

The complaint

Mr J complains PayPal (Europe) Sarl et Cie SCA (“PayPal”) restricted and closed his account. Mr J also complains PayPal continued to withhold his funds longer than the 180 days it said it would.

Mr J says PayPal’s actions have caused him substantive distress, inconvenience, and financial difficulty.

What happened

The details of this complaint are well known by both parties, so I won’t repeat them again here in detail. Instead, I’ll focus on setting out some of the key facts and on giving my reasons for my decision.

In February 2023, following a review, PayPal *permanently restricted* Mr J’s account and withheld around £4,150. PayPal informed Mr J that the terms of the account permitted it to withhold any funds in these circumstances for 180 days.

After 180 days had elapsed, PayPal said it would continue to withhold the funds. Unhappy with this, Mr J complained. PayPal didn’t uphold Mr J’s complaint. It said it had decided to permanently restrict Mr J’s account based on security reasons. And a request to release the funds has been denied by the relevant team.

Mr J referred his complaint to this service. One of our Investigator’s looked into Mr J’s complaint, and they recommended it be upheld in part. In summary, their key findings were:

- PayPal’s decision to permanently limit Mr J’s account was one it was entitled to make
- PayPal acted fairly and in line with its terms when withholding the account balance for 180 days
- But PayPal’s decision to continue to withhold the funds beyond the 180 days isn’t fair or reasonable. Though PayPal has provided an explanation for why it’s done this, it hasn’t provided any supporting evidence
- PayPal has said it hasn’t had any third-party claims made against Mr J. And Mr J has provided evidence to support his entitlement to some of the funds
- So, PayPal should return Mr J’s funds and pay him 8% simple interest from the date of the expiry of the 180 days until they are returned. It should also pay Mr J £300 for the distress and inconvenience caused

Mr J agreed with what our Investigator said. As PayPal didn’t agree, this complaint has been passed to me to decide.

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 decided to uphold this complaint in part. I'll explain why.

Financial businesses in the UK, like PayPal, are strictly regulated and must take certain actions in order to meet their legal and regulatory obligations. They are also required to carry out ongoing monitoring of an existing business relationship. That sometimes means PayPal needs to restrict, or in some cases go as far as closing, customers' accounts.

PayPal has explained why it restricted Mr J's account. Having considered this, I'm satisfied it acted in line with its obligations.

PayPal is entitled to close an account just as a customer may close an account with it. But before PayPal closes an account, it must do so in a way, which complies with the terms and conditions of the account.

PayPal permanently limited Mr J's account after completing its review. This, to my mind, is equivalent to closing it with immediate effect. Having considered PayPal's reasons and concerns, I'm persuaded it did so in line with its terms of account.

PayPal's terms say it can block and hold any funds for 180 days – and that it can do so for longer where its *rights are engaged in related activity*. As part of this service's investigation, we asked PayPal for its reasons, and supporting evidence, for taking the actions it did.

Though I'm satisfied PayPal has acted fairly in restricting, closing, and withholding the funds for 180 days, I'm not persuaded it's acted fairly in continuing to hold onto them. That's because it hasn't provided compelling evidence that it had concern enough to continue to do so. PayPal has also not received any third-party claims which the 180 days would hopefully have borne out. Mr J has also shown that he was engaged in business activity which in turns shows his entitlement to some of the funds being withheld.

It follows that, I think PayPal should return the funds to Mr J. Given Mr J has been deprived of their use from 181 days onwards, PayPal will need to compensate him for this by paying 8% simple interest until settlement.

Mr J has explained that his ability to carry out business was significantly affected as he didn't have funds to reinvest in stock. Future financial gains aren't guaranteed, and I note Mr J was returning some of his stock. But, and importantly, the 8% simple interest award covers the deprivation of funds, and not being able to use them.

Mr J has also said that not having access to his funds caused him some financial difficulty, and distress and inconvenience. I'm satisfied £300 is fair compensation for the impact PayPal's actions had on him after the 180 days had elapsed.

Putting things right

To put things right, PayPal must:

- Return Mr J's funds and refund any charges it may have applied after 180 days from when the restrictions were applied
- Pay 8% simple interest on these funds from after the 180 days period until

settlement*

- Pay Mr J £300 compensation for the distress and inconvenience caused

*If PayPal considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr J how much it's taken off. It should also give Mr J a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

For the reasons above, I have decided to uphold this complaint in part. I now direct PayPal (Europe) Sarl et Cie SCA to put things right as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 16 August 2024.

Ketan Nagla
Ombudsman