

The complaint

Mr H complains about the customer service he received from PayPal UK Ltd when he tried to make a one-off payment to his credit account and reset his Direct Debit (DD).

What happened

Mr H has a credit account with PayPal. On 22 November 2023 he attempted to make a one-off payment of £226.40 to his account in order to pay off a purchase within the four month interest free period. He said he accidentally changed his monthly DD to that amount instead of the minimum monthly payment which he said he had already set up to be taken on the 28th of each month.

Mr H said he realised his mistake immediately and changed it back to the minimum payment instead of a one off. But, he said, on 1 December PayPal debited £240.40 when it should have taken only the minimum. Consequently, the DD was reversed by his bank. He said he lost confidence the DD was set up correctly, so he cancelled it thinking it was for £226.40. Mr H said he then rechecked the PayPal app and it appeared the monthly DD for the minimum monthly payment was still active. He said he felt reassured.

At the end of December, the minimum payment failed. Mr H said he was told by PayPal that the monthly minimum payment DD was set up. He said in January he received emails from PayPal telling him the DD was scheduled for the minimum monthly payment on 28 January 2024. But the payment failed again. Mr H said he spoke to PayPal once again as well as his bank to try to discover what had gone wrong. He said the PayPal customer service agents were rude, unhelpful and didn't seem to know what was going on. Mr H said he spoke to his bank which tried to reset the DD. But this didn't work. He has continued to have difficulty reinstating the DD. He complained to PayPal.

In its final response PayPal said Mr H needed to re-add his bank details in order to complete the two-part setup. It acknowledged the poor customer service he had received and applied £150 compensation to his account. Mr H wasn't satisfied and brought his complaint to this service. He said he'd been charged late payment fees even though PayPal said they haven't been applied. He said the £150 compensation falls way short because PayPal hasn't addressed the many issues getting the DD set up.

Our investigator concluded that PayPal had taken reasonable steps to sort out the DD issue and didn't need to do anything further. Mr H didn't agree and asked for a decision from an ombudsman. He said the view ignores the evidence that he has done what PayPal had asked and still the DD cannot be reinstated. He said he continues to get error messages and there is a fault with the PayPal system. He said he is left in the middle between PayPal and his bank who blame each other.

I issued a provisional decision on 16 December 2024. I said:

PayPal has said that because of the DD changes a payment of £226.40 was attempted. It said it appears Mr H reported the transaction as unauthorised to his bank and requested the bank reverse the transaction. It said the transaction was

reversed and the DD mandate was cancelled by the bank and PayPal. This meant a limitation was put on the account as the bank reported to PayPal that the account was being used fraudulently.

While I can see fraud wasn't the case it does appear that the account limitation affected the DD mandate. PayPal said the error lies with the bank as it has been unsuccessful in reinstating the DD. It said the combination of the earlier bank reversal and current validation and security criteria that haven't been met yet to re-establish the bank as 'safe' for use hasn't occurred. It said Mr H has to remove the bank from his PayPal account and re-add it and then confirm it. It said it sent instructions to Mr H.

In response to our investigator's view Mr H has said he continues to have problems setting up his DD. He helpfully provided a video which shows him trying to set up a DD and getting an error message. I put this to PayPal. PayPal said that on 3 March 2024, Mr H removed his bank account from his PayPal wallet. Immediately after he re-added the bank account and requested the DD Instruction (DDI) to be set up with his bank. On the same day, the DDI was sent to the customer's bank and a confirmation email was sent to the customer.

I've seen a copy of this as well as screen shots of the account. PayPal said its records show that Mr H's bank account is still linked to his PayPal wallet with the DDI accepted. However, it said the status of the account remains 'unconfirmed'. PayPal explained that the confirmation of the bank account is something that needs to be completed by the customer when they add or re-add a bank account. PayPal included the instructions that he should follow to confirm the bank account. I have not written them here as they are specific to PayPal but I will send these to Mr H along with the decision.

PayPal went on to say that Mr H has been making his PayPal Credit repayments with his card ending 7. It said he makes a one-off payment every month, however, it said it could confirm that he has the option to set up a DD for his PayPal Credit repayment with this card. This is available on his PayPal Credit account.

PayPal told this service it ensured that no fee or credit reporting has occurred due to the missed payments. Mr H disputes this. He said he's had to pay late payment fees and interest he wouldn't otherwise have had to pay. I've looked at the statements provided by PayPal and can see at least two late payment fees dated 30 January and 1 March 2024. I haven't seen these refunded. I think it fair and reasonable that these fees are refunded.

PayPal acknowledged the customer service had been poor and paid £150 in compensation. I think this fair and reasonable and what I would expect in the circumstances.

PayPal accepted my provisional findings. Mr H did not, and provided additional evidence and comments to which I have replied below where appropriate.

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 realise this will come as a disappointment to Mr H but having done so I believe my findings above still stand.

PayPal said on 16 December 2024, it successfully reactivated Mr H's bank account linked to his PayPal wallet and initiated the DDI. It said unfortunately, Mr H hadn't yet confirmed his bank account. It said this step couldn't be completed by PayPal on his behalf. PayPal said as an alternative Mr H could use a debit card associated with the same bank account to set up a direct debit or another bank account to process payments.

Since issuing my provisional decision Mr H has tried again a couple more times to confirm his bank account using instructions PayPal provided to this service. He hasn't been successful. He explained that none of the instructions work and don't match the reality of linking a bank account on the PayPal site. He is adamant this isn't working and it's not anything that he is doing wrong. He also called PayPal and it seemed unable to help him. I'd like to thank him for his patience with this as I know it's been very frustrating for him.

I asked PayPal to comment on Mr H's further attempts to set up the DD, and sent it the screen shots and video he supplied of his attempts, suggesting that the issue remained with PayPal and that it might be fair to award him additional compensation. PayPal responded. It said:

"Please note that the confirmation of a specific funding source (card or bank account) is something that cannot be completed by PayPal and depends exclusively on the account holder and their financial institution.

While we can provide instructions on how to complete the confirmation, if the customer is unable to do so for any reason, they must use an alternative funding source.

The customer must follow the steps previously provided to confirm their bank account or attempt to remove the bank account and restart the process. If they are still unable to confirm their bank account, they can use an alternative funding source, such as a debit card linked to the same bank account....the issue raised by the customer is exclusively related to their bank account and not PayPal's system.

Firstly, despite the account not being confirmed, they can still withdraw funds from their PayPal account. Secondly, they can continue to make online payments funded by this bank account; they simply need to use a debit card linked to the bank account instead of using the account number and sort code."

Mr H has said PayPal is telling lies and obfuscating on purpose. He said the Direct Debit Guarantee has been breached and he's been completely let down. He said he's provided evidence that the DDI have been sent and PayPal is not collecting upon them. I do appreciate this has been frustrating for Mr H and I understand his strength of feeling in this matter. I've seen evidence that Mr H has followed the instructions. He's provided evidence that he's tried. The issue appears to lie with the process between Mr H's bank and PayPal. And PayPal has explained confirmation of funding source cannot be completed by PayPal. I've no reason to dispute this process.

We are an informal resolution service. It's not my role to look at the processes and working practices of the business nor is it my role to punish the business. I haven't seen any evidence that PayPal has made a specific error, nor have I seen evidence it has lied to Mr H or breached the Direct Debit Guarantee. I also have no reason to doubt PayPal when it says it depends exclusively on the account holder and their financial institution for confirmation. I'm satisfied PayPal has acted reasonably by explaining alternative ways Mr H can continue managing his account if he is unable to confirm his current bank account link, including as I've noted above using his debit card. And I remain persuaded it should refund the late payment fees and interest.

Putting things right

To put things right PayPal UK Ltd must:

- Refund any late payment fees between 22 November 2023 and 2 March 2024
- Refund any interest accrued between 22 November 2023 and 2 March 2024
- Remove any adverse credit markers for the above period.

My final decision

My final decision is I uphold this complaint and PayPal UK Ltd must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 9 April 2025.

Maxine Sutton
Ombudsman