Mastercard and Visa should eliminate Dynamic Currency Conversion

By Eric Grover

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The European Commission may have shown Mastercard and Visa a righteous path to eliminating the global scourge of Dynamic Currency Conversion.

DCC enables travelers abroad to pay in their home rather than the local currency using a credit or debit card. Tourists and business travelers routinely experience it, knowingly or unknowingly. It's a rip-off.

For DCC, payment processors and merchants typically mark up the foreign-exchange-conversion rate by 400 to 500 basis points. Some five-star Indian hotels add close to 9% to nonrupee transactions. The Brussels-based consumer-advocacy group BEUC reported the cost of DCC transactions at ATMs in non-euro European Union countries ranged from 2.6% to 12% higher than if they'd been executed in local currencies.

DCC is popular with payment processors and merchants because it almost effortlessly boosts profits, gouging an often one-time consumer instinctively comfortable with and receptive to paying in his familiar home currency.

Consumers have no idea they've been fleeced. When buyers have products' material facts, competition drives ever-greater consumer value and ruthlessly polices the industry.

When there are significant knowledge asymmetries between buyer and seller, as is the case when merchants invite consumers to pay in their home currency, competition can produce perverse results. Moreover, merchant acquirers not offering DCC are competitively disadvantaged.

On March 28, the European Commission proposed that payment processors and merchants offering DCC be required to disclose the cost of paying in the local and cardholder's home currency to ensure consumers can make an informed choice. Regulators and consumer activists outside the EU, however, haven't been interested in DCC reform because consumers rooked are foreigners, and there are no points to be earned defending them.

As there are ten national currencies within the EU and the systemic abuse of consumers is so egregious, Brussels finally took an interest.

The right way to solve the problem worldwide is for industry self-regulation. Global payment networks like Mastercard and Visa are best positioned to take the lead. They should take a cue from Brussels and mandate full disclosure alongside foreign-exchange costs paying in the local and consumer's home currencies when merchants offer DCC.

Because consumers are unaware they've been defrauded and bank credit card issuers and the payment networks have substantially insulated their cross-border fees from DCC disintermediated, it's been easy for the industry to turn a blind eye to DCC.

Full disclosure would kill the DCC industry because no consumer would knowingly pay 5% or more to see a payment in his home currency.

Visa tried to curb DCC in 2011, banning new merchants from offering it. Merchants complained the network was restricting foreign-exchange competition at the point of sale.

The Australian Competition and Consumer Commission brought an antitrust action against Visa, and in 2015 a federal court fined Visa $18 million (Australian dollars). But, legitimate antitrust stops parties with market power from harming consumers.

While Visa has market power, its aborted attempt to curb DCC was intended to protect consumers and thereby the integrity of its payment system. It would be difficult for any competition authority to protest payment networks mandating full disclosure of the costs or estimated costs of paying in the local and consumer’s home currencies, which would likely destroy a deceptive industry that only exists to profit by shafting unsuspecting consumers.