

# UNIT 10- Dynamic Currency Conversion Advantages & Disadvantages



## Introduction

- Dynamic currency conversion was created in the year 1996.
- Dynamic currency conversion is also known as a cardholder preferred currency.
- It is a financial facility which is provided by Visa or master card credit holders while making a payment in the foreign country.
- While exchanging the domestic currency with the foreign currency in the foreign country at the point of sale, one has to pay the cost of a transaction, it means one has to pay some charges charged by a foreign country.
- But the Dynamic currency conversion enables their client to see the amount their card will be charged, expressed in their domestic currency.

- This type of facility is not provided by the credit card company but by the third party operators by associating with the trader.
- The DCC facility can be availed at the point of sale by the trader or their card processor.
- A DCC operator must have to disclose the exchange rate which was used to convert the transaction at a time.
- A DCC Exchange rate must be based on the wholesale interbank rate, in which extra mark-up is added and this markup is also disclosed to the card holder.
- The credit card company also charge and additional fees for making a transaction in the foreign country, although the transaction made by his domestic currency through DCC.
- The trader gets an opportunity to earn an extra profit on the transaction with no exchange rate risk.

### How it works?

- When a client requires paying for a transaction using the card, the payment device will recognize the base currency with the local currency.
- If it recognizes the difference, it will give an option to the card holder to which one to use.
- Then the payment device will show the exchange rate along with amount in that card.
- The card owner selects the option in which currency to process the transaction.
- If card owner choose to pay in his home currency, the transaction
- Converted to the card owner's currency by using an exchange rate which also includes the marginal profit for providing the service.
- The DCC provider guarantees that the trader's account will be debited in time. So, the exchange rate risk is taken by the DCC provider.

### Advantages:

- The client is able to know the exact exchange rate that the credit card company applied.
- The client is able to know the prices of foreign items in his domestic currency.
- It is beneficial to both the parties like the buyer and seller because they don't have to deal with changes in the exchange rate.

## Disadvantages:

- It is more unfavorable to the DCC when there is more fluctuation in the exchange rate due to some factors.
- Due to risk in the exchange rate to DCC, there is a chance that the DCC provider may charge somewhat more fees from the card holder.
- Sometimes a client is unaware of fees charged and it makes uncomfortable to a client to use the service.
- The marginal profit charged from client varies from DCC provider to DCC provider, so a client is not able to know the exact extra amount charged.
- Sometimes it happened that if the client chooses an option to pay in foreign currency, a customer has been charged less as compare to using DCC.

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