

The complaint

A partnership which I'll refer to as 'B' complains that PayPal (Europe) Sarl et Cie SCA ('PayPal') has treated it unfairly by asking for documents it cannot provide and refusing to release its funds.

The complaint is brought on B's behalf by one of its partners, Miss R.

What happened

B opened an account with PayPal in May 2019. In November 2021, PayPal reviewed B's account and decided it needed more information about B's business structure. It requested documents from B and at the same time, applied a limitation to B's account which meant the business couldn't withdraw funds from the account until PayPal received the information it had requested.

Over the next four months, B said it provided the documents PayPal had requested to evidence its business structure - but they were rejected. B said it had contacted PayPal repeatedly to see what was wrong but hadn't received a satisfactory explanation. In March 2022, PayPal sent B a further email asking it to provide specific documents but the business said it has already provided the information requested and is unable to provide the other documents on the list which was a business registration number, as the partnership isn't registered on Companies House – nor is it required to do so. So B complained to PayPal.

PayPal didn't uphold the complaint. It responded to say that it believed it had resolved B's complaint – but PayPal didn't provide a resolution or release the funds it was holding in B's account. B wasn't satisfied with PayPal's response and asked this service to look into its complaint.

Our investigator recommended the complaint be upheld. She thought it was reasonable for PayPal to carry out its regulatory checks, but it hadn't done them fairly. She said she'd seen evidence that B had repeatedly provided the documents PayPal had said were satisfactory, but it still hadn't released B's money and said the documents were illegible – but she didn't agree. So she thought PayPal should remove the restriction on B's account and pay the business £150 for the inconvenience caused.

B accepted the investigators view but PayPal didn't respond to say whether it accepted or rejected the view. As an agreement couldn't be reached, the case has been passed to me to decide.

Since the case has been referred to an ombudsman for a decision, PayPal has released B's money which was held in its account. So the decision will focus on whether or not PayPal's actions were reasonable, and any inconvenience caused to B.

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've decided to uphold it. I'll explain why.

PayPal told us that it restricted B's account initially in line with its User Agreement. It has explained that an account can be limited for a number of reasons which includes the business being satisfied that it is complying with relevant law when providing accounts to its customers. I think this is reasonable.

However, the User Agreement also says account limitations are normally removed after PayPal has been provided with the information it requested – unless a risk still exists after the information has been provided. Based on the evidence I've seen I'm not persuaded PayPal acted in line with its User Agreement - and I don't think it treated B fairly.

I say this because, although PayPal restricted B's account in November, I can't see that it contacted B to explain what was required. And it didn't say to B what needed to be provided until mid-December, once B had already uploaded the documents it believed were suitable and contacted PayPal to question why its account was still limited.

I've seen that over the next couple of months, B contacted PayPal to ask what it needed to provide, it then uploaded those documents including a letter from HMRC and a letter of authorisation, only for PayPal to say that they weren't now suitable. Despite being asked why, PayPal hasn't confirmed to B or this service why the documents it requested were then no longer acceptable.

PayPal also repeatedly asked B to provide proof from Companies House of the partnership, but B explained that it wasn't able to provide this as it couldn't register with Companies House as it was an ordinary partnership. However, PayPal didn't acknowledge this or provide any alternatives despite B saying it had given all the information PayPal had asked for and it had nothing else to provide.

I'm pleased to hear from B that PayPal has now released the money it was holding under the limitation. However, it's taken over eighteen months for PayPal to do this and based on the evidence I've seen I don't think this was reasonable. It's clear that PayPal has caused B inconvenience from the repeated calls and emails it's had to make. So I think PayPal should pay B £150 compensation for the inconvenience caused.

My final decision

My final decision is that I uphold this complaint. I instruct PayPal (Europe) Sarl et Cie SCA to pay B £150 compensation for the inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask B to accept or reject my decision before 5 August 2022.

Jenny Lomax
Ombudsman