Stop Gouging Travelers with Dynamic Currency Conversion

by Eric Grover

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Not all payments innovation is good for consumers. Few people in the payments industry would recommend that their mothers vacationing in Paris make use of dynamic currency conversion — a service that allows people traveling abroad to use their credit cards to pay in their home currencies.

Dynamic currency conversion sounds like a convenient idea. But in fact, merchants take hefty and undisclosed currency-conversion fees each time consumers choose this option. Payment card issuers, networks and merchant acquirers have long reaped rich fees on cross-border card payments at the expense of oblivious consumers. Transparency about fees and market competition currently provides adequate regulation for card issuers and networks — but not for the acquirers who profit from foreign-transaction fees.

Credit-card issuers used to bury currency-conversion and cross-border fees on cardholders' billing statements. A 2006 settlement of a consolidated class action suit against Visa, MasterCard, and a number of issuers put an end to that. Now credit-card issuers disclose and separately itemize foreign-transaction fees.

The sunlight on fees has had a salutary effect. Capital One has no foreign-transaction fees. American Express, Citigroup and JPMorgan Chase offer select cards that do not carry them.

But the fees haven't gone away completely. Bank of America, JPMorgan Chase, Citigroup and Wells Fargo all charge 3% fees for foreign payments on most of their cards. American Express charges 2.7%.

Card networks and merchant acquirers also earn juicy cross-border transaction fees.

Visa charges credit-card issuers 100 basis points and acquirers 85 basis points on most cross-border transactions — tenfold typical licensing and processing fees for domestic payments.

Not to be left out of the cross-border-fee bonanza, merchant acquirers turned to specialists such as such as Planet Payment, Monex, Fexco, Global Blue, Pure Commerce and Fintrax to deliver DCC to merchants, enabling them to capture and share currency-conversion fees at the point of sale.

Unsurprisingly, DCC is popular among businesses. Acquirers embrace it because it lets them boost fees and offer merchants additional revenue. Merchants love it because they can trick one-time foreign customers into paying an additional 2% to 3% — sometimes more — for hotel rooms, auto rentals, meals and souvenirs. They share those fees with DCC specialists and acquirers.

Consumers, however, are still getting gouged by DCC. In theory, DCC presents consumers with the opportunity to pay in their currency of choice. Given the option, most consumers pick their home currency simply because it's familiar. In practice, however, many merchants simply execute the transaction in the cardholder's home currency without asking them first. I personally experienced this multiple times in the last 18 months in Hong Kong, London, Paris and Warsaw. The problem is widespread. Unaware that they've been gouged, consumers don't complain to the merchant or their credit-card issuer. Who but a foreign-currency trader would know, on the spot, that they've been ripped off?

While DCC is inherently deceptive and a horrendous consumer value, it shouldn't be outlawed. In a free-market economy, it is not Washington's role to determine on behalf of consumers which products have value and which don't. Instead, the payments industry should self-police and curb the practice. It is in the industry's interest to promote maximum value for, and thereby use by, consumers.

Card issuers own relationships with cardholders and should be their advocates. They should step up to protect their cardholders and warn them just how costly DCC is.

Visa briefly banned new DCC programs, but retreated under acquirer pressure. Meanwhile, MasterCard attempts to discourage DCC fees by imposing a 40-basis-point penalty fee on acquirers that use DCC. But that's not much of a deterrent. MasterCard should quintuple its DCC penalty fee and Visa should introduce one.

Moreover, and paramount: Amex, Discover, MasterCard and Visa should require merchants using DCC give consumers full and meaningful disclosure at the point of transaction. Before they swipe their cards, consumers should know how much they would pay if they choose the local currency with a wholesale conversion rate versus the price with DCC. Full disclosure would drive a stake into the heart of the sketchy industry.

DCC is a pox on the payments industry. It fleeces consumers and tarnishes the industry's reputation — and that's why it's in everyone's best interest to curtail the practice.

Eric Grover is principal at Intrepid Ventures, a corporate development and strategy consultancy advising payment issuers, networks and processors, and companies serving and investing in the payments value chain.