

## The complaint

Mr O complains that PayPal (Europe) Sarl et Cie SCA made changes to their processes for accessing and using his account which required him to own a mobile phone. Mr O doesn't use a mobile phone because he lives in an area of poor reception. He says he closed his PayPal account out of frustration because they wouldn't offer him a resolution.

## What happened

Mr O was a longstanding customer of PayPal. In early 2020 he experienced a problem when making a payment to a retailer. When he got in touch with PayPal about this, he says he was told he'd be unable to continue to use PayPal without a mobile phone. They told him this was because PayPal were implementing strong customer authentication (SCA) and needed a mobile phone number to send authentication codes to.

Reluctantly, Mr O agreed to provide his daughter's mobile phone number on the understanding that PayPal wouldn't use it but would make a note that only his landline number should be used for authentication codes. Mr O said he thought he'd sorted the problem with this "*compromise*" and felt satisfied his daughter wouldn't be disturbed.

Sometime later, Mr O's daughter received calls from PayPal. Mr O says this caused some tension between them. After failing to get in touch with PayPal and trying unsuccessfully to amend the telephone numbers on his account, he decided to close it.

When Mr O brought his complaint to this service, he explained that he lives in a remote area and relies on making online purchases. He prefers using PayPal to do this rather than sharing his payment card details with multiple retailers.

Mr O told us he wants PayPal to, "*Understand that not everyone has a mobile and accept my house phone as before*".

### *What PayPal told us*

PayPal explained that they'd made changes to the way customers access their accounts in response to the Payment Services Directive (PSD2) which brought in a requirement for payment service providers to implement SCA. So, Mr O could no longer access his account by simply using his email address and entering his password. He was required to also confirm a telephone number linked to his account so that he could receive a code to it or enter a code displayed on the PayPal screen into the telephone keypad when he received an automated call.

Mr O was asked to add a mobile phone number to his account in order to be able to receive codes to access his account or perform transactions. He did so in April 2020, and as this was the only *confirmed* telephone number linked to his account the code was sent there. PayPal said the landline numbers on Mr O's account were unconfirmed and that's why he was unable to select either of them as his primary phone number.

PayPal said that if an existing customer only has a landline phone number it can be used for

authentication, but that number must first be confirmed. As Mr O hadn't done that, PayPal didn't think they'd done anything wrong.

PayPal also explained that having a mobile phone number is now a "*requirement*" for creating a new PayPal account. So, if Mr O wants to open a new account, he'll no longer have the option to use his landline phone number for authentication. They said:

*"PayPal implemented Strong Customer Authentication ... In order to avoid disruption to customers, PayPal offered the option to use a landline phone number or a third party authenticator app (for business accounts) to those existing customers that did not have the possibility to add a mobile phone number to their account ... New customers, on the other hand, need a mobile phone number to register a PayPal account. We do not exclude that this requirement may change in the future, but it is mandatory at present."*

#### *Our investigator's view*

Our investigator upheld Mr O's complaint. He said he didn't think PayPal had acted fairly towards Mr O because, despite Mr O telling them that he didn't own a mobile phone, PayPal had made it seem essential that he add one to his account. He also didn't think PayPal had helped Mr O to do what was necessary to confirm his landline telephone number so that he could use it for authentication. He said PayPal should have done more to explain Mr O's authentication options, and he thought it more likely than not Mr O would have opted for authentication by landline if he'd been given this option.

The investigator said that PayPal should compensate Mr O for the distress and inconvenience caused by their poor service with £100.

Acknowledging that Mr O had only resorted to closing his account because of PayPal's poor service, our investigator said that PayPal should:

- allow Mr O to open a new account if he wishes;
- if he does so, remove any mobile number PayPal holds for Mr O from his account;
- confirm Mr O's landline number for future use; and
- allow Mr O to complete SCA using a landline number as if he were an existing, rather than a new, customer.

#### *Responses to the view*

Mr O accepted this outcome. PayPal didn't. PayPal said they'd acted fairly by using the mobile number linked to Mr O's account for authentication, because that was the only confirmed telephone number on the account. They also said that they'd be unable to open a new account for Mr O without a mobile phone number.

As no agreement could be reached, the complaint was passed to me to decide.

#### **My provisional decision**

I issued a provisional decision on 7 December 2021. I began by setting out the considerations I thought relevant to my decision. I wrote:

*"I'm required to determine this complaint by reference to what I consider to be fair*

*and reasonable in all the circumstances of the case. When considering what is fair and reasonable, I am required to take into account: relevant law and regulations; regulators' rules, guidance and standards; codes of practice; and, where appropriate, what I consider to have been good industry practice at the relevant time.*

*So, I'll start by setting out what I have identified as the relevant considerations to deciding what is fair and reasonable in this case.*

*The Payment Services Regulations 2017 (PSRs) Reg. 100, which came into force on 14 September 2019, says that a payment service provider (PSP) must apply "strong customer authentication" where a "payment service user" accesses its payment account online, initiates an electronic payment transaction; or carries out any action through a remote channel which may imply a risk of payment fraud or other abuses.*

*SCA is defined in the PSRs. It means:*

*"authentication based on the use of two or more elements that are independent, in that the breach of one element does not compromise the reliability of any other element, and designed in such a way as to protect the confidentiality of the authentication data, with the elements falling into two or more of the following categories—*

- (a) something known only by the payment service user ("knowledge");*
- (b) something held only by the payment service user ("possession");*
- (c) something inherent to the payment service user ("inherence")."*

*Another relevant consideration is the SCA implementation guidance issued by the Financial Conduct Authority (FCA) in its document "Payment Services and Electronic Money – Our Approach" (June 2019) and related statements. I've referred to the detail of these below.*

*What I've provisionally 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've reached the same outcome as our investigator and for broadly the same reasons.*

*Mr O lives in a remote area with poor mobile phone reception. So, when PayPal asked him to add a mobile phone number to his account, I think it's unlikely he'd have done so if he'd been told he had an alternative option to authenticate by landline. As I don't think he was told about this option by PayPal or supported by them to confirm his landline number, I don't think PayPal treated him fairly. And it's only because of this unfair treatment that Mr O became frustrated and closed his account.*

*Our role is to consider whether financial businesses, in this case PayPal, have acted fairly and reasonably in the circumstances of a complaint. Where they haven't, we consider the consequences of what they've done and try to put the complainant back in the position they would otherwise have been in.*

*With this in mind I think that if Mr O wishes to resume his relationship with PayPal,*

*PayPal should offer him an authentication option that doesn't rely on a mobile phone. I say this for three reasons.*

*Firstly, I think Mr O would have continued to hold his PayPal account had it not been for the lack of support PayPal offered him following the introduction of SCA. And on that basis, I think he ought to be offered the same authentication options as other existing customers for whom there's been no break in relationship. That means I think he should be allowed to choose to authenticate by landline, as PayPal have told us this is an option available to existing customers.*

*Secondly, I think Mr O should be offered an authentication option that doesn't rely on a mobile phone because the relevant regulatory and industry guidance has made it clear payment service providers (PSPs) should be designing SCA processes that reflect the fact not everyone owns a mobile phone.*

*The FCA's guidance document says:*

*"... it may be necessary for a PSP to provide different methods of authentication, to comply with their obligation to apply strong customer authentication in line with [PSD2]. For example, not all payment service users will possess a mobile phone or smart phone and payments may be made in areas without mobile phone reception. **PSPs must provide a viable means to strongly authenticate customers in these situations.**" (my emphasis)*

*In its statement of expectations published in September 2019, the FCA also said:*

*"We expect firms to develop SCA solutions that work for all groups of consumers. This means that you may need to provide several different methods of authentication for your customers. This includes methods that don't rely on mobile phones, to cater for consumers who don't have, or won't want to use, a mobile phone."*

*I think the message of this guidance is that whilst PSPs must implement SCA they should also do so in a way that maintains the accessibility of their services for a broad range of customers. PSPs should be designing SCA processes with all their customers and potential customers in mind, not designing processes which exclude those who don't have access to, or can't use, mobile phones. So, I don't think it's reasonable for PayPal to only offer Mr O the option of authenticating with a mobile phone. I'm also mindful that PayPal already offer some customers alternatives to authenticating by mobile phone and I've seen nothing to persuade me that this offering shouldn't be extended to Mr O.*

*And thirdly, PayPal haven't provided any justification for why mobile phone ownership is essential for Mr O to operate a PayPal account. Although I appreciate PayPal's preferred option is to authenticate their customers by mobile phone, I think it's relevant that Mr O managed to operate his account without one for many years until the advent of SCA.*

*Whilst the requirement to implement SCA is a significant change for both PSPs and their customers, I think the new rules have been introduced to provide further protection from fraud, not to exclude customers from services they were previously able to use. PayPal's implementation of SCA has had the effect of excluding Mr O from having a PayPal account, and I don't think that's either the intention of the SCA rules or fair.*

*Overall, I don't currently think PayPal have acted fairly or reasonably by only offering*

*Mr O one way of authenticating and by doing so preventing him from having a PayPal account. To put things right I provisionally think PayPal should offer Mr O the remedy already set out by the investigator.”*

#### *Responses to my Provisional Decision*

PayPal didn't agree with my provisional decision. They said in most instances PayPal will be able to authenticate someone by their password and device recognition but when that's not possible an OTP is sent to the customer's mobile phone number via SMS text message. They said:

*“At present, it is not possible to proceed with this verification using a landline phone number, as this type of phone won't allow for the receipt of the one-time passcode via SMS.”*

PayPal said they regret the inconvenience caused to Mr O from adding and confirming his daughter's mobile phone number on his PayPal account. They went on to say that Mr O can open a new PayPal account as a new customer *“but he will have to add a mobile phone number to it as it is a requirement in order to proceed with SCA”*.

#### *Further information*

Before reaching my final decision, I asked PayPal to confirm what authentication options they offer existing customers. I asked for this clarity because they'd said both that existing customers were offered the option to use a landline phone number, and that verification using a landline phone number was not possible at present. PayPal provided the following further information:

- New customers do not have the option to use a landline for SCA.
- For SCA PayPal send an OTP by SMS to the customer's mobile phone – this can be received via WhatsApp depending on market availability.
- Customers may also be presented with the opportunity to confirm a transaction via the PayPal App.
- The other option is to use an authenticator app that can be downloaded to a desktop personal computer or smart phone – this generates a passcode which can be used for two factor authentication (SCA)
- Once downloaded, customers can set up the authenticator app through their PayPal security settings.
- If the customer doesn't have a confirmed phone number on file, or the phone number is not valid (e.g. they no longer possess the phone, it is a landline or is untrusted) the customer must contact customer service for support.
- Existing customers who only have a landline telephone number have been able to complete SCA by receiving an automated call and, when prompted, entering a code displayed on the PayPal screen into the telephone's keypad, but *“currently there is an issue with the service”*.
- The issue with the landline telephone option is a priority for PayPal but they, *“do not have a clear time frame for when this will be resolved”*.

On the basis of this information I asked Mr O whether he'd be comfortable with using an authenticator app. In response, Mr O let me know that he no longer wishes to resume his relationship with PayPal. He also said he'd prefer any monetary award to go to charity.

### **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 remain of the view that PayPal haven't acted fairly and reasonably towards Mr O, and should remedy that. I'll explain why.

I've found that PayPal didn't support Mr O well when they implemented SCA in 2020 and that, because of PayPal's lack of support, Mr O reluctantly closed his account in understandable frustration. I also find that if PayPal had supported him as I think they should have done, he'd more likely than not have kept his PayPal account open and I don't think he'd have needed a mobile phone to do so. PayPal told us that they did offer the option to use a landline phone number or a third party authenticator app to complete SCA *"to those existing customers that did not have the possibility to add a mobile phone number to their account"*. But the problem here is that they evidently didn't offer that to Mr O. So, I remain of the view that the level of service they gave him was below what I'd expect.

As someone who chooses not to own a mobile phone because he lives in an area of poor mobile reception, I think Mr O's circumstances are specifically covered in the FCA's guidance on the implementation of SCA. That guidance, which I referenced in my provisional decision, says PSPs *"must provide a viable means"* for customers who don't own mobile phones to complete SCA. PayPal haven't given me any persuasive reason why that guidance shouldn't apply to Mr O's case.

PayPal have explained that their system for completing SCA by landline is currently experiencing some issues that they're working on as a priority to resolve. So, it seems that offering Mr O the landline option wouldn't be something they can do right now. But I note they do have another, non-mobile phone option, for completing SCA; a third-party authenticator app downloaded to a *"phone or desktop"*. This is something I think PayPal could offer Mr O whilst they're working towards resolving the issues with the landline option.

However, Mr O has now let me know that he no longer wants to have a PayPal account. He's found other ways to make payments online, and doesn't want to be PayPal's customer because of his poor experience of their service. So, although I would have directed PayPal to put Mr O back in the position of having a PayPal account with the option to complete SCA when it's required without reliance on a mobile phone, I don't think I now need to make any direction about what authentication options PayPal should offer him going forwards.

### **Putting things right - what PayPal needs to do**

Ways of strongly authenticating customers which don't rely on the payment service user having a mobile phone or mobile device do exist and the relevant guidance says alternatives should be offered. So, I think it was unfair and unreasonable of PayPal not to offer Mr O a viable alternative for completing SCA. To compensate him for the distress and inconvenience caused by this poor service I direct PayPal to pay Mr O £100.

Mr O can, of course, choose to donate that money to a charity if he so wishes.

**My final decision**

My final decision is that I uphold Mr O's complaint. PayPal (Europe) Sarl et Cie SCA should put things right in the way I've set out in the 'Putting things right – what PayPal needs to do' section of this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 22 March 2022.

Beth Wilcox  
**Ombudsman**