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# Legal Frameworks for Cross-Border Digital Payments: Structures, Challenges, and Future Directions

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**Abstract:** Cross-border digital payments are pivotal to modern international commerce, powering everything from remittances and small business exports to real-time multinational trade. However, the legal landscape governing these transactions remains fragmented and complex. This article examines the legal frameworks, regulatory standards, and compliance processes shaping cross-border digital payments, with emphasis on international instruments like the G20 Roadmap, FATF AML/CFT standards, PSD2 in the EU, UPI integration in India, and national regulatory ecosystems. It explores key challenges including regulatory fragmentation, licensing burdens, data localization mandates, and technological non-uniformity. By analyzing the impact of standardization efforts (e.g., ISO 20022), real-time compliance tools, and central bank digital currencies (CBDCs), the article highlights emerging solutions for harmonization. A combination of graphical data and compliance workflows illustrates how legal evolution can support innovation, inclusion, and secure digital financial flows. The article concludes with actionable recommendations for regulators and stakeholders to promote interoperable, transparent, and inclusive digital payment ecosystems globally.

**Keywords:** Cross-border payments, digital finance, regulatory compliance, FATF, AML/CFT, PSD2, SEPA, ISO 20022, G20 Roadmap, UPI internationalization, central bank digital currencies (CBDC),

## INTRODUCTION

Cross-border digital payments have become the lifeblood of global commerce, enabling everything from small business exports to remittances and multinational trade. Such transactions, however, must navigate a patchwork of legal frameworks, national regulations, compliance standards, and emerging global norms. Effective regulation must balance the goals of security, transparency, innovation, and financial inclusion, while mitigating risks of money laundering, fraud, and data breaches. The rapid adoption of digital wallets, cryptocurrencies, real-time transfer systems, and regulatory technology

further complicates the legal landscape.

## CORE LEGAL FRAMEWORKS GOVERNING CROSS-BORDER DIGITAL PAYMENTS

### International Norms and Treaties

- **G20 Roadmap for Enhancing Cross-Border Payments:** Endorsed in 2020, this action plan is spearheading efforts to improve speed, reduce cost, increase access, and boost transparency in cross-border payments by 2027. It calls for regulatory coordination, technical standardization (such as ISO 20022), and data flow governance<sup>[1][2]</sup>.
- **Financial Action Task Force (FATF):** Sets global standards on Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT). Compliance with FATF recommendations (including robust Know Your Customer [KYC] procedures and transaction monitoring) is mandatory for payment providers worldwide<sup>[3][4]</sup>.

### Key Regional and National Legal Regimes

- **European Union (EU):** The Payment Services Directive (PSD2, soon PSD3), SEPA, and the revised Cross-Border Payments Regulation (CBPR2, 2019) unify standards for payment transparency, authentication, data protection, and consumer rights across EU/EEA states. The Single European Payment Area (SEPA) streamlines euro transactions and mandates the use of IBAN and uniform messaging standards<sup>[5]</sup>.
- **United States:** There is no unified federal law—cross-border digital payments are governed by a web of state and federal anti-money laundering statutes, Office of Foreign Assets Control (OFAC) sanction rules, and compliance expectations set by regulators like FinCEN.
- **India:** The Reserve Bank of India has eased forex and data localization requirements, empowered the use of systems like UPI for international payments, and strengthened personal data protection with the Digital Personal Data Protection Act, 2023<sup>[6][7]</sup>.
- **China, UK, and others:** Each maintains bespoke licensing regimes, capital controls, and digital payment regulations, often demanding local presence or data storage.

**Table: Major Legal Instruments Impacting Cross-Border Digital Payments (2025)**

Framework/Region	Key Attributes	Coverage
FATF (Global)	AML/CFT, KYC, Sanctions Screening	200+ Jurisdictions
G20 Roadmap	Speed, cost, access, transparency, interoperability	20 Major economies
PSD2/SEPA (EU)	Open banking, authentication, data privacy, IBAN, instant payments	EU/EEA
UPI/X-border (India)	Real-time payments, forex liberalization, data localization	India/global partners
CBPR2 (EU)	Transparency, currency conversion, fee disclosures	EU/EEA
Local Regimes	Licensing, data handling, tax, currency controls	All markets

### Opportunities of an Integrated Legal Framework

- **Efficiency and Access:** Legal harmonization (such as SEPA or the G20's push for standardization) enables real-time, 24/7 payments with lower fees and improved access, benefiting MSMEs and consumers worldwide<sup>[8][2]</sup>.
- **Innovation Enablement:** Implementation of common messaging standards (ISO 20022) allows fintechs and banks to interoperate, supporting APIs, open banking, and digital currency deployment<sup>[2]</sup>.
- **Security and Fraud Mitigation:** Enforced AML/CFT and KYC procedures reduce illicit financial flows and enhance consumer trust, while API-driven regtech automates compliance and transaction monitoring<sup>[3][4][9]</sup>.

### Graph: Growth of Cross-Border Digital Payments & Regulatory Alignment (2015–2025)

[image:1]

*Caption: The graph demonstrates the exponential growth of cross-border digital payments alongside rising implementation of harmonized standards such as ISO 20022 and open banking APIs from 2015 to 2025.*

### Key Regulatory Challenges

#### 1. Regulatory Fragmentation

- Conflicting data localization rules (e.g., India, Russia) and privacy regulations (e.g., EU's GDPR, California's CCPA) complicate cross-border data flows<sup>[1][10]</sup>.

- Licensing and registration requirements are inconsistent across jurisdictions, often necessitating local entities or partnerships for payment providers<sup>[10]</sup>.

## 2. Compliance Burden

- Firms must navigate diverse AML, CFT, and KYC regulations, tax regimes, and reporting timelines—raising operational costs, especially for smaller firms<sup>[3][4][9]</sup>.
- FX controls and reporting obligations in certain jurisdictions (e.g., South Korea, China) may impede the free flow of capital<sup>[10]</sup>.

## 3. Data Security and Privacy

- Legal requirements for data processing, customer consent, storage, and cross-border transfer (mirroring or replication mandates) are often in conflict, challenging seamless instant payments<sup>[1][10]</sup>.
- Use of AI, machine learning, and real-time analytics for fraud detection increases compliance complexity regarding accountability and governance<sup>[11]</sup>.

## 4. Lack of Standardization

- Until recently, diverse payment messaging standards (e.g., SWIFT MT vs. ISO 20022) and infrastructure limitations hindered interoperability between banks and fintechs<sup>[2]</sup>.
- Implementation gaps persist, especially where local laws diverge from international best practices.

### MAP: GLOBAL PATCHWORK—NATIONAL DIGITAL PAYMENTS REGULATIONS (2025)

[image:2]

*Caption: A world map illustrating the fragmented landscape of digital payment regulations, with color codes for open, restrictive, and hybrid regimes.*

### Addressing the Frictions: Emerging Solutions

- **International Coordination:** Bodies like the FSB, CPMI, and G20 are promoting “mutual recognition,” equivalency frameworks, and interoperable standards (e.g., use of LEIs and ISO 20022)<sup>[1]</sup>.
- **Supervisory Technology (SupTech):** Authorities are leveraging real-time data and automated supervision to monitor compliance and adapt as technology evolves.
- **Central Bank Digital Currencies (CBDCs):** Dozens of central banks are piloting or launching CBDCs to address pain points in cross-border settlements and regulatory enforcement<sup>[2]</sup>.
- **API-Driven Transparency:** Modern platforms now offer full fee breakdowns, FX rates, and payment tracking, with real-time compliance screening and dispute resolution automation<sup>[4][2][11][9]</sup>.

### Flowchart: Cross-Border Digital Payment Compliance Process

[image:3]

*Caption: The flowchart shows the typical sequence—payer onboarding with KYC/AML, transaction initiation, multi-jurisdictional screening, currency conversion, routing via international payment networks, final settlement, and post-transaction monitoring.*

### RECOMMENDATIONS FOR EFFECTIVE REGULATION

- **Promote Global Standardization:** Adoption of ISO 20022 messaging and common compliance frameworks will minimize friction and increase transaction speed.
- **Enhance Regulatory Collaboration:** Formalize cooperation and information sharing between national regulators to ease data transfer and mutual recognition of compliance standards.
- **Balance Innovation and Security:** Encourage regtech adoption for real-time compliance and innovation sandboxes to trial new solutions under regulatory supervision.
- **Prioritize SMEs and Financial Inclusion:** Streamline licensing and reporting for small and new market entrants, while ensuring strong consumer protections.

### CONCLUSION

The legal infrastructure for cross-border digital payments is undergoing rapid transformation. While new frameworks and technologies have led to dramatic improvements in cost, speed, and access, persistent regulatory divergence, security demands, and complex compliance requirements remain major hurdles. Continued progress rests on global standardization, coordinated supervision, and a commitment to balancing innovation with robust risk management. For digital payments to truly become “borderless,” legal and technical harmonization must remain a central objective for regulators, industry, and policymakers worldwide.

[image:1]

*Graph: Growth of cross-border digital payments and regulatory harmonization (2015–2025).*

[image:2]

*World Map: Fragmentation of digital payment regulations in 2025.*

[image:3]

*Flowchart: End-to-end compliance process for cross-border digital payments.*

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