

SOMETHING OLD, SOMETHING NEW, SOMETHING BORROWED, SOMETHING BLUE?

IT'S NOT THE SAME OLD SONG AND DANCE

by J. David Oder

Dynamic Currency Conversion (DCC): Everyone is talking about it, but only one processor is even close to making it happen and it isn't one of the big boys. DCC will make your foreign customers happy and will make money for you, the merchant.



lars) (see Figure 1). The transaction is credited to your account and when the issuing bank converts the local currency amount to the foreign currency to “charge” it to the cardholder, a 3 percent fee is added before the card association and issuing bank converts the currency using the foreign exchange rate. For example, a British cardholder is charged \$100 for a meal. The charge becomes \$103 before it is converted to his native currency, pounds. That additional 3 percent goes to the card associations (Visa/MasterCard) and the cardholder’s issuing bank, which handles the funds transfer.

Foreign travelers are familiar with this charge, but since it is buried within the exchange rate, they don’t know what amount to expect on their cardholder statement in their native currency, and don’t accurately know what the exact amount will be when signing the sales slip.

With dynamic currency conversion foreign transactions are spun off to a DCC transaction processor that specializes in foreign currency conversions and maintains an inventory of foreign currency (see Figure 2). Because of this, when the processor charges the same amount for the transaction that the issuing bank does, they are able to create a windfall and rebate a portion of the 3 percent back to you, the merchant. These rebates are usually in the range upward of 50 basis points or about 0.5 percent. In our \$150 to English pounds example, the rebate to the merchant would be 0.5 percent of \$150 or \$.75. That doesn’t seem like much, but since Visa states that 5 percent of the cards presented for payment in the United States are foreign currency cards, the amounts will add up. If you are on any coast, in a border area of the country or in or near a resort frequented by foreign travelers, the foreign card volume can jump to 20 percent or even 30 percent. Also, with dynamic currency conversion you should be able to provide enhanced guest service by providing text on the sales slip defining the amount charged in the merchant’s currency (U.S. or Canadian dollars) and the amount charged in the cardholder’s native currency. This makes a big difference in guest service.

We are talking about credit cards here, not about a wedding. That’s the something borrowed. The something old, something new and something possibly blue (as in: you may be singing the blues) is one of the most exciting processes in credit cards to come along since BankAmericard® became VISA® or MasterCharge® became MasterCard®.

The something new is called dynamic currency conversion or DCC for short. Everyone is talking about it, but only one processor is even close to making it happen and it isn’t one of the big boys.

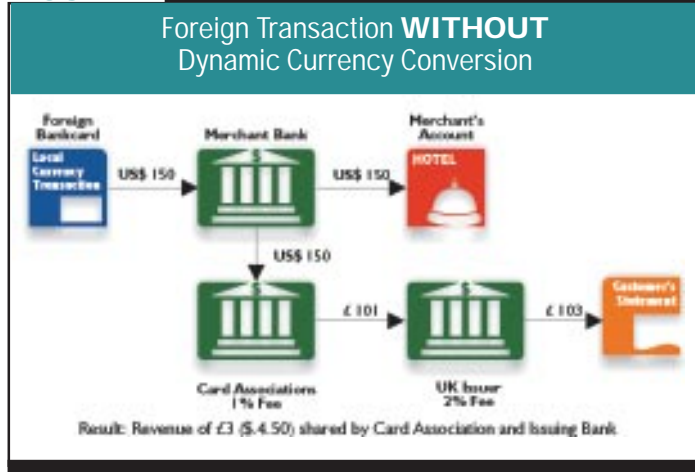
DCC is a new functionality in the United States and Canada that will make your foreign customers happy and will make money for you, the merchant. Before we finish with the title of this article, let’s describe DCC.

Without dynamic currency conversion, when a foreign guest at your property presents a Visa or MasterCard issued by a foreign bank for payment of goods or services, the transaction is handled in the local currency (U.S. dol-

Something Old and Something Blue

The something old is the fact that dynamic currency conversion has been around a long time in Europe. Until recently there were so many currencies and travelers were constantly in a country with a different currency from their

FIGURE 1



own. The added cost of the 3 percent and the hassle of not knowing what amount would appear on their cardholder statement made it imperative that dynamic currency conversion became the norm. Since the founding of the European Union however, and the adoption of the Euro as the European currency, DCC in that part of the world has become limited to English pounds to Euros or Euros to pounds. When the British finally join the E.U., DCC will become something of the past in Europe — or will it?

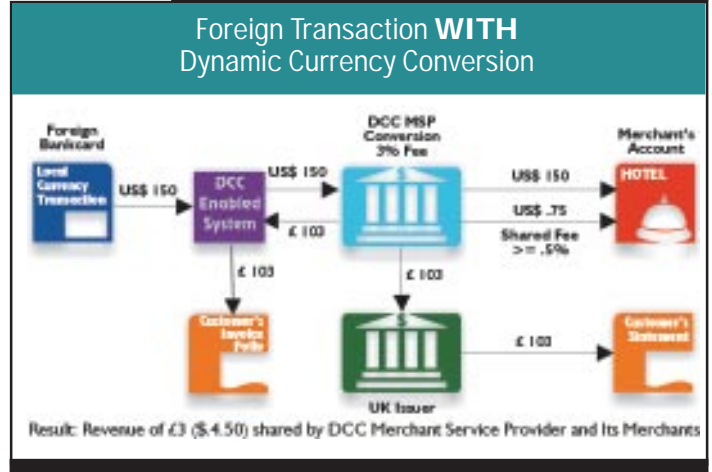
As the world becomes smaller and the volume of travel picks up again after Sept. 11 and the Iraq war, the number of foreign travelers (from the United States and other countries) will again create the need for DCC in Europe. Using the old European model in the United States seems to make sense. Travelers from Europe and Asia make up a large portion of U.S. travelers. (Visa reports 5 percent overall, but we've seen as much as 30 percent depending on the location.) It truly looks like DCC is a great opportunity to serve your overseas guests and make some extra money along the way.

Now for something blue. U.S. merchants, unlike their European counterparts, have never had to deal with multiple currencies. All of their systems at the point of sale handle U.S. dollars only. That of course is reasonable since until now 100 percent of their transactions have been in dollars. Having to handle multiple currencies means more accounting work.

But, if your property does \$1 million a month in credit cards means that from \$50,000 to \$300,000 are foreign transactions and you can make from \$250 to \$1,500 or more a month, roughly \$3,000 to \$18,000 per year. That's green, not blue.

All of this works just fine until you have to refund money either because of a mistake that was made because of a charge back or bill back. The question is how do you refund the money, in U.S. dollars according to your accounting or in the customer's native currency? You have improved the customer experience by providing DCC, but what has that done to your accounting? The customer has seen the amount in his or her native currency. So you must give the refund in the native currency, right? Right, but that can be all wrong if time has passed and the exchange rate has changed. This means you are giving back more in dollars than the guest was originally charged just to be able to give back his or her money in his native currency. That can cost you money, but how much? Only the world money markets can answer that.

FIGURE 2



It has always been a best practice to audit, or a least review, your transactions before you settle them—that is; know that what you have charged is accurate. On an errant domestic transaction, depending on your merchant services agreement, you may be forced to pay discount rate on a charge that you find is in error during reconciliation or when a customer's issuing bank makes a charge back retrieval request. That could cost you at least a couple of percent. But, what happens if the transaction is a foreign DCC transaction and the swing in currency-to-currency value is 5 percent, 10 percent or even 15 percent? That can cost real money and would definitely change green to something blue. The added complexity also can make your accountant blue. Does the merchant take the lumps on credits where the exchange rate has changed or does the cardholder take the lumps? The question is a simple one; it is guest services vs. cost of doing business.

Before you get married to dynamic currency conversion, realize that it can make you significant green or it can make you blue depending on your business practices. DCC truly requires dedication to knowing that what you're settling is accurate so you don't have to make corrections after settlement. Make sure that you have a DCC-powered system that allows you to report in multiple currencies and facilitates pre-settlement auditing. As you can see from the above, waiting until you reconcile at month-end is too late with DCC. Your experience with DCC can either be "blue" or "green," depending on your accounting practices and the systems you use.

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FROM THE AUTHOR

It is the author's opinion that the DCC merchant services providers and processors need to address this issue as soon as possible, and provide functionality that makes the issuance of credits transparent to both the merchant and cardholder. While everyone wins with DCC, the big winner is still the DCC merchant services provider (MSP) and the burden of solving this problem should be the burden of the DCC MSP or the benefit of DCC becomes less significant.