



Dynamic Currency Conversion: The Myth versus the Reality

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Allowing cardholders to decide whether their issuer or acquirer offers the best currency conversion rates appears very attractive. However there seems much controversy over the benefits and costs of Dynamic Currency Conversion (DCC) and how cardholders actually encounter it when traveling

How do consumers regard DCC, and how has it actually been implemented by merchants?

Introduction

Dynamic Currency Conversion (DCC) has been on offer to consumers for some time, however it is increasingly encountered by travellers on the high street or in hotels when abroad. The coverage of DCC in the press ranges widely, from suppliers who extol its virtues of choice and transparency, to consumer groups and international press where the headlines are closer to “travellers be warned”. As a result of these differing views, and a desire to understand the level of penetration and consumer experience, PSE Consulting has undertaken a number of DCC research studies over the past 12 months. This article sets out to use the results of these investigations to understand the gap between the myths attached to DCC and the reality for travellers in Europe’s major travel destinations.

The DCC Offer

Before looking at the results of PSE’s Mystery Shopper Survey, it is worth recapping some of the attractive and less attractive elements of the DCC proposition for both merchants and cardholders. These are based upon feedback from merchants interviewed as part of the research exercise.

Merchants often explain their use of DCC in terms of its ability to offer a differentiated service offering which they believe consumers value. This is particularly true for merchants whose customers are less used to international, multi-currency travel, or those who tend towards higher value transactions (particularly American and Japanese). The revenue share opportunities from the foreign exchange margins also allow merchants to offset a proportion of their MSC cost, although this is frequently ranked as less important by merchants. Finally DCC suppliers are constantly innovating and delivering both integrated and stand-alone solutions with low set-up costs, often provided via the merchant’s existing acquiring bank. These changes make DCC easier to adopt and has helped take the solution out of the back office to one offered to consumers in a wide range of locations from tourist boutiques to international hotels.

Definition

Dynamic Currency Conversion (DCC) enables a merchant to offer the currency conversion service rather than a cardholder’s issuer. As an example, where a Euro-land merchant has decided to offer DCC, the cardholder is provided with a choice at the POS whether they wish to pay in Euro, or in their “home” currency (say) US\$. When the cardholder receives their statement the transaction will appear in US\$ rather than Euro with a US\$ conversion.

Consumers similarly find DCC an interesting offer. It allows for certainty of settlement value; easy price comparison/transparency of purchase against home market; it enables expenses to be claimed in advance of statement receipt; and finally it may actually be lower cost than issuer currency conversion rates. The majority of people interviewed as part of the research liked the offer, and would like to see it offered more widely. This preference was, however, dependent on being enabled to choose to opt into the service, and that merchant rates are competitive.

Unfortunately there are certainly drawbacks for both merchants and consumers. The cost of implementation in some environments can be substantial, especially for those merchants who currently use integrated back-office solutions (particularly large hotels). There is a limited business case outside the T&E sector given the set-up costs, particularly when the on-going investment in staff training and maintenance of the DCC offer is taken into account. Training can be a particular issue where there is high employee turnover, given the offer needs to be explained in cardholder's language, and the need to accurately select cardholder's currency. Acquiring bank's limited ability to deliver this training was identified by some of the large hotel chains PSE interviewed - "very little information and training was provided by the bank and from the technical personnel who installed the terminals. The installation personnel just arrived and installed the terminal without providing any additional information to the hotel's personnel." Banks are aware that merchant training is a major issue, but were concerned that the requirement to explain the offer in any cardholder language was an almost impossible request for most staff.

Unfortunately this situation has been made more complex recently because of the growing use of prepaid cards where the card's account currency is not linked to its BIN range. There is therefore a danger that a cardholder will be charged three times for their currency conversion. For example the cardholder is first charged by the issuer when the value is placed on the card in a non-domestic currency (eg from UK£ to €), then the DCC conversion is carried out by the merchant based on the BIN range of the card rather than the currency of the card account (eg from € to UK£) and then finally again by the issuer (eg from UK£ back to €). As indicated later, DCC also makes compliance with other aspects of regulatory change (legal or scheme) more complex, eg EMV terminal roll-out or implementing the Payment Services Directive's (PSD) consumer choice and redress requirements. Finally, many merchants are aware of the consumer wariness of DCC and of the negative coverage in the international press. Interestingly one of those interviewed stated "press campaigns in England and USA are backed by those that are losing a part of their business (card issuers). They were benefiting from the commissions applied to the exchange transactions and now that they are performed by [local] banks their income is decreasing".

"with prepaid cards there is a danger that a cardholder will be charged three times for their currency conversion"

Consumer issues with DCC very much revolve around this suspicion of a new and unfamiliar offer, as well as the fact that they may have heard of fellow travellers being "ripped off". They are particularly concerned about the lack of fee and rate transparency. DCC can also be a complex solution to offer because of language barriers. In the US there are also specific concerns linked to international usage

charges levied by domestic issuers that can hit cardholders even though no currency conversion is performed by the issuer.

DCC Rules and Regulations

There have been no direct investigations into DCC by regulators to date. The focus, particularly in the US, has been on the level and transparency of international currency conversion fees. However there are a number of current and upcoming regulations that may impact the nature of the offer provided to consumers.

The PSD, which is set for ratification by the European Parliament within the next six months, contains specific reference to currency conversion at the POS. It states: “Where currency conversion takes place at the point of sale or by the payee, the party offering the service to the payment service user is obliged to disclose all fees and charges, as well as the reference exchange rate used for converting the transaction to the payer prior to the initiation of the payment transaction.” This phrasing reflects effective lobbying by the international card schemes, whose rules are very similar. Their rules broadly contain the following:

- The cardholder must be informed of the exchange rate and any charges associated with the transaction before the transaction has been completed.
- The cardholder must then be allowed to choose whether to opt to carry out currency conversion at the POS rather than by the issuer.
- The cardholder must be able to opt-in rather than opt out – ie. the default is in the merchant’s local currency. This is particularly relevant when the retailer assistant cannot explain the offer to the cardholder effectively.

Merchant and bank reaction to these rules in high tourist volume areas is generally one of suspicion. Some merchants believed that the “English banks” and card scheme rules are unreasonable. One stated that the “conditions and requirements ... related to DCC operation are excessive. They are repetitive and difficult to apply to non-bilingual sales personnel.” Some of the banks interviewed were also critical of the international card schemes. “Internally we haven’t had any problems, the major issues have come from one of the international schemes. Their requirements are excessive and do not bring any added value to the service.” Bank and merchant reticence to implement scheme rules is in stark contrast to consumer preferences to full transparency in the offer (see below).

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In order to understand better how well DCC has been implemented, PSE carried out several mystery shopper surveys to determine the penetration of DCC and whether cardholders are being provided with a better service via currency conversion at the POS rather than by their issuer. The surveys were carried out in London and Madrid, during 2005 and 2006 across over 200 merchant locations and a wide range of merchant types.

DCC Penetration

There is still a relatively low penetration of DCC across the whole merchant base – only 10%-15%. However one bank stated that “DCC is a business with a high potential in the future due to the growing number of tourists coming to Spain (second country in number of visitors per year) but it is still a very limited [at present]”. This is already reflected by the fact that within Madrid’s T&E merchants DCC penetration is now reaching c.40%-50%. DCC is concentrated at merchants in some of Madrid’s larger retail chains, a few high end luxury good retailers and a growing number of tourist souvenir shops. DCC is also available in the majority of Madrid’s hotels, though is concentrated in the national or international hotel chains, rather than well known five star independent local hotels.

30% of consumers who had used their credit cards in Madrid had encountered DCC. The general consumer perception of DCC is that they like the choice it provides, and they would like to have it rolled out across a larger base of merchants and in other cities. However they always want low rates, no other charges, as well as the ability to choose DCC or not. None of the consumers surveyed knew that they had the ability to opt out of the service when offered.

London is also regarded as a relatively “mature” DCC location, but PSE’s Mystery Shopper Survey indicates that DCC is still focused in the hotel and car hire sectors. Based on PSE’s experience, around 10%-15% of high value, centrally located, retail stores in London appear to offer DCC. This compares to approximately 25%-35% of hotels, and almost all (80%) of car hire firms. Within the car hire and hotel sectors the solution has been in place for some time and has been implemented centrally. In retail stores, however, some merchants have withdrawn the offer following the introduction of EMV, or have stand-alone terminals that serve stores on a location by location basis.

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The Consumer Offer

Over a third of the Mystery Shopper Survey transactions in Madrid did not meet card scheme rules. Non-compliant transactions included “no-choice” provided and “no explanation of the exchange rate/charges”. In a number of cases the mystery shopper had to request the transaction be re-processed in order to complete a DCC transaction. It also appears that some merchants throw away

the first receipt with the rate and the choice, and only present the final receipt with the transaction in the cardholder's local currency. Two specific non-bank implementations are worthy of note. In one large department store tickets were only issued in the consumer's currency, without any choice or provision of information (the receipt is also written only in Spanish). Employees also were unaware of the systems functionality i.e. how to by-pass the DCC offer and allow for a sale in Euros, reverse transactions or answer cardholder questions on rates. At another merchant, the choice was offered, but only the amount in Euros and foreign currency was provided, not the exchange rate.

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The scope of the consumer offer supported by current DCC suppliers varies significantly - one merchant stated “the terminal outputs directly the credit card slip in Pounds [USD, or Yen] and there is nothing I can do”. Among all the small merchants contacted, only one was able to describe the process approved and mandated by the ICS. In some cases this appears to be part of a strategy to ensure the greatest number of DCC transactions, but the majority appear to have a lack of information and training. Many do not understand that the amount in the non-Euro currency is provided for information purposes only, or that the consumer has the choice of opting out of DCC.

In London, however, tourists are almost universally provided with sufficient information on exchange rates to choose whether to opt for the DCC offer. A transaction carried out at one of the budget hotels was the only occasion, at retail or hotel location, where the cardholder receipt was converted into Euro before DCC was offered, but a choice was still provided. It appears that tourists' propensity to take up the DCC offer is dependent on the rate quoted. Based on our conversations with sales staff, there is a relatively low incidence of customer complaint. The level of training encountered was generally of a reasonable standard, though the POS terminal appears to be the main prompt for the sales assistant. Explaining the offer in languages other than English therefore may have proved complex. At several London locations the assistants did not have English as their first language and as a result (and possibly through poor training) some did not understand the basis of the DCC transaction, or could not communicate the concept fully to the cardholder.

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Finally, the customer offer at the London car hire locations was not as transparent as in the retail and hotel locations. The initial rental agreements are typically in Sterling. The final receipts are in Euro. For one car hire company customers have to actively opt out of the (proprietary) service and the rate offered was not particularly competitive. Assistant's desire to process car hire transactions quickly

often means that they do not provide any information on the DCC offer (this often extends to other additional services including insurance, etc).

What Next for DCC?

Cardholders seem to like DCC, and the commercial returns on offer to acquirers and merchants are likely to mean that DCC is here to stay. Recent changes in international card scheme rules means that DCC at the ATM is likely to grow alongside the POS offer, perhaps more quickly, given the relatively few players involved and the propensity for travelling consumers to withdraw cash overseas. New POS solutions are also being developed that are fully EMV compliant and explain the offer on the screen in the cardholder's language. These should both help reduce the need for merchant training and ensure that the offer is provided in a consistent manner.

However with expansion will come oversight. PSE's mystery shopper survey does indicate that there are still many locations which do not meet ICS scheme mandates or the expected PSD requirements. These practices must come to an end if consumers are to feel comfortable with POS currency conversion rather than at their issuer.

About PSE Consulting

PSE Consulting is a leading European payment business and technology consulting organisation. The company was created in 1991 by Peter Jones and operates from offices in London.

PSE Consulting is a founder member of the European Payments Consulting Association (EPCA), an association of like consultancies operating in six European nations.

PSE Consulting provides independent advice to many of the European institutions mentioned within this article and to many other players who are currently shaping the European market place.



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