

European Commission
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Input to Consumer Financial Services Action Plan: Dynamic Currency Conversion (DCC)

On March 23rd 2017, the European Commission presented its Consumer Financial Services Action Plan titled “Better Products, More Choice, Greater Opportunities”.

According to the Commission, the action plan is also an invitation to market participants, providers and consumers, to contribute to the creation of a deeper Single Market for retail financial services.

The Norwegian Consumer Council (Forbrukerrådet) hereby take the opportunity to provide the European Commission with input on one of the sub-themes listed in the action plan, namely Currency Conversion Rates, which is discussed in section 2.2.2 of the plan. Our main focus is on so-called Dynamic Currency Conversion (DCC).

Background

Dynamic Currency Conversion generally implies that merchants overseas make use of a conversion rate that is significantly higher than the actual exchange rate. Because most customers do not check the math at the point of sale, many consumers end up paying more than they need to and the merchants get away with it and can put the difference in their own pockets.

DCC is a “service” of hardly any value or benefit to consumers. In addition, most Europeans already have access to instant notification on transactions charged on their card. The need for accurate price information would be solved this way.



Consumers report that the design they encounter on many foreign ATM-screens are creatively deceptive. Foreign ATMs are often carefully customized to guide users to choose the most costly option, for example by using colour and icon placement and “warnings” to guide card users into choosing the currency the ATM owner will earn the most money from. In behavioural sciences such methods are commonly recognized as "nudging". The use of colours, font size, text placement and graphic elements like national flags are applied in ATMs in order to direct foreign consumers in a specific direction that is commonly unfavourable for them. For example, it is common to assume that customers making withdrawals from an ATM are more inclined to press a green button rather than a red button, or to choose the national flag of one's home country rather than choosing a dull grey field.

Example:



Image: Sparebanken Vest.



In our view, there are strong arguments for introducing stricter regulation and ban on practices related to how commercial entities twist currency conversion rates in a way that causes consumer detriment. DCC is a “service” of no practical value for the consumer.

However, in anticipation of stricter future regulations, we welcome the Commission's initiative to undertake a study to develop a broader evidence base and a better understanding about dynamic currency conversion practices and rates. In this connection, we would like to make the Commission aware of two relatively recent studies, the first made by a Norwegian bank and the second by the Norwegian Consumer Council.

Survey conducted by Sparebanken Vest

In a survey conducted by one of the largest savings banks in Norway in 2016 it was revealed that in 99.7 percent of the cases, consumers lose when choosing to pay in their home currency while traveling abroad.

The material underlying the case is based on a random withdrawal of 1,500 ATM transactions made in Europe with debit Visa cards issued by Sparebanken Vest. The withdrawals were made during 16 different transaction days in April, May and June 2016. Each transaction's exchange rate is then calculated and compared to Visa's official exchange rate on the given day to reveal any gains or losses for the customer by choosing Norwegian kroner.

Out of 1,500 transactions there were only 4 cases where it was most beneficial to withdraw money in Norwegian kroner. The largest margin difference measured against the official Visa prices was 12.4 percent. The currency fee used by the bank, 1.75 percent, are taken into account in the calculations so that the comparisons are "net" against "net".

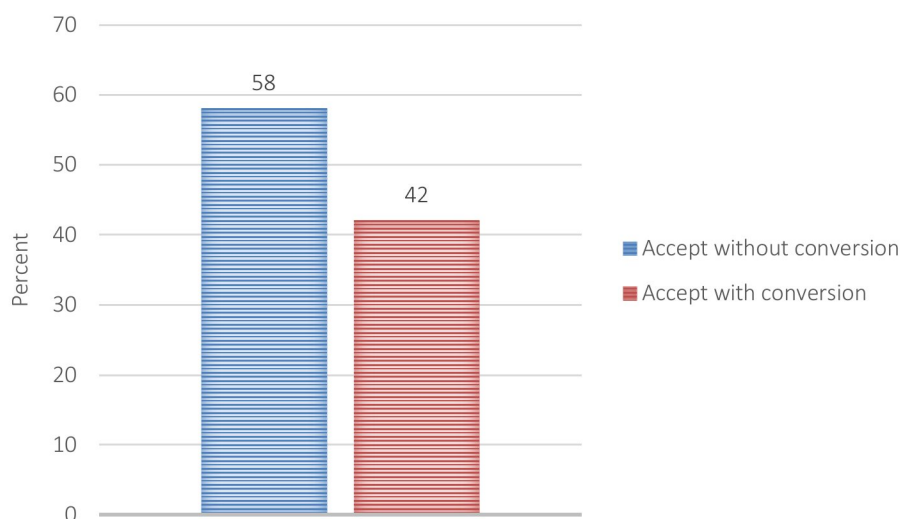
A conservative calculation made by Sparebanken Vest, based on the 1,500 foreign exchange transactions abroad, indicates that the customers of this bank alone unnecessarily gave up in excess of NOK 50 million in 2015 when using their cards abroad.

Survey commissioned by the Norwegian Consumer Council

In a recent survey in April and May 2017 conducted by Norstat on behalf of the Norwegian Consumer Council, a total of 1,000 interviews were made to reveal which option and currency Norwegians would generally choose when using an ATM or a payment terminal abroad.



The results are illustrated below:



As shown in the bar chart above, more than four out of ten would choose to withdraw cash from an ATM abroad by accepting to use currency conversion, thus ending up in a currency trap.

The results are weighted by gender, age and geography according to public statistics. Error margins are between ± 1.4 and ± 3.2 percentage points.

Proposals

The Norwegian Consumer Council promote introduction of an appropriate regulatory framework that can lead to necessary changes and drive down costs, and also enable consumers to make informed and better choices.

The scope and ambition of the action plan on Dynamic Currency Conversion should not be limited to introducing cosmetic changes. Instead, the goal should be fundamental changes.

The Norwegian Consumer Council will argue that the best solution to curb practices like Dynamic Currency Conversion, which are obviously unethical and disadvantageous for consumers, is to introduce an outright ban. There are no reasons to maintain "services" that does not create an added-value and which only intends to rip consumers by inflicting higher costs.



However, if prohibition of DCC-practices are not introduced, a minimum solution must be to introduce requirements for ATM designs and payment terminals that clearly present the financial consequences of different choices.

In a choice between selecting local currency and home currency, it should be clearly stated on the screen what the final amount/total cost will be (including fees) for the consumer if he or she chooses either one or the other.

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Best regards,
The Norwegian Consumer Council

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