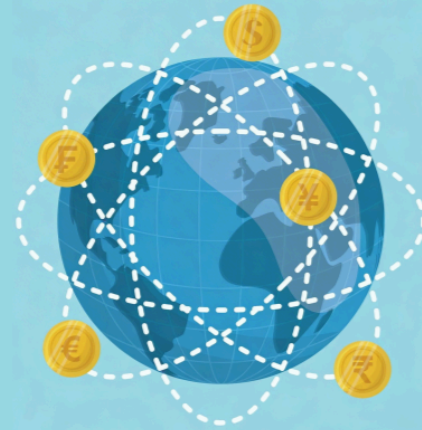




Future-Proofing Cross-Border Payments: The Role of Compliance

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International money transfers, known as cross-border payments, demand a more intricate processing system compared to domestic transactions due to varying international regulations and potential currency conversions. A thorough understanding of these nuances is vital for anyone engaging in cross-border financial activities.

Cross-border payments include:

- Remittances: Funds an individual sends to another country, typically to family or friends.

- Business-to-Business (B2B): Include transactions between companies across borders and are usually high-value transactions.
- Business-to-Customer (B2C): When businesses sell products or services to customers in another country.
- Customer-to-Business (C2B): These are transactions where the customer pays a business in another country, usually for services or online purchases.
- Government Payments: These could involve aid, trade tariffs, or other types of financial interactions between governments of different countries.
- High-Value Foreign Transactions: This category includes transactions related to the purchase of high-value assets such as real estate, art, jewellery, or luxury vehicles.
- Card-Present Transactions: Travellers use their physical credit or debit cards to make payments abroad. This category mainly includes tourists, expatriates, and business travellers.
- Card-Not-Present (CNP) Transactions: This category involves international e-commerce shopping and commercial payments to companies established overseas.

'Payments compliance' refers to the regulations and guidelines that businesses need to follow and comply with, while transacting across geographies. Its purpose is to ensure that all transactions are conducted within legal and ethical boundaries, effectively preventing fraud and money laundering, and satisfying all applicable regulatory requirements at local, regional, and international levels.

With more than 19,000 tax jurisdictions worldwide and their potential for swift alterations, regulators are responding to the rise of instant payments and other innovative cross-border payment methods by tightening controls on businesses within the payment chain to curb financial crime risks. Businesses that are pursuing expansion internationally, are now compelled to prioritize compliance. Their success in new

markets hinges on effectively navigating complex local payment regulations. As a result, compliance is evolving from being an overhead to a strategic advantage, enabling companies to stand out by meeting stringent standards and leveraging digital solutions for seamless regulatory interaction.

Why is compliance crucial for businesses?

Compliance minimizes risks, prevents penalties and ultimately safeguards customers. Non-compliance can lead to substantial fines, legal issues and brand damage. In 2020 alone, global banks faced \$10.4 billion in AML violation fines. In a more recent instance, the Reserve Bank of India (RBI) imposed a penalty of INR 36 lakhs on a large bank for failing to undertake due diligence while processing inward remittances from a foreign currency account. The RBI also imposed a penalty of Rs 36.28 lakh on a large foreign bank in India for contravention of the directions related to reporting of transactions undertaken under the Liberalised Remittance Scheme. Building customer trust is critical in this digital age, as data breaches erode confidence and damage reputations. Compliance failures also impact revenue through payouts, customer loss, and system upgrades. The average financial sector data breach cost reached \$5.97 million in 2022. Alarmingly, 41% of financial institutions are deemed inadequate in AML and sanctions compliance.

Challenges of Cross-Border Payment Compliance Systems

International payments face significant challenges that disrupt smooth transactions and negatively impact customers. These challenges include:

- Fluctuating currency exchange rates that create uncertainty
- Lengthy settlement times that are driven by numerous intermediaries, increase costs and delays.

- Diverse regulatory landscapes and anti-money laundering requirements that add complexity.
- High transaction fees, extended processing times affect liquidity.
- Rising fraud risks further compound the issues.

Efficient cross-border payments need to address these complex challenges in order to streamline the cross-border payment compliance systems. Businesses use some techniques and practices to ensure adherence to the applicable regulations, in cross-border payments compliance. Some of the common ones include:

- Know Your Customer (KYC)
- Anti-Money Laundering (AML) Compliance
- Transaction Monitoring
- Sanctions Screening
- Risk Assessment and Mitigation
- Compliance Training and Awareness
- Regulatory Reporting
- Compliance Audits and Reviews
- Data Privacy and Protection
- Engagement with Regulatory Authorities

Complying with cross-border regulatory requirements in payments is a complex process. By employing these essential compliance methods and techniques, businesses can ensure adherence to regulations, mitigate compliance risks, and maintain the integrity and legality of their cross-border transactions.

The Future of Cross-border Payments

The future of international payments is being reshaped by digital and tokenized solutions, including cryptocurrencies and blockchain. These advancements promise to address some of the current pain points, enabling FIs to deliver real-time, low-cost, and highly secure money transfers for their customers. Early adoption of these technologies will be crucial for FIs seeking to provide superior cross-border payment experiences and also provide them a competitive edge.



[Quantum Data Engines](#) is a reg-tech company that helps financial institutions detect, manage, and report financial crime more effectively and efficiently.