



Guernsey Financial  
Services Commission

## Motor Trade Thematic

---

*Thematic Review – 2025*



# 1 Contents

<b>2</b>	<b>Glossary of Terms</b> .....	<b>3</b>
<b>3</b>	<b>Executive Summary</b> .....	<b>4</b>
3.1	Key findings .....	4
<b>4</b>	<b>Background</b> .....	<b>6</b>
4.1	What is a thematic review?.....	6
4.2	What is “motor finance”? .....	6
4.3	How are motor finance firms licensed? .....	6
4.4	Who are the key market participants? .....	7
4.5	What sorts of rules do motor finance lenders and brokers have to follow?.....	7
4.6	How long has the Commission supervised motor finance?.....	8
4.7	Does the Commission license the entire Guernsey motor finance market? .....	8
<b>5</b>	<b>Scope</b> .....	<b>9</b>
<b>6</b>	<b>Approach</b> .....	<b>10</b>
<b>7</b>	<b>Industry overview</b> .....	<b>11</b>
7.1	Product types .....	11
7.2	Intermediated (or ‘brokered’) loans.....	14
<b>8</b>	<b>Analysis</b> .....	<b>15</b>
8.1	Treating customers fairly and customer rights .....	15
8.2	Pricing, suitability and collections.....	21
8.3	Marketing / promotions / advertising .....	25
8.4	Commissions and rewards .....	28
8.5	Documentation .....	32
<b>9</b>	<b>Conclusions</b> .....	<b>38</b>
9.1	Findings .....	38
9.2	Supervisory actions .....	38
9.3	Thank you.....	38
	<b>Appendix 1 – Description of Specialist Terms</b> .....	<b>39</b>

## 2 Glossary of Terms

---

<b>Term</b>	<b>Description</b>
<b>AMT</b>	Appointed motor trader (further defined on page 8)
<b>APR</b>	Annual Percentage Rate (further defined on page 5)
<b>Bailiwick</b>	Bailiwick of Guernsey
<b>DIC</b>	Difference in charges (further defined on page 29)
<b>FLA</b>	Finance & Leasing Association (further defined on page 11)
<b>the Commission</b>	The Guernsey Financial Services Commission
<b>GMFV</b>	Guaranteed minimum future value (further defined on page 12)
<b>HP</b>	Hire purchase (further defined on page 12)
<b>the Law</b>	<i>The Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022</i>
<b>LCF</b>	Lending, Credit and Finance (further defined on page 6)
<b>PCP</b>	Personal contract purchase (further defined on page 12)
<b>the Rules</b>	<i>The Lending, Credit and Finance Rules and Guidance, 2023</i>
<b>SAF</b>	Specialist Automotive Finance (further defined on page 11)
<b>T&amp;Cs</b>	Terms and conditions (further defined on page 34)
<b>TCF</b>	Treating customers fairly (further defined on page 15)
<b>ToB</b>	Terms of Business (further defined on page 28)

For a list of specialist terms used, and descriptions of what they mean (in the context of this report), please see [Appendix I](#).

## 3 Executive Summary

---

This is the first thematic review that the Commission has carried out to assess the conduct of firms licensed under The Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 (“the Law”), since the regime came into effect in July 2023.

The aims of this thematic review were to:

- Learn more about Guernsey’s motor finance industry;
- Assess the extent to which licensees operating within the motor finance industry are complying with the new regulatory regime; and
- Consider whether Lending, Credit and Finance (“LCF”) licensees are treating motor finance customers fairly.

The findings of this thematic review are based on the responses to an industry questionnaire and public survey launched in 2025, together with a number of site visits to licensees. The findings indicate that, generally, customers in the Bailiwick are treated fairly, although the sector is still new to the regulatory landscape and improvements can be made in a range of areas.

### 3.1 Key findings

#### **A) Generally, firms are treating customers fairly**

Firms are complying with rules that give customers rights when taking out motor finance agreements. This includes, for example, handling complaints about financial services properly, and allowing customers to cancel their finance agreement if they find another way to pay for the vehicle. Nevertheless, firms should ensure that customers receive a clear explanation of all key terms, and should document all relevant policies and procedures.

#### **B) Firms no longer use discretionary commissions arrangements, although improvements must be made to commissions disclosure processes**

Discretionary commissions arrangements were a type of commission structure used in motor finance whereby the higher the interest rate the motor trader set, the more commission they earned from the lender. These practices were banned with the introduction of the Law, and there is no evidence that this method of calculating commissions continues to be used.

However, firms are often failing to comply with some aspects of the rules around disclosure of commissions to customers (both commissions paid by lenders to brokers, and by brokers to individual sales staff). Further work is needed to bring these practices up to the required standard.

#### **C) Firms take into account the individual circumstances of those customers in arrears and consider a range of appropriate forbearance options**

Bailiwick rates of arrears and defaults are low. In cases where customers report experiencing financial difficulties, firms endeavour to achieve the best outcome for their customers by assessing these on a case-by-case basis and offering a range of suitable options.

**D) Firms are generally providing their customers with the loan APR, in accordance with the Rules**

**APR**, which stands for **Annual Percentage Rate**, is a standardised way of expressing the cost of borrowing over a year, including interest and fees, and allows customers to accurately compare the total costs of a particular loan across multiple providers. The Rules require that customers be provided with the APR before entering into a loan agreement.

On the whole, firms are communicating this information to their customers in compliance with the Rules, but we would remind firms that it should be communicated in all cases (including when providing customers with individual finance quotations). Individual cases where APR was not communicated have been raised with firms as appropriate.

**E) Motor finance advertising is generally clear, but compliance with the Rules is inconsistent**

Firms tend not to rely on advertising to promote motor finance. Overall, where used, motor finance is advertised clearly and transparently and there do not appear to be any systemic issues in respect of misleading advertising.

The Commission has engaged with a small minority of firms which had not adhered to the rules and these firms should consider the rules around advertising more closely in future.

**F) The information provided by firms to customers could be improved, to ensure that it is complete and (where relevant) accessible**

Lenders should ensure that they use language that is appropriate for their customers in all product materials. Terms and conditions and other documentation provided to customers should be clear, use plain terms and not be misleading, and should be easy for customers to read and understand.

**G) The quality of customer records held by motor traders could be enhanced**

In many cases, motor traders held limited customer records. Motor traders should remember that they must retain records of all motor finance agreements brokered on behalf of their customers. At a minimum, we would expect that finance proposal forms provided to lenders, pre-agreement loan information provided to a customer, and relevant customer correspondence, should be held on file. Documents should be held on a searchable, centralised system that allows for the provision of files and data to the Commission, as and when required.

As a baseline, motor traders should hold customer records for the duration of a regulated agreement, and for a reasonable period afterwards, to ensure that important information can be accessed if needed.

## 4 Background

---

### 4.1 What is a thematic review?

A thematic review is a tool used by the Commission to assess a group of firms operating within the same sector. This tool is used to understand how firms are meeting their regulatory responsibilities in relation to a particular issue or product type.

As part of a thematic review, the Commission collects data and documentation from participating firms to analyse. Often, thematic reviews will also include site visits to a selection of firms, during which interviews and file reviews are carried out. Sometimes, as was done for this thematic review, this is supplemented with additional sources – such as public surveys and publicly-available information – to build a fuller picture. This helps to improve our understanding of common practices, to identify potential risks and highlight areas of strength across a sector.

Additionally, thematic reviews enable us to share observations with industry, including examples of good practice and areas for improvement, whilst facilitating engagement with a broad range of regulated firms.

### 4.2 What is “motor finance”?

“Motor finance” refers to the different types of loan and credit agreements that are available to help spread the cost of buying a motor vehicle (such as a car, motorbike or scooter).

### 4.3 How are motor finance firms licensed?

Motor finance is regulated in the Bailiwick under the LCF regime, which is overseen by the Commission.

A key aim of the LCF regime is to protect individual customers who use loans or credit to buy goods and services for personal use (which includes motor financing). Under the regime, these types of financial services are known as “**consumer credit**”.

The regime is governed by two core pieces of legislation:

- *The Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022* (the “Law”); and
- *The Lending, Credit and Finance Rules and Guidance, 2023* (the “Rules”).<sup>1</sup>

While the Law and Rules cover a broad range of financial services, this thematic review focused on activities regulated under “**Part II**” of the Law, which sets out the framework for the regulation of consumer credit activities.

---

<sup>1</sup> Please find copies of [the Law](#) and [the Rules](#) linked on the [Legislation and Guidance](#) page of the Commission’s website.

There are two main types of consumer credit activities:

- **Providing credit** (i.e., lending); and
- Providing **services ancillary to credit** (which includes broking, introducing and intermediating loans).

Generally, firms carrying out either of these activities within the Bailiwick need to be licensed under Part II of the Law and must comply with the relevant Rules.

#### 4.4 Who are the key market participants?

**Lenders:** These include some high-street banks but more commonly refer to specialist finance houses. They are licensed as credit providers.

**Brokers:** Typically garages or motor traders who, when selling vehicles, act as an intermediary between the customer and the lender, offering their customers vehicle financing through a lender or a choice of lenders. It also includes third-party finance brokers who introduce borrowers to lenders, but who do not solely deal with vehicle financing. These firms are licensed as ancillary service providers.

#### 4.5 What sorts of rules do motor finance lenders and brokers have to follow?

Licensees must follow various consumer credit rules. Some of the most important requirements include:

- Providing key information to customers in advance of entering into regulated agreements, such as clear statements of monthly payments, the total cost of credit and interest rates;
- Quoting interest rates in a comparable way, by using standardised calculations for annual percentage rates (“APR”);
- Prohibition of the “difference in charges” methodology for paying commissions to brokers;
- Disclosing all commission arrangements to customers;
- Carrying out checks to ensure that a particular product is suitable for a customer, and that repayment of the loan is affordable;
- Allowing customers a 14-day cooling-off period, during which they can exit the finance agreement to source financing elsewhere;
- Charging penalty fees for early settlement in line with standardised, maximum thresholds;
- Offering support (or “forbearance”) to customers experiencing repayment difficulties;
- Handling complaints in a fair and timely manner; and
- Taking account of customer vulnerabilities and providing additional support where appropriate.

Additionally, all firms are expected to act in line with overarching principles relating to fairness, integrity, and market practice.<sup>2</sup>

---

<sup>2</sup> The Principles of Conduct of Finance Business are set out in Schedule 1 to the [LCF Rules and Guidance](#).

## 4.6 How long has the Commission supervised motor finance?

Licensing under the LCF Law began on 1st July 2023, when the Law came into full effect. Since that date, we have supervised the motor finance industry, and firms have been required to follow specific rules around how they treat their motor finance customers.

The Law and Rules apply to all motor finance activity that has taken place **since 1st July 2023**, which means that any actions taken by lenders after that date should have been handled in line with the requirements set out within the LCF regime.

However, we cannot consider historic issues relating to actions that occurred before licensing began.

## 4.7 Does the Commission license the entire Guernsey motor finance market?

**No** – some firms are allowed to operate within the Guernsey motor finance market without holding a licence. This includes:

- **Appointed motor traders (“AMTs”)**

These are motor traders who offer and promote motor finance agreements provided by a single licensed lender. The lender is required to take on responsibility for an AMT’s conduct and compliance with the Rules.<sup>3</sup> AMTs are restricted to:

- Broking a maximum of £250k worth of loans per year.
- Arranging simple loan arrangements only - they are not permitted to arrange personal contract purchases (“PCP”) or agreements with balloon payments.
- There must be a written agreement in place between the lender and AMT, and the lender is required to provide the AMT with appropriate training and supervision.

- **Equivalent firms**

Firms which are not based in the Bailiwick can provide and arrange motor finance loans here without a Commission-issued licence, if they are authorised by the Financial Conduct Authority to provide those services in the United Kingdom. These firms are considered to be ‘equivalent firms’.

- **Financing for commercial vehicles**

Lenders and brokers who only offer loans for the purchase of commercial vehicles (e.g., for taxis, farming equipment or vans/trucks used by tradespeople) can operate in the Bailiwick without a consumer credit licence. Commercial loans are not consumer credit agreements and would not be regulated under Part II of the Law.<sup>4</sup>

---

<sup>3</sup> Rules regarding AMT relationships are set out in Part 7 of the [LCF Rules and Guidance](#).

<sup>4</sup> Lenders providing finance for these types of vehicles may need to be licensed under another section of the LCF Law (Part III), although they would not need to follow the same volume of consumer protection rules.

- **Firms undertaking basic referrals**

If a motor trader simply provides contact details for a licensed lender or broker, with no further involvement in the arrangement, then no licence is required (even if the motor trader receives a commission for the referral).

During this thematic review, we only considered the activities of licensed firms. As such, all of the above categories of firm sat outside the scope of this thematic review.

## **5 Scope**

---

This thematic review focused on motor finance products and services offered in the Bailiwick and only considered customer experiences from 1st July 2023 onwards.

Only personal (non-commercial) vehicle purchases were included in the thematic review's scope, and the actions or conduct of any exempted or unlicensed firms were not considered.

## 6 Approach

---

This thematic review consisted of 5 stages:

### 1. Initial firm identification and evaluation

This involved reviewing the business plans and websites of all Part II LCF consumer credit licensees, to identify any firms potentially operating within the motor finance space.

### 2. Industry questionnaires

Questionnaires were sent to 8 licensed brokers (including garages/motor traders) and 13 licensed lenders, which was approximately 50% of all Part II-licensed LCF firms. Every firm responded to its questionnaire.

The questionnaire captured the volume, value and types of motor finance conducted, along with copies of documentation such as policies, procedures and internal logs.

### 3. Public survey

A survey was launched, asking members of the public to share their personal experiences of motor finance. 84 responses were received.

### 4. Desk-based review

A desk-based review of the questionnaire and survey results was undertaken, which included checking publicly available information and supervisory records. This information was used to inform discussions during the site visits.

### 5. Site visits

Site visits to a selection of firms were undertaken. Each visit lasted one day, and generally included a review of 10 customer files, as well as the following meetings:

<b>Brokers</b> ( <i>including garages/motor traders</i> )	<b>Lenders</b>
Board of directors	Board of directors
Senior management	Senior management
Transaction managers	Sales / underwriting staff
Vehicle sales staff	Collections / arrears staff
Forecourt / showroom walkthrough	

## 7 Industry overview

This section provides an overview of the Bailiwick’s motor finance industry.

### 7.1 Product types

Of the 13 lenders who were sent the questionnaire, 6 were banks and 7 were non-bank lenders (otherwise known as “finance houses” or “loan shops”). They were asked about the types of motor finance products they offered to customers, and this is what they reported:

- **Banks:** 4 of the 6 surveyed banks provide unsecured personal loans, 3 of which classified this product as being for the purchase of motor vehicles.
- **Non-bank lenders:** All (7) offered hire purchase (“HP”) agreements, whilst only 3 offered personal contract purchase (“PCP”) agreements. One also offered lease purchase agreements.
- **Overall:** Personal loans were the mostly widely available product, closely followed by HP. No firms offered conditional sale arrangements.

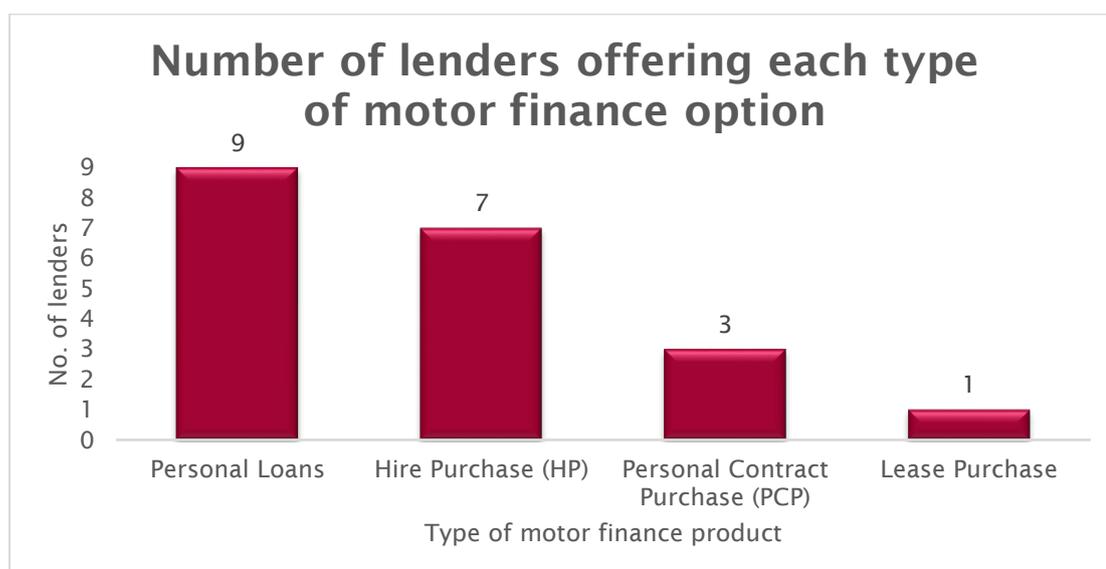


Figure 1 – bar chart representing the number of Part II credit providers offering each motor finance product by type, as at 30 June 2025.

The UK’s Finance & Leasing Association<sup>5</sup> has produced easy-to-understand factsheets under its SAF Essentials<sup>6</sup> framework to help to illustrate how different motor finance products work. Some of these diagrams have been copied across over the next few pages to help describe these product types in more detail.

<sup>5</sup> [The Finance and Leasing Association](#) (or “FLA”) is a significant UK trade body for the asset, consumer, and motor finance sectors.

<sup>6</sup> [SAF](#) (Specialist Automotive Finance) training materials are produced by the FLA to offer online, knowledge-based motor finance learning.

## Hire Purchase (“HP”)

A loan agreement where the **customer hires the vehicle from a lender until the loan is fully repaid**. The customer repays the lender monthly.

At the end of the agreement, the customer can take ownership by paying a small “option to purchase” fee (usually £10). The loan is secured, which means that if the customer misses payments, the lender can repossess their vehicle.

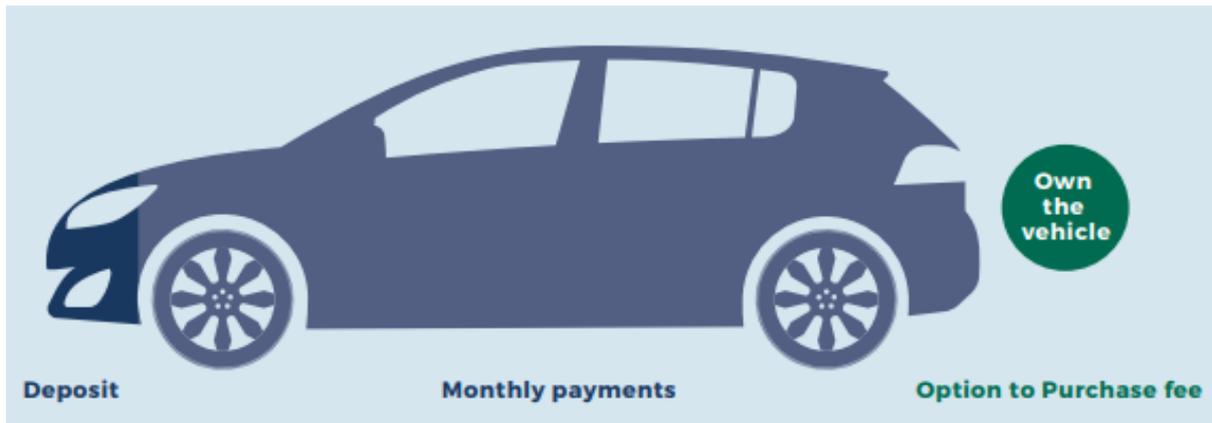


Figure 2 – SAF Essentials diagram – how hire purchase / HP works.<sup>7</sup>

## Personal Contract Purchase (“PCP”)

Similar to an HP agreement, but with a few differences:

- A guaranteed minimum future value (or “GMFV”) is set for the vehicle. This is an estimate of what the vehicle will be worth at the end of the loan agreement.
- At the end of the loan term, a customer has the option to either:
  - Keep the vehicle, by paying a one-off “balloon payment” equal to the GMFV;
  - “Part-exchange” the vehicle for another; or
  - Hand the vehicle back to the lender with no further payments and walk away.
- There are often restrictions as to how a customer can use the vehicle during the loan term. For example, lenders may impose a maximum annual mileage restriction.
- **A significant portion of a PCP loan is not payable until the end of the agreement** (the balloon payment), and so a customer’s monthly repayments are usually lower than for an HP agreement. However, this means that if a customer does not wish to trade in or hand back their vehicle, then they will need to find a different way to pay off the balloon payment owed. Sometimes, customers take out a further loan agreement to help pay this off.

A diagram of a typical PCP agreement can be found below.

---

<sup>7</sup> [SAF Essentials Factsheet – Hire Purchase](#)

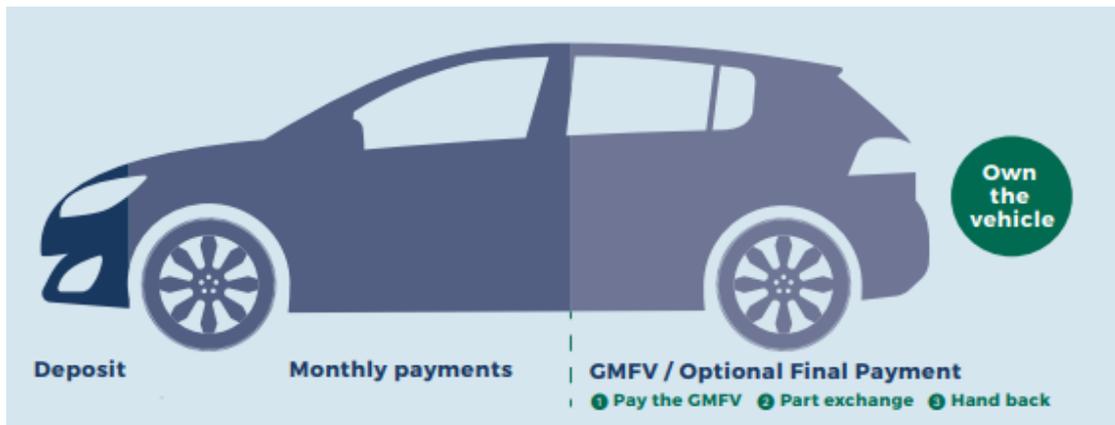


Figure 3 – SAF Essentials diagram – how personal contract purchase / PCP works.<sup>8</sup>

### **HP with balloon**

Similar to a PCP agreement, although the final balloon payment (or “residual instalment”) is not a GMFV, and so the **final trade-in value of the vehicle is not guaranteed**. This means that if a customer chooses to part-exchange or hand their vehicle back at the end of the agreement, then the vehicle’s value will be based on the market conditions at that time (rather than a pre-agreed amount).

For HP with balloon, a customer takes on more risk compared to a PCP because the value of their vehicle could depreciate below the amount of the balloon payment owed.

### **Personal Loan**

This is an unsecured loan agreement. Personal loans are quite different to the other types of motor finance options available and can be used for a wider range of purposes (e.g., home renovations, holidays, etc). In Guernsey, these loans are usually arranged directly with a lender or through a third-party finance broker, rather than via the motor trader.

When using a personal loan to purchase a vehicle, the customer owns the vehicle from the start. The customer repays the loan in monthly instalments, and no final balloon payments are owed at the end.

Given that a personal loan is unsecured, the lender takes on more risk, meaning that they will sometimes charge more for this type of agreement.



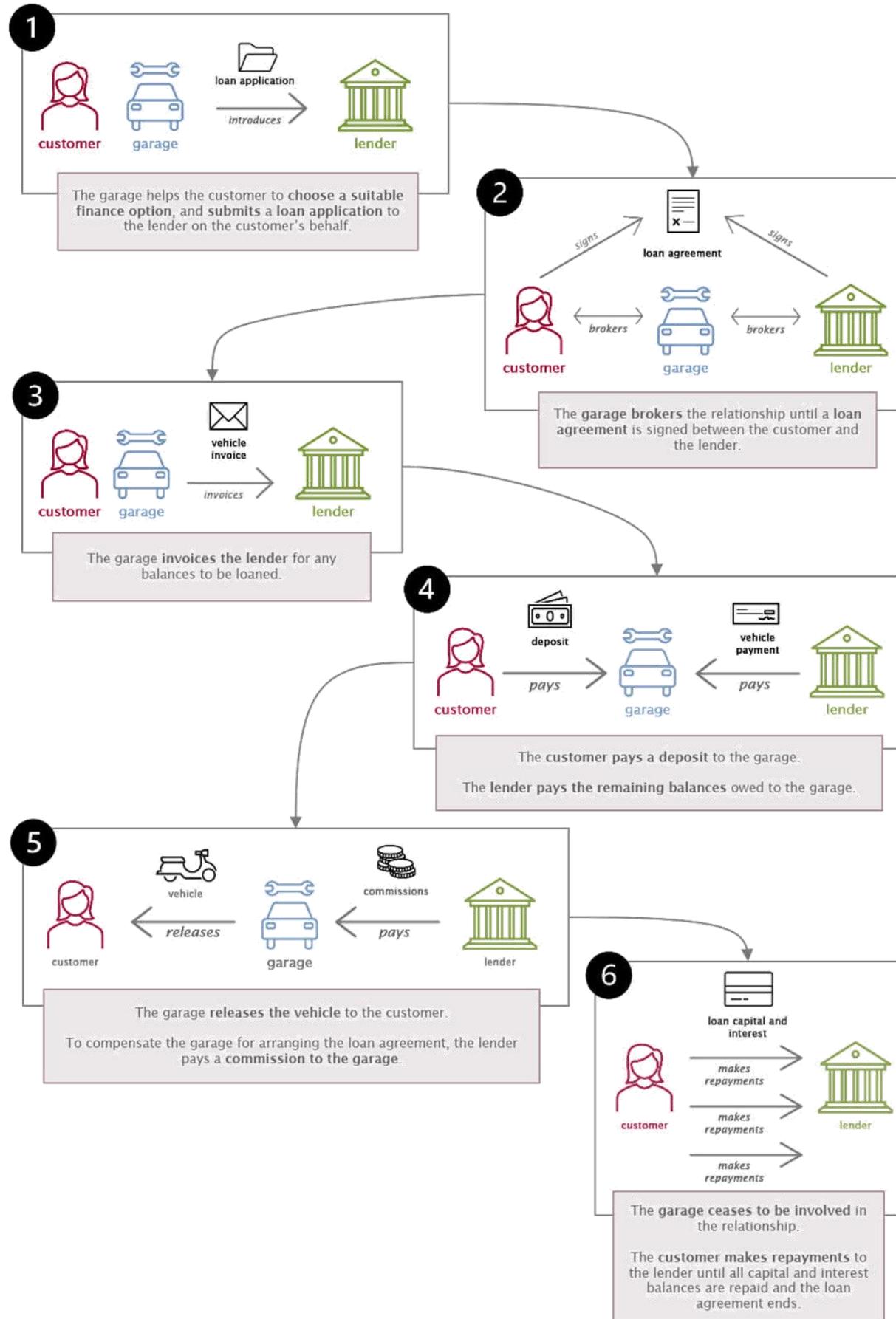
Figure 4 - how a personal loan works (when purchasing a vehicle).<sup>9</sup>

<sup>8</sup> [SAF Essentials Factsheet – Personal Contract Purchase](#)

<sup>9</sup> [SAF Essentials Factsheet – Personal Loan](#)

## 7.2 Intermediated (or ‘brokered’) loans

The illustration below shows the typical interactions between a customer, a garage/motor trader and a lender, in cases where the garage acts as broker for the finance arrangement.



## 8 Analysis

---

In this section we outline our findings from the thematic review, broken down into five main sections:

1. Treating customers fairly and customer rights
2. Pricing, suitability and collections
3. Marketing / promotions / advertising
4. Commissions and rewards
5. Documentation

Where deficiencies have been identified, the Commission will work with firms to ensure that improvements are made.

### 8.1 Treating customers fairly and customer rights

Licensed firms are required to treat their customers fairly. This includes providing adequate information to the customer before they enter into a credit agreement, which is communicated clearly and in a way that is not misleading to the customer.

Licensed firms are also required to undertake responsible lending. This includes permitting customers to repay early without excessive or punitive fees, and ensuring that finance sales practices do not pressure staff to sell finance in ways where customers are pushed towards unnecessary or inappropriate borrowing.

Where customers are dissatisfied with any aspect of the finance arrangement, the firm must have a formal complaints-handling procedure for logging, investigating and resolving complaints.

#### 8.1.1 Cooling-off periods

Lenders must allow customers a **14-day cooling-off period**. This means that, within the first two weeks, a customer can choose to cancel their motor finance agreement if they can find an alternative way to pay for the vehicle purchased (for example, by deciding to pay for the vehicle upfront, or if they find cheaper motor finance elsewhere).

In respect of the lenders, all staff spoken to were able to demonstrate an understanding of the rules around the cooling-off period, although many firms reported that customers rarely requested to use it in practice.

Few firms provided specific, written policies and procedures documenting their approach to cooling-off periods. We recommend that firms ensure they have formal policies and procedures in place, which can be accessed by staff when required.

Additionally, we would remind individuals that they have the right to use the cooling-off period should they change their mind after having entered into a motor finance agreement. Please note, the cooling-off period is limited to the cancellation of the motor finance agreement and does not entitle a customer to return their vehicle.

### 8.1.2 Early repayments / settlements

Occasionally, customers may wish to settle or repay a motor finance agreement (in full or in part) before the term of their loan ends. *For example, a customer with a 5-year HP agreement might wish to pay off their loan 3 years into their agreement.*

When a lender underwrites a loan, they use the loan's term to calculate how much interest would be earned from the agreement. However, when a loan is settled early, the lender earns less interest than they had originally expected, because they have lent the money for less time. As such, lenders usually impose penalty fees against early loan settlements or early repayments, to recoup some of the lost interest income.

Under the Rules, lenders are allowed to charge early settlement fees/charges, however these must be calculated in line with certain limits. For motor finance loans, these are capped as follows:

<b>Length of time remaining:</b>	<b>Maximum early settlement fee:</b>
Less than 12 months	1 months' worth of interest payments
12 months or more	2 months' worth of interest payments

All lenders were allowing customers to settle early, however we identified some instances where the early settlement rules were not applied correctly. The Commission has taken supervisory action to ensure that early repayment charges are applied correctly in all instances.

### 8.1.3 Information provided to customers

Several motor traders said that there had been notable improvements in customer understanding of finance products since the introduction of the LCF regime. Motor traders commented that far fewer customers were expressing surprise and confusion about owing balloon payments at the end of their repayment terms, which indicates that licensees are taking more care to ensure their customers understand the nature and repayment structure of agreements.

Some areas of concern remain, particularly regarding the clarity of information provided to customers. One such area was the explanation of the cooling-off period. Whilst many brokers rely on references within terms and conditions or similar documentation, this is a key customer right that should be clearly and proactively communicated to the customer to ensure that they can make informed decisions.



#### **GOOD PRACTICE**

Some motor traders made a point of verbally highlighting key aspects of the finance agreement to customers during the final stages of the finance sales process. Whilst this helps to ensure transparency, best practice would be to formally record these discussions, for example, in a meeting note or checklist, saved in a customer file or through provision of a 'key facts' handout. Although this information may be included within the terms and conditions of the agreement, explicitly referencing the cooling-off period would enable customers to locate and understand their rights should they wish to cancel.

The charts below show data drawn from responses to the public survey. They reflect the information that customers recall being made aware of during the finance sales process. Whereas some details, such as ‘length of contract’, ‘APR’ and ‘ending the contract early’ should be communicated in all instances, certain elements, such as ‘mileage allowances and fees’, ‘GMFV’ and ‘balloon payments’, would not be applicable to all contracts.

While most survey respondents reported having been informed about key contract terms, the results highlight that some aspects of the firms’ communication in respect of loan terms could potentially be improved.

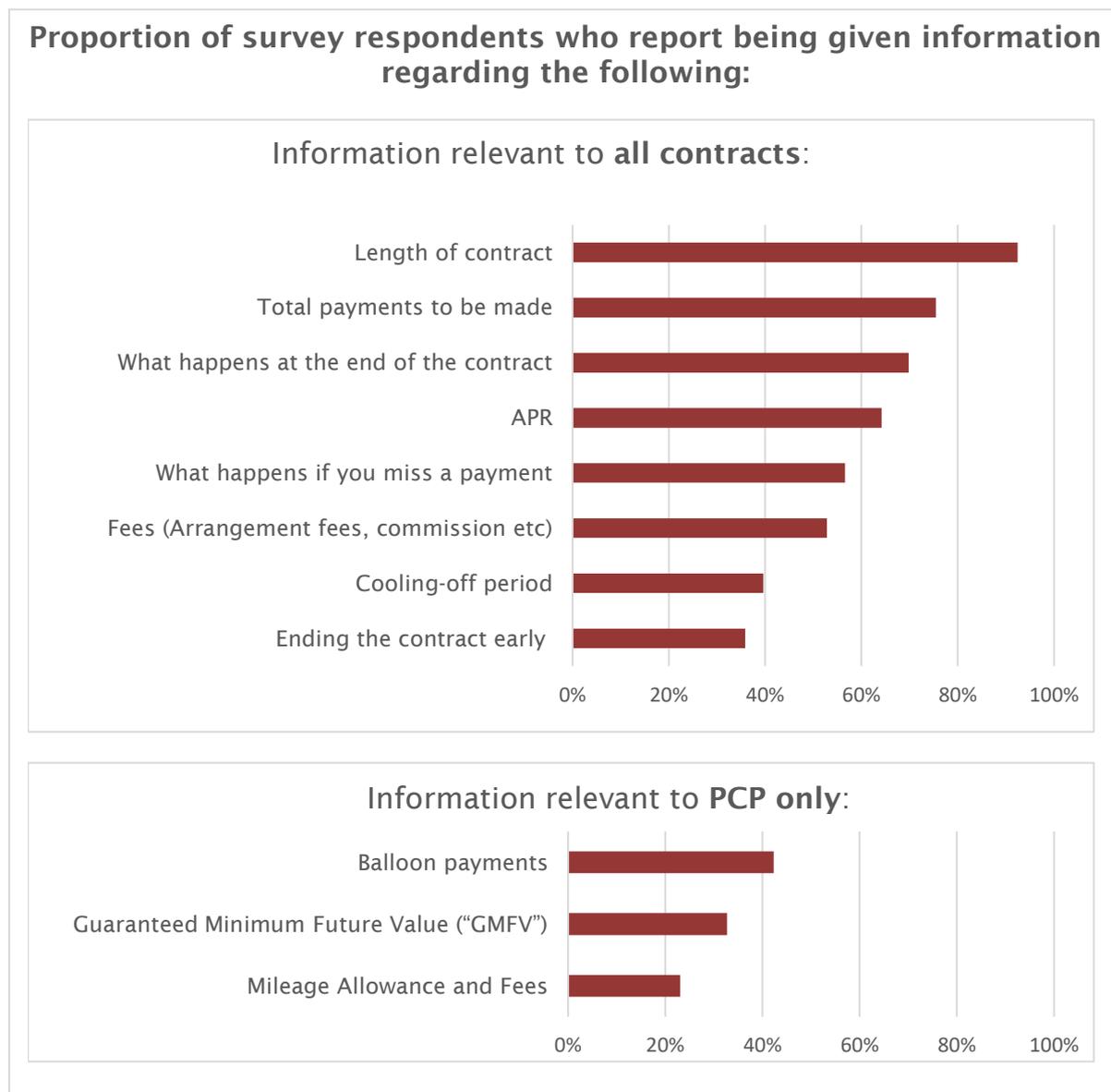


Figure 5 – Results from survey showing breakdown of information respondents recall being given by the firm.<sup>10</sup>

<sup>10</sup> Data reflects proportion of all survey respondents. Information relevant to balloon payments, GMFV and mileage allowances/fees would only be expected where customers considered taking out a PCP agreement.



## AREA TO CONSIDER

---

Whilst the results of the survey only indicated what customers could recall being informed about at the time they entered into their loan agreement, we are using this as an opportunity to remind firms of their requirement to highlight all relevant aspects of the terms to customers. By doing so, firms reduce the risk of customer misunderstanding later.

### 8.1.4 Complaints

Firms must handle complaints in a fair, proper and timely manner, in line with written policies and procedures. They must also report the number of complaints received each year to us and provide details of any significant complaints as they arise.

Although the number of complaints reported by the lenders was higher than those reported by the brokers, numbers were generally low.

Most complaints related to issues concerning the quality of the vehicle itself, rather than the finance agreement. These matters fall under the remit of the Trading Standards Service and are outside of the Commission's scope. Therefore, we cannot comment on whether such complaints were substantiated.



## AREA TO CONSIDER

---

There were inconsistencies in how complaints were recorded by firms, particularly amongst the brokers. In many cases, brokers were not logging complaints that they considered unsubstantiated or unjustified. Firms are reminded that they are required to maintain a log of all complaints, as well as their current status. Complaints are described as **any** expressions of dissatisfaction.

A number of complaints were brought to our attention, including via the public survey. Many such complainants did not provide their consent for these to be raised with the firms involved, and their wishes were respected. Nevertheless, the underlying issues, such as incorrectly applied cancellation fees, high-pressure finance sales tactics, and failure to provide invoices for privately arranged finance agreements, have all been addressed within this thematic review.

Customers are reminded that if they have a complaint regarding a motor finance agreement, they should raise this directly with the firm(s) in the first instance. Depending on the nature of the issue, this is likely to be the lender and motor trader/broker, or if finance was arranged directly by the individual, this would be the lender only. If the customer remains dissatisfied with the outcome of that process, or if more than three months has elapsed since they brought their complaint to the firm, he or she may wish to consider escalating the matter to the Channel Islands Financial Ombudsman ("CIFO"). More information regarding CIFO's role in respect of complaints resolution can be found on its website, [www.ci-fo.org](http://www.ci-fo.org).

### 8.1.5 Customer vulnerability

Firms are required to take extra care when dealing with vulnerable customers and those over the age of 75. This involves considering factors such as the availability and accessibility of products or whether they require additional assistance to understand the agreement.

All lenders had policies in place for dealing with vulnerable customers, and staff were generally aware of their contents. Most often, firms identified customers with vulnerable characteristics when managing cases of arrears.

Firms made appropriate adjustments for customers with either language barriers or sensory impairments, for example, by involving family members in discussions. These were generally recorded in the lenders' systems.

In contrast, a number of motor traders were found to have both limited documentation and a lack of formal training on the subject of customer vulnerability. That said, firms were generally mindful of these issues and were able to describe appropriate adjustments they had previously put in place for individual customers, albeit on an informal basis. It did, however, highlight a lack of formal documentation and training in this area.

Licencees must embed the fair treatment of vulnerable customers throughout the customer journey.



#### AREA TO CONSIDER

---

Firms should be aware that all customers are at risk of becoming vulnerable, and there are many situations and circumstances that may lead to this occurring. This could include the following reasons:

- **Health** – health conditions or illnesses that affect the ability to carry out day-to-day tasks.
- **Life events** – life events such as bereavement, job loss or relationship breakdown.
- **Capability** – low knowledge of financial matters or low confidence in managing money (financial capability). Low capability in other relevant areas such as literacy or digital skills.

An example may be where a customer mentions they have become widowed and are now managing finances on their own. The customer may seem unsure about what they can afford.

Rather than assuming the customer is in difficulty, the motor trader's aim would be to treat the customer respectfully and neutrally, focusing on support. The motor trader should encourage the customer to think about their new monthly commitments, avoiding any pressure to choose a higher monthly payment than they seem comfortable with.

The motor trader should aim to explain the different financing choices and a breakdown of costs in simple language, with clear messaging regarding, for example, balloon payments and end-of-contract payments (where applicable). The motor trader should reassure the customer that they do not need to make a decision the same day and encourage them to take written information home to review in private. They might also suggest that they come back with a friend or relative if that would help.

This example demonstrates good practice because a bereaved customer may be adjusting to new finances, stress levels, or decision-making. The firm is ensuring that the product is suitable for the customer, whilst preventing over-commitment at a vulnerable time. The firm is showing fairness, empathy and a customer-first approach in this scenario.

### 8.1.6 Finance sales culture

The vast majority of the motor traders recognised that it made good business sense to encourage repeat business and customer referrals, given the small size of the market in the Bailiwick. They therefore considered it best to avoid high-pressure sales tactics when promoting finance, which may leave a customer feeling aggrieved long-term.

A chart summarising survey responses received regarding customers’ perception of the finance sales process can be found below:

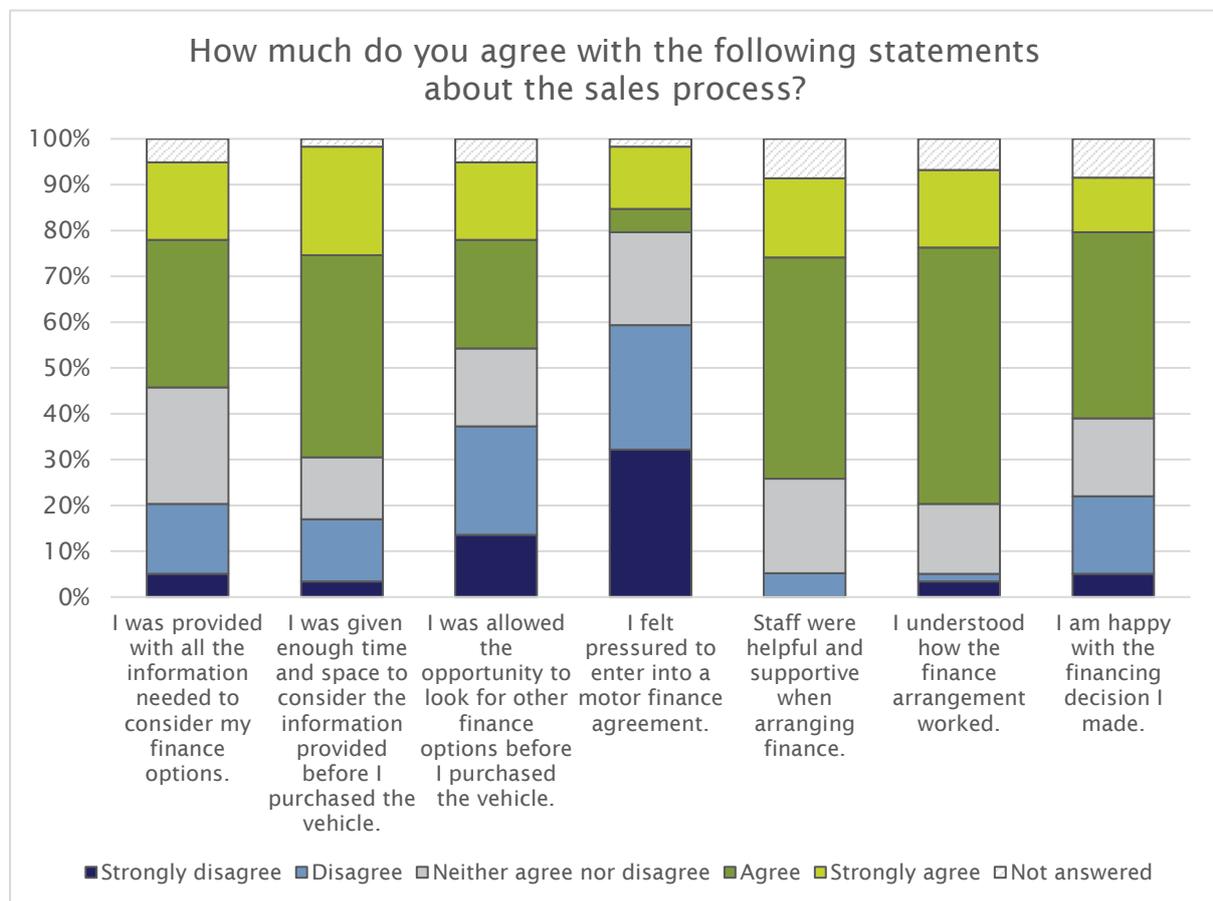


Figure 6 – Results from public survey showing views on the finance sales process

Respondents gave mixed responses when asked whether they were allowed the opportunity to look for other finance options before purchasing the vehicle. By contrast, only a small number of respondents indicated that they had felt pressured to enter into a motor finance agreement. This may indicate that customers are not always *invited* by the broker to look for other financing options, although it is uncommon for brokers to try to *prevent* a customer from shopping around. This points to a need for brokers to generally be more proactive in informing customers of their ability to shop around, even though direct pressure appears uncommon.

Although a small number of cases overall, the survey highlighted some instances where customers had felt pressured to make a decision that was not necessarily the best option for them. Whilst this was the exception, unfair practices, including undue pressure, are not permitted when selling any form of financial agreement. Where this occurs, we will address it through supervisory actions.

Motor traders need to ensure that customers are not placed under any undue pressure when taking out motor finance, either when choosing one financial product over another, or if indeed opting to make their own financing arrangements.

We remind customers that they are under no obligation to enter into any finance agreement. Customers are entitled to pay outright or to arrange their own financing independently. Importantly, no one should enter into any agreement unless they feel fully informed and entirely comfortable with the terms.

### **8.1.7 Product-specific training**

The Commission notes that client facing staff of some motor traders had completed Specialist Automotive Finance (“SAF”) Expert and/or Advanced training as part of their onboarding and ongoing training. While SAF training has some components which are more UK-focused, those individuals that we interviewed who had completed the training viewed it as valuable.

## **8.2 Pricing, suitability and collections**

Firms are required to ensure that loan products are suitable for the individual circumstances of their customers. While the primary responsibility for this lies with the lender, the broker or motor trader must also ensure transparency in their advice and communications.

Customers must be provided with clear, written information on pricing, including APR, total cost of credit, and any applicable fees, prior to entering into any regulated agreement. This enables customers to make well-informed decisions when selecting the product type, provider and terms of the loan.

In order to assess whether a credit product is appropriate for a customer’s needs and financial situation, firms must obtain sufficient information from the customer, and consider their ability to afford the loan.

Firms must also have appropriate practices in place when dealing with customers experiencing financial difficulty.

### **8.2.1 Product pricing**

Non-bank lenders typically offered standardised APRs to customers for brokered loans. APRs for HP and PCP products generally ranged from 11% to 15.8%, with personal loans reaching 20%, although there were a small number of exceptions with higher short-term rates. Banks and some non-bank lenders providing personal loans typically offered risk-based pricing, with APR bands guided by the size of the advance and level of credit risk. The APRs offered were sometimes lower than typical non-bank lender rates, depending on an individual’s circumstances.

Document fees were not charged by the majority of lenders. Where document fees were charged, these were for the preparation and filing of paperwork, compliance checks, and general administration tasks, and ranged from £150 - £400, or 1.5%. Whilst previously more common, most firms have stopped charging these fees since the LCF regime came into effect, as fees are now accurately reflected in the APR, and were not previously reflected in the flat rate.

Motor traders reported that non-bank lenders did not offer rate flexibility based on individual customer risk and a number mistakenly believed that this one-size-fits-all approach was a new requirement under the Rules. We have also been made aware of a number of cases of motor traders incorrectly advising their customers of this.

To be clear, whilst the Rules prohibit difference in charges commission arrangements (which are described later) **the Rules do not mandate that all customers must receive the same rate**. This means that lenders may still offer terms that reflect a customer's individual credit risk. Customers assessed as lower risk may receive more favourable rates, while those with higher risk profiles may be offered rates that appropriately correspond to their level of risk. This approach remains compliant, provided it is transparent, consistently applied, and not influenced by commission-based incentives.

Although lenders are free to standardise their products (which is a business decision), this decision may limit customer choice and prevent the market from working as intended. This lack of flexibility could mean that some customers do not get the best rates, i.e., those which reflect their personal circumstances.

*Example: A motor trader has negotiated an interest rate of 12.9% APR with a finance provider. Over the next week the finance provider makes two identical HP credit sales of £10,000 over three years to two different customers. One of the customers has an excellent credit rating and would usually be able to get finance at a much lower rate. The other customer has made numerous late payments and defaulted on previous credit agreements. Whilst the Law allows these customers to be offered different rates, both customers are offered the same 12.9% APR according to the commercial agreement between the motor trader and the lender.*



#### **AREA TO CONSIDER**

---

The LCF regime prevents different commissions from being offered to motor traders based on the interest rate of the finance agreement. All parties need to be aware that this does not prevent customers from being offered different interest rates, which take into account their individual financial situation.

### **8.2.2 APR and total cost of credit**

One of the key elements of the LCF regime is the requirement for licensees to ensure that, before entering into a credit agreement, customers are advised in writing of the total cost of credit as well as the APR.

For the most part, lenders are providing their customers with this information. However, there appeared to be a small number of occasions where customers were not provided with the APR until relatively late in the process of applying for or agreeing a loan. Whilst not a widespread issue, this could potentially hamper a customer's ability to compare different quotes when deciding upon a finance option.

Where the information was disclosed, it was found to be generally clear and easy to understand for customers.



## AREA TO CONSIDER

---

Licenseses must ensure that all customers receive the APR of a loan, in writing, in good time ahead of entering into a finance agreement, to enable their customer to make a well-informed decision.

Feedback was consistently received from lenders and brokers alike that the monthly repayment amount was the key priority for most customers when taking out a loan. To accommodate a lower monthly repayment, loan terms were often extended (and sometimes maximised) to spread the cost of the vehicle out over a longer period of time and cater to the customer's preferences.

Customers should be aware that **extending the term of the loan to reduce monthly repayments is likely to increase the amount of interest charged on the loan**. This means that a customer would usually end up paying more overall for a loan with a longer term than one with a shorter term.

When evaluating finance options, it is important to consider the total cost of credit, as this reflects the change in cost when comparing the same APR over differing loan terms. A higher payment and shorter term, if affordable, could be beneficial in the long run by reducing the overall cost of the loan. Firms must always disclose the total cost of credit to customers, in writing, in good time before they enter into the agreement.



## AREA TO CONSIDER

---

In circumstances where customers request low monthly repayment amounts (and longer loan terms are considered) brokers should clearly disclose the impact that a longer loan term may have on the overall cost of credit.

### 8.2.3 Affordability assessments

Affordability assessments were conducted by all the lenders, generally involving the review of customers' bank statements and credit checks, and in certain circumstances, more detailed income and expenditure assessments. Motor traders' assessments of affordability were more limited and focused on monthly payments alone.

The depth and rigour of the affordability assessments varied between lenders. In a few cases, customers with low disposable income were approved with limited documented rationale. While the Rules allow for a tailored approach to assessing affordability, decisions regarding whether to accept or decline should be appropriately recorded.

We will address this issue through supervisory actions.



## AREA TO CONSIDER

---

Licenseses must consider affordability assessments in light of their credit risk appetite and forbearance policies and procedures. Where affordability assessments are more limited, wider usage of forbearance methods would be expected, should the customer experience any difficulty.

Where loans were declined by the lender, customers were often provided with a variety of alternative options. This included adjusting the loan amount, increasing the deposit amount, extending the loan term, seeking a different lender or engaging with a bank to discuss taking out a personal loan.

#### 8.2.4 Other suitability considerations

Generally, older age was not identified as being a barrier to obtaining motor finance, provided that adequate income or pensions were available to the customer. However, some lenders did impose age-based restrictions (e.g., no lending over age 80), while others retained flexibility with guarantor involvement. Likewise, parental guarantors were often required where finance was being sought by younger individuals.

#### 8.2.5 Collections and forbearance

In the context of loans, **collections** refers to the process a lender or creditor uses to **recover money** from a borrower who has failed to make scheduled payments

**Arrears** refers to **money that is owed** and should have been paid.

In general, missed payments were accidental (for example, as a result of bounced direct debits, caused by changes to the sender's bank accounts details) and arrears were resolved promptly.

**Default** means **failure to fulfil an obligation**, typically the failure to make required payments on a loan or debt. Uncorrected arrears can sometimes lead to default.

**Forbearance** means a **temporary postponement or reduction of payments, or other support**, that a lender grants to a borrower who is experiencing financial hardship.

Where forbearance was required, lenders offered flexibility and generally a range of options, tailored according to each customer's personal circumstances. These included:

- Payment holidays – a temporary pause in loan repayments, agreed in advance with the lender, giving the customer a short-term break to improve their financial situation.
- Freezing interest – when the lender temporarily stops adding new interest to the amount of money owed, to give borrowers time to stabilise their finances.
- Rewriting agreements – when a new loan contract is agreed by the lender, allowing the borrower to catch up on missed payments in an affordable way (for example, by extending loan terms).
- Partial payments – this allows payments to be made that are less than the full amount due on a loan, while the borrower is in financial difficulty.
- Waiving fees – when the lender agrees to suspend or cancel certain fees and interest charges which might otherwise build up due to the customer's financial difficulties.



## GOOD PRACTICE

---

Rates of arrears and defaults were consistently low, and instances of repossession were extremely uncommon. It was evident that when dealing with customers experiencing financial difficulty, lenders explored a wide range of forbearance options, based on a revised affordability assessment, and endeavoured to achieve the best outcome for their customer.

We encourage customers to contact their lender at the earliest sign of difficulty in making payments, and to keep them informed of any significant changes in personal or financial circumstances that may affect their ability to meet future repayments, such as a bereavement, changes in employment, or other material life events. Keeping lenders informed in this way helps ensure that appropriate support can be considered at an early stage, before financial difficulties escalate.

### 8.3 Marketing / promotions / advertising

The Rules set out various requirements around promotion and advertising, which includes material provided or displayed at the premises of the motor trader, as well as promotional material in traditional and electronic media. These rules are designed to protect customers, by making sure lenders and motor traders are transparent about costs, interest rates and contract terms, and that important information is well signposted. The legislation also aims to prevent customers from having unfair pressure applied or confusing offers presented. The Rules are principles-based and provide firms with guidance in how to apply these.

#### 8.3.1 Marketing and advertising practices

The Commission reviewed the types of advertising used, and observed that:

- Print media was rarely used by licensed motor traders, and when it was, there was generally no mention of finance options.
- Likewise, broadcast (radio and television) media was not greatly used, and again, there tended to be no mention of finance.
- All but one of the motor traders and lenders had websites, many of which promoted finance availability, but the extent varied.
- All the motor traders and lenders used social media, although only a very small number of motor traders tended to use this to promote finance options.

Several motor traders reported that customers often considered the monthly repayment amount to be a more significant decision-making factor than the overall cost of credit. Despite this, many vehicle adverts failed to include finance illustrations, such as example monthly repayment figures.

Motor traders did not generally promote finance beyond a simple statement that finance was available. In such cases, requirements to disclose key financial details (such as the APR) were often not applicable. While disclosure of this information is not required where reference to finance options is limited, firms may wish to consider including this information in adverts, to familiarise customers with the typical rates available.

Where finance was mentioned on websites and social media, the information requirements were not applied consistently. Areas where the rules were not adhered to are being raised with firms as appropriate.

### 8.3.2 Legal framework and compliance

The LCF regime promotes transparency and fairness in marketing and advertisements. Firms are reminded that a vehicle purchase financed using a credit agreement can be much more complicated than a simple cash purchase, particularly for people who do not regularly take out credit.

For instance, a 17-year-old buying their first car might not fully appreciate the commitment they are making when entering an agreement. To give the general public the best possible chance to fully understand their options, the Rules require that information be communicated clearly, fairly, and in a manner which is not misleading.

Advertisements reviewed by us generally followed these principles and were worded in a way that would be understood by any reasonably well-informed customer. Where information was given, it did not appear to be confusing or misleading. Nevertheless, there were exceptions to this, with some isolated advertisements being ambiguous in nature.

The Rules also set out what is expected from firms when they place advertisements. Aside from the general principles described above, there are specific rules requiring particular information to be given if the adverts include:

1. The cost of credit, or indicative repayment values
2. Indicative interest rates
3. Indicative or example APR

In addition, all adverts referring to consumer credit activities must include the firm's regulatory status.

Where promotional materials referenced finance options, firms did not consistently include their regulatory status, with most motor traders failing to include this information. The Commission acknowledges that (unlike many other types of regulated firms) motor traders' primary business is the sale of vehicles, rather than financial services, so it was understandable that this requirement had not been part of their considerations when designing adverts. However, we would remind firms that disclosure of licensing status is a regulatory obligation when reference to finance is included. Going forward, firms must ensure that their regulatory status is added to any promotional or marketing materials that do not currently comply.



#### **GOOD PRACTICE**

---

Some motor traders displayed their regulatory status on their websites, even though they did not mention offering finance options. While this is not required when financial services are not being promoted, including a regulatory statement on their website and social media may be a sensible approach in the event they later update their content to include references to finance or broking services.

### 8.3.3 Example of typical marketing material

Many motor traders provided illustrative deals at their premises or on their websites, so that customers could easily consider the different financing options available. In addition to the particulars of the vehicle, these often included:

- Indicative weekly or monthly repayment amounts
- Length of the finance term
- The interest rate
- Deposit required

If these items are included, then the Rules require that the following information must also be included:

- A statement that the motor trader is licensed by the Commission to broker finance agreements;
- The value of all other payments (including the final payment, if this is different);
- The total cost of credit (meaning the difference between the total amount of money a customer would pay on finance compared to buying the car outright);
- The interest rate, quoted as an APR that is readily obtainable; and
- (Where applicable), an explanation that the actual APR could vary depending on circumstances.

Below is a mocked-up example of a social media advertisement:

💎 💎 💎 ALL NEW DUESENBERG MODEL J 💎 💎 💎  
FINALLY RETURNING AFTER A CENTURY ABSENCE  
Passive Air Conditioning  
Electric Start  
Powerful Straight-Eight  
£25,000  
Finance available from £550/month

Test drive today!!! 🚗 🚗 🚗 🚗 🚗 🚗 🚗 🚗 🚗 🚗 🚗



In this example, because the advert mentions finance, it must also include a statement that the motor trader is licensed by the Commission.

Furthermore, because it mentions indicative monthly payments of £550, it should also include information such as the total cost of credit, the length of the agreement term and whether there would be a balloon payment. It could do this by stating, “Hire purchase available from £550/month over 60 months. £10 option to purchase fee. Total cost of finance £8,010. ABC Motors Limited is licensed by the Guernsey Financial Services Commission to broker consumer credit agreements”.

The importance of ethical and legal marketing when advertising motor finance is key to the market working properly. It both helps to prevent harm to customers and increases the likelihood that buyers will get the most appropriate deal for their situation, while firms can compete on a level playing field.

## 8.4 Commissions and rewards



Lenders usually pay fees (known as “commissions”) to brokers, as a way of compensating them for introducing customers or helping with the loan application process. In turn, broker firms often pay commissions or bonuses to their own sales staff, as a reward for obtaining business for the firm – see diagram to the left demonstrating how this works.

Before they enter into an agreement, licensees (including **both** lenders and brokers) must clearly disclose to motor finance customers the nature and existence of **any** commissions, fees or other payments. Additionally, if a customer asks a firm for the amount of fees and commission being paid, the motor trader must disclose this.

### 8.4.1 Typical commissions arrangements between lenders and brokers

All lenders had formal terms of business (“ToB”) agreements in place with each of the brokers introducing business to them. All but two of the ToB agreements were found to clearly set out the rates/amounts, conditions and limits of any commissions payable to a broker.

Some ToB agreements between lenders and brokers set out commissions using flat fees. These were banded according to the loan amount (or “advance”). Flat commissions values increased in line with the value of a loan’s advance, and these flat fees varied, and ranged up to approximately £1,500 per deal brokered.

Most ToB agreements worked out commissions as a set percentage of advance. *For example, if an agreement set a commission rate of 6% of the advance, then for a £20,000 loan the lender would pay the broker £1,200.* The average percentage commission rate, as at July 2025, was 6.1%.

Many ToB agreements also included a maximum cap on commissions payable for any one finance deal. Usually, this cap was £5,000. *So, if an agreement set a 6% commission rate, but capped commissions at £5,000, then for a £100,000 loan the broker would still get £5,000 in commissions (rather than £6,000).*

Most ToB agreements stated that commissions would be restricted or reduced depending on the term of the loan, with shorter-term agreements paying out either a reduced or no commission. This may influence firms to promote and recommend longer-term finance agreements, even where lower cost, shorter-term finance agreements are affordable for the customer.

#### **8.4.2 Volume bonuses between lenders and brokers**

Only 13% of lender/broker relationships reviewed offered commissions in the form of volume bonuses. These are calculated annually by considering the value of loans referred by a broker to a lender each year and are often paid on top of commission payments earned per deal.

Generally, volume bonuses were banded. *So, (hypothetically) if a broker introduced between £800k - £999k of loans to a lender in one year, then they could earn a bonus of 2%, or if they introduced £1m + then the bonus would be 3%.*

#### **8.4.3 Difference in charges**

Before firms were required to follow the Rules, the motor finance industry commonly used the “difference in charges” (“DIC”), or “discretionary commissions”, methodology to calculate how much a lender would pay a broker in commissions.

##### **How did DIC methodology work?**

A lender would give a motor trader the authority to choose a customer’s interest rate from a discretionary range. *For example, a lender might have authorised a motor trader to set a flat rate between a minimum of 5% and a maximum of 10% (approximately 9% to 18% APR).*

The motor trader’s commissions were then calculated based on the difference between the minimum rate specified by the lender and the actual rate agreed between the motor trader and the customer. Simply put, the higher the interest rate, the more the motor trader would be paid in commissions.

This meant that discretionary commission arrangements could incentivise brokers to increase the total cost of a customer’s loan, without other risk-based justification for the increase in the cost of credit.

##### **Can commissions still be paid using “difference in charges”?**

The Rules do not allow commissions to be calculated using difference in charges, and these practices have been banned in the Bailiwick since 1st July 2023.

Firms are following the Rules in this regard, and there were no signs that this method of calculating commissions has been used since it was banned.

#### **8.4.4 Individual finance sales incentives to staff**

##### **Non-monetary incentives**

The Commission found no evidence of any staff being offered vouchers, gifts, perks or other non-monetary rewards as a result of volumes or penetration of finance sold.

## Finance sale bonuses

We found that most motor traders (57%) offered small one-off financial incentives to vehicle sales staff (“sales executives”) when selling a vehicle on finance. Rewards payments to sales executives varied, with some being paid on a deal-by-deal basis, and other commissions being triggered once a certain number of vehicles or total value of finance had been sold. These commissions related to finance only and were paid in addition to any commission from the sale of the vehicle itself and any other add-ons.

## Pay plans

Several motor traders offered volume bonuses to individual sales staff (ordinarily transactions or sales managers) through “pay-plan” arrangements. In a pay plan arrangement, the staff member is allocated a target level of gross profit from finance or finance penetration to meet each month. The pay plan sets out financial rewards against how the staff member performs against that target. If the staff member meets 100% of their target, they will achieve a specific monthly bonus. In select cases, the monthly bonus increases the more they exceed their target. In some pay plans, if the staff member falls short of their monthly target, then their bonus is reduced, and they may even suffer bonus deductions.



### GOOD PRACTICE

---

We identified that one motor trader’s incentive scheme for sales executives and transactions managers specified that staff would not receive bonuses in any cases where a deal was found to be non-compliant with either the firm’s standards and/or its regulatory obligations.

Furthermore, we identified that one motor trader had incorporated into their incentive schemes some bonus opportunities that were directly linked to good customer outcomes. For example, additional bonuses were available to staff if they passed any “mystery shop” reviews, and pay plans were calculated using elements such as meeting departmental objectives and passing internal file reviews.

Firms using bonus schemes and pay plans to reward finance sales staff should consider implementing similar terms into their agreements, to encourage responsible selling practices and compliance with regulatory obligations.

## Incentive schemes and targets



### AREA TO CONSIDER

---

The Commission acknowledges the business rationale for firms to provide small incentives to staff when arranging finance. That being said, firms must recognise and manage any conflicts of interest that arise as a result of incentive schemes, and boards/senior management should monitor any resulting impact on sales culture on an ongoing basis. Firms must strike a balance to ensure that rewards schemes do not enforce or encourage aggressive sales tactics or push sales staff to recommend or broker finance products that are not appropriate to a customer’s circumstances. This is because licensees are required to ensure that they do not unfairly place their own interests above the interests of their customers.

Generally, we found that individual finance sales targets tended to be soft targets (or “aims”) used to monitor sales trends that do not generally impact the customer experience and outcomes.

However, some outlier firms were identified, who appear to have a more forceful approach in ensuring that finance sales targets are met. This approach appears to be the exception (rather than the rule), and we reiterate that any finance sales tactics perceived to be aggressive are not permitted. The Commission will take supervisory actions to ensure that any such behaviour ceases.

#### **8.4.5 Disclosure of commissions to customers**

##### **Disclosing commissions paid by lenders to brokers**

Motor traders are required to disclose the nature and existence of any commissions they receive from lenders when arranging motor finance agreements. We found that customers in the Bailiwick generally accept that motor traders should be compensated for the work involved in arranging finance, and there were very few cases where local customers queried or raised concerns about these commissions.

Firms used varied approaches to disclosing commissions payments to customers. Additionally, many firms had developed their approaches more recently, in line with public investigations into commissions disclosure that are ongoing within the UK.<sup>11</sup>

Some firms relied on a statement within the terms and conditions, to the effect that the broker “may receive a commission payment for arranging this loan”. In some cases, the broker and lender provided no further details or explanation regarding the amount, percentage or basis for how the commission was calculated. While this approach does somewhat disclose the existence of the commission to the customer, we consider that the declaration could be clearer and more specific. The Commission will address with the relevant firms where procedures should be enhanced.

We did identify some examples of good practice that firms may wish to consider:



##### **GOOD PRACTICE**

Some lenders had recently introduced a requirement for brokers to provide a commissions disclosure document to customers, setting out clearly and explicitly the amount the lender would pay the motor trader for the arrangement, and how the commission was calculated. Lenders additionally followed this up with the customer over the phone, before entering into the finance agreement, to ensure full understanding.

The Commission has published an FAQ for its website to clarify this position. We will consider implementing this into formal guidance in due course.

##### **Disclosure of commissions paid by brokers to individual sales staff / transaction managers**

We found that brokers were consistently failing to disclose to customers the existence and nature of any commissions or bonus payments available to individual sales staff and transactions managers, when arranging motor finance deals. The rules require that all commissions **paid** by a licensee are disclosed. Supervisory action will be imposed on firms not complying with this requirement.

---

<sup>11</sup> [Diagnostic report: FCA review of motor finance commission arrangements](#)



## AREA TO CONSIDER

---

Firms should make customers aware of any benefits that sales personnel may receive as a result of arranging a customer's finance agreement. This is important, so that customers can make fully informed decisions before entering into finance arrangements, and so that they can take into consideration any personal incentives that may influence a staff member's recommendations and conduct.

### **The Financial Conduct Authority is investigating practices around motor finance commissions in the UK. Can Guernsey customers raise complaints about motor finance commissions?**

On 7th October 2025, the Financial Conduct Authority began consulting on a proposed motor finance compensation scheme, following an investigation into widespread historic practices. The proposed compensation scheme would only apply to vehicles financed in the UK during the relevant period, however Bailiwick of Guernsey residents who purchased vehicles in the UK, using finance providers in the UK, may be able to make claims under the scheme when it launches.

With respect to vehicle purchases financed in Guernsey, the Commission only started regulating the motor finance industry from 1st July 2023. Whilst we are unable to consider complaints regarding practices relating to motor finance occurring prior to the Law coming into force, the Channel Islands Financial Ombudsman ("CIFO") has informed us that it can consider complaints regarding acts or omissions occurring from 2nd July 2013 onwards.

Therefore, you may wish to consider raising your complaint with CIFO (whether the issue pre-dated the introduction of the Law, or occurred subsequently), if the business is not able to resolve your complaint in a fashion you consider satisfactory. CIFO is a free service that adjudicates in complaints about financial services (including motor finance) provided in/or from the Channel Islands. More information can be found on [CIFO's website](#).

The Commission has published more information regarding its role in relation to complaints on the [complaints pages](#) of our website.

## 8.5 Documentation

This topic focuses on the documents and paperwork obtained and kept by both lenders and motor traders on the motor finance agreements they write, as well as the documentation provided to customers.

### 8.5.1 Customer records

#### Lenders

All of the lenders collected a broad range of information to assist them to understand their customer, and whether they fit internal underwriting criteria. Lenders obtained personal documentation to verify the borrower's identity, which at a minimum generally consisted of:

- Relevant ID
- A utility bill or other proof of address
- Three months of bank statements

Receipt of bank statements allowed the lender to assess the affordability of the finance arrangement. Where there was evidence of extensive use of credit cards or other payment accounts, the lender also often obtained statements for those accounts.

This information was held in addition to a general proposal form, which included details on the type of finance agreement, APR, value and term of the loan, and details of any balloon payments, among other information. Where a loan had been brokered this form was typically filled out by the broker. Lenders used third-party services to complete credit checks on prospective clients, checking for other outstanding loans, past missed payments, and defaults. In all cases, evidence of credit checks was held on file.



### AREA TO CONSIDER

---

On occasions, lenders did not ask for (or asked for limited) documentation related to the customer's income and expenditure. Whilst not a specific requirement, without collecting this information, there is a risk that the client could be placed in a worse financial position after taking out credit. The decision not to collect this information should be a conscious business decision, based on a range of factors regarding the agreement and the individual, and the rationale for this decision should be documented.

### Motor traders

The motor traders held a lower level of client information due to their role in arranging the agreement, however the nature and extent of customer records varied. As a minimum, the Commission would expect that finance proposal forms provided to lenders, as well as pre-agreement information provided to a customer, should be held on file, so as to comply with record-keeping requirements. For the avoidance of doubt, **brokers must not rely on a lender to hold information on their behalf.**

Client information should be retained for the duration of the agreement and for a period after the agreement is concluded to allow for potential queries to be resolved.



### GOOD PRACTICE

---

Some motor traders evidenced that appropriate questions had been posed to customers in order to assess the suitability of the finance product. Additionally, some licensees recorded this on file so that they could evidence that explanations of key information such as cooling off periods, early settlement, etc. to the customer had taken place.



### AREA TO CONSIDER

---

Without holding information such as proposal forms or pre-agreement documentation, a firm would have difficulty evidencing that appropriate disclosures and explanations were made to their customers. In the event of a contentious complaint or legal matter, the licensee may be at a disadvantage due to the lack of relevant documentation retained. Firms should ensure they hold sufficient documentation on file to adequately support their position in such circumstances.

### 8.5.2 Terms and conditions

Terms and conditions provided by lenders generally held all of the relevant information on customers' rights and obligations. However, the accessibility and readability of documentation varied across the lenders. Given that firms may frequently encounter customers who have limited financial literacy skills, consideration should be given to how terms and conditions are written to ensure that they can be easily understood by all.



#### GOOD PRACTICE

---

Some lenders' terms and conditions had large font size text, contrast colour subheadings, clear plain writing, and appropriate paragraphing. These were easier to read and understand than those with small fonts, only one colour, large amounts of block text, legalese, and heavy finance terminology.



#### AREA TO CONSIDER

---

Generally, loan documentation did not specify whether an agreement was consumer credit or commercial lending<sup>12</sup>. While this would not usually cause any issues, this may have the potential to cause confusion in cases where clients falsely believe that they have certain statutory customer rights, due to certain protections being limited to consumer credit agreements.

While commercial lending was not in scope of this thematic review, firms may wish to consider ensuring that product documents and loan terms contain clear signage of whether an agreement is consumer credit or commercial lending.<sup>10</sup> Doing so would enable both the firm and customer greater clarity on what rights and obligations are covered.

### 8.5.3 Annual statements

As required by the Rules, lenders provide annual statements, which advise customers of the payments they had made and the outstanding balance amount. No significant issues were identified in this area.

Some lenders commented that annual statements could in fact be a source of confusion for customers who were not familiar with receiving annual statements. We view annual statements as a helpful tool for customers to keep track of outstanding agreements with lenders, particularly if an individual has more than one finance agreement in place. As customers become accustomed to receiving annual statements, we anticipate that initial confusion will cease.

---

<sup>12</sup> Commercial lending refers to lending that is neither consumer credit nor home finance.



## AREA TO CONSIDER

---

In order to add value to the annual statements, firms could provide additional information and reminders outlining customer rights and/or obligations. For example: early repayment options, requirements for vehicle condition (for PCPs), the ability to make a complaint, future balloon payments (if present), etc. could be raised in the annual statement.

While the Commission prescribes a limited list of items that must be included in an annual statement, firms are reminded that they can include other information where helpful to the customer.

### 8.5.4 Policies and procedures

#### Lenders

The lenders' policies and procedures were reviewed as part of this thematic review, and they were considered to be generally appropriate, although some additional detail in certain areas would be beneficial. Lenders should ensure that policies and procedures remain up to date over time.

#### Motor traders

The breadth and detail of the policies and procedures held by the motor traders was more varied, with some firms having a broad suite, and others with a more limited range. This placed a heavy reliance on staff members' experience and on-the-job training.

While we appreciate that some members of staff have considerable experience in broking motor finance, and whilst some motor traders were able to verbalise an appropriate procedure, all licensed firms should have written policies and procedures which are appropriate to their business. This will allow for members of staff to have a single source of information should they need to refer to them and it lessens the risk of procedures 'drifting' over time. Additionally, it ensures that businesses can continue undertaking regulated activities in a compliant manner, even in cases of key staff absence/turnover.

Firms will be required to remediate any areas where policies and procedures are deficient.



## AREA TO CONSIDER

---

Firms should review their policies and procedures on a regular basis to ensure that they remain in line with Board expectations and requirements under the Law, Rules, and other relevant legislation.



## AREA TO CONSIDER

---

Motor traders should have appropriate policies and procedures in place regarding client engagement, data collection, disclosure and explanation, amongst other areas. A lack of policies and procedures can lead to an inconsistent customer experience and an increased potential for breaches (for example, if there was inadequate explanation of a product, which could lead to a lack of customer understanding).

### 8.5.5 Breach and complaint registers (logs)

For the avoidance of doubt, breaches and complaints not relating to a finance agreement, e.g. vehicle faults, are not within scope of the LCF Law and would not need to be recorded in the registers above. Complaints and breaches, as referred to in this section, relate to those with a connection to a motor finance agreement.

The majority of firms visited had both breaches and complaints registers as expected, although some did not. Where this was the case, the rationale was often that no breaches had occurred and no finance-related complaints had been received. The Commission would expect all firms to maintain both registers, regardless of whether there have been breaches or complaints to date.

There was some variation around firms' understanding of what constitutes a complaint. The definition of a complaint is set out within the Rules and includes **any** expression of dissatisfaction, whether justified or not.

Another area of inconsistency identified was the 'threshold' of dissatisfaction before a firm deemed that a complaint should be logged. For clarity, **all** expressions of dissatisfaction should be recorded. The level of detail recorded for each complaint should be commensurate with the level of dissatisfaction. For example, a small administrative error that was fixed instantly would have a small note for record purposes, while a more significant issue would have a greater explanation of the background to the complaint and tracking of any actions taken. By recording the small issues, it may allow for trends and wider issues to be identified, which can then lead to service improvements.



## GOOD PRACTICE

---

Many firms used a spreadsheet to record details relating to complaints, specifying the individual complainant, the date the complaint was received, details of the nature of the complaint, how the complaint was received (verbal/written), actions taken (or to be taken), whether the complaint was open or resolved, and the date that the complaint was resolved. Keeping these records would help firms to ensure that they respond to all complaints in a fair and timely manner. Additionally, fulsome complaints records would assist a firm to explain and justify any actions taken during the handling of a finance related complaint, should it subsequently be escalated by a customer to CIFO.

### 8.5.6 Filing notifications and returns to the Commission

The main regulatory return submitted by licensed firms is the annual return. Annual returns are different for lenders and brokers. These forms have been updated with an improved layout and greater clarity in respect of the questions being asked. This has the aim of streamlining the process for firms and improving the consistency of responses.



#### AREA TO CONSIDER

---

Specific wording changes have been made within the forms, and ‘tooltips’ have been added. Firms should take due care to fully understand the amendments that have been made, and adequate time should be allowed for the sourcing of data. Firms have six months from their accounting year end to submit their annual return and late fees may be issued should the return not be submitted on time. Please inform us in good time if there are any concerns about meeting this deadline.

Firms are also required to submit notifications relating to significant complaints, breaches, legal proceedings, requests to change name, and changes to business plans, among other events<sup>13</sup>, and care should be taken to ensure these are submitted within the required timeframes.



#### AREA TO CONSIDER

---

Particular care should be given to approved supervised roles and other appointments made on the Commission’s online “PQ” portal. The appointment of directors, for example, requires our no objection prior to them being added to the Board. Additionally, when key personnel are expected to change, please bear in mind that two Bailiwick-resident individuals are required to fulfil mind and management requirements at all times.

---

<sup>13</sup> A full list of [current notification forms](#) can be found on the Commission’s website. Please note that not all forms will be applicable to consumer credit licensees.

## 9 Conclusions

---

This thematic review has provided valuable insight into how firms are applying the LCF Law and Rules and whether customers are being treated fairly.

### 9.1 Findings

Overall, our findings indicate that most firms are making efforts to comply with the regulatory framework and embed fair treatment of customers within their practices. While some areas for improvement have been identified, these do not detract from the general commitment observed across the sector to uphold high standards of conduct and customer care.

In response to the key questions posed at the outset of this thematic review:

- **Are customers treated fairly?** Yes, the evidence gathered suggests that firms are, in the main, treating customers fairly and striving to deliver outcomes aligned with regulatory expectations. Any areas of concern identified relating to poor conduct are isolated and we will address these through ongoing supervision.
- **Are firms complying with the LCF Law and Rules?** Broadly, compliance is adequate, with firms demonstrating awareness and application of the relevant rules. Some areas of widespread deficiency were identified, particularly around documentation and record-keeping, and the disclosure of commissions and incentives paid to sales-staff. Other compliance gaps were typically isolated. Specific areas for improvement will be raised to the relevant firms in writing, using risk mitigation programmes and observations.

### 9.2 Supervisory actions

The Commission will work with firms where issues have been raised to ensure that they improve to reach the level required by the LCF regime. In the majority of cases this should only require minor actions, although there are isolated cases where more ongoing attention will be needed.

### 9.3 Thank you

#### **Respondents of the public survey**

We would like to take this opportunity to thank everyone who participated in the public survey to provide their experiences of obtaining motor finance since the LCF Regime came into effect.

Survey respondents were given the opportunity to nominate a charity of their choice to receive a small donation from the Commission and we have made a donation to Les Bourgs Hospice in this respect.<sup>14</sup>

#### **Participants of this thematic review**

Finally, we would like to thank all participating firms for their cooperation throughout this process. Your engagement has been instrumental in facilitating this assessment of industry practices and in promoting continuous improvement. Looking ahead, we remain committed to working with firms to uphold high standards of conduct and safeguard customer interests.

---

<sup>14</sup> [Motor Finance Public Survey — GFSC news item](#)

## Appendix 1 – Description of Specialist Terms

Please find below a list of specialist terms used, and a description of what we mean by them (within the context of this report).

<b>Term</b>	<b>Description</b>
<b>Affordability assessment</b>	A check carried out by a lender to make sure a customer can afford the loan repayments without causing financial difficulty.
<b>Ancillary service provider</b>	A firm that does not lend money itself but provides services linked to credit, such as helping a customer arrange a loan.
<b>Arrears</b>	Payments that are overdue because the customer has missed one or more scheduled repayments.
<b>Balloon payment</b>	A large, one-off payment due at the end of certain finance agreements (such as PCP).
<b>Breach</b>	When a firm fails to follow a rule, requirement or obligation set out in legislation or regulation.
<b>Broker</b>	Firms in scope of this thematic that hold a licence to broker credit (among other activities).
<b>Brokered loan / intermediated loan</b>	A finance agreement that is arranged through a broker or motor trader.
<b>Commercial lending</b>	Loans used for business purposes which do not fall under consumer credit protections.
<b>Commissions</b>	Payments made for arranging or introducing a finance agreement.
<b>Consumer credit</b>	Lending or credit products issued to individuals for personal use.
<b>Cooling-off period</b>	A 14-day period during which a customer can cancel their finance agreement.
<b>Credit check</b>	A review of a customer’s credit history, carried out before approving a loan.
<b>Default</b>	A prolonged period of missed payments that causes a customer to fail to meet the terms of their loan agreement.
<b>Difference in Charges (“DIC”)</b>	A banned method of paying commissions where brokers were paid more when they set higher interest rates.
<b>Disposable income</b>	The amount of money a customer has left after essential bills and living costs.

<b>Term</b>	<b>Description</b>
<b>Early settlement / early repayment</b>	When a customer pays off their loan before the agreed end date.
<b>Early settlement fee / charge</b>	A fee charged when a customer repays their loan early, subject to regulatory limits.
<b>Equivalent firm</b>	A firm based in the UK that is allowed to offer consumer credit services to customers based in the Bailiwick of Guernsey.
<b>Financial promotion</b>	Any communication that advertises or promotes a finance product.
<b>Forbearance</b>	Temporary support offered to customers experiencing financial difficulties.
<b>Guaranteed minimum future value (“GMFV”)</b>	The estimated future value of a vehicle at the end of a personal contract purchase agreement.
<b>Guarantor</b>	Someone who agrees to repay a customer’s loan if the customer cannot.
<b>Indicative rate / representative rate</b>	An example interest rate used in advertising.
<b>Interest rate</b>	The percentage charged on the amount borrowed.
<b>Lease purchase</b>	A type of motor finance similar to a hire purchase agreement, but often involving a larger final payment and with no option to hand the vehicle back at the end of the lease term.
<b>Loan term</b>	The length of time over which a customer agrees to repay a loan.
<b>Monthly instalments</b>	Fixed monthly payments a customer makes to repay their loan.
<b>Motor trader</b>	Firms that hold a licence to broker credit (among other activities) and that also sell vehicles.
<b>Option-to-purchase fee</b>	A small fee paid at the end of some motor finance agreements to transfer ownership of the vehicle from the lender to the borrower.
<b>Payment holiday</b>	A pause in loan repayments, agreed in advance with the lender.
<b>Personal loan</b>	An unsecured loan used to purchase a vehicle.
<b>Record-keeping requirements</b>	Rules requiring firms to keep accurate documents and evidence.
<b>Regulated activity</b>	A financial service that requires a licence under the LCF Law.
<b>Regulatory status disclosure</b>	A statement explaining that a firm is licensed by the Commission.

<b>Term</b>	<b>Description</b>
<b>Repossession</b>	When a lender takes back a vehicle because repayments have not been made.
<b>Residual value / residual instalment</b>	The estimated value of a vehicle at the end of an agreement.
<b>Risk-based pricing</b>	Offering different interest rates depending on a customer's financial circumstances and the likelihood that they will repay the loan in full.
<b>Sales incentives / pay plans</b>	Bonus schemes used to reward vehicle sales staff for arranging finance agreements.
<b>Suitability assessment</b>	A check to ensure that a specific loan product is appropriate for a customer's needs.
<b>Total cost of credit</b>	The total amount repaid over the life of the loan, including all interest and fees.
<b>Underwriting</b>	The process a lender uses to decide whether to approve a loan.
<b>Vulnerable customer</b>	A customer who may need extra support due to personal or financial circumstances.
<b>Volume bonus</b>	An extra commission paid when a broker introduces a large total number or value of loans over a specified period of time.