

The complaint

M, a limited company, complains that PayPal UK Ltd won't refund it the money it lost during a scam.

Mr A is a director and the sole shareholder of M and has brought the complaint on behalf of M.

What happened

The circumstances surrounding M's complaint are well known to the parties, so I haven't set them out in detail here. Instead, I've summarised what I consider to be the key points.

In December 2024, Mr A paid someone I'll call T to provide advertising and marketing services to him in a personal capacity. In the course of a discussion about further services T could provide, T told him it was having difficulty receiving payments into its account and Mr A was asked if he would accept some payments into his PayPal account on behalf of T and then send T the money. In return, Mr A was to receive some free advertising. Mr A agreed and the payments were received into M's PayPal account, before he sent equivalent funds to his personal PayPal account. Money was then withdrawn to Mr A's debit card with a business I'll call N, and Mr A then paid the money into his cryptocurrency account and funds were finally paid out in cryptocurrency to wallets T instructed Mr A to pay.

M has complained about the following payments:

Date	Amount	Destination
08/01/2025	\$224	Mr A's PayPal account
10/01/2025	\$699	Mr A's PayPal account
01/02/2025	\$675	Mr A's PayPal account

Unfortunately, Mr A says he didn't receive the advertising services he paid for and it appears T's other customers didn't either because they put in dispute claims to PayPal to recover the money they had paid into M's account. M wasn't able to show that the services had been provided to these customers and so PayPal refunded those customers and M's PayPal account was left with a negative balance.

M considers the payments were unusual and PayPal should have intervened to stop them. He also considers PayPal's Seller Protection should apply and M's negative account balance should be cleared.

PayPal says the money was transferred from M's PayPal account to Mr A's PayPal account and then withdrawn to Mr A's debit card and it is unable to recover the money. The buyers who sent money to M didn't receive the services they had paid for and filed Item Not Received claims. M wasn't entitled to seller protection because it only applies when a seller has sent an item to a customer and can provide evidence or tracking to show the item was received by the buyer. It says the APP Scam Reimbursement Rules don't apply to these payments because they didn't involve faster payments or CHAPS payments, rather they were peer to peer payments.

One of our Investigators considered M's complaint, but he didn't uphold it. He said he wasn't persuaded there was anything suspicious about the payments that meant PayPal should have stopped them or asked M questions about them before paying out its money. They were relatively low-value payments and not out of character with other payments M had made from that account. He didn't think there was anything more PayPal could have done to recover the money, since the payments went to another account in Mr A's name and ultimately, he paid the money out to the scammers.

He also considered M wasn't entitled to be refunded under PayPal's Seller Protection. He said this didn't apply since the payments M received into its account were for services that weren't provided.

Mr A didn't agree with the Investigator's assessment and asked for his complaint to be passed to an ombudsman for a decision. He provided the reference of another complaint which had been upheld by this service and which he thought was similar to his. He said the circumstances of his complaint clearly involve fraud. He didn't agree that the transactions on his business account between January 2024 and February 2025 were normal for his account. He had searched the account statements and could find very few transactions, and for lower amounts.

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 have read the details of the other complaint Mr A referred to in his submissions, and which he thinks is similar to M's complaint. Each complaint is considered on its own facts and while some features might appear similar, I think the circumstances of M's complaint are quite different.

In broad terms, the starting position is that a firm is expected to process payments and withdrawals that its customer authorises, in accordance with the Payment Services Regulations and the terms and conditions of the customer's account. And in this case, it's accepted by all parties that M authorised the payments and PayPal made the payments in accordance with M's instructions.

The APP scam reimbursement rules PayPal mentioned don't apply in the circumstances of M's complaint because the payments were not made through the faster payments system or CHAPS.

But taking into account longstanding regulatory expectations and requirements, and what I consider to be good industry practice, I agree PayPal ought to have been on the look-out for the possibility of fraud and made additional checks before processing payments in some instances.

In the circumstances of M's complaint, I consider there wasn't enough reason for PayPal to have stopped any of these payments or asked M additional questions about them. PayPal needs to strike a balance between promptly making the payments its customers instruct it to make and configuring its systems to detect unusual activity or activity that might indicate an increased risk of fraud. It wouldn't be practically possible or reasonable to expect it to check every payment. I would expect interventions to be proportionate based on the circumstances of the payment.

The payments here didn't have unusual features. They were three relatively small amounts paid between two PayPal accounts which were linked to the same person and email

address. They were for varying amounts, and they weren't paid in quick succession. They were not out of character with other transactions on this account, which saw frequent small transactions into and out of the account, sometimes with multiple transactions on the same day. While the account appears to have been used only once before August 2024, by the time these transactions took place in January 2025, I think it's reasonable to say that a pattern of frequent small payments, in different currencies, to and from the account, had been established. I consider this wouldn't necessarily have appeared unusual for a small business and considering the type of activity M is listed as being engaged in. Overall, I wouldn't expect these payments to have been flagged as suspicious by PayPal's systems, and I don't think it missed an opportunity it should have taken to intervene.

In terms of PayPal's Seller Protection, these payments are likely to have been sent to M's PayPal account to pay for advertising services the payers were due to receive from T. Since Mr A had paid for advertising services from T and hadn't received the services he paid for, it also seems likely that the customers who sent money to M also didn't receive the services from T that they had paid for. It is not surprising then that disputes were raised with PayPal and the money paid into M's account was refunded.

While PayPal's terms and conditions provide Seller Protection, in some circumstances, it generally applies to physical goods and requires proof of shipment/delivery to defend a claim. While some services or 'intangible goods' are covered, this still requires proof the service was delivered, provided or completed as described. I don't doubt that the buyer's didn't receive the services they paid for, based on Mr A's experience, and so they were entitled to claim and be paid refunds from M, since it was M's account they paid. I'm not persuaded M has a reasonable basis on which to suggest it should be covered by PayPal's Seller Protection, since it cannot show that the services people paid for were received.

I also note that the payments made from M's PayPal account were made for personal reasons, not for business purposes. Funds were received into M's account and paid out to Mr A as part of an arrangement Mr A had made in order to benefit from advertising and marketing services from T. Ultimately, it was Mr A who was scammed, losing money he had withdrawn from M. While M is the party that has been left with a loss, that's because Mr A withdrew money from it, rather than M having lost it to a scam. How Mr A and M account for these transactions is not a question for me here though.

Overall, while I understand that M has been left with a negative account balance, and I understand the impact this has had on M, its reputation and its ability to do business, I don't find any fault with the actions PayPal has taken and on that basis I don't think it would be fair and reasonable for me to require it to remove the negative balance from M's PayPal account.

My final decision

I don't uphold M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask M to accept or reject my decision before 16 January 2026.

Greg Barham
Ombudsman