

Why foreign exchange fees for credit cards need to be curbed

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Sometimes industry self-regulation does a better job protecting consumers than government regulation does. The only viable way to curb outrageous and deceptive credit card foreign exchange fees is for the payments industry to police itself. Anyone traveling abroad using a credit card has been invited to pay in their home currency. It's familiar. Most travelers accept the offer. The service is called Dynamic Currency Conversion (DCC). And arguably, it's a bad deal for consumers.

Normally, vigorous market competition ruthlessly weeds out bad products and forces ever better value for consumers. But competition where no significant information comparisons exist—and where there is no ongoing relationship between buyers and sellers—can produce the opposite.

With DCC, merchants and payment processors mark up the exchange rate: typically 400 to 500 basis points, but often considerably more. The Brussels consumer advocacy organization BEUC [reported](#) DCC transactions at ATMs in non-euro EU countries ranged from 2.6 percent to 12 percent more costly than if made in local currencies.

Consumers don't know they're being fleeced: that if they paid in the merchant's currency they'd enjoy close to the wholesale exchange rate. So for many merchants the temptation to reap rich markups from unsuspecting one-time foreign customers proves irresistible.

Processors that provide card acceptance that doesn't offer merchants DCC would forego profits and put themselves at a competitive disadvantage. Upstream the Mastercard and Visa networks, along with credit-card-issuing banks such as Chase and Citi, have insulated their lucrative transaction economics by charging cross-border instead of foreign exchange conversion fees.

In 2011 Visa attempted to ban new DCC programs. But the Australian Competition and Consumer Commission charged it with suppressing foreign exchange rate competition at the point of sale, such as it was. In 2015 [an Australian federal court fined Visa \\$18 million Australian](#) (\$12.6 million in U.S. dollars). Visa scrapped its ban and introduced a 40-basis-point penalty fee on DCC transactions, which boosted its cross border transaction yield but was insufficient to deter merchants from promoting DCC.

Mastercard and Visa are stewards of a global payments ecosystem. They have a stake in the system's integrity and maximizing holistic system value for cardholders, merchants and financial institutions. And Visa's instinct was right. But its heavy-handed approach to curbing the pox of DCC to protect consumers was wrong. Given its market power, an outright prohibition was bound to alarm competition authorities.

Justice Louis Brandeis hailed sunlight as the best disinfectant. Mandating full disclosure of the costs of cardholders' options abroad would be sufficient. Those offering DCC would have to disclose side-by-side the foreign exchange costs versus rates of paying in the cardholder's home currency (DCC) or in the local currency using the payment networks' foreign exchange service at roughly the wholesale rate. Few consumers if any would knowingly pay 5 or 10 percent extra for the comfort of immediately seeing payments in their native currency.

National politicians and regulators haven't shown interest in DCC because it gouges foreigners while national merchants and processors profit. The supranational European Commission is an exception. There are 11 currencies in the EU and thus plenty of its consumers are fleeced by merchants.

On March 28, [the Commission proposed requiring meaningful DCC disclosures](#). If 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. The global retail payment networks are best positioned to clean up the scourge of DCC. And no regulator could object to the full disclosure of DCC and non-DCC transaction costs, which would help consumers make informed choices.

It's time to protect consumers worldwide. Visa and Mastercard should mandate when merchants or ATMs offer DCC on their payment products, that the costs and rates of paying in the cardholder's and the local currencies be fully disclosed. That will put an end to systemic harm being done to consumers trusting those brands—and bring a needed change to foreign exchange.

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