

Unlocking Interoperability: Overcoming Regulatory Frictions in Cross-Border Payments

World Economic Forum's White Paper

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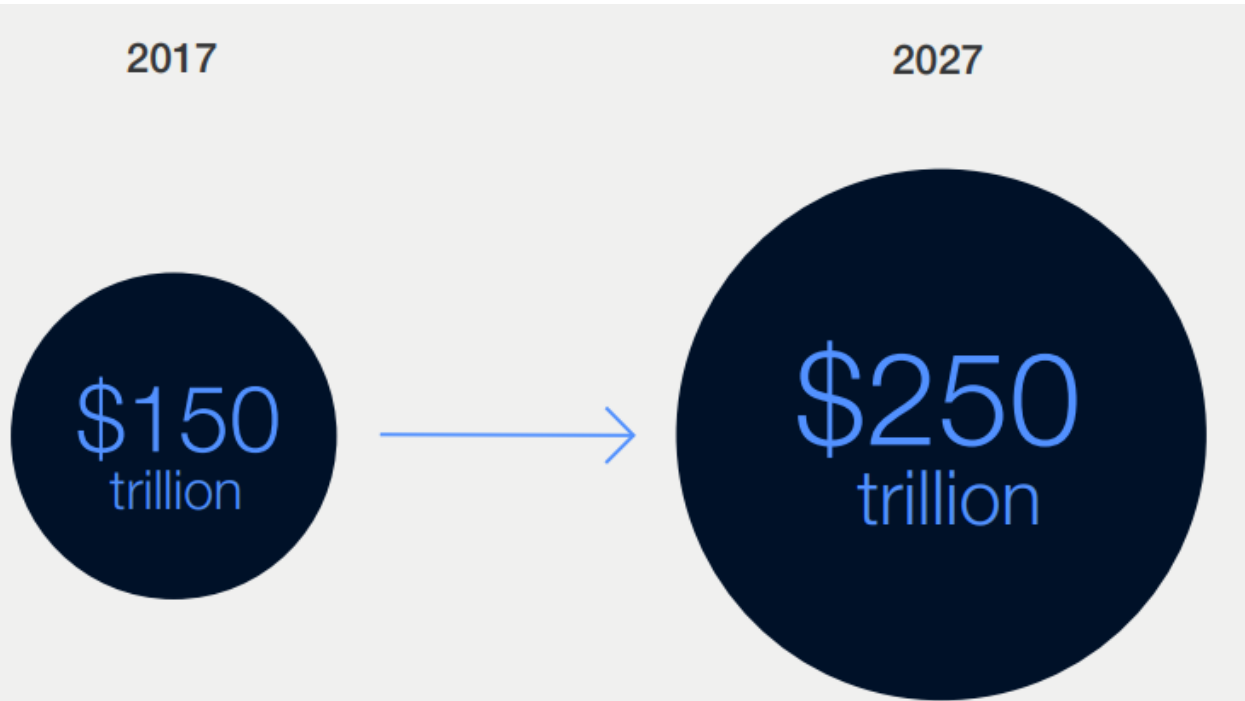
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Introduction: The value of cross-border payments keeps growing and acts as the arteries of the global economy



Source: Bank of England, “Cross-Border Payments”:
<https://www.bankofengland.co.uk/payment-and-settlement/cross-border-payments>

- Both public and private sectors are making big strides in tech advancement. For example: Project Nexus, Project mBridge,
- ***Even with advanced technology, cross-border payments — essential for global trade — still face serious hurdles. Why?***
 - ***Regulatory Frictions***



Demand for cross-border payments is growing faster than regulators' ability to establish comprehensive and interoperable regulatory frameworks, resulting in inefficiencies and significant barriers that hinder the smooth execution of transactions on a global scale.

Complex regulatory environment

High compliance costs and the need to adhere to multiple regulations

Longer processing times and increased costs

Need efficient global regulatory framework for secure cross-border payments, addressing policy issues and facilitating digital trade.

The Roadblock: Regulatory Frictions

The four most significant regulatory frictions and challenges for bank and non-bank payment service providers



Data privacy and security regulations

Banks



Compliance with AML/CFT requirements






Differences in regulatory and oversight frameworks



Limited access to payment systems and infrastructure

Non-Banks

The study focused on regulatory challenges and pathways to enhance regulatory interoperability, enabling effective, secure, and equitable cross-border payments.

Criteria	Indicators
Effectiveness 	<ul style="list-style-type: none">– Reduce regulatory complexity– Improve cross-border payment interoperability– Lower compliance costs– Manage compliance risk– Promote technical and network interoperability
Safety 	<ul style="list-style-type: none">– Protect against illegal activity– Manage risk in cross-border operations
Equity 	<ul style="list-style-type: none">– Facilitate financial inclusion for marginalized individuals– Promote innovation– Reduce barriers for new entrants

Potential Pathways for Unlocking Overcoming Regulatory Frictions



Make improving cross-border payment interoperability a key policy objective



Strengthen regulatory cooperation for cross-border payments



Modernize regulatory frameworks



Encourage Public-Private Partnerships

Potential Regulatory Pathways for Enhancing Cross-Border Payments Interoperability



Make improving cross-border payment interoperability a key policy objective

- Include enhancing cross-border payments in regulatory mandates:
- Establish a holistic national interoperability policy.
- Promote Regulatory Impact Assessments XB payments

Potential Regulatory Pathways for Enhancing Cross-Border Payments Interoperability



Strengthen regulatory cooperation for cross-border payments

- Strengthen existing regional and international organizations for regulatory coordination and alignment at the global level.
- Foster Regulatory Sandboxes and Innovation Hubs
- Enhance cross-border regulatory cooperation and coordination

Potential Regulatory Pathways for Enhancing Cross-Border Payments Interoperability



Modernize regulatory frameworks

- Adopt a hybrid model combining entity-based and activity-based approaches
 - BigTech PSP: Address emerging complex risks.
- Remove regulatory barriers to accessing domestic payment systems
- Suptech and Regtech emerge as invaluable tools

Potential Regulatory Pathways for Enhancing Cross-Border Payments Interoperability



Encourage Public-Private Partnerships



- Key actions: Policy development, communication, stakeholder engagement, and partnership framework.
- Supporting actions: Incentives and support, information sharing and collaboration, pilot programs, and monitoring and evaluation.



Thank you!

