to appropriately balance consumer protection with market access and sustainability and is focused on whether the cap remains effective in preventing consumer harm without unduly restricting access to credit, particularly for higher-risk borrowers.

The findings are expected in Q3 2026 and any subsequent consultation or reforms likely to follow thereafter.

For HCSTC providers, this review introduces uncertainty, as any recalibration of the cap could materially affect pricing models and overall market dynamics, requiring firms to reassess both risk appetite and product viability.

Changes to the Senior Managers and Certification Regime

In April 2026 the FCA published PS26/6, which concludes phase 1 of reforms to the Senior Managers and Certification Regime (SM&CR). This is designed to strengthen individual accountability, making senior managers personally responsible for conduct and competence.

Phase 1 brings in targeted measures to reduce unnecessary burdens on firms, including greater flexibility when submitting approvals and guidance to streamline annual fitness checks.

Review of financial promotion rules

The FCA is reviewing the financial promotions rules, as set out in CONC 3.

The regulator launched a consultation (CP26/15) in April 2026, aiming to simplify and modernise the long-standing consumer credit advertising regime to better align with the outcomes-based Consumer Duty.

The review proposes removing or streamlining rules that are considered overly prescriptive, duplicative or outdated, while placing greater emphasis on firms ensuring communications are clear, fair and support effective consumer understanding.

It is also exploring ways to improve how firms communicate APR and other credit costs to help retail customers better understand and make informed financial decisions in pursuit of their financial objectives.

Premium finance market study final report

In February 2026, the FCA published its MS24/2 Premium Finance Market Study Final Report. The study was launched in 2024 in response to concerns that, while premium finance plays a critical role in enabling access to insurance, competition was not functioning effectively, and some consumers were not consistently receiving fair value.

The report concludes that regulatory scrutiny itself has already driven meaningful improvements in the premium finance market. Since 2022, average APRs have fallen by c.4.1 percentage points, generating an estimated £157 million in annual consumer savings, with even larger reductions among outlier firms subject to direct FCA engagement. This supports the FCA's view that the Consumer Duty framework, including its fair value requirements, is having a positive impact.

Importantly, the FCA stopped short of imposing market-wide remedies. It explicitly rejected an APR cap, a requirement to offer 0% finance, and a ban on commissions on the basis that such measures could reduce access to insurance or distort competition.

Expansion of credit unions

On 18 March 2026, HMT issued its response to its earlier Call for Evidence on the merits of and considerations for changing the credit union common bond requirement for membership in Great Britain, under the Credit Unions Act 1979.

The government intends to bring forward changes to enable credit unions to expand by improving the rules on who can become a member.

These reforms will help credit unions grow sustainably so that more people across the country can access affordable, community-based financial services and supports the government's aim to double the size of the mutual and co-operative sector.

04

Motor finance

Motor finance:
Legal challenges bring uncertainty to redress scheme

On 8 May 2026, the FCA provided an update on the legal challenges to its proposed motor finance compensation scheme. While the regulator remains committed to delivering a quick, fair and cost-effective industry-wide solution, the challenges introduce material uncertainty to both timing and the scheme rules.

Current status

Legal challenges have been brought against the FCA's rules underpinning the redress scheme, seeking to have them quashed in full or in part.

- On 2 July 2026 it was confirmed that the tribunal hearing will take place either in December 2026 or February 2027. The final date depends on whether further expert opinion or information disclosures are necessary
- The tribunal has also ordered a suspension on parts of the scheme, which allows firms to keep preparing for the scheme, but avoid work that may need to be repeated if the legal challenges succeed
- The partial suspension confirms that firms are not required to calculate or pay redress, or send communications about compensation owed under the scheme until the tribunal process concludes
- The complaint handling pause expired on 31 May 2026. Complaints that are entirely outside the scope of the scheme rules should be progressed in the usual way
- While there is uncertainty about when a tribunal decision will be made, lenders are expected to keep complainants up to date on the latest developments. Firms should explain when the legal challenge will be heard, what the partial suspension means, and the likely impact on the timetable for dealing with complaints and paying any compensation owed
- The regulator has reiterated it will defend the scheme robustly, reflecting its preference for an industry-wide solution

In the interim, firms face a prolonged period of ambiguity.

FCA advises continued preparation for the scheme

Despite the uncertainty, the FCA has been explicit that firms should continue preparatory activity by:

- Identifying relevant agreements and impacted complaints
- Gathering data on commission structures and disclosure practices
- Engaging with brokers to obtain missing information
- Coordinating with claims management companies (CMCs) and resolving duplicate representation issues
- Continuing to support the Financial Ombudsman Service (FOS) on live complaints

Contingency planning

Importantly, the FCA highlights that firms must focus on contingency plans and prepare for the alternative scenario of no scheme. Under this scenario:

- The complaints pause that commenced in January 2024 ended on 31 May 2026
- While there is uncertainty about when a tribunal decision will be made, firms should prepare to handle complaints from mid-November 2026 under standard timelines
- Lenders would need to draw on the Supreme Court and High Court judgments and the tribunal's decision and reasoning. There would not immediately be further FCA rules or guidance on redress methodology
- The FCA will continue to actively encourage consumers who are concerned about their motor finance commission arrangements to complain directly to their lender

This represents a significant potential shift from a coordinated industry scheme with implications for cost, consistency and reputational risk.

Motor finance: Undertaking a business health check

Why firms should conduct a business health check now

Legal challenges to the FCA's proposed redress scheme have created real uncertainty for motor finance firms. Until the tribunal reaches its decision, firms face a range of potential outcomes - the scheme is upheld, modified, or struck down entirely - each carrying materially different financial consequences.

In the meantime, operational costs continue to mount as claims handling demands ongoing resource and management attention.

In this context, now is the time for firms to undertake a comprehensive business health check. This proactive step will help firms understand their resilience, determine whether they can absorb their obligations in different scenarios depending on the outcome of the tribunal decision, and ensure directors are fulfilling their duties during a period of heightened scrutiny.

What is a business health check?

Throughout the lifecycle of any business, periods of stability and growth are impacted by material events, be they regulatory, market-driven or internal factors. A business health check is a forward-looking assessment of a company's capacity to continue operating, meet its financial obligations and remain sustainable over the longer term.

Why undertake a business health check?

It's not simply a financial review. A robust assessment considers liquidity, operational capability, regulatory compliance and strategic flexibility. Done properly, it provides an integrated view of a firm's resilience in the face of uncertainty. A structured assessment offers multiple benefits:

- **Risk mitigation:** A health check helps identify stresses that could impact liquidity or financial performance. Early detection of vulnerabilities gives firms time to act, including proactive cash management and engaging with key stakeholders.
- **Data-driven decision making:** A redress scheme will often reshape what "business as usual" looks like, at least in the short term. A health check provides insight into likely financial and operational impacts, helping management make informed decisions on matters such as staffing, systems and third-party support.
- **Strengthening stakeholder confidence:** Boards, capital providers and the regulator expect clarity during periods of turbulence. A well-documented, objective assessment can help secure ongoing support, maintain confidence and demonstrate responsible governance.
- **Strategic realignment:** Beyond short-term liquidity considerations, firms must assess whether their operating model remains viable. A health check provides a platform to reassess market positioning, resource allocation and long-term strategy.

Key steps for motor finance firms undertaking a business health check

Given the scale of the FCA's proposed scheme, whether implemented in its current form or not, and claims volumes, firms should adopt a systematic approach:

Define the scope and objectives: Clearly articulate the purpose of the assessment, that being to evaluate the financial and operational impact of the proposed scheme, or alternative outcome, on liquidity and longer-term performance

Conduct stress testing: Model "severe but plausible" scenarios for potential redress liabilities and operational costs. Stress testing helps identify trigger points and areas where financial or operational strain may arise

Assess regulatory compliance and readiness: With any form of regulatory intervention, ensuring alignment with the FCA's expectations is essential to reducing the risk of future challenge. Firms should be considering internal audits, quality assurance frameworks and governance enhancements to reduce future regulatory risk

Evaluate operational requirements: Dealing with the significant volume of claims will place increased demands on operations. Firms should determine whether current workflows, personnel and technology platforms can support the delivery of the proposed scheme, or alternative outcome, and whether additional investment or third-party support will be required

Analyse cash flow and liquidity: Liquidity is essential. Firms must assess whether they have sufficient cash to meet financial obligations as they fall due, including both immediate liquidity needs and longer-term cash flow projections

Mitigating actions: If the assessment highlights viability concerns, management should identify mitigating options, such as capital injection, cost rationalisation or a restructuring exercise

Conclusion

Whatever the outcome once the tribunal has made its decision, the financial and operational burden on firms is likely to be significant. Conducting a business health check now is not only prudent but essential. It enables firms to anticipate challenges, strengthen resilience and demonstrate strong governance. For directors, it is also a critical tool in meeting their statutory duties and safeguarding the long-term sustainability of the business during a period of industry turbulence.

05

Remediation:

A more structured, proactive era

Remediation:
A more structured, proactive era

Remediation remains a central theme across the UK consumer credit market, with firms continuing to address legacy conduct issues while adapting to heightened regulatory expectations. Over the past few years, large-scale redress exercises have highlighted the operational, financial and governance challenges that can arise when issues crystallise at scale.

The regulatory direction of travel is clear. In March 2026, the FCA and the Financial Ombudsman Service (FOS) jointly published consultation paper CP26/9: Modernising the redress system, alongside finalised guidance FG26/2 on good and poor practice in identifying and rectifying harm caused by firms to their consumers. This amounts to a significant overhaul of the UK's consumer redress framework and signals a decisive shift from reactive, firm-by-firm remediation towards a more structured, coordinated regime designed to deliver consistent outcomes for consumers at greater speed. There will be consequences for how financial services firms manage complaints, identify emerging harm and report to the regulator. A policy statement confirming final rules is expected later in 2026. More information can be found on page 12.

For firms, this introduces a new set of considerations. Readiness will be critical: firms must be able to assess exposure quickly, interpret regulatory expectations with clarity and mobilise delivery at pace. At the same time, there is an increasing emphasis on defensibility ensuring that methodologies, assumptions and outcomes can withstand scrutiny from regulators and other stakeholders.

These demands come at a time when many firms are also managing cost pressures, evolving business models and ongoing transformation programmes. As a result, remediation is no longer a standalone exercise; it is closely linked to broader themes such as data quality, operational resilience, governance effectiveness and financial planning.

Should a firm need to carry out a redress exercise, whether due to regulatory intervention or not, the following six areas are what management need to be mindful of:

Redress readiness and programme design

At the outset, firms need to assess their exposure, readiness and ability to respond at pace. Firms should evaluate their governance arrangements and decision-making structures, ensuring they are fit for purpose and aligned to delivering the required outcomes to consumers. This includes interpreting regulatory requirements, identifying in-scope populations and developing robust redress methodologies. Firms should also establish programme management offices, define delivery roadmaps and identify critical dependencies across data, operations, legal and finance functions.

Data, modelling and operational delivery

Data sits at the heart of any remediation exercise. Good practice is to understand what available data firms have, where gaps exist and how assumptions can be applied in a controlled and transparent way. They should also develop and undertake validation of redress calculation methodologies and operational workflows, ensuring approaches are scalable, repeatable and defensible. This will enable firms to assess and enhance operational capacity from complaints handling and customer communications to support resourcing and enabling effective management of large volumes and fluctuating demand.

Financial, capital and funding considerations

Redress programmes can have a significant impact on liquidity and financial performance. Firms need to assess these implications through provisioning, forecasting and stress testing under a range of scenarios. Finance functions should embed redress assumptions into financial planning and, where relevant, undertake business health checks and solvency assessments. This helps boards demonstrate that obligations can be met while maintaining overall financial resilience.

Assurance and regulatory confidence

Independent assurance is key to building confidence with boards, regulators and other stakeholders. Firms should undertake assurance over their redress frameworks, governance and controls, to provide robust check and challenge and identify areas for improvement. This includes assurance over methodologies, data, management information, complaints processes and operational controls, helping to evidence robust oversight while supporting timely delivery.

Governance, oversight and stakeholder engagement

Strong governance and clear reporting are essential throughout the remediation lifecycle. Consideration should be given to the design and operation of governance frameworks, escalation routes and MI to ensure effective decision making and oversight. Firms should also prepare for regulatory engagement by strengthening documentation, audit trails and board reporting so they can clearly articulate approaches, assumptions and progress.

Execution, closure and lessons learned

As programmes mature, focus shifts to delivery, closure and embedding improvements. Delivering the final stages of remediation should include quality assurance activities and closure reporting. Helping to capture lessons learned, strengthen conduct risk frameworks and embed enhancements to reduce the likelihood of recurrence.

Grant Thornton's multi-disciplinary team supports firms at every stage of the remediation lifecycle, combining deep sector knowledge with advisory and assurance capabilities.

06

Debt collection:
AI and the race for efficiency

Debt collection: AI and the race for efficiency

The debt collection sector is undergoing a period of transition. Macro-economic conditions are weakening, and although higher consumer default rates and business insolvencies drive the flow of unpaid debts being passed to agencies, recovery rates have slowed due to mounting regulatory pressures and concerns about the quality of arrears portfolios.

At the same time, significant investment in digital transformation and AI has become a prerequisite for attracting capital, particularly as the sector approaches a material refinancing wall in 2028-29.

Over the past 18 months, several major market participants – including Intrum, Lowell and iQera – have undertaken restructuring processes, reflecting a combination of elevated leverage, higher funding costs and ongoing operational pressures.

Reduced supply of NPLs pushes up pricing

Despite increased demand for debt collection services, agencies are facing the impact of a longer-term structural reduction in the supply of non-performing loans (NPLs). According to Octus analysis, annual European NPL transaction volumes declined to €18 billion in 2025, down from €72 billion in 2017. NPL ratios also remain close to historic lows, falling in the UK from approximately 4% in 2011 to around 1% in 2024–25.

This trend reflects the legacy of sustained bank deleveraging following the global financial crisis, rather than a meaningful improvement in underlying borrower quality.

The result is intensified competition for a smaller pool of assets, driving up portfolio pricing and compressing returns. To illustrate, Octus research shows that historically, in stronger market conditions, Intrum achieved returns of around 4.0x its cost of funding. This declined to approximately 2.5x in the period leading up to its restructuring. More recently, market participants (for example, Arrow Global) are operating at closer to 2.0–2.2x, highlighting a marked tightening in portfolio economics relative to historical norms.

Regulatory requirements increase cost of doing business

Alongside these financial pressures, regulatory expectations have increased significantly. Since the introduction of the Consumer Duty in July 2023, and its extension to closed products in July 2024, firms have faced heightened obligations to demonstrate fair customer outcomes.

A growing proportion of customers are financially vulnerable, requiring more detailed affordability assessments and tailored repayment plans. Firms must also evidence fair treatment through comprehensive documentation of customer interactions in line with FCA requirements.

While the volume of overdue accounts has increased, the time required to collect has lengthened, leaving recovery rates broadly flat or declining. These factors are increasing administrative costs, extending collection periods and placing additional strain on cash flow.

Source: Octus - Sector analysis, published 24 February, 2026

AI is emerging as a critical differentiator, as refinancing wall beckons

In this environment, operational efficiency is key, and technology – particularly AI – is emerging as a critical differentiator.

AI-enabled platforms can materially reduce cost-to-collect through automation, while improving customer engagement through more personalised interactions. This combination supports higher conversion rates and allows firms to bid more competitively for portfolios while protecting margins.

However, the ability to invest in these capabilities is varied. Smaller firms may lack the resources required to embed AI effectively, but businesses that remain reliant on labour-intensive call centre models will continue to face structurally higher unit costs.

AI capability is therefore likely to become a key point of differentiation across the market, with this divide expected to widen as companies approach refinancing. The years 2028 and 2029 will be critical for the sector – while EUR 1.3 billion of debt matures in 2027, this increases to EUR 2.4 billion in 2028 and EUR 5.1 billion in 2029.

Firms with limited digital capability and higher cost bases are likely to encounter weaker lender appetite, higher funding costs and more restrictive covenant structures. In contrast, those able to demonstrate embedded AI-driven strategies, robust regulatory compliance and scalable operations should benefit from stronger access to capital and greater refinancing flexibility.

The window to implement these technological improvements is relatively narrow. Firms that delay risk approaching future refinancing events from a less competitive position.

Diversifying revenue streams

In a low-margin environment, a diversified revenue stream is increasingly important. Several large operators have adopted multi-line business models combining servicing, investment and fund management. Partnerships with third-party capital providers allow participation in portfolio growth without increasing leverage.

Intrum's partnership model with Cerberus Capital Management is one example, while Arrow Global positions itself as an integrated asset manager, combining debt purchasing, servicing and fund management. These approaches can provide more stable and predictable cash flows and enhance resilience in fluctuating market conditions.

Source: Octus - Sector analysis, published 24 February, 2026

Reliance on servicers

While the sector continues to rely heavily on corporate servicing operators, there is growing uncertainty over how many assets remain with servicers delivering minimal returns. These portfolios are often managed on a high-volume, whole-portfolio basis, which may be limiting performance.

A more effective approach could involve separating underperforming assets for faster resolution and increasing the supply of volumes available for sale in the NPL market. This could help replenish the market, improve pricing, and drive revenue, particularly when supported by technology-driven measures that accelerate performance.

What should firms be doing?

At a time when significant investment in digital transformation is required and market conditions are tightening, the importance of regular, granular cash flow forecasting cannot be over-emphasised.

Management needs to ensure that the flow of information from their primary servicers in all the jurisdictions they operate is reliable, timely and efficient. Managers at all levels need to be empowered to raise concerns if they foresee problems. We know from our recent experience in the sector that internal teams are often resource constrained, information flow is not always timely, and this impacts the ability of central teams to accurately assess liquidity and take prompt action when needed.

As always, preparation for refinancing should begin well in advance. Firms need to assess their full range of options, particularly in scenarios where new debt may come with more onerous pricing or covenant requirements.

The debt collection sector remains resilient and strategically important, but the industry is clearly evolving. Businesses that can successfully invest early in digital transformation, diversify earnings streams and strengthen liquidity management should remain well positioned to access capital and deliver sustainable long-term performance. Those that fail to adapt may find the combination of lower portfolio returns, regulatory scrutiny and more selective credit markets increasingly difficult to navigate.

07

BNPL:

Final rules confirmed

BNPL: Final rules confirmed

Buy now pay later lenders are subject to FCA regulation from 15 July 2026.

The FCA recognises that buy now pay later (BNPL) lending, also known as deferred payment credit, offers a valuable service to consumers. However, with concerns over affordability and contractual information, coupled with significant market growth, the BNPL sector is moving under the FCA's regulatory perimeter.

Building on CP25/23, published in July 2025, the FCA has confirmed its final rules. While the changes aren't extensive, there are a few important points to note – which will impact key processes for lenders and the information they provide to consumers.

Changes to key information

Perhaps the biggest change in the BNPL final rules is around information requirements. As proposed in the consultation, lenders will need to highlight key information to support consumer decision making. However, the FCA has notably moved the following to the additional product information section:

- Details on rights to withdraw or cancel the agreement, finish payments ahead of time or complain to the financial ombudsman
- An explanation of what continuous payment authority is and how it works

The FCA has amended the approach following industry feedback that too much key information could overwhelm consumers, noting that these facts are less likely to inform decision making. Instead, the key product information section must highlight that consumers can read more on their rights under additional product information.

In line with Consumer Duty, the FCA reminds firms of their obligations regarding consumer understanding. Product information requirements are non-prescriptive in terms of format, but they should be easy to read and with clarity over key points, such as: amount of credit; number, frequency and amount of payments; and the cash price of the goods or services.

Missed payments

The FCA has made some clarifications and minor amendments to consumer communications requirements following a missed payment.

Firms must get in touch with consumers as soon as possible, but the lender does not need to notify a guarantor (if applicable).

Lenders must provide adequate information on adverse consequences due to a missed payment and any additional consequences the firm believes could be likely. Firms are not expected to list every potential adverse consequence.

Before terminating (or enforcing terms of) an agreement, BNPL lenders must signpost free and impartial money guidance and debt advice to support good consumer outcomes.

Creditworthiness

The FCA will apply the creditworthiness rules as stated in CONC 5.2A to BNPL lenders, including for values under £50. It reiterates that these non-prescriptive rules offer firms greater flexibility, allowing firms to apply their own judgement to assess whether there's a material affordability risk. Key considerations may include credit history, lending data or use of headroom across credit lines, among others.

For many consumer credit lenders that fell under FCA regulation from 2014, implementing an approach to affordability checks that met the regulator's expectations proved to be a significant challenge. This led to widespread remediation programmes, which in some instances forced lenders to exit the market. High volumes of complaints followed, and are ongoing, with complaint management activity targeting various different lending products across the market. Getting affordability checks right will be essential for both BNPL lenders and their customers.

Complaints handling and dispute management

The FCA has confirmed that the Financial Ombudsman Service's (FOS) compulsory jurisdiction will be extended to BNPL activities. However, in a change to the proposed rules, it won't extend the voluntary jurisdiction as the FOS expects few instances where it would apply.

In keeping with the initial consultation, and to maintain proportionality, firms in the temporary permissions regime (TPR) don't need to report on complaints until they're fully authorised. However, these must be included in the first complaints return post-authorisation.

As consulted on, the FCA is not extending the Financial Services Compensation Scheme, as it would be of limited benefit to BNPL customers.

Next steps

Regulation Day is 15 July 2026. Any agreements taken out prior to regulation day will remain unregulated. As such, firms that have not been authorised will be able to continue to service pre-existing agreements, but cannot initiate any new ones. BNPL lenders seeking authorisation should:

- **Carry out a gap analysis of current practices and FCA expectations**
- **Update current governance and oversight processes**
- **Review data collection, management information and reporting procedures**
- **Design and implement key control frameworks to support FCA requirements and embed Consumer Duty**

08

About Grant Thornton UK

About Grant Thornton UK

The UK member firms of Grant Thornton are part of a global network that employs over 76,000 people in 150 countries. We combine global scale with local insight and understanding to give you the assurance, tax, and advisory services you need to realise your ambitions.

23
UK offices

280+
Partners

5,000
UK employees

£787m
Turnover, FYE 2025

56%
FTSE 100 are non-audit clients

Grant Thornton in Financial Services Restructuring

£808m

In 2025 our experienced team advised on 42 financial services transactions totalling £808 million cumulative value, including five transactions with cross-border involvement and 26 transactions involving private equity

$5bn

Our asset recovery team has recovered $5 billion of assets in the previous 10 years from over 65 countries

8.8bn

The cumulative value of debt restructured in the UK in 2025

Awards

ACQ5 Global Awards 2025 – United Kingdom – IRF Practitioner of the Year, Chris Laverty, Grant Thornton UK

ACQ5 Global Awards 2025 – Europe – Insolvency Firm of the Year, Grant Thornton UK

ACQ Five Global Awards 2024 – UK – Restructuring & Turnaround Firm of the Year, Grant Thornton UK LLP

ACQ5 Global Awards 2025 – United Kingdom – Asset Recovery Firm of the Year, Grant Thornton UK

Lexology Index – Recommended – Restructuring & Insolvency 2025

ACQ Five Global Awards 2024 – UK – Asset Recovery Firm of the Year, Grant Thornton UK LLP

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2024 Reorg League Tables – Top EMEA Mid Market Restructuring Advisor

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