

# CONNECTING TO GLOBAL SCALABILITY IN PAYMENTS:

How we can benefit from and contribute  
to the nexus

## CONTRIBUTOR:

**Grace Chong**  
Head of Financial Regulatory,  
Gibson Dunn & Crutcher LLP



# Content

<b>Executive Summary</b>	<b>03</b>
Taking stock of diversity	<b>04</b>
International standards and new infrastructures	<b>04</b>
Coordination for balanced regulation	<b>05</b>

## **Executive Summary**

This Roundtable was held as part of the Japan FinTech Festival 2024 held in Tokyo. Moderated by Ivan Mortimer-Schutts (Advisor, Dataswyft), the session brought together 10 key policymakers, officials, academics and industry participants from the World Bank, Bank of Thailand, Ant International, SMBC, Metaco, Flip.id, as well as other financial institutions and private organisations.



Globalisation's swift march and technological progress have spurred the need for streamlined, transparent, and inclusive cross-border payment systems, with multilateral platforms emerging as a promising remedy. Recognising the importance of enhancing international payment systems and the rapid pace of technology and business innovation, the G20 and the Financial Stability Board published a Roadmap for Enhancing Cross-Border Payments 1 back in 2020. This sets out 19 interrelated building blocks requiring far-reaching coordination and leadership from both authorities and private sector parties.

The pace of change and array of developments and challenges has accelerated in recent years. Concrete initiatives, including the BIS Innovation Hub's Project Nexus, for connecting multiple national payment systems into a cross-border network, have progressed. Foundational infrastructure to enhance data frameworks has advanced. New systems and private sector firms, employing distributed ledger, stablecoin and future CBDC architectures have become more concrete. But in many markets, basic consumer and business payment services still fail to keep up with changing demand, notably the growth in real sector e-commerce and trade digitisation. The market context continues to evolve, challenging us to keep overarching programmes up to date and aligned with not only economic but also intersecting political and regulatory changes outside of payments and finance.

Participants advocated for continued collaboration between public and private sectors to define common standards, guidelines and principles for cross-border payments, addressing aspects such as risk-based activity categorisation, data sharing, and compliance requirements. The importance of adoption of consistent standards such as ISO 20022 was also emphasised, with the need for larger banks to lead the way to provide support and lessons learnt to guide smaller institutions facing investment challenges. There is also strong potential for the growth of central bank digital currencies (CBDCs) for more efficient liquidity and FX markets.



## Taking stock of diversity

Economic inclusion is a key policy driver for central banks and regulators in the ASEAN region, to focus on how businesses and people can make payments faster, cheaper and safer, both on a domestic and cross-border level. In Japan, the government is collaborating with other Southeast Asian countries to enable joint use of QR code payment services to facilitate international travellers' ability to make purchases abroad. Thailand's PromptPay QR Code is a key example of a successful cross-border initiative, which has increased the speed and brought down the cost of payments. Such successful projects can be replicated as a hub-and-spoke model for multi-lateral cross-border payment linkages.

Payments also have the potential to be the gateway for the benefits of digitisation. In certain jurisdictions, such as the Pacific Islands, where the level of correspondent banks has declined to critical levels, there is a potential boost to economies to facilitate trade and remittances. There is a key opportunity to build a discussion between private and public sectors to build an appropriate balance for the growth of financial services. International organisations such as the World Bank are working with regional central bank associations to coordinate governance issues in this regard, which has been helpful for example in the case of the Pan-African Payment & Settlement System, where liquidity risk is a key aspect to be managed. These will often need long term coordination between jurisdictions, with a continued focus on education and financial literacy.

In addition to liquidity challenges, another key challenge in the expansion for retail payments is fraud and scams, which increasingly require technical and operational coordination at an international level.

## International standards and new infrastructures

Central banks such as the Bank of Thailand have been looking to leverage technology and data to drive innovation through open competition, open infrastructure and open data:

- Open competition involves an expansion of business scope, more flexibility in business operations of both bank and non-bank financial institutions and setting up of virtual banks to stimulate competition.
- Open infrastructure aims to allow more players with access to the key infrastructure at fair and reasonable costs.
- Open data aims to allow consumers to conveniently share their data stored at one service provider with other service providers for their own benefits under the Open Banking initiatives and to connect financial sector's databases with other sources for better analytics and development of financial innovations and services.

Increased standardisation through common standards such as the ISO 2022 has also assisted in the advancement of instant payments. Most of the top 100 banks who support the majority of cross-border and high value payments are also near full implementation of this standard, either structurally or tactically, and are sowing the seeds for future waves of development.

There are challenges for the corporate segment, given the need for funding for structural changes and more guidance from banking partners. In this regard, there are innovative solutions being presented in the market to complement payments and co-banking, such as virtual type accounts, which are opportunities to open inclusive opportunities for corporates. There are also new initiatives looking at the setup of multilateral institutions to provide secure and robust technical infrastructure to address foreign exchange and liquidity challenges.

### **Coordination for balanced regulation**

Interoperability has been a key challenge for the industry, and there is now a greater diversity of players in the market. The fragmentation of regulatory expectations hinders the development of efficient cross-border payments, and there are opportunities for FinTechs to look to how they can provide a seamless experience for users, and to address different risks such as money laundering risks and scams on a more coordinated level.

In this regard, there have been promising collaborative projects such as Project Mandala, a joint collaboration between BIS Innovation Hub Singapore Centre, Reserve Bank of Australia, Bank of Korea, Bank Negara Malaysia, and Monetary Authority of Singapore (MAS), with financial institutions, to explore protocols for embedding policy and regulatory compliance in cross-border transactions. Project Mandala looks to automate compliance procedures, provide real-time transaction monitoring and increase transparency and visibility around country-specific policies to encode these in a common protocol. Project Nexus, which is a collaboration between BIS Innovation Hub and six central banks, also aims to look at the building of a fast payments system to accelerate the growth of instant cross-border payments.



Technology can also be leveraged to enhance cross-border collaboration. One such example of a proof-of-concept project in this area is BIS Innovation Hub's Project Aurora, which explored how a combination of payments data, privacy-enhancing technologies, artificial intelligence and enhanced cooperation across institutions and borders can help combat money laundering. The project explored how information could be shared in a private, secure and compliant way to detect suspicious transactions across financial institutions and borders. It started by leveraging a comprehensive synthetic data set that represented real-world domestic and international payments data.

The analysis and lessons learnt from these practical projects will aid the advancement towards more synchronised cross-border data exchange and messaging standards, facilitating payment system interoperability and extension, and building stronger legal, regulatory and supervisory frameworks.

*(Roundtable conducted under Chatham House rules and so comments are unattributed. The opinions expressed herein are the personal views of the Roundtable participants and do not necessarily reflect the official views of the hosts and their respective organisations.)*