

The complaint

Mr M complains that PayPal (Europe) Sarl et Cie SCA provided misleading information to him after he fell victim to a scam.

What happened

Mr M agreed to purchase a graphics card from an online marketplace. He made three payments totalling £640 from his PayPal account to another PayPal user. The payments were funded by his debit card, which was issued by a bank I'll call S.

Mr M marked the payments as personal payments. The effect of this was to disapply any protection he might have received under PayPal's 'Buyer Protection' policy.

The graphics card never arrived and Mr M realised he'd been the victim of a scam. He reported the matter to PayPal but it said that it couldn't refund him because it was satisfied he'd authorised the payments and, as they'd been marked as personal payments, they weren't covered under its 'Buyer Protection' policy. PayPal did say, however, that his bank might be able to recover his money by way of a chargeback.

Mr M says that, as a result of this advice, he had to visit a branch of S on several occasions – as he received conflicting information from the bank and PayPal about whether it could help. He says that PayPal informed him that his money was on hold and there was no reason for S not to cooperate. Eventually PayPal said that it couldn't help him after all.

Mr M complained but PayPal said that it hadn't made a mistake. He referred the matter to our service and one of our investigators upheld his complaint in part. The investigator thought that PayPal hadn't made a mistake in declining to refund the payments in line with its User Agreement and was satisfied that Mr M's money had already been withdrawn from the recipient's account by the time the fraud was reported.

The investigator did, however, think that PayPal should pay compensation to Mr M. The investigator could see that PayPal had mis-advised Mr M to approach his bank on one occasion and appears to generally accept what Mr M has said about the service PayPal provided. They were of the view that PayPal was therefore responsible for the inconvenience this caused, so they recommended it pay £150 compensation.

PayPal agreed, but Mr M didn't. He said that more compensation is warranted, given that he had to take time out of work to visit the branch on more than one occasion and that PayPal's promises that the money was on hold got his hopes up of getting it back. He asked that the investigator contact PayPal again for further evidence, such as correspondence, that would show that he was misled by it. PayPal weren't able to provide any further information, so the case was passed to me for 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.

I'm sorry to hear Mr M lost money as a result of a scam but, having considered this matter carefully, I think that the compensation that PayPal have agreed to pay is a fair way to settle this complaint. I'll explain why.

I'm satisfied there is no basis for asking PayPal to refund the payments in dispute. The starting point in law is that Mr M is responsible for transactions he's carried out himself. It's also accepted that Mr M marked the payments as personal payments and therefore he is afforded no protection under PayPal's 'Buyer Protection' policy. Neither is there anything about the transactions that could have reasonably given PayPal cause for concern that Mr M was at risk of financial harm from fraud. So, it didn't make a mistake by allowing the payments to proceed without being challenged.

I've also seen evidence from PayPal that Mr M's money was withdrawn from the recipient account on the same day it was credited and before Mr M reported the matter. That means it couldn't have been recovered by PayPal.

Other than an email from PayPal suggesting that he should contact his bank, there's little evidence of the communication between Mr M and PayPal, but there's also no reason to doubt Mr M's version of events and it's clear that he contacted S on a number of occasions about what happened. So, I don't think it is necessary for me to obtain further evidence from PayPal and neither does a lack of that evidence count against Mr M.

PayPal has not provided any explanation for why they directed Mr M back to his bank. My understanding is that a chargeback on the basis that goods weren't provided would never be successful in these circumstances as a personal payment is treated as a transfer of funds, rather than a purchase of goods (and there's no dispute that PayPal did transfer funds on Mr M's behalf). Also, given that Mr M's money had already been withdrawn from the recipient account, it doesn't appear it was ever held by PayPal. So, I'm satisfied that PayPal made an error in both suggesting a chargeback and telling Mr M that the money in the recipient account was on hold. Neither of these points have really been disputed by PayPal.

What is in dispute is the impact that PayPal's errors have had on Mr M. I agree that, by telling Mr M that the money was on hold, PayPal unfairly increased his hope of recovery. I also accept that he was caused some inconvenience by having to contact S and PayPal unnecessarily on a number of occasions. But, I think Mr M could have attempted to resolve this matter with S over the phone, rather than by taking time out of his working day to visit a branch. Overall, I think £150 compensation fairly reflects the distress and inconvenience caused to Mr M.

My final decision

I uphold in part this complaint and instruct PayPal (Europe) Sarl et Cie SCA to pay Mr M £150 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 2 December 2022.

Rich Drury
Ombudsman