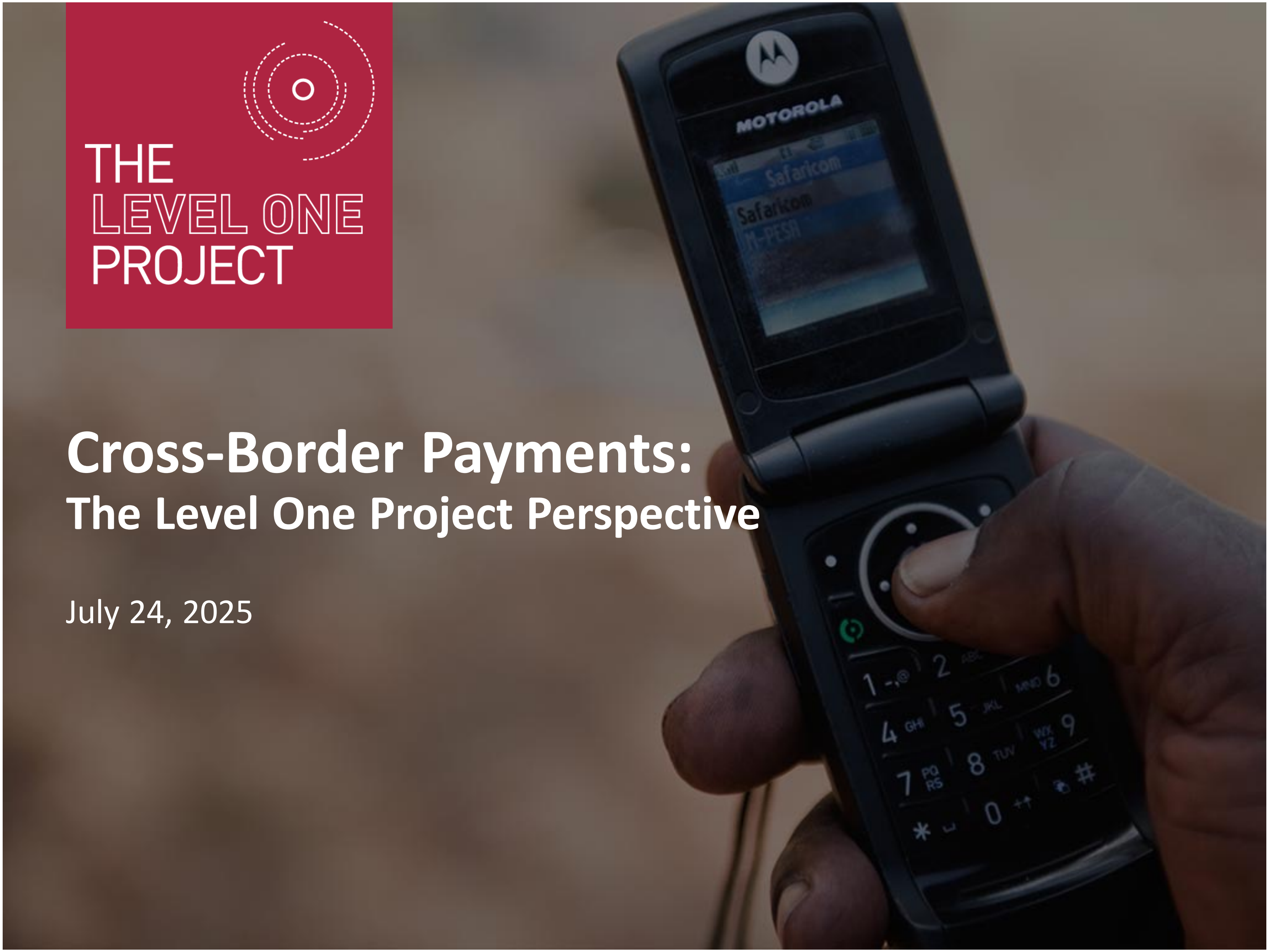
THE LEVEL ONE PROJECT



Cross-Border Payments:
The Level One Project Perspective

July 24, 2025

Agenda

- Cross-Border Payments Vision and Framework
- The L1P Cross-Border Lens
  - Principles, Practices, and Guidance
- Conclusion

Today's presentation provides an introduction to the full "Cross-Border Payments: The Level One Project Perspective" Report

The Level One Project Vision for Cross-Border Payments

The payment needs of the poor include cross-border transfers.

The Level One Project views cross-border transfers as an instance in all payment needs or use cases.

This includes peer to peer (P2P) remittances, consumer to merchant payments, including e-commerce, and cross-border trade.

The L1P vision is to ensure that cross-border, like domestic payments, are useful, convenient and affordable.

The following points are key to this vision:

The Scheme develops the needed technical and institutional basis for any Scheme participant to make cross-border payments. Any DFSP participating in a domestic Scheme should be able to participate in the cross-border Scheme with minimal additional effort.

Multilateral interlinking between domestic Schemes is the foundation for enabling inclusive cross-border payments. Bilateral linking on a Scheme-by-Scheme basis is costly and typically produces a confusing experience for providers and end users alike. Connect directly with other payments systems and develop a cross-border Scheme.

There is an essential role for central banks to play in achieving inclusive cross-border payments. The role may be an enabling one: creating supportive regulations or setting inclusion targets. It may also play a more direct governance role as the owner of the cross-border payments Scheme guiding inclusive outcomes.

Why High Costs Persist for End Users

- Considerable, coordinated global efforts to drive down the high cost of P2P remittances – the success of those efforts differs by corridor and by provider

- Challenges faced by end users (whether consumers or small businesses) making transactions to/ from emerging market economies remain

  - **Transaction Fees**: Globally, the average cost of sending remittances is around 6.6% of the amount sent (September 2024 per the World Bank)
    - Remittances made digitally have much lower costs than non-digital ones

  - **Exchange Rate Markup**: Providers often add a markup on top of the exchange rate

  - **Intermediary Fees or Beneficiary Deductions**: A transaction involving multiple DFSPs can have a fee tacked on or deducted from the principle at each stage.

  - **Limited Liquidity:** Some currencies have low supply, typically because the country imports more than it exports, or are difficult to convert due to policy constraints.

  - **Double Conversion:** When two currencies with limited liquidity need to be converted, they are often exchanged via a third "hard" currency like the dollar or euro. A portion of the value is lost at each conversion.

L1P Principles and Practices for Cross-Border Payments

All aspects of the Level One Project are relevant for a payment system that seeks to be inclusive.

Applying a "cross-border lens" to the L1P Principles and Practices, highlights those that require additional emphasis to achieve inclusivity in the cross-border context.

L1P Principle	L1P Practice	L1P Guidance
Application of "Cross-Border Lens"		

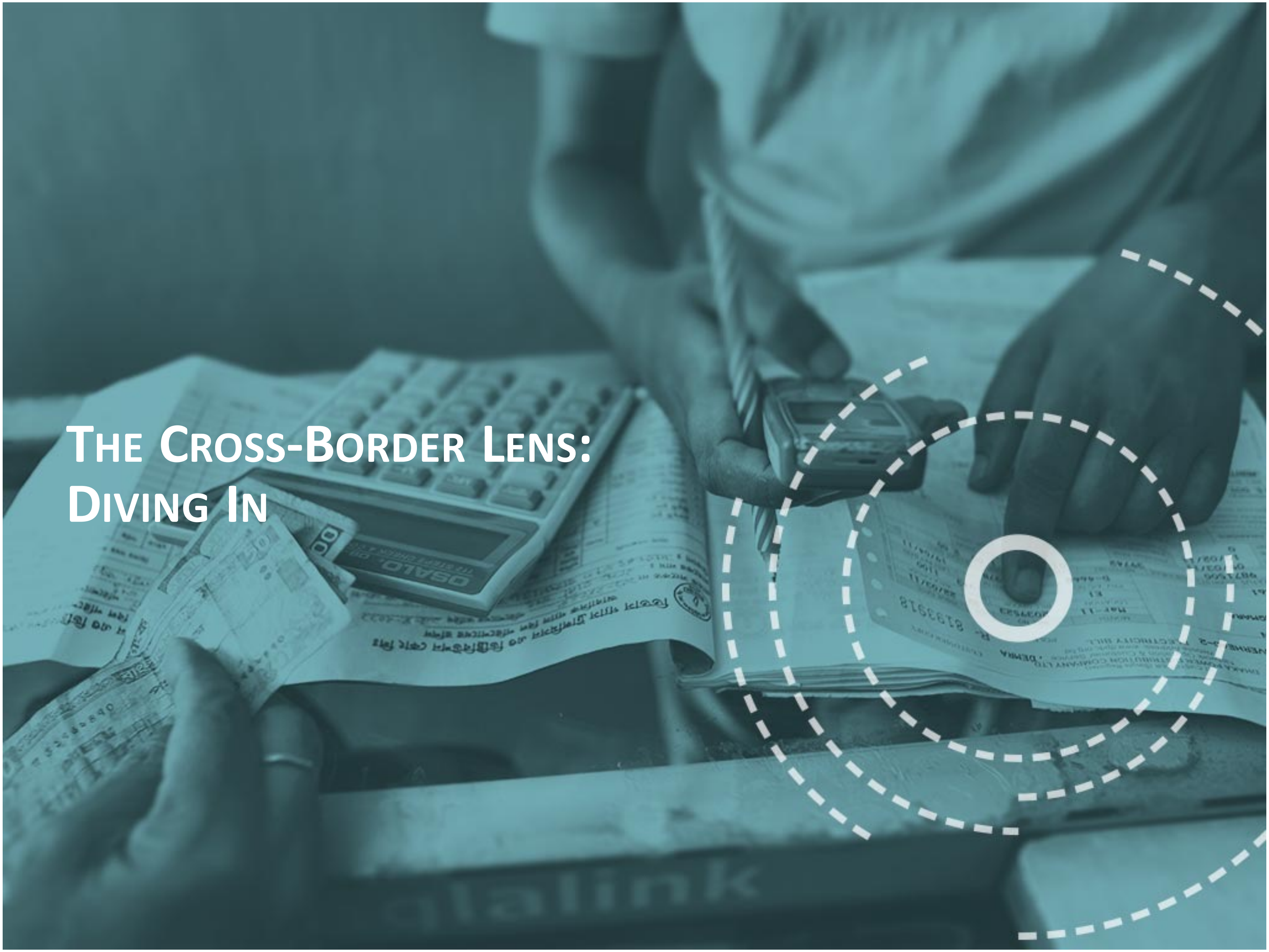
Principles, Practices, and Guidance that take on heightened relevance in the cross-border context and should be top of mind for implementers prioritizing cross-border payments

- The guidance offered is largely aspirational because no cross-border payment system has yet to distinguish itself as a complete reference for inclusive cross-border payments.
- It is important to note the cross-cutting import of the guidance. For example, foreign exchange, a prominent cross-border feature in Transparent Terms, is relevant not only to Safe Payments but also potentially to Shared Capabilities and Investment.

Summary of the L1P "Cross-border Lens"

Principle	Practice	Guidance – "Cross-Border Lens"
Instant Payment	**Near Real-Time Settlement**	• Only settle an obligation in one currency if the settlement of the other currency also takes place. • Avoid third currency conversions.
Interoperable	**Modern Technical Architecture**	• Design for multilateral interlinking.
	Data Readiness	• Support cross-border data requirements.
Inclusive Governance	**Regulated & Supervised**	• Have an appropriate oversight mechanism.
	Inclusive Scheme Rules	• Adopt favorable FX rates. • Encourage participatory rulemaking.
Low Fees for End Users	**Low Fees for DFSPs**	• Keep cross-border fees for DFSPs very low.
Safe Payments	**Transparent Terms**	• Use shared cost disclosures for all cross-border transfers. • Reference and display benchmark FX rate in the disclosure.
	Tiered KYC	• Maintain Tiered KYC requirements for cross-border transfers.
Shared Capabilities	**Shared Services**	• Provide cross-border capabilities to all DFSPs as a Shared Service.

THE CROSS-BORDER LENS: DIVING IN



Principle: Instant Payment

Practice	Guidance
Near Real Time Settlement	**Only settle an obligation in one currency if the settlement of the other currency also takes place.** Scheme rules should minimize FX settlement risk in the system by requiring that the FX conversions are not unbalanced. While the Scheme itself may not perform the FX, rates can change quickly and this guidance protects the payment system overall so that no DFSP or FX provider is at risk (along with the underlying value being converted). This practice reduces settlement risk and is often referred to as Pa*yment versus Payment (PvP).* **Avoid costs introduced by converting into a "third" or intermediary currency.** A leading contributor to the high cost of cross-border payments for end users whose national currencies are not highly traded globally is double conversion into a highly traded currency and then conversion out to another thinly traded currency. Central banks should explore different, potential solutions to this difficult challenge.

The full Report includes market illustrations that support the guidance

Principle: Interoperable

Practice	Guidance
Modern Technical Architecture	**Design for multilateral interlinking.** Link domestic schemes multilaterally to create the cross-border Scheme by directly connecting with other payment systems using standardized protocols. The resulting cross-border Scheme brings together all the payment systems into an interoperable, harmonized set of rules and protocols. **Provide all needed functionality for domestic and cross-border transfers.** The Scheme should provide detailed technical guidelines and robust functionality for DFSPs, including fraud detection and sanctions screening, to make it seamless for any DFSP to make cross-border payments.

Principle: Interoperable

Practice	Guidance
Data Readiness	**Support cross-border data requirements.** Support additional information requirements for all countries reached in the cross-border arrangement. The Scheme should determine the need for any new data to complete the transfer (e.g., addressing, purpose of payment codes, etc.). Having necessary, correct information will minimize incomplete or failed payments – and the cost associated with them. One study estimated 14% of cross-border payments fail and have charges levied with USD $12 being the average fee to repair the transaction. The Scheme should also minimize the passage into or retention of personally identifiable information by the platform.

Principle: Inclusive Governance

Practice	Guidance
Regulation and Supervision	**Have an appropriate oversight mechanism.** Work with the Regulator(s) to determine and put in place an appropriate oversight mechanism for cross-border services. Many regional payment Schemes will have this in place, but it will need to be developed in other regions or less formal payment groupings.

Principle: Inclusive Governance

Practice	Guidance
Inclusive Scheme Rules	**Adopt favorable FX rates.** Foreign exchange rates are advantageous for the end user. Scheme rules should require that DFSPs that provide foreign exchange should select and apply the rate that is most beneficial to the value of the transaction. Ensuring that foreign exchange rates are reasonable supports the value proposition of the Inclusive IPS and promotes usage. **Encourage participatory rule-making.** Scheme rules for cross-border payments are developed in a consultative, inclusive manner. All participants should be afforded opportunities to comment on all aspects of Scheme design and governance.

Principle: Low Fees for End Users

Practice	Guidance
Low Fees for DFSPs	**Keep cross-border fees for DFSPs very low.** The Scheme should take efforts to keep the DFSP fee low so fees to end users can be affordable for this important payment need. Additionally, getting FX should not be a cost factor. The Scheme should make foreign exchange options available, allowing DFSPs to make their own competitive currency conversions or take advantage of a competitive FX marketplace.

Principle: Safe Payments (1 of 3)

Practice	Guidance
Transparent Terms	**Use shared cost disclosure methodology for all cross-border transfers.** DFSPs disclose the total cost of the transaction using the same formula for informing senders of both fees and foreign exchange costs. The disclosure should be presented to the payer prior to confirming the transfer. Scheme rules should also prohibit beneficiary deductions, which reduce the value when it reaches the payee. Simple, easy to understand and standardized presentation of fees and other transfer costs like FX provides a basis for comparison by end users while helping to increase competition and lower costs.

Principle: Safe Payments (2 of 3)

Practice	Guidance
Transparent Terms	**Reference and display benchmark FX rate in the disclosure.** DFSPs should calculate total FX cost by referencing the benchmark rate (also referred to as a reference rate, this rate is used to reflect the economic value of currencies and is for informational purposes only) for each currency pair. DFSPs should also display the benchmark rate used in the calculation as part of its disclosure of total FX cost to the end user. The benchmark rate referenced should be the most recent daily rate published for the currency pair by an authoritative source, e.g., the central bank, other government entity, Reuters Reference Rate. In cases where the benchmark rate for the specific currency pair is not published, it should be derived utilizing benchmark rates for each currency using a third, liquid currency. • It is not currently common practice to display the benchmark FX rate in end user disclosures. Adding this practice is expected to contribute meaningfully to end users being able to compare the applied FX rates of different providers (in addition to comparing transaction fees) and as a result, being equipped to select the most favorable offer.

Imagining a Standardized Disclosure

Using a shared cost disclosure methodology for all cross-border transfers, DFSPs should display the total cost of FX transaction as a single value—this value includes all fees, levies, taxes, and FX markup—to the payer prior to the payer confirming the transfer.

We present here a **sample illustration** of the disclosure. **The illustration shows the components required for a disclosure.**

Your Transaction Breakdown	
Amount Sent	[amount in sending currency]
Transaction Fees	[amount in sending currency]
Levies and Taxes	[amount in sending currency]
*FX Rate Applied	[value]
Amount Received	[amount in receiving currency]
*Benchmark FX rate	[value]
Total Transaction Cost	[amount in sending currency]
	[percentage of amount sent]

*Shown as “1 unit of sending currency = *x* units of receiving currency”. For example, in the case of Zambian Kwacha (ZK) as sending currency and Malawian Kwacha as the receiving currency, the FX rate applied, and benchmark FX rate should be expressed as “1 ZK = 74.3700 MK”.

We invite the ecosystem to test end user preferences in order to contextualize the best visual representations of the data that meet users where they are and consider local context, including language and education levels.

Example of Standardized Disclosure

Setting: A small trader living in Zambia needs to transfer 100 Zambian Kwacha (ZK) to another small trader in Malawi for goods purchased. She wants to use one of two different digital payment providers that can facilitate the payment.

A clear disclosure of the total cost of the FX transaction as a single value—this value includes all fees, levies, taxes, and FX markup—helps her select the best option.

Provider 1

Higher fees, better FX rate

Your Transaction Breakdown	
Amount Sent	100.00 ZK
Transaction Fees	1.00 ZK
Levies and Taxes	0.50 ZK
*FX Rate Applied	1 ZK = 74.5500 MK
Amount Received	7455.00 MK
*Benchmark FX rate	1 ZK = 75.5500 MK
Total Transaction Cost	2.82 ZK
	2.82%

Provider 2

Lower fees, worse FX rate

Your Transaction Breakdown	
Amount Sent	100.00 ZK
Transaction Fees	0 ZK
Levies and Taxes	0.50 ZK
*FX Rate Applied	1 ZK = 73.5500 MK
Amount Received	7355.00 MK
*Benchmark FX rate	1 ZK = 75.5500 MK
Total Transaction Cost	3.15 ZK
	3.15%

For Reference Only: Calculating the Recommended Disclosure

The basics of the calculations are shown below. For full details on the different inputs and a working model, see the accompanying Excel spreadsheet in the L1P Reference Library. The examples shown are for illustration purposes. Actual disclosure of the Transparent Terms is expected to be in digital form.

A	B	C	D	E	F	G	H	I
Amount Sent (in SENDING currency)	**Fees Applied (in SENDING currency)**	**Levies & Taxes (in SENDING currency)**	**Foreign Exchange Rate Applied**	**Benchmark / Reference Rate**	FX Markup or Spread on Benchmark Rate*	**Amount Received (in RECEIVING currency)**	**Total Cost (in SENDING currency)**	**Total Cost (% of Amount Sent)**
				X	E – D	A * D	(A + B + C) – (G ÷ E)	H / A

This disclosure calculation methodology shows the post-conversion effect of sending an amount of currency (A), with additional fees and taxes (B + C), at a retail FX rate (D) by applying the benchmark rate (E) to the Amount Received (G). Total Cost (H) of the transaction in *sending* currency value is the Amount Sent (A), Fees Applied (B), and Levies & Taxes (C) net of the Amount Received (G) at the Benchmark Rate (E). Column I shows this Total Cost (H) in *sending* currency as a percentage of the Amount Sent (A).

The Amount Sent (A) is the amount the sender wishes to transfer, and it is net of Fees Applied (B) and Levies & Taxes (C). The sum of A, B, and C is the total billing amount to the sender for the transaction.

*The FX Markup (F), is optional and not used in calculations. It is not shown on the suggested disclosure, though it can be included by a Scheme for additional transparency.

As these calculations are derived from DFSP quotations, they do not dictate or specify rates to FX Providers. Each FX Provider may individually set and apply their own FX Rate and may source their FX currency through any arrangement that supports their business. The disclosure is intended to show the retail effect on the Sender and Receiver in a Scheme-wide consistent way.

Refer to the accompanying Excel file for additional details and examples in calculating the Disclosure.

Principle: Safe Payments (3 of 3)

Practice	Guidance
Tiered KYC	**Maintain Tiered KYC requirements for cross-border transfers.** Low-value, cross-border transfers are available to end users with basic identification. The Tiered KYC regulation should permit end users to make cross-border payments as a function of their corresponding tier without any additional permissions or steps.

L1

Shared Capabilities

Practice	Guidance
Shared Services	**Provide cross-border capabilities to all DFSPs as a Shared Service.** Cross-border capabilities are available to all DFSPs as an optional, Shared Service. This will reduce implementation and operating costs over DFSPs doing this independently and potentially provide an additional source of revenue for the IPS.

CONCLUSION

Wrap Up

- The full Report “Cross-Border Payments: The Level One Project Perspective” will be shared with this group after the presentation
- We invite you to share your questions and comments on the report

Thank You!