

complaint

V is a limited company. It complains that PayPal Europe Sarl & Cie, SCA closed its account and withheld its funds.

background

V sells goods online. It had a PayPal account, through which it received payments from its customers.

PayPal decided to close V's account in February 2019. It blocked access to the account funds, of around £7,000. In June 2019, it used some of these funds to settle a separate working capital credit facility held by V. It released the remaining balance of around £3,200 in October 2019.

V says PayPal's decision to close the account was unfair. It believes the decision related to some of the products it sells – but says it was always open about these with PayPal, and had been approved for such sales just six months prior to the account closure.

PayPal says the account was closed after a review of V's account activity showed it to be in breach of its Acceptable Use policy. It says the closure, the settlement of the credit facility and the hold on funds were all carried out in line with the terms of its User Agreement. And on the latter, it says funds were held due to the risk of payment reversals (where funds would be returned to the sender).

Our investigator explained that the rules about who can use our service meant we could only consider V's complaint about things that had happened on or after 1 April 2019. So he didn't think we could look at PayPal's decision to close the account. But he thought we could look at what PayPal had done with V's funds.

On that issue, our investigator thought that PayPal had been entitled to settle the credit facility with the funds held on account. But he couldn't see why it had needed to hold on to the remaining funds for so long. He said that payment reversals had to be submitted within 180 days – but PayPal had kept the funds for much longer. With no explanation as to why, he didn't think that was reasonable. So he thought PayPal should pay 8% interest on the funds for the additional time that V had been without them, along with £150 compensation for the inconvenience of having to chase things up.

V accepted our investigator's view, but PayPal didn't. It maintained that its actions had been in line with the terms of the account. So the matter was passed to me to decide.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

The decision to close V's account

Firstly I should confirm our investigator's view that due to the limits of our jurisdiction, we can't investigate V's concerns about PayPal's decision to close its account.

PayPal closed V's account in February 2019. To be eligible to refer its complaint about this to our service, V would need to meet the definition of a "micro-enterprise" under our rules. And to do so, it would need to employ fewer than 10 people.

As V has exceeded this threshold over the last couple of years, it doesn't qualify as a micro-enterprise. So we can't look at concerns relating to anything that happened prior to 1 April 2019.

Our rules changed on 1 April 2019, allowing us to consider complaints from business customers who meet the definition of a "small business". I'm satisfied that V does. But the rules aren't retrospective – so we can only look into things that happened on or after 1 April 2019.

This means that while we can't look at PayPal's decision to close the account, we can consider PayPal's use and retention of the account funds from 1 April 2019 onwards.

The use and retention of V's funds

When V first referred its complaint to us, it was concerned that without access to its PayPal account, it was unable to make the payments needed to service its separate working capital facility. It wanted PayPal to use the account balance to settle the facility. PayPal did this – repaying the facility with some of the funds held on account and closing it down. Such action was allowed for under the terms and conditions of the facility. And as it seems that was in accordance with V's wishes, I can't see that it did anything wrong here.

Recognising the limits of what we can and can't consider within this complaint, I understand that V's main concern now is with how long it took PayPal to release the remaining account balance. The account was closed on 25 February 2019, with the funds released on 8 October – meaning V was without the funds for around 225 days in all. So I've thought about whether this was reasonable.

PayPal's terms and conditions allowed it to retain funds in these circumstances, for "so long as reasonably needed to protect against the risk of liability". This included for more than 180 days "if so required by PayPal". So while retention of the funds was allowed for under the terms of the account, those terms also explained that this was only where PayPal had a need or requirement to do so.

I can see the need for PayPal to have retained funds for a certain period of time, in order to cover any payment reversals that V's customers might seek to make (for example, through a chargeback). And that's a specific reason given in its conditions. But I think 180 days would be sufficient to protect against such risk – bearing in mind that in general, chargebacks have to be raised within 120 days of the transaction at issue.

Here, PayPal held V's funds for significantly longer than 180 days. We've asked it to explain why, but it's declined to give a reason. Within its final response letter of 4 June 2019, it explained to V that it would need to see valid ID before releasing the funds. But I understand from V that this was provided immediately – and PayPal's not said anything to the contrary.

So while I accept that the terms and conditions allowed PayPal to hold funds for more than 180 days if required, I can't see that it actually had a need to do so here. So retaining the funds for as long as it did was unreasonable. I think it ought to have returned them to V after 180 days.

I've gone on to consider whether V has lost out as a result of PayPal's actions. We've asked V if it incurred any costs or losses in being without the funds for longer than was necessary, but it's declined to share any details of those with us. So with no direct financial losses to consider, I think it would be fair for PayPal to compensate V for being deprived of the funds for the additional 45 days – which it should do by paying 8% simple interest for this period.

I appreciate that being without the funds would've put V to some trouble, both in adjusting its working capital arrangements and in pursuing the matter with PayPal – and then us – until the funds were released. So I also think PayPal should compensate V for this inconvenience, and agree that £150 is fair in the circumstances.

my final decision

I uphold V's complaint and require PayPal Europe Sarl & Cie, SCA to:

- Pay V 45 days' interest on the closing balance, calculated at 8% simple per year; and
- Pay V compensation of £150.

Under the rules of the Financial Ombudsman Service, I'm required to ask V to accept or reject my decision before 11 July 2020.

Ben Jennings
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