# How to avoid being gouged when traveling

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In 2017, 88 million Americans traveled abroad for business, pleasure or both. Most of them paid for goods and services with a credit card. And most of them were invited to pay in dollars rather than the local currency. The service enabling foreigners to pay with a credit card in their home currency is called Dynamic Currency Conversion (DCC). It's a ripoff. Politely decline the offer and insist on paying in the local currency.

With Dynamic Currency Conversion, merchants and payment processors mark up the exchange rate, typically 400 to 500 basis points, but often considerably more. Some 5-star Indian hotels mark DCC payments up almost 9 percent. The Brussels-based consumer-advocacy organization BEUC reported DCC transactions at ATMs in non-euro EU countries were from 2.6 percent to 12 percent more costly than if they'd been made in local currencies.

Consumers don't know they're being fleeced by Dynamic Currency Conversion, that if they paid in the local merchant's currency they'd enjoy close to the wholesale foreign-exchange rate through payment networks like Mastercard and Visa. So for many merchants the temptation to reap rich foreign-exchange markups off unsuspecting one-time foreign customers is irresistible.

Processors providing card-acceptance that don't offer merchants Dynamic Currency Conversion would forego profits and put themselves at a competitive disadvantage. Upstream, networks Mastercard and Visa, and banks issuing credit cards have insulated their lucrative cross-border-transaction economics by charging cross-border instead of foreign-exchange-conversion fees. Banks such as Bank of America, Chase and Citi for many cards charge 3 percent on cross-border transactions. For travelers, however, there's an important difference between their bank credit-card issuers' cross-border fees and merchants' DCC fees. They have a considered opportunity to avoid them. Issuers' cross-border fees are disclosed. Many issuers offer credit cards with no cross-border fees.

Nobody in the payments industry would recommend a friend or relative use Dynamic Currency Conversion.

In 2011, Visa attempted to ban new Dynamic Currency Conversion programs. But the Australian Competition and Consumer Commission objected, charging it with suppressing foreign-exchange competition at the point of sale, such as it was. In 2015 a federal court fined Visa $18 million. Visa scrapped its ban and introduced a 40-basis-point penalty fee on DCC transactions, which boosted its cross-border-transaction yield but was woefully insufficient to deter merchants from promoting Dynamic Currency Conversion.

Justice Louis Brandeis hailed sunlight as the best disinfectant. That's eminently true with foreign-exchange-conversion services at the point of sale and ATMs. Global networks Mastercard and Visa could mandate full disclosure of relevant foreign-exchange costs at the point of sale before their cardholders abroad decided whether to pay in their native or the local currency.

Those offering Dynamic Currency Conversion would have to disclose side-by-side the foreign-exchange costs and rates of paying in the cardholder's home currency (DCC) and the costs and rates of paying in the local currency using the payment networks' foreign-exchange service, at roughly the wholesale rate. That would protect consumers. Few consumers, if any, would knowingly pay 5 percent or 10 percent extra for the comfort of immediately seeing payments in their native currency.

Politicians and regulators haven't been interested in Dynamic Currency Conversion because it's foreigners being gouged and national merchants and processors profiting, and their citizens aren't aware they've been shafted by DCC. The supranational European Commission is the exception. There are 11 currencies in the EU. Plenty of its consumers are fleeced by DCC by EU merchants.

On March 28, 2018, the European commission proposed requiring meaningful Dynamic Currency Conversion disclosures. If its proposal is enacted into law by the European Parliament and European Council, it would solve the problem within the EU. Mastercard and Visa should take a cue from Brussels mandarins.

The global retail-payment networks are best positioned to clean up the scourge of Dynamic Currency Conversion. No regulator could reasonably object to their requiring full disclosure of DCC and non-DCC costs for Mastercard and Visa transactions, to ensure that consumers are able to make an informed choice.

When abroad be mindful, when paying with a credit card at your hotel or restaurant, or taking out cash from an ATM, pay in the local currency.

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