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Policy Brief

Task Force 2: Digitalization of the Global Economy

Responsible Digital Transformation for a G7-Led Global Payment System

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Key Points

- Digital assets and emerging payment technologies are challenging nations' financial governance capabilities, creating regulatory fragmentation among G7 jurisdictions and impeding efficient cooperation.
- To address technological changes and adapt to local policy approaches, this proposal seeks to harmonize regulatory strategies while preserving jurisdictional flexibility towards a G7-led global payment system.
- The recommended strategy combines immediate sector-specific alignment with a long-term vision for unified, adaptive governance, addressing urgent risks and systemic coherence.
- The G7-led initiative features a phased plan focusing on standardization, pilot sandbox testing, and establishing a governance mechanism for ongoing oversight and adaptability.

Statement of the Issue

The global financial landscape is transformed by advancements in digital payment technologies, fueled by blockchain, AI, cryptography, and more, challenging G7 nations' financial governance capabilities. This shift includes private digital currencies, cryptocurrencies, and stablecoins alongside novel real-time payment solutions, complicating cross-border payment infrastructure.

This complexity poses several critical challenges. Regulatory fragmentation across G7 jurisdictions creates potential regulatory arbitrage opportunities and complicates international cooperation. Private digital currencies threaten the monetary sovereignty of nations. Digital payment systems are constantly exposed to new cybersecurity vulnerabilities, data breaches, and privacy concerns requiring safeguards. Digitalization worsens inequalities by excluding those without means, digital literacy, or infrastructure. Additionally, algorithmic biases create new exclusionary patterns.

These challenges emerge from persistent G7 structural issues, intensified by governments and regulatory agencies' pressures to digitize payment systems. Central bank digital currencies highlight implementation challenges of digital fiat payment systems, including privacy, accessibility, regulations, interoperability, and democratic oversight. A G7-led global payment system could address these challenges by overcoming the different regulatory lexicons and establishing a unified governance structure.

Beyond these institutional concerns, privacy gaps risk exploiting personal financial data. Meanwhile, technological inequality widens gaps in complex payment systems and cross-border finance. Without structure and coordination, digital payment development risks eroding public trust, exacerbating inequalities, and undermining governmental oversight. Conversely, a unified approach could establish a responsible governance system, harmonize regulations, set terminology and standards, and improve oversight of global digital payment systems.

Summary of Relevant Facts

Current State of Digital Payment Systems

The digital payments landscape has evolved dramatically. Private digital assets are significant players in the global financial system, with market capitalization exceeding $2.4 trillion (CCAF 2024: 5). Traditional payment systems face competition from innovative technologies, including real-time payment systems, central bank digital currencies, stablecoins, and cryptocurrencies, which promise greater efficiency but introduce new risks.

Geopolitical events and digital innovation have prompted concerns about financial stability. Commercial banks may face disintermediation while regulators grapple with supervising technically and regulatorily complex cryptocurrency-based payment options. Modernizing payment systems requires a balanced consideration of both technical choices and their societal implications.

Growth of Digital Assets

A critical concern is that digital currencies like Bitcoin and Ethereum or stablecoins like Tether and USDC often operate outside existing regulatory frameworks, challenging traditional financial institutions and potentially undermining the principle of monetary sovereignty. As adoption increases, they risk weakening nations' monetary policy (Azar et al. 2022; BIS 2023). Their decentralization heightens money laundering risks, tax evasion, and criminal financing. These risks are amplified by limited oversight, which challenges authorities in monitoring and enforcing compliance (FSOC Report, 2022; Xiong & Luo, 2024).

As of March 2025, global crypto market capitalization, including private cryptocurrencies and stablecoins, has reached over $3 trillion in market value, with daily transaction volumes exceeding USD 250 billion (CoinMarketCap, n.d.). Assets stored in decentralized finance (DeFi) applications rose from under $1 billion at the start of 2020 to more than $200 billion in early 2022 (Amberdata, n.d.), demonstrating rapid adoption and the transformative potential of digital finance. This growth trajectory underscores the urgent need for a coordinated G7-led approach to digital asset regulation.

Regulatory Landscape and Fragmentation

G7 jurisdictions display divergent regulatory approaches to digital payment systems. While some have comprehensive frameworks, others maintain more limited oversight, creating arbitrage risks that enable bad actors or unfair advantages, endangering the ecosystem.

The EU's Markets in Crypto-Assets (MiCA) regulation represents one approach to harmonization, but jurisdictions diverge on cryptocurrency and stablecoin regulation. Regulatory bodies such as the Financial Supervisory agencies, alongside Anti-Money Laundering/Combating the Financing of Terrorism compliance, taxation, consumer protection, and other topics, are discussed in all jurisdictions, but often in "jurisdictional silos." The borderless nature of many cryptocurrencies poses challenges to traditional, fragmented regulatory frameworks.

This regulatory fragmentation complicates international cooperation, slows responses to emerging technological challenges, creates regulatory arbitrage opportunities for bad actors, and hampers effective supervision and interoperability gaps (Freiman 2025).

As a response, central banks increasingly explore CBDCs (BIS 2024: 3). However, G7 nations present diverse approaches: It seems the EU prioritizes a Digital Euro, the US focuses on stablecoins, while Canada and Australia paused their programs. Divergence creates regulatory arbitrage risks (CCAF 2024: 21, 27-28; Freiman 2024).

The global digital payments market is projected to reach $20.37 trillion by 2025, with 16% annual growth, reaching an estimated transaction value of $36.75 trillion by 2029 (Statista. n.d). Emerging technologies such as AI and blockchain are driving this expansion, reshaping capabilities and risks in payment systems.

Risks

Cybersecurity vulnerabilities and privacy concerns are paramount in payment system design and governance. Infrastructure failures like Canada's 2022 telecommunications outage highlighted the interconnected fragility of infrastructure and the need for enhanced resilience mechanisms (Government of Canada 2023), crucial for global payment systems.

The lack of standardized terminology and classification systems across jurisdictions further complicates cross-border coordination, highlighting the need for a coordinated G7-led approach to overcome regulatory barriers. A G7-led global payment system must be flexible enough to accommodate the diverse regulatory and technical approaches to digital fiat currencies.

For a global payment system, unique risks exist that could erode monetary sovereignty, hinder the effective implementation of monetary policies, and the potential disappearance of cash. Conducting a much more comprehensive risk analysis is crucial. The proposed G7 Payment System Democratic Governance Council (described in phase 2 below), once established, should lead and prioritize this comprehensive risk analysis to inform implementation strategies.

Governance Challenges and Democratic Oversight

Existing governance structures struggle to keep pace with rapid technological innovation. Effective oversight requires technical expertise and broad stakeholder participation (Freiman 2024). The competitive dynamics between traditional financial institutions, fintech innovators, and decentralized finance applications further complicate governance efforts. The establishment of multi-stakeholder governance frameworks, including civil society organizations and public representatives, is needed to maintain democratic accountability and ensure that digital payment systems align with public values such as privacy protection and equitable access.

Options for Consideration

Option 1: Maintaining a Fragmented Regulatory Landscape

This scenario preserves complete national sovereignty over digital payment regulations but perpetuates cross-border regulatory arbitrage. G7's lack of standardized protocols risks systemic vulnerabilities, such as cyberattacks targeting digital payment platforms. While this approach maintains regulatory flexibility and allows nations to tailor solutions to their specific contexts and priorities, it continues regulatory arbitrage vulnerabilities, failing to address the long-term threats associated with uncoordinated governance. For example, after regulatory changes, crypto exchanges like Binance (2023) relocated to more favorable jurisdictions. Furthermore, fragmented regulation burdens institutions with compliance and ignores the fundamental challenges of a changing global digital payments ecosystem. Cross-border business would likely become more complex and challenging due to the fragmented regulatory landscape and inconsistent digital payment protocols across different nations.

This option would appeal to national governments and regulatory bodies seeking to maintain full control over their digital payment regulations and policies, such as the current US administration's orientation toward private sector-led initiatives in digital assets (White House 2025).

Option 2: Establishing a Sector-Specific Approach

G7 countries could align regulations in key risk sectors like anti-money laundering and cybersecurity while maintaining national discretion elsewhere. This approach focuses resources on high-risk areas and builds on existing cooperation frameworks like FATF Recommendations. However, it may overlook system-wide emerging risks beyond prioritized sectors and widen gaps between harmonized and non-harmonized rules.

While significant progress exists in areas like anti-money laundering and cybersecurity frameworks, extending them to emerging payment technologies requires consistent implementation across G7 jurisdictions. For instance, FATF's virtual assets standards (FATF 2023) face uneven adoption due to readiness gaps and compliance disparities (Petrov and Sav 2024). Consequently, the approach risks inconsistent application of sector-specific standards, patchy enforcement and blurred regulatory boundaries.

This option would appeal to jurisdictions with advanced sector-specific regulations, such as Japan (e.g. Virtual Currency Act) and the EU regulation (e.g. MiCA), and to international organizations which already focus on specific sectors within the global financial system.

Option 3: Adopting a Principles-Based Multi-framework

G7 countries could adopt a comprehensive governance framework ensuring democratic oversight and civil preparedness while safeguarding financial autonomy. Rooted in four key principles for responsible digital transformation in global payment systems, this includes phased implementation and a G7 regulatory sandbox to test the framework's effectiveness and provide metrics-based evidence for broader adoption. These principles aim to guide G7 countries in balancing between technological progress, governance structures, and public interest. Below are the initial guiding principles, adaptable and refined as the framework evolves:

> **Principle 1. Regulatory harmonization:** Establishing shared legal terminology and technical standards protocols across jurisdictions while respecting national sovereignty. This standardization facilitates a consistent regulatory foundation for effective oversight and operations within the digital payments space.
>
> **Principle 2. Democratic oversight and social accountability:** Through expert and public consultations and independent civil society-led cross-sectorial oversight, ensuring technical competence and public participation in supervising digital payment systems. In this framework, 'democratic' encompasses equal representation and voting rights for G7 jurisdictions, checks and balances, and broad participation from governments, various sectors, and civil society organizations.
>
> **Principle 3. Human-centred innovation:** Advancing digital payment systems that enhance human dignity and well-being while expanding economic opportunities, not merely maximizing operational efficiency, ensuring technology serves social value creation.
>
> **Principle 4. Adaptive regulation:** Viewing policy as a living practice rather than static directives through democratic iteration and feedback channels to foster responsible, timely responses to emerging challenges within G7 payment systems governance structures.

These four principles address pressing challenges in global payment system governance. Regulatory harmonization reduces fragmentation that enables arbitrage. Democratic oversight ensures legitimacy and public trust, elements often overlooked in technical regulatory frameworks. Human-centred innovation guides technological development toward public benefit rather than merely commercial efficiency. Adaptive regulation acknowledges the inherently dynamic nature of digital payment technologies.

This option would appeal to forward-thinking policymakers, international organizations, and financial institutions seeking an adaptable global payment system governance approach. It addresses both immediate concerns and long-term harmonization goals, which forms the basis for our primary recommendation in the later sections of this proposal.

Recommendations

The three options offer distinct paths but are not mutually exclusive. A phased strategy blending elements of all options could address immediate priorities and foster systemic coherence. G7 countries could keep national control to manage urgent risks like cyberattacks and money laundering while gradually adopting a principles-based framework to harmonize standards and enable adaptive governance.

We recommend that G7 nations adopt a principles-based multi-framework while integrating sector-specific alignment, addressing risks and allowing transitional flexibility. This hybrid approach ensures that short-term regulatory pragmatism feeds into a unified, adaptive governance structure anchored in technical standardization and democratic accountability.

Participation in this G7-led global payment system framework offers compelling financial and strategic incentives, including reduced compliance costs, enhanced market access, and the opportunity to shape global standards while preserving flexibility in national implementation.

This proposal intentionally avoids setting specific timelines, as a G7-led global framework requires flexibility to adapt to diverse national contexts and evolving technologies. It acknowledges G7's informal structure, necessitating collaborative planning during initial harmonization. Details on the Democratic Governance Council's structure, funding, and authority need development beyond this proposal's scope.

We recommend adopting a principles-based multi-framework as the overarching approach, integrating sector-specific alignment to address immediate risks. This hybrid strategy ensures short-term regulatory pragmatism while building towards a unified, adaptive governance structure. The implementation would occur in three phases.

Phase 1: Foundation Building

During this initial phase, G7 should create a regulatory sandbox pilot to trial cross-border retail and wholesale payment innovations. A trial period would let G7 test cross-border innovations, gather data to shape regulations, assess outcomes, and set security and efficiency metrics. The UK's Financial Conduct Authority's regulatory sandbox (FCA 2024) provides a model adaptable for G7.

During this phase, G7 countries should establish a Terminology and Standards Task Force to develop standardized definitions and a clear and comprehensive taxonomy for payment governance that bridges different legal frameworks and cultural contexts. Regulatory authorities have diverse approaches requiring structured solutions to overcome legal-conceptual barriers. A standardized payments lexicon would enhance international regulatory cooperation, improve policy consistency, and protect operational resilience and integrity. Delegates from civil society, regulators, central banks, and legal experts would form a cross-national terminology and standards task force.

G7 countries should create a timeline with clear milestones and deliverables, including (1) quarterly progress reviews throughout the initial phase, (2) staged deadlines for key deliverables, including terminology standardization in the early stage, regulatory sandbox implementation mid-phase, and preliminary governance framework development in the later stage of the phase ; (3) coordination with existing international financial institutions; and (4) clear Phase 1 completion criteria before advancing to subsequent phases. The timeline should balance flexibility for national legislative processes while pushing standardization.

Phase 2: Governance Development

This phase establishes a G7 Democratic Governance Council of Global Payment Systems, with equal representation from government, civil society, and industry. Led by a civil society body structured to precent industry capture and promote cross-border coordination while preserving national autonomy. It would implement rotating civil society chairs on fixed terms and transparent processes with public meeting records and decisions. To curb capture, it would enforce a two-year cooling-off period for industry representatives, mandatory conflict-of-interest disclosures, and annual public reporting.

Phase 3: Refinement and Policy Adaptation

During this phase, G7 countries would implement a Policy Evaluation and Adaptation Cycle to provide a systematic policy review. This evaluation would include regular reviews of regulatory effectiveness, including stakeholder feedback mechanisms, providing standardized impact assessment methodologies, and balancing innovation needs with stability requirements.

The policy evaluation would adapt existing frameworks like the Adaptive Design and Assessment Policy Tool (ADAPTool) applied to Canadian public policies (Bizikova et al. 2018, 47–62). Tailoring it for G7 would standardize impact assessment methodology, allowing 90-day public comment on major changes and mandating market stability impact analysis for all proposed modifications. This approach would enable responsive regulation while maintaining predictability for market participants and the public. Details like frequency, stakeholder roles, and balancing need technical work beyond the scope of this proposal but are vital and will be set during the implementation phase.

Conclusion

The outlined initiative positions G7 countries to shape digital payment systems where democratic values, social accountability, and technological innovation converge to advance the public good.

Success requires thinking of technological innovation as an integral part of democratic oversight and public accountability. Through coordinated action on governance frameworks, G7 countries can shape digital payment systems that serve public interests together with continuous technological advancement.

This proposal addresses current issues and promotes long-term harmonization while preserving national sovereignty and fostering international cooperation. By implementing these recommendations, G7 nations can establish robust governance mechanisms that ensure digital payment systems enhance democratic values and social accountability.

At this geopolitical juncture, new governance processes demand flexibility, multilateral cooperation, and aligned incentives. While predicting forthcoming trajectories remains challenging, future scenarios with varying degrees of collaboration among G7 nations must be considered. Tensions could potentially hinder cooperative efforts. This proposal addresses these challenges through flexible pathways based on national contexts, focusing on coordination of technical standards and regulatory language, leveraging existing cooperation mechanisms.

Author Biographies

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