

## The complaint

Miss G complains that PayPal (Europe) Sarl et Cie SCA failed to allocate refunds to her account in accordance with its terms and conditions.

## What happened

Miss G has a regulated revolving credit account with PayPal. The terms and conditions of her credit agreement say that payments to the account will be allocated in a particular order, which has implications for how much interest will be charged on certain transactions (or whether interest will be charged at all on transactions which have promotional rates of 0% for a limited time).

However, Miss G noticed that a refund which had been made to her account by a third party in September 2022 had not been allocated properly. She repeatedly pointed this out to PayPal, but got nowhere. So in February 2023 she brought this complaint to our service. As PayPal did not consider that Miss G had previously raised a complaint with it, PayPal then investigated her complaint. Once it had done that, in March 2023, PayPal said it did not agree that it had misallocated any refunds or other payments, but it did offer to credit her account with £250 for what it called “lack of service.” This was a reference to Miss G saying that various staff members had failed to assist her. She did not accept that offer, but PayPal has said that it remains open.

Miss G later told us that she had started making only minimum payments to her account, because she had lost faith in PayPal’s ability to allocate payments in accordance with its terms and conditions. As a result, she has paid more interest than she would have done otherwise, and so she would like this interest to be refunded to her.

One of our investigators looked into this complaint, and discovered that Miss G was right: some refunds were indeed being misallocated. After some correspondence back and forth, PayPal agreed that this was an error, and so it offered to credit £200 to Miss G’s account. By then it was July 2023.

Our investigator thought that was a fair offer, as it was in line with what he said our service would typically award for this kind of error. In coming to that conclusion, he said that any extra interest which had been charged as a result of that error would have been a small amount, and much less than £200.

Miss G disagreed. She said that she had already incurred more than £100 in interest (at the time), and this should be taken into account. But our investigator disagreed. He said that the recurring error in the way PayPal allocates payments only affects some refunds made by third parties; it does not affect payments made by the account holder, and so there had been no reason for Miss G to reduce her monthly payments to the minimum amount. Rather, he said she should have mitigated her loss by continuing to run her account in the same way as before. He therefore didn’t agree that PayPal was responsible for Miss G paying more interest than she otherwise would have, and so he maintained that £200 was fair. (Since then, Miss G says that the total interest charged has gone up to £257.) Since agreement couldn’t be reached, this case was referred for an ombudsman’s decision.

Another ombudsman looked at this case, and although he did not issue a formal decision, he provisionally thought that £200 was not enough. The investigator passed this on to PayPal, which reviewed its offer. It recognised that it had previously offered Miss G £250 in March, which she hadn't accepted, and so it increased its offer of £200 to £250.

That ombudsman was unable to finish working on this case, and so it was referred to me. I wrote a provisional decision which read as follows.

### **What I've provisionally 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 am minded to uphold it and to award compensation of £450. I will explain why.

First of all, it is no longer in dispute that, for whatever reason, sometimes refunds are not allocated in accordance with PayPal's terms and conditions. I am not going to go into any more detail about that here (as much as Miss G would like me to), because I think the investigator has already given an adequate explanation. Suffice to say that the error does not affect all payments, and it only affects refunds. It does not affect payments made by customers.

I therefore agree with what our investigator said about mitigation of loss. If Miss G had continued to make her customary monthly payments instead of minimum payments, she would not have been charged so much interest. So I do not think it would be fair or reasonable of me to order PayPal to refund the interest she has been charged. Any extra interest which was charged as a direct result of this error would have been much less than £200, and so I think PayPal's offer of £200 for the misallocations was fair. It is in line with what I would have awarded myself, if no offer had been made.

However, I think that payment should be in addition to – not in substitution for – PayPal's earlier offer of £250 back in March, because that was for an entirely different thing. In March, PayPal was still disputing that any refunds had been misallocated. Its offer of £250 was for customer service issues which arose while Miss G was asking about her refunds. I note that she made six phone calls which did not resolve this issue, in addition to correspondence. I think that was a fair offer too, but it should not be subsumed within PayPal's later offer of £200 in July (or £250 in November). Both offers were made in relation to this complaint, but they were made in relation to entirely different issues within this complaint. So I think it would be fair to require PayPal now to honour both offers, which add up to £450.

(I have chosen to award £250 plus £200, rather than £250 plus £250, because PayPal's offer in November to increase its second offer to £250 appears to have been based on a mistaken belief that the offer in March was for the same thing, which it wasn't. And I think that £200 is fair compensation for the misallocation error, notwithstanding what my colleague thought about it.)

### **Responses to my provisional decision**

PayPal did not reply. Miss G reiterated that PayPal had been inconsistent in how refunds are allocated, but as that is not in dispute I do not need to reconsider that. She also said that PayPal's terms and conditions refer to a four month promotional period, but hers had been for three months. But when she raised this complaint, she told us she'd had a four-month promotional rate, so I think she has just remembered this wrong. I asked her if £450 was not

enough compensation, and she did not reply. So there is no reason for me to depart from my provisional findings, and I confirm them here.

**My final decision**

My decision is that I uphold this complaint. I order PayPal (Europe) Sarl et Cie SCA to pay Miss G £450.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 21 March 2024.

Richard Wood  
**Ombudsman**