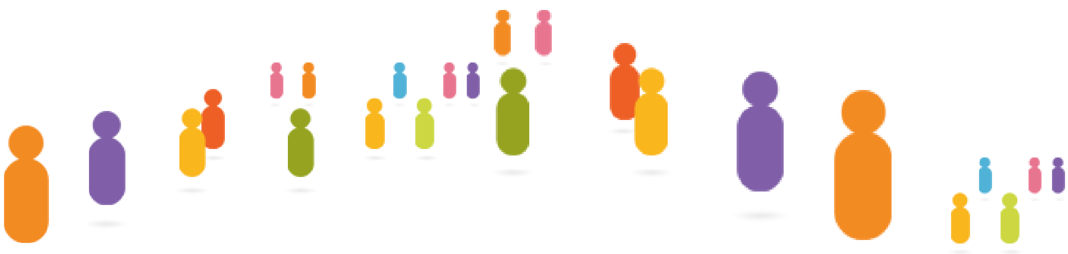
BEUC The European Consumer Organisation

The Consumer Voice in Europe

DYNAMIC CURRENCY CONVERSION

When paying abroad costs you more than it should



Contact: Jean Allix & Farid Aliyev – jal@beuc.eu - fal@beuc.eu

BUREAU EUROPÉEN DES UNIONS DE CONSOMMATEURS AISBL | DER EUROPÄISCHE VERBRAUCHERVERBAND
Rue d'Arlon 80, B-1040 Brussels • Tel. +32 (0)2 743 15 90 • www.twitter.com/beuc • consumers@beuc.eu • www.beuc.eu
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Why it matters to consumers

When paying or withdrawing money in a foreign currency, consumers are often offered the option to pay the transaction amount in their home currency – this service is called Dynamic Currency Conversion (DCC). When choosing the DCC option in card payments and ATM withdrawals, the consumer is financially worse off in practically every single case. It is almost impossible for a consumer to make an informed decision when presented with the DCC option, because of various nudging strategies put in place by the DCC service providers and merchants. BEUC calls for an EU level ban on DCC.

1. What is Dynamic Currency Conversion?

A consumer holding a payment card in euros is in front of an ATM in a country which does not have the euro as its currency. The device asks if he/she wants to pay in euros or in the local currency. If the consumer chooses the local currency, the transaction enters the payment circuit in the local currency and the bank of the cardholder will make the conversion to euros. If he/she chooses to make the payment in euros, it is the conversion service of the merchant which will make the conversion to euros. This latter service is called Dynamic Currency Conversion (thereafter DCC).

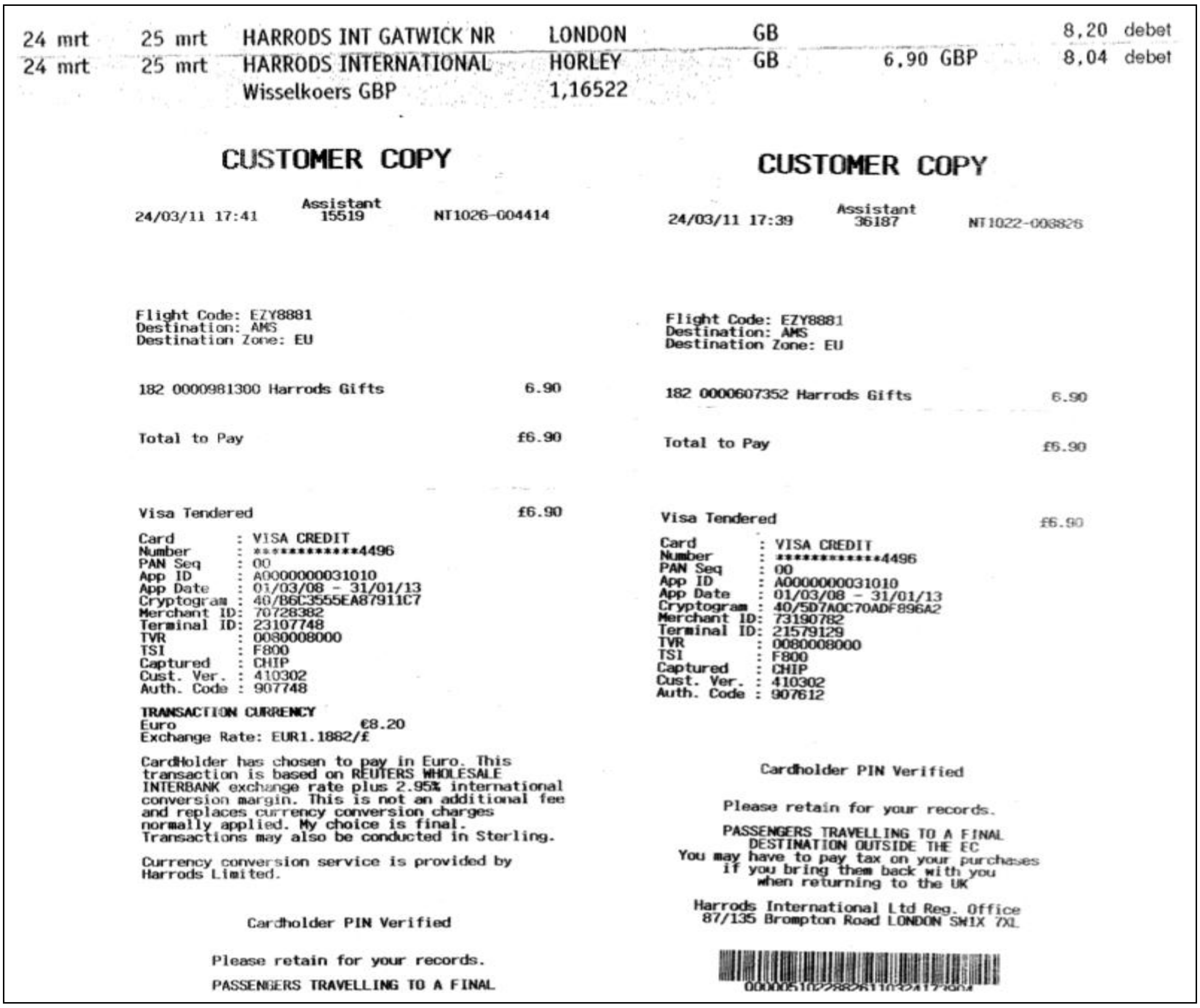
DCC can be provided by different entities, such as the merchant's bank or by companies specialising in this type of service. DCC is therefore the procedure whereby the merchant converts the amount of the transaction from the currency of the merchant to the currency of the cardholder. DCC services are offered by physical and online merchants, as well as ATMs.

2. The conversion trap

The available evidence shows that the acceptance of DCC by consumers is almost always to their detriment. An example of DCC is presented below.[1] In this case two transactions of the same amount were done almost at the same time (17:39 and 17:41 on the same day) – one transaction with DCC and one without DCC. The ticket with DCC indicates that the consumer paid €8.20. There is no mention, of course, of the final price paid in euros on the other ticket. But when the consumer receives their bank statement, they will know the amount they paid. Here, without DCC, the consumer paid €8.04. In this case the DCC mark-up is 2%.

[1] Article on dynamic currency conversion: https://en.wikipedia.org/wiki/Dynamic_currency_conversion#/media/File:Dcc_versus_non_dcc.png

Box 1: Comparison between card payment transactions with and without DCC



24 mrt	25 mrt	HARRODS INT GATWICK NR	LONDON	GB		8,20 debet
24 mrt	25 mrt	HARRODS INTERNATIONAL	HORLEY	GB	6,90 GBP	8,04 debet
		Wisselkoers GBP	1,16522			

CUSTOMER COPY

24/03/11 17:41 Assistant 15519 NT1026-004414

Flight Code: EZY8881
Destination: AMS
Destination Zone: EU

182 0000981300 Harrods Gifts 6.90

Total to Pay £6.90

Visa Tendered £6.90

Card : VISA CREDIT
Number : ************4496
PAN Seq : 00
App ID : A0000000031010
App Date : 01/03/08 - 31/01/13
Cryptogram : 40/B6C3555EA87911C7
Merchant ID: 70728382
Terminal ID: 23107748
TVR : 0080008000
TSI : F800
Captured : CHIP
Cust. Ver. : 410302
Auth. Code : 907748

TRANSACTION CURRENCY
Euro €8.20
Exchange Rate: EUR1.1882/£

CardHolder has chosen to pay in Euro. This transaction is based on REUTERS WHOLESALE INTERBANK exchange rate plus 2.95% international conversion margin. This is not an additional fee and replaces currency conversion charges normally applied. My choice is final. Transactions may also be conducted in Sterling.

Currency conversion service is provided by Harrods Limited.

Cardholder PIN Verified

Please retain for your records.

PASSENGERS TRAVELLING TO A FINAL

CUSTOMER COPY

24/03/11 17:39 Assistant 36187 NT1022-008826

Flight Code: EZY8881
Destination: AMS
Destination Zone: EU

182 0000607352 Harrods Gifts 6.90

Total to Pay £6.90

Visa Tendered £6.90

Card : VISA CREDIT
Number : ************4496
PAN Seq : 00
App ID : A0000000031010
App Date : 01/03/08 - 31/01/13
Cryptogram : 40/5D7A0C70ADF896A2
Merchant ID: 73190782
Terminal ID: 21579129
TVR : 0080008000
TSI : F800
Captured : CHIP
Cust. Ver. : 410302
Auth. Code : 907612

Cardholder PIN Verified

Please retain for your records.

PASSENGERS TRAVELLING TO A FINAL DESTINATION OUTSIDE THE EC
You may have to pay tax on your purchases if you bring them back with you when returning to the UK

Harrods International Ltd Reg. Office
87/135 Brompton Road LONDON SW1X 7XL

Several consumer organisations in the BEUC network have collected data about the cost of DCC transactions.

Stiftung Warentest[2] in Germany sent 20 investigators to make withdrawals and payments in 13 non-euro countries. In 11 of the 13 countries, ATMs offered DCC. In all cases where DCC was used, there was an increase in the price the consumer paid from between 2.6% to 12%. The highest costs were recorded in the Czech Republic, Poland and Hungary. In the case of payments in stores, the additional cost was between 2% and 5%.

A study by a Norwegian Bank included 1,500 transactions by Norwegian customers when abroad. The data was obtained on 16 different transaction days in April, May and June 2016 where the amounts were converted into their home currency (Norwegian krone). The survey showed that customers consistently lose when selecting Norwegian Kroner at the ATM abroad. Only 4 of 1,500 cases where cash withdrawals were in Norwegian Kroner (NOK) were cheaper than where the withdrawal took place in the local currency. This means the consumer lost out in 99.7% of cases by choosing the exchange rate of the merchant's bank.

[2] Geldabheben im Ausland: Vorsicht bei Sofortumrechnung in Euro!, Stiftung Warentest, May 2016: https://www.test.de/Geldabheben-im-Ausland-Vorsicht-bei-Sofortumrechnung-in-Euro-5014581-0/ https://www.test.de/Geldabheben-im-Ausland-Vorsicht-bei-Sofortumrechnung-in-Euro-5014581-5015436/

Converting in Norwegian Kroner was on average 7.6% more expensive using DCC (the margin difference between official Visa rate and merchant's rate.) The largest mark-up was 12.4%.

A small mystery shopping exercise carried out by Slovene consumer organisation Zveza Potrošnikov Slovenije last summer revealed that in Croatia most ATMs offer DCC. On average, consumers were up to 8.7% worse off when opting for DCC.

British consumers travelling abroad are spending about £300 million every year in DCC fees. In certain cases the DCC fee is around 10%. This is much higher than a typical mark-up of 0-3% applied by the consumer's bank.[3]

Public authorities warn consumers about the excessive fees related to DCC. For example, in 2015, the Slovenian embassy in Croatia issued information for Slovenian people on holiday informing them of the excessive price of DCC.[4]

Two of the four biggest banks in the Czech Republic distribute information containing recommendations not to use DCC. Česká spořitelna, a.s. (part of the Erste Group) and Československá obchodní banka, a. s., (part of KBC Group NV) recommend[5] their clients not to use DCC when they are travelling abroad: *"To the clients, the bank recommends avoiding the Dynamic Currency Conversion (DCC) offer, which is a service offered by foreign ATMs or foreign merchants where the client is offered a payment (or withdrawal) in its domestic currency. Often, a foreign entity does not offer a fully-favored conversion rate on Czech crowns."*

3. Who is benefitting from DCC?

The DCC provider, but also the merchant, benefit. Evidence of this comes from the Frequently Asked Questions section of Global Blue for merchants: "*Furthermore, the service grants you, the merchant, a commission on each transaction.*"

There is a similar message for merchants in a document produced by the Italian card scheme Cartasi: *"The advantages for your business: It offers you a tangible economic return because through Dynamic Currency Conversion you have an additional fee on each transaction converted."*

It is in the financial interest of the merchant to propose the DCC service, but almost never in the consumer's interest.

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3 Don't get burnt by foreign credit card charges, FT, 19 October 2017: https://www.ft.com/content/fd20820a-b412-11e7-a398-73d59db9e399

4 Consumer information on DCC by the Slovenian embassy in Croatia: http://zagreb.embassy.si/index.php?id=1149&tx_ttnews%5Btt_news%5D=24295&cHash=f31b90ba0a8fa972c970049f4d1ae8d1

5 Consumer information on DCC by Czech banks:
http://www.csas.cz/banka/content/inet/internet/cs/sc_17379.xml
http://www.csas.cz/banka/content/inet/internet/cs/Prirucka_drzitele_PK.pdf
https://www.csob.cz/portal/documents/10710/1922504/brozura-platebni-karty.pdf

4. Legal framework and its application

In December 2015, the EU Commission published a green paper on retail financial services. This paper contained already a strong criticism of the DCC:

"*In recent years, merchants have increasingly offered the option of using the currency exchange rate of their own bank (so called dynamic currency conversion), which at least provides some transparency to consumers and could provide better value for money. However, the merchant rates are not systematically better for consumers and they are often difficult to compare on a case by case basis with the rates offered by the consumer's bank as the precise rates offered by the banks are not available to consumers at the time of the transaction.*" BEUC has strongly supported this criticism.[6]

In its action plan adopted in March 2017, the Commission has announced that one of the 12 actions will be about dynamic currency conversion.[7]

DCC is regulated since 2007 through the Payment Service Directive 1 (PSD 1, article 49 - this article became article 59 in PSD 2 with an extension of the scope: Automatic Teller Machines (ATM) are now also covered).

The basic principle of this legislation is that the consumer should be informed about all charges as well as the exchange rate to be used. It is not said how this information must be provided. Therefore, the merchant may just give this information orally.

The principle laid down by this legislation is that before the transaction is initiated the consumer receives the information on the exchange rate that will be used, as well as any other costs. On the basis of this information the consumer agrees that the transaction be made in his home currency and not in the currency used by the merchant. Therefore, the consumer must receive this information and choose on this basis.

It is important to understand the behaviour of the consumer in these types of situations. Several interesting studies of behavioural economics have been published on the issue of DCC. A study titled "*What drives people to accept unfavourable exchange rates when converting foreign currencies*"[8] explains the seemingly irrational behaviour that people display when confronted with DCC.

Unless the consumer knows the official market exchange rate between the local currency and his home currency in advance, he/she is not able to make the comparison. When the consumer is in front of a till or an ATM, they do not have the time to open their smartphone (if they own one) and search for the official exchange rate, carry out some calculations and compare the exchange rates on offer. It is simply "mission impossible" when other customers are queuing behind, even for the most financially-savvy consumers.

[6] BEUC response to the Green Paper on retail financial services, March 2016, p.20: http://www.beuc.eu/publications/beuc-x-2016-027_fal_beuc_position_green_paper_financial_services.pdf

[7] Consumer Financial Services Action Plan, Action 2: The Commission will review good and bad practices in dynamic currency conversion and, on that basis, consider the most appropriate means (enforcement of existing legislation, voluntary approaches, reinforced legislation) to allow consumers to choose the best rate. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017DC0139

[8] Master thesis by Sander Bouw, Erasmus University Rotterdam, February 2016: https://thesis.eur.nl/pub/33440/MA-.Thesis-Sander-Bouw-417271.pdf

For the consumer it is much easier to see and understand the price in their home currency at the time of the purchase. It is also easier for them to organise their expense accounting. DCC providers also argue that the consumer will not take the risk of possible dramatic fluctuations of the exchange rate, as for a non-DCC transaction the conversion is made one or two days later. This argument is not valid as fluctuations in currency exchange are most often less important than the mark-up charged by the DCC provider.

Nowadays the development of new technologies allows the consumer to know instantly how much they have paid. At the time of written bank statements, the consumer needed to receive a paper document to know the real price in their currency for any specific payment. Today in many countries the consumer has an almost instant notification on their internet/mobile banking of all transactions done with a payment card. This means that the DCC service can or shall be replaced by consulting one's home banking account.

The PSD article (49/59) encounters many application problems. In face-to-face payments with merchants, the merchant usually sees that the card is in a different currency and simply asks the consumer if they want to pay in the local currency or in their currency. The consumer answers almost automatically that they prefer to pay in their home currency. This is normal, since the consumer knows the amount of the transaction in a currency they is familiar with.

This practice by the merchant does not respect existing legislation. The legislation provides that the cardholder must be informed in advance of the exchange rate that is applied to the transaction. In the present case, the consumer will only know the exchange rate by reading the receipt given to them at the end of the transaction.

The card schemes (Visa, MasterCard and others) have set up rules reflecting the application of the legislation to DCC transactions when their cards are used. For example, see MasterCard rules below.

Box 2*: MasterCard document "Dynamic currency conversion compliance guide"*[9]

Basic requirements as per the MasterCard Rules

An Acquirer or Merchant may offer DCC at the point of interaction, provided that the offering complies with all of the following requirements:
Before the Cardholder decides on the currency in which the transaction is to be completed, and before an authorization or pre-authorization*request for the transaction is submitted, it is essential that:
a. The Cardholder is first informed either verbally or via a terminal that they have the right to choose the currency in which the transaction will be completed.
b. Each of the following is made clear to the Cardholder:
- Transaction amount in the local currency
- Transaction amount in the billing currency
- Currency conversion rate to be applied should the transaction be completed in the Cardholder's billing currency.
Once the Cardholder has decided which currency they would like the transaction to take place in, the Merchant must honor the Cardholder's choice.
……

[9] Dynamic Currency Conversion Compliance Guide, MasterCard, page 8: http://www.mastercard.com/elearning/dcc/docs/DCC%20Guide%2020.02.17%20EN.pdf

To protect themselves against angry consumers discovering that DCC is a scam, card schemes require DCC providers to clearly state that there is no liability of the card scheme in the transaction. It is for example indicated on the ticket received by a consumer: *"I accept that I have been offered a choice of currencies for payment offered by /…/ payment acceptance and that this choice is final. I will have no recourse against payment schemes concerning the currency conversion or its disclosure."*[10] (Poland)

Another Polish example: *"I have chosen not to use the MasterCard currency conversion method and I will have no recourse against MasterCard concerning the currency conversion or its disclosure."*[11]

The use of DCC has been a matter of conflict between card schemes and DCC providers. The interests of card schemes and banks - members of the schemes - is for themselves to do the conversion, taking fees for each transaction. If the conversion is done by a DCC provider, the situation is different as the bank of the consumer will lose the revenue related to this transaction. Since the beginning, international schemes have been opposed to the development of DCC.

The Australian Competition and Consumer Commission, the national competition authority, took Visa to court in February 2013, claiming that Visa had breached competition rules by preventing merchants from accepting DCC. Visa argued that their motive for restricting access to DCC was to protect their customers from being confused, misled or disadvantaged by using DCC instead of Visa's currency conversion services. But the court rejected this argument and Visa was imposed a penalty of AUD18 million for anti-competitive practices in September 2015[12].

Regrettably, when assessing this DCC case, the Australian authorities did not take the consumer welfare into account i.e. whether competition really benefits consumers and what is the financial detriment suffered by consumers due to the DCC mark up[13].

5. False remedies?

The below example is a classic presentation of an ATM transaction proposing DCC. This illustration is in conformity with the existing legislation. Yet, the only information that the consumer has is the DCC exchange rate. Unless the consumer is well aware of the official market exchange rate, he cannot judge if this rate is financially interesting for him. This simple example shows that existing legislation is not properly crafted and does not work.

10 Information leaflet by Elavon, a DCC service provider: http://acquiring.elavon.com/documents/pdfs/ireland/DCC_Solution_sheet.pdf

11 Consumer forum on DCC: https://www.lonelyplanet.com/thorntree/forums/europe-eastern-europe-the-caucasus/poland/credit-card-rip-off

12 Australian Competition and Consumer Commission, press release, September 2015: https://www.accc.gov.au/media-release/visa-ordered-to-pay-18-million-penalty-for-anti-competitive-conduct-following-accc-action

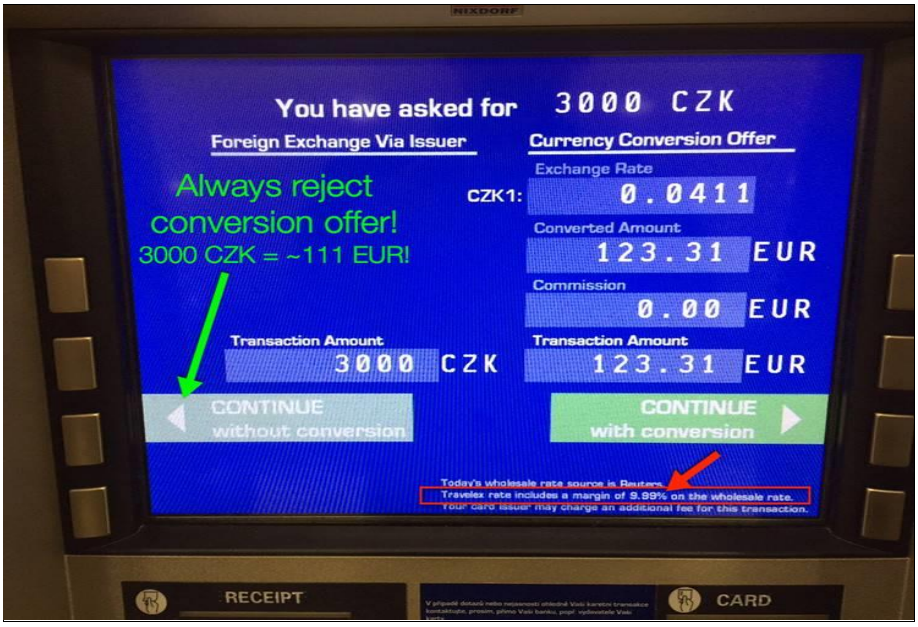
13 DCC has for many years been the subject of debate in Australia. A good summary of this debate is made by an article, which provides that the consumer accepts to pay in his home currency, which is the least favourable option. "DCC, robbery by choice", March 2015: http://www.smh.com.au/business/banking-and-finance/dynamic-currency-conversion--robbery-by-choice-20150329-1ma77q.html

***Box 3**: Example of ATM transaction with DCC option*

In addition, one needs to take into account the presentation of the DCC offer at merchants' shops and ATMs. The menu structure in many foreign ATMs and payment terminals is designed to nudge customers to choose DCC. They are using colours, size of buttons or flashing warnings guiding the consumer to choose DCC.

As regard payments in shops, the situation is also diverse. Sometimes, DCC is the default option, sometimes not, sometimes the consumer has to type 1 for local currency, sometimes 2 for DCC or vice versa. This is very confusing for consumers. Sometimes, DCC providers give the amount payable, sometimes not. Quite often, only when receiving the receipt will the consumer really know if they have chosen DCC or not. Furthermore, as reported by our UK member Which?, there is much anecdotal evidence that consumers are not given a choice at all, i.e. that DCC is automatically applied by the merchant.

***Box 4**: Example of ATM transaction with DCC option*



The above screen is an example of how a good idea has become a bad solution. The company indicates (in small print) that the margin taken is 9.9% of the wholesale rate. But at the same time, it indicates that the amount of the commission is zero. This is because the 9.99% are included in the exchange rate. The result is that the consumer will pay €12.31 just because they have the information displayed in euros. When the consumer is confronted with that kind of screen, the consumer will not read the small print, as they have no time for that, and the screen indicates that no commissions were charged. The practice is clearly misleading.

Asking the DCC provider to indicate their profit margin cannot work. The consumer does not know if the amount charged for the conversion corresponds to the market rate.

6. What is the solution?

First, it is clear that the existing legislation cannot work. It is a seemingly good idea gone wrong, as the consumer in most cases is unable to compare the proposed rate with the normal market rate.

First option: information disclosure provided by the card scheme

Many consumers appreciate to know the price of something in their home currency, as it is a reference to values they are able to compare. One technical solution could be that the card scheme itself provides the value of the transaction in the consumer's home currency at the time of the preauthorisation or of the authorisation of the payment. When the authorisation is completed, the device indicates the value of the transaction also in the currency of the card. Seeing this information at a payment terminal or ATM, the consumer can appreciate the exact value of the purchase (with and without DCC) and confirm or cancel the transaction.

Card schemes argue that such a solution would be too complicated and insecure for two reasons.

The first one is the fact that several days may separate the day of the transaction and the day the transaction is presented at the clearing system i.e. when the money is taken from the consumer's account. Therefore, the exchange rate when the transaction is cleared may be different to the rate on the day of the transaction. This argument is quite weak, as the risk of significant exchange rate fluctuation is very low.

The second reason put forward by the card schemes is that some banks take a mark-up in addition to the card schemes' basic rate. So, it would be very difficult for the authorisation system to collect the data related to the mark-ups of all banks. BEUC is not aware of the percentage of banks which take a mark-up. In any case it is possible to inform the consumer that it is an indicative price, as the card scheme does not know if the cardholder's bank charges other fees on that kind of transaction. In general, the difference between the price indicated at the beginning and the final one paid would be lower than the DCC fee.

Second option: separate disclosure of fees by DCC service provider

As shown in several examples above, this option would not clarify the situation, as the consumer would not necessarily understand that the DCC transaction is more expensive. The ambiguity is related to the currency conversion with fake zero commissions. It is exactly the same trick as used by many bureaux de change (currency exchange offices) which indicate that there is no commission, but the mark-up of the provider is included in the exchange rate. It is misleading advertising, but in many countries the authorities do not tackle the issue.

Third option: no DCC provision in the chip

Another technical solution could be to insert in card chips something which prevented the use of DCC. This solution would take some time to be implemented as there would need to be a common standard based on EMV[14]. As regard the implementation, it could be an opt-in solution (consumer request) or an opt-out solution (inserted automatically by the issuer except if the consumer disagrees).

Real solution: a ban on DCC

There is very little added value to a DCC service, which is the information of the transaction amount in the currency of the card. The evidence shows that the price paid for this service is extortionate. All bodies dealing with consumer issues are unanimous: consumers should never accept DCC. Only very frequent travellers may today be aware of this scam. But others who travel only occasionally to another country where their home currency is not used are unaware of DCC and fall victim to this practice.

A theoretical solution might be that DCC providers may only offer DCC if they demonstrate that they can offer a better rate (conversion rate and commission) than a payer's bank. Yet, we have not found any evidence that this solution would be technically feasible.

There is no practical solution to improve the current situation. Therefore, we call for a simple ban of this commercial practice.

We recommend that this issue be tackled in the context of the upcoming revision of the Regulation 924/2009 on Cross-Border Payment Fees, which is supposed to be kicked off in early 2018.

END

[14] EMV stands for Europay, MasterCard, Visa. It is the global standard for chip-based Debit and Credit Card transactions.

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