

## **The complaint**

A charity, C, complains that PayPal (Europe) Sarl et Cie SCA wrongly reversed a payment that C made to its website provider.

C is represented in this complaint by Mr K, one of its trustees.

## **What happened**

Mr K told us:

- C's website provider submitted a bill to C through PayPal. He fully intended to pay that bill, but something went wrong – with the result that a chargeback was instigated against the website provider and an allegation of fraud was made.
- The website provider then closed C's account with it, in accordance with its terms and conditions. It explained that "as chargebacks are typically associated with fraudulent activity, [we have] to take a zero tolerance approach, where a chargeback is received we have to consider the account in question as fraudulent and close out the account immediately to protect the card holder and ourselves from further fraudulent activity. Chargebacks are also extremely damaging to our reputation."
- He asked PayPal to reverse the chargeback and withdraw the fraud allegation, but it refused. PayPal maintained that the chargeback was instigated at the request of C's bank – an assertion the bank firmly denies – and that it was beyond PayPal's remit to reverse the chargeback.
- The impact of the dispute was that C's website was offline for several months from mid August 2022. The timing was particularly difficult because C's members usually renew their subscriptions in September using C's website. By the beginning of October 2021 around 75% of C's members had renewed their subscription. The equivalent figure for October 2022 was less than 20%. The reduction in subscriptions is directly attributable to the loss of the website and resulting confusion.

PayPal told us:

- On 8 August 2022 Mr K made a payment of £86.39 using C's PayPal account. Mr K says that PayPal reversed this payment and is requesting PayPal to cancel this and return the funds to the merchant.
- On 12 August 2022 PayPal received a request from Mr K's bank to reverse "the funds" (although PayPal did not specify which funds the bank was referring to).
- PayPal investigated the transaction and found in Mr K's favour as the merchant was unable to provide evidence (again, it did not specify which transaction it meant or what evidence it had asked for). The transaction was reversed back to an account controlled by Mr K on 18 August 2022.

- Overall, it considers that this chargeback case was resolved by a reversal of the transaction. PayPal was not at fault, did not initiate the reversal of the transaction, and correctly followed all relevant procedures.

We also asked C's bank for its comments on this matter. It told us:

"We were not able to find a record of [a] transaction for £86.39 being returned on the account we hold for [C]. We can confirm an auto return via the AUDDIS system for the Direct Debit of £31.99, due to the Direct Debit not being active on the account...

As the mandate is dormant, the payment is forwarded automatically to an auto-return account. From this account, the payment [will] be automatically returned to the originator with the reason (advance notice disputed). This is an automated process and there has not been any manual decision made in respect of this Direct Debit being returned".

One of our investigators recommended that C's complaint against PayPal be upheld. She said it wasn't clear why PayPal reversed the payment to C's website provider, and in any event, PayPal should have notified C when the direct debit became dormant. She said PayPal should resolve the issues surrounding the direct debit, and pay in compensation. PayPal did not accept our investigator's conclusions and asked for the complaint to be referred to an ombudsman for a final decision.

### **My provisional decision**

I issued a provisional decision earlier this month. I said:

"There are two transactions involved in this dispute:

- The £86.69 that C attempted to pay its website provider via PayPal on 8 August 2022. I will call this "the PayPal transaction".
- The £31.99 that PayPal attempted to take from C's bank account via direct debit, which I will call "the Direct Debit transaction". (It is not clear to me whether this was in fact one attempt at a transaction or many. I have seen references to various dates between 8 and 12 August 2022, and it may be that the different dates reflect several attempts to collect the money. But I don't think that confusion is material, and so in this decision I will refer to a single Direct Debit transaction.)

The figure of £31.99 is the difference between the £86.69 that C wanted to pay its website provider and the £54.40 that C already held in its PayPal account as at 8 August 2022.

I think there has been some confusion about why the Direct Debit transaction was returned unpaid, with PayPal suggesting at one point that Mr K must have contacted his bank directly to file a chargeback claim. However, given the bank's evidence, including the BACS report it provided, I am satisfied that the bank did indeed return the Direct Debit transaction unpaid. I am further satisfied that it did so automatically, with no manual intervention by anyone.

I can see that PayPal wrote to C on 12 August 2022 to say:

"You recently attempted to transfer money from your bank account to your PayPal account.

Your bank declined the money transfer on 08-Aug-2022.

We weren't able to charge the credit card or bank account listed as your backup funding source, but we were able to complete your payment to [the website provider] by using money from your PayPal balance."

However, it appears that after telling C that it was able to complete the payment to the website provider, PayPal then reversed the PayPal transaction.

PayPal has not provided any evidence to suggest that the bank requested the reversal of the PayPal transaction or alleged fraud in respect of it. I think it is inherently unlikely that the bank would have done such a thing – I can't see any reason for the bank to have even known about (let alone cared about) a PayPal transaction between C and the website provider.

I also think it is unlikely that Mr K or C requested the reversal of the PayPal transaction. Mr K has been clear throughout that he wanted to make a payment of £86.69 to the website provider. PayPal has not provided any evidence to suggest that Mr K or C ever asked for the PayPal transaction to be reversed, nor has it provided any evidence to suggest that Mr K or C ever alleged fraud

On balance, despite its denial I therefore think it is likely that it was PayPal that initiated the chargeback of the PayPal transaction – though I might change my mind on that (or on any other aspect of the complaint) in light of further evidence from the parties.

In principle, I don't think it was unfair for PayPal to reverse the £86.89 payment that Mr K wanted to make to the website provider, even though it had told Mr K that the payment had gone through. The failure of the Direct Debit transaction left PayPal in the position where the PayPal transaction was partly unfunded, and PayPal had no way to automatically collect the missing £31.99. So, on the assumption that it was PayPal that initiated the chargeback, I don't criticise it for doing so. That means I don't think it would be fair for me to order PayPal to pay any compensation to C for the consequences of C's website being offline. I don't think it was PayPal's fault that the bill went unpaid, nor was it PayPal's fault that C was unable to quickly reinstate its website (either with the original provider or a new one).

I also don't criticise PayPal, as the originator of the direct debit, for failing to tell C that the direct debit instruction was dormant. I would not normally expect anyone (bank or originator) to proactively inform a payer that an instruction had become dormant. That means I don't think it would be fair for me to order PayPal to do anything further in respect of the direct debit.

However, I do think PayPal's customer service was very poor. It told Mr K that it was able to complete the payment to the website provider, but did not do so. It blamed Mr K and C's bank for instigating the reversal of the PayPal transaction, but has not explained why it reached that view. It also appears to have entirely misunderstood the problem, in that it told Mr K that since C had its money back it considered the matter resolved. In my view, the point was that Mr K wanted C's website provider rather than C to have the money."

I went on to explain why I thought the investigator was right to recommend that PayPal pay £250 in compensation.

Neither party provided any new evidence or arguments in response to my provisional

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.

Having done so, I have reached the same conclusions as I did in my provisional decision, for the same reasons. I therefore confirm those provisional conclusions as final.

### **Putting things right**

I remain satisfied that an award of £250 is fair. I'm mindful that that amount is almost three times as much as the PayPal transaction at the centre of this dispute, but in the circumstances of this complaint I think it does represent fair compensation.

The complainant here is the charity C, not Mr K personally, so any compensation should be paid to C. The impact of PayPal's poor customer service was that Mr K, in his capacity as a representative of C, made significant efforts to work out what had happened. If PayPal had given him a clear explanation from the start, I don't think he would have needed to contact either PayPal or C's bank so many times. PayPal's poor customer service therefore caused inconvenience to C.

### **My final decision**

My final decision is that I uphold this complaint. I order PayPal (Europe) Sarl et Cie SCA to pay C £250.

Under the rules of the Financial Ombudsman Service, I'm required to ask C to accept or reject my decision before 23 November 2023.

Laura Colman  
**Ombudsman**