

FACTSHEET

The great currency conversion scam

What is dynamic currency conversion?

Dynamic Currency Conversion (DCC) is a practice merchants offer consumers when they are abroad or online so they can pay in their home currency. Cash dispensers also offer it so consumers can see how much they are about to withdraw in their home currency. The practice was created in the 1990s and is increasingly used across EU countries, especially in non-euro Member States.

For example, a German tourist goes to Hungary and buys something in a shop. The merchant asks if he or she wants to pay in euros or in Hungarian Forints. If the German tourist opts for euros, he or she is using a DCC service.

What's wrong with it?

Fundamentally, it is a scam. The consumer is almost always paying more just to see the price in their home currency. Worse, there is no realistic way for the consumer to make an informed decision when presented with the DCC option.

What happens behind the scenes is that if the consumer chooses the local currency, the bank of the cardholder will make the conversion to euros. If he/she chooses to make the payment in their home currency, it is the merchant's service provider which makes the conversion to euros.


The practice is structured in a way that makes it virtually impossible for the consumer to make an informed decision at a merchant's shop or cash dispenser. The consumer needs to know the exchange rate of his bank, the exchange rate of the merchant's bank, the conversion fees if any, and then be able to calculate in a fraction of a second what the best option is, all while being in a queue with people waiting behind them.

German product testing organisation Stiftung Warentest sent 20 investigators to make withdrawals and payments in **11 countries** where DCC is offered.¹ In all cases where DCC was used, there was an **increase in the price** the consumer paid from between **2.6% to 12%**. The highest costs were recorded in the Czech Republic, Poland and Hungary.



A study by a Norwegian bank covered 1,500 transactions by Norwegian customers abroad. Only **4 of 1,500 cases** where cash withdrawals were in Norwegian Kroner (NOK) were cheaper than where the withdrawal took place in the local currency. This means **the consumer lost out in 99.7% of cases**.

¹ Geld-abheben Im Ausland: Vorsicht Bei Sofortumrechnung In Euro!, Stiftung Warentest, May 2016:
<https://www.Test.De/Geldabheben-Im-Ausland-Vorsicht-Bei-Sofortumrechnung-In-Euro-5014581-0/>
<https://www.Test.De/Geldabheben-Im-Ausland-Vorsicht-Bei-Sofortumrechnung-In-Euro-5014581-5015436/>



Some public authorities even warn consumers about the excessive fees related to DCC. For example, in 2015, the Slovenian embassy in Croatia issued information for Slovenian people on holiday informing them of the practice of DCC.²

This form of currency conversion hits consumer pockets hard. British consumers travelling abroad are being charged more than £500 million every year in dynamic currency conversion fees.³ That means billions of euros are charged to EU consumers annually.

Who benefits from DCC?

Firms that offer the service play the convenience card – the consumer can immediately choose to see the transaction in their own currency when paying or withdrawing money. But it's far more **'convenient'** for the trader and his bank.

Dynamic currency conversion is a lucrative and opaque business model. It generates substantial income for merchants and their banks. Evidence of this comes from the Frequently Asked Questions section of Global Blue (a dynamic currency conversion service provider) for merchants: **"Furthermore, the service grants you, the merchant, a commission on each transaction."**⁴

What should be done?

An EU law on payments obliges merchants to disclose all charges to the consumer, as well as the exchange rate used for converting the payment transaction, BEFORE the transaction takes place. So formally, currency conversion providers are playing by the rules. Yet the rules don't work in practice.

Even if the merchant ensures total cost transparency at the time of the transaction, the consumer is still trapped by the complicated calculations he/she has to make. BEUC's advice is simple: **always pay in the local currency.**

There is very little added value to a DCC service. The evidence shows that the price paid for knowing the transaction amount in one's own currency is extortionate.

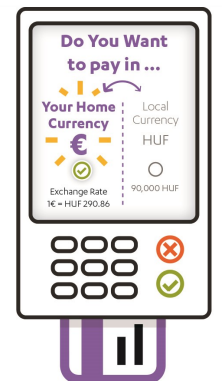
EU policy-makers are keen to help consumers make informed decisions, but that appears impossible when it comes to dynamic currency conversions. Dynamic currency conversion should be banned altogether.

THE GREAT CURRENCY CONVERSION SCAM

DON'T GET FOOLED NEXT TIME YOU TRAVEL ABROAD!

! We want the EU to ban this practice.

Tip: pay in the local currency when you're abroad.



² Consumer information on DCC by the Slovenian embassy in Croatia: http://zagreb.embassy.si/index.php?id=1149&tx_ttnews%5Btt_news%5D=24295&cHash=f31b90ba0a8fa972c970049f4d1ae8d1

³ Financial Times, Don't get burnt by foreign credit card charges, 19 Oct 2017, <https://www.ft.com/content/fd20820a-b412-11e7-a398-73d59db9e399>.

⁴ Global Blue, FAQ/Why should a merchant select Global Blue's Currency Choice? <http://www.globalblue.com/business/uk/tools-and-support/faqs/>