

The complaint

Mrs K complains that PayPal (Europe) Sarl et Cie SCA ('PayPal') has taken 300 USD from her account.

What happened

On 4 July 2022 Mrs K received a payment of 150 USD to her PayPal business account from someone in the USA. The sender of the payment then opened a dispute on 6 July 2022, saying that the funds were sent in error to the wrong merchant. PayPal notified Mrs K that the funds would be reversed the following day and asked her to ensure her PayPal balance was sufficient to cover the debit by 15 July 2022. The reversal of the payment left Mrs K's account in a negative balance. The position was made worse on 4 August 2022 when PayPal made a mistake and deducted an additional 150 USD from Mrs K's account. PayPal credited Mrs K's account with 150 USD on 20 September 2022.

Mrs K received some payments from other customers of hers but despite this her account still had a negative balance of around 59 USD. PayPal communicated with Mrs K about the debt and ultimately passed the debt to an outside collection agency. When Mrs K raised a complaint with this service in November 2022 PayPal suspended all collections and took Mrs K's account back from the collection agency.

Mrs K is unhappy with PayPal's decision to reverse the payment in July 2002. She says she provided PayPal with evidence that she provided a service to the sender of the payment, so the payment wasn't made in error. The issue was that after she'd done most of the work that had been agreed the sender of the funds tried to change the scope of the work to something much more complex. Mrs K believes that PayPal didn't review the evidence or take into account the fact that she has invoiced customers for significant sums and never had a dispute raised before.

Mrs K is also unhappy that the reversal took her account to a negative balance, the fact PayPal took 150 USD twice, the service provided by PayPal and its decision to suspend her account and chase her for a debt that she doesn't consider she is responsible for.

Mrs K says the impact of PayPal's actions has been wide-ranging. She spent a lot of time trying to resolve matters with PayPal without success so had to bring a complaint to our service. PayPal kept telling her it was escalating her concerns but didn't do anything. Mrs K also says that she can no longer receive funds in respect of her business and so her business has failed. She believes PayPal has closed the account although I understand this isn't the case. In addition to this, Mrs K will have to spend a significant amount of money to build a new website. She would like PayPal to compensate her.

Our investigation so far

While the complaint was with this service PayPal made an offer of £150 in full and final settlement of the complaint. Mrs K rejected the offer and said she won't settle for less than 25,000 USD.

The investigator who considered this complaint recommended that it be upheld in part. She said that PayPal could have done more for Mrs K, particularly given that she provided evidence that a service was provided (and given that PayPal didn't provide any evidence of the dispute that was raised against Mrs K). Overall, the investigator said that PayPal

shouldn't have reversed the 150 USD payment without thoroughly investigating the case. To put things right PayPal should reimburse this payment. In terms of the second payment, the investigator noted that PayPal rectified this error as soon as it was aware of it, but this still left the account with a negative balance.

The investigator went on to say that whilst the removal of 150 USD by PayPal resulted in a negative balance, Mrs K was aware of this and could have mitigated the losses she says flow from PayPal's mistake by clearing the balance until the matter was resolved. She also said that PayPal has confirmed the account can be used again as soon as the balance is restored. In terms of compensation, the investigator said an award of £150 was fair and that it wasn't reasonable to apply an hourly rate to the time spent trying to resolve the matter.

PayPal agreed to make the payments the investigator recommended. Mrs K was unhappy with the investigator's findings. In summary, she said:

- PayPal refunded her customer without considering her detailed evidence to show she provided a quality service. This left her account with a negative balance.
- PayPal withdrew the amount twice, increasing the negative balance.
- Customers made further purchases and the payments were used to reduce the negative balance. Mrs K was then left with a negative balance of -57 USD.
- She spent ten months trying to resolve the issue with PayPal. During this period Mrs K asked for her dispute to be escalated and said she was involving this service, but PayPal refused to escalate it.
- PayPal has denied her access to its chat function to support her complaint.
- PayPal closed her account which has destroyed her business.
- She has had no compensation for the loss of her business and the loss of revenue, or for the time spent trying to resolve the issue with PayPal.
- She'd like PayPal to learn a lesson about customer service.

The complaint has been passed to me to issue a final decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

The starting point here is the dispute that was raised in July 2022. PayPal say it had to follow a particular process in respect of remittance transfers and a regulation that allows the sender of such a transfer to dispute the transaction for specified reasons (including that the funds were sent in error). PayPal say that under these regulations it was required to reverse the transaction. And seller protection can't apply because no goods or services were bought and sold (given the dispute reason). In any event, PayPal says that it has discretion as to whether seller protection applies.

Like the investigator, I don't consider PayPal has treated Mrs K fairly. She has provided evidence to show a service was provided to the person who sent funds and then raised a dispute. Removing seller protection, that it seems would have applied were it not for the type of dispute the seller chose to raise, without any investigation or opportunity for a customer to defend themselves, doesn't seem fair. So, I consider PayPal should reimburse 150 USD to Mrs K's account because it didn't look into things further.

It's clear that PayPal made a mistake in deducting the payment twice. I can see from PayPal's communications with Mrs K that she raised the issue on 3 September 2022 and PayPal rectified the issue on 20 September 2022. I appreciate the mistake should never have happened, but I think PayPal did what it should have done to put things right (although

it could have done so more quickly). Mrs K's account would have a negative balance without this additional deduction though.

I turn now to the service provided by PayPal and to the losses Mrs K says she's incurred as a result of PayPal's action/inaction.

PayPal informed Mrs K about the reversal on 7 July 2022 and communicated regularly with her throughout August 2022:

4 August – *"Your PayPal account is showing an amount owing to us"*

10 August – *"Reminder to resolve your balance..."*

If you don't resolve restore your balance, you may not be able to fully use your PayPal account and we may continue with efforts to collect the amount."

17 August – as on 10 August

24 August – *"Your PayPal account needs attention...if you don't restore your balance, we may involve an external collection agency to recover this amount."*

31 August – as above

So, I consider PayPal made the position clear to Mrs K and was open about the consequences of not resolving the balance issue.

On 1 September 2022 Mrs K first contacted PayPal's chat function. She said PayPal had closed a dispute in the other party's favour when she had provided proof the job was done. Mrs K agreed to send the conversation to a customer support agent. The following day she received a response to say that she received a correction of 150 USD on 5 August 2022. It was at this stage that Mrs K realised the amount had been taken from her account twice and asked PayPal to resolve the issue. The issue of the double debit was escalated on 4 September when it was raised with PayPal and the following day Mrs K said she'd also like PayPal to re-investigate the dispute. The following day Mrs K was told that once a dispute has been closed PayPal can't reopen it and that the funds were reversed after a detailed investigation. Mrs K was advised to call PayPal and told that due to the type of dispute PayPal couldn't discuss it further in the chat function.

On 17 September 2022 Mrs K contacted PayPal via its chat again and said she would make a complaint to this service if the funds weren't returned. The following day Mrs K was again told the dispute was closed but also that she'd be kept updated. On 20 September a supervisor at PayPal told Mrs K a payment had been reversed and they would look into the fact the amount had been debited twice. Mrs K again said she'd provided evidence but was told the case was closed. Mrs K then brought a complaint to this service.

I can appreciate Mrs K's frustration. PayPal's responses were unhelpful and on occasion contradictory. So I'm satisfied that it's fair to award Mrs K some compensation. But I don't consider PayPal should be held liable for the losses Mrs K has asked it to pay. I think it would have been reasonable for Mrs K to temporarily credit her business account so that there was no longer a negative balance. This would have meant Mrs K could continue to operate her business as normal until such a time as her dispute was resolved. I don't consider the losses Mrs K is claiming were reasonably foreseeable following PayPal's decision to reverse the 150 USD transaction.

On balance, I think the £150 compensation the investigator recommended is fair and reasonable in this case. Sometimes customers are compelled to bring a complaint to this service to consider, but we don't award compensation based on an hourly rate that could be earned.

My role is to look at the individual circumstances of Mrs K's complaint. I can't punish PayPal or ask it to change the way it deals with customers.

My final decision

For the reasons given, I require PayPal (Europe) Sarl et Cie SCA to:

- Refund 150 USD; and
- Pay interest on the above amount at the rate of 8% simple per year from the date the transaction was reversed until the date of settlement; and
- Pay Mrs K £150 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs K to accept or reject my decision before 11 January 2024.

Jay Hadfield
Ombudsman