

The complaint

Mr M complained because PayPal UK Ltd refused to refund him for a transaction he didn't make. He also complained about the service he'd received.

What happened

In late January 2024, a payment of £100 to a perfume retailer debited Mr M's PayPal account. Mr M said he hadn't made the payment. He contacted the shop twice and didn't get a response, and he also contacted PayPal.

PayPal later said that what Mr M initially filed was an "*item not received*" dispute, but I haven't seen the evidence showing the details of the first contact. Mr M later told us that when he got in touch with PayPal, he couldn't work out their complaints forms because the options were so confusing. On 19 February he sent PayPal a message about the dispute. He said:

"I have disputed this payment as it has nothing to do with me. I do not have any record of having entered a perfume shop... I'm confused where this payment has come from. I have checked with family to ensure it wasn't a mistake on their behalf but it is not. I think someone has scammed me. I have reset all my passwords to protect my account. Hopefully this can be resolved quickly."

In March, PayPal contacted the seller and requested proof of delivery. It sent Mr M a message on 11 March to say the seller had responded, but not what the reply was, nor whether Mr M was going to get a refund. Mr M tried to get an answer about getting a refund, but couldn't get any information from PayPal, which didn't respond to his requests for information. He complained.

On 1 April, PayPal sent Mr M a final response to his complaint. This said that its actions had been correct, fair and reasonable. It said Mr M could refer his complaint to this service if he was dissatisfied.

Mr M contacted this service on 4 April. He said that PayPal had rejected his claim and just said the case was closed. He pointed out that PayPal hadn't provided any receipt, or evidence of what had supposedly been purchased. And Mr M had seen that the disputed January transaction had taken place at 3.24 am. So he was out of pocket by £100 and said he was stressed out.

The next day, 5 April, PayPal refunded Mr M with the disputed £100. It later told this service it had done so because the seller hadn't provided proof that it had delivered goods to Mr M.

Mr M told us about the refund, and said he'd still appreciate us considering his case, because it had caused him so much stress. He said he'd had no reason or explanation from PayPal, and had been ignored by both PayPal and the perfume shop. He said he'd like some form of compensation.

Our investigator upheld Mr M's complaint. She pointed out that in Mr M's 19 February message to PayPal, he'd clearly stated that the disputed transaction had been unauthorised. His claim wasn't that he'd authorised the payment but hadn't received the goods.

She also said that PayPal's terms and conditions state it won't refund an unauthorised transaction if the customer didn't keep their account safe, either intentionally or with gross negligence. But PayPal hadn't provided any evidence that it had investigated this.

The investigator considered Mr M's testimony and the delay incurred, and the fact he'd had to bring his complaint to this service. So she said PayPal should pay Mr M £75 compensation.

PayPal didn't agree. It said it disagreed with the outcome, as it investigated the claim as the customer had requested, and had refunded him. It said it had followed its policy and timeframes, and cases could take time to work after requesting information from a seller. It said it had worked the case on the basis that Mr M had opened it, and felt it had taken adequate actions. So it didn't feel it should compensate Mr M.

PayPal asked for an ombudsman's decision.

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.

As I've set out above, I haven't seen clear evidence of exactly what Mr M said when he first disputed the £100 payment. PayPal said he raised it as "goods not received", and Mr M said the options were very confusing.

But what I have seen is the 19 February message which Mr M sent PayPal. This makes it very clear that what Mr M was alleging was that he hadn't authorised the transaction at all – not that he hadn't received goods he'd ordered. So PayPal knew by 19 February at the latest that the issue was whether or not Mr M had authorised the disputed transaction at all.

There are regulations which govern disputed transactions. The relevant regulations here are the Payment Services Regulations 2017. In general terms, the bank is liable if the customer didn't authorise the payments, and the customer is liable if they did authorise them.

But I can't see that PayPal investigated whether or not Mr M had authorised the payment. Instead it asked the seller whether it had proof of delivery to Mr M. It may be that this was how Mr M had first categorised the problem – he said the options were confusing. But I haven't seen any evidence of action by PayPal when Mr M first reported it. I haven't seen evidence that it did anything until March, several weeks after his 19 February message which said he hadn't authorised the payment, and longer still after he'd first raised a dispute. And when PayPal did take action, it didn't consider what Mr M had said in his 19 February message but just asked the seller about proof of delivery instead.

I note that PayPal didn't answer Mr M's requests for information. It would also have been very frustrating for Mr M to have received the 1 April final response to his complaint which essentially said it had acted correctly but didn't give him any answers either about a refund, or about what had happened. And it was nearly four months before Mr M had an outcome. I can understand why Mr M said he was stressed, worried and frustrated, having been £100 out of pocket from January until April, while trying to fight his case.

So I consider that although Mr M was eventually refunded, PayPal should also pay him £75 compensation for the distress and inconvenience it caused him.

My final decision

My final decision is that I uphold this complaint. PayPal refunded Mr M for the £100 loss after he brought his complaint to this service. But I order PayPal UK Ltd to pay Mr M £75 compensation for distress and inconvenience, for the reasons above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 24 December 2024.

Belinda Knight
Ombudsman