

## **The complaint**

A company, which I'll refer to as S, complains that Squareup Europe Ltd (Square) asked it to pay back money from transactions it received as a chargeback had been raised against it.

S is represented in bringing this complaint by its director, Miss F.

## **What happened**

S is a merchant. In December 2024, S accepted three card payments which were entered manually by the same customer into Miss F's phone. The customer's card details, including the postcode, were manually entered, and all three of the transactions appeared to be successfully completed at that time.

When Miss F checked S' Square App later, only one of the three transactions was showing, so she contacted Square by email. Square confirmed two of the payments had been processed but there was an issue with the third one.

Square carried out a review of S' account and contacted Miss F to say it was likely that these transactions were part of a scam. As such, they recommended S refund the payments. Miss F was unhappy to take this course of action so Square explained they would hold the payments for 90 days in case a chargeback was raised.

In January 2025, Square notified S that two chargebacks had been raised against it as the cardholder had no knowledge of these payments. Square requested evidence from S to defend these claims.

Miss F complained to Square on behalf of S, but they didn't uphold the complaint, so she brought S' complaint to us.

Our investigator looked into matters and explained that the role of our service is to assess if Square treated the merchant (S) fairly in the circumstances. He acknowledged that S had suffered substantial losses as a result of being a victim of fraud, but explained that ultimately, if a merchant processes transactions without using the chip and PIN function, the merchant assumes the risk of a potential chargeback.

Miss F was unhappy with this outcome. She asked for an ombudsman to reconsider the case as she felt it was unfair that S could be exposed to so much risk while Square and other payment processing companies had little accountability in circumstances such as these.

Miss F took the payment and released the goods in good faith and didn't think it was fair for S to be out of pocket. She said the terms were unfair leaving S open to fraud and unprotected.

Our investigator acknowledged Miss F's concerns but explained that an ombudsman could only review the specific circumstances of S' complaint. They wouldn't be able to address wider concerns about the operation of the card schemes, as that is outside of their remit.

The case was then passed to me to decide.

Miss F would like Square to refund the transactions in full and pay compensation for the stress and inconvenience this matter has caused.

### **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 come to a similar conclusion to our investigator, and I've explained my reasons below.

Square's terms and conditions explain that in certain circumstances, including if they need to conduct an investigation into a transaction, they are entitled to hold back a merchant's funds to meet or mitigate actual or potential chargebacks.

In addition, the payment terms of the agreement between S and Square required that each customer enter its PIN when initiating a chip and PIN transaction. It also required S to acknowledge that it may be liable for fraudulent transactions that could have been prevented if S had properly used chip and PIN technology.

So, there is little more for me to add here than to agree with our investigator's conclusion that Square didn't make any error in the circumstances of this complaint. I say this as the transactions were manually input leaving S exposed to the risk of fraud. And it is clear from the agreement between the two parties that S had the right to withhold funds if it had concerns that a chargeback might be raised. Square's decision to place the funds on hold in this case is supported by the fact that two chargebacks were raised shortly after the hold was put in place.

In line with the rules of the card scheme, it is the responsibility of the merchant to provide compelling evidence to Square for a chargeback to be defended. So, I would need to see convincing evidence proving that the rightful cardholder did authorise the payments.

However, in this case, despite Miss F explaining that the card information including the postcode was entered into the terminal, there wasn't enough evidence, under the requirements of the card scheme rules, for Square to successfully defend the chargebacks when the rightful cardholder's bank contacted Square to explain that the transactions were fraudulent.

My role is to assess if Square has acted fairly in this matter, and taking all of the above into account, I can't fairly say that Square has made any error here and I think it is reasonable for them to require S to cover the costs of refunding the transactions.

Despite my conclusions, I recognise that S has been a victim of fraud and has suffered substantial financial losses as a result of this situation. But I'm afraid I can't say that this is because of anything Square did, or failed to do, in respect of the chargeback process or the authorisation of the transactions.

I am truly sorry that there is nothing more we can do to support S with this matter.

I know Miss F will be disappointed by my decision, but I won't be asking Square to take any action in respect of this matter.

**My final decision**

My final decision is that I don't uphold this complaint

Under the rules of the Financial Ombudsman Service, I'm required to ask S to accept or reject my decision before 26 July 2025.

Tara Richardson  
**Ombudsman**