

Exchange rate for a credit card transaction

Topic: **Cards** Case number: **2020/32**

The client had paid for a service in Singapore with his credit card in the local currency. When checking the corresponding charge on his credit card bill, the exchange rate used by the bank to convert the amount into CHF seemed too high. He asked the bank to inform him on the basis of the applied rate. As he could not comprehend the bank's answer, he contacted the Ombudsman. Even after several exchanges of correspondence, the Ombudsman did not receive a comprehensible answer from the bank and had to close the case unsuccessfully with a final notice to the client.

The Ombudsman occasionally receives complaints from customers who cannot understand the exchange rates applied by banks for certain transactions. Customers often mistakenly assume that there is an official exchange rate for a certain currency pair that their bank is obliged to apply. This is not the case. Exchange rates are not formed in a binding way on central markets. They are bilateral transactions between a provider and a customer. Although the rates applied are based on the market, they are determined individually by the individual providers according to different criteria and can therefore fluctuate between them. In addition, it is common and permissible for a profit margin to be included. In the Ombudsman's view, it is nevertheless essential that a bank or credit card issuer follows clearly defined rules when setting exchange rates and communicates these transparently, at least upon request. If a bank deviates significantly from the rates of other providers, this requires an explanation. It is however difficult to say in general terms when a deviation is considered significant.

In the Ombudsman's view, exchange rates must be reasonable and may not be set arbitrarily. In the present case, the bank informed the client that the exchange rate applied was the interbank rate on the day in question, which had been increased by the contractually agreed surcharge of 1.5%. The client checked the exchange rate on the platform of the German Banking Association, on which various exchange rates (interbank rate, rate for credit card transactions, for over-the-counter transactions, etc.) can be calculated on the basis of compiled market data, and, after taking the surcharge into account, arrived at a difference of 7.4% at his expense compared to the exchange rate applied by his bank.

The Ombudsman contacted the bank and asked for the basis of the exchange rate it had applied and for an explanation for the difference complained of by the customer. The bank informed him, in contradiction to its initial information to the customer, that the exchange rate for credit card transactions in a foreign currency depended on various factors and could not be compared to a foreign exchange rate that allowed a comparison over an entire day. The bank maintains its own credit card exchange rate, which changes several times a day, based on market sources such as the interbank rate and the rates of the credit card networks. In addition, a foreign currency processing fee of 1.5% was charged on the total amount converted for a foreign currency transaction made abroad. The rates applied by the bank also included, among other things, the costs for risk management, currency risks and costs for the card networks within the framework of the usual international "scheme contracts" (citation). The rate applied was shown to several decimal places on the relevant monthly statement. The transaction in question on the specific date for SGD 26.00 had been converted at an exchange rate of 0.76159641. The difference of CHF 0.29 resulting from the conversion was due to the foreign currency surcharge of 1.5%.

Despite queries, which were only answered after several reminders, the Ombudsman was unable to shed more light on the matter. The difference complained about by the customer remained unanswered with this imprecise explanation.

The Ombudsman thus had to close the case without a result and stated in a final notice to the client that he regretted the bank's unclear and contradictory explanations. Ultimately, the market will decide whether the bank's position in this case is sustainable.