



Cornell Law School

Fintech and the Payments Trilemma

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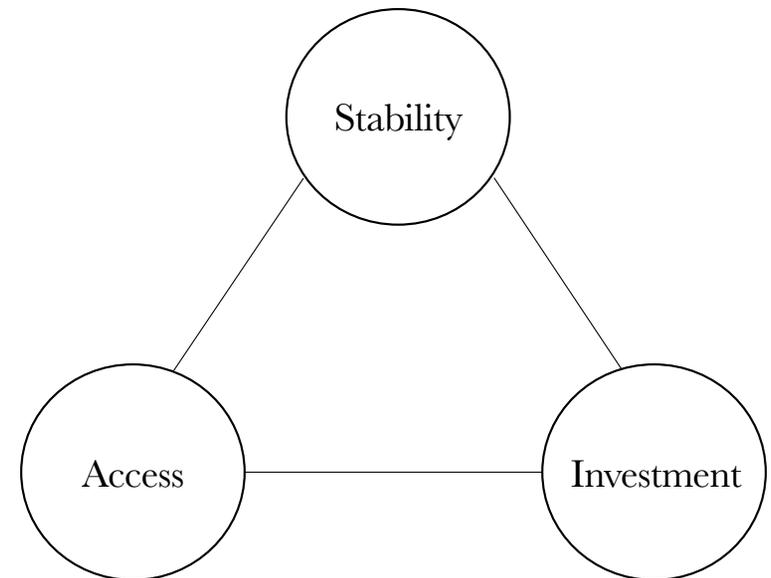
The payments trilemma

- *An observation:* the fintech ecosystem relies on a variety of existing and nascent financial market infrastructure (networks).
 - Payment networks
 - Open finance (APIs)
 - Crypto
- The regulation of these networks implicates three core policy *objectives*, and poses a series of potential *trade-offs*.



The payments trilemma

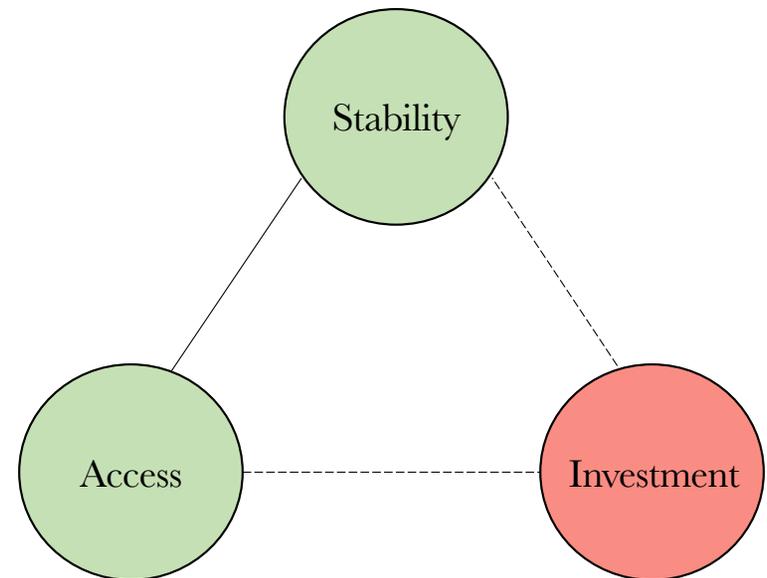
- *Stability* = strong and consistent prudential regulation within a well-defined regulatory perimeter
- *Access* = open/closed access to payment infrastructure as a proxy for competition
- *Investment* = over/optimal/under-investment in payment infrastructure as a proxy for innovation





The payments trilemma

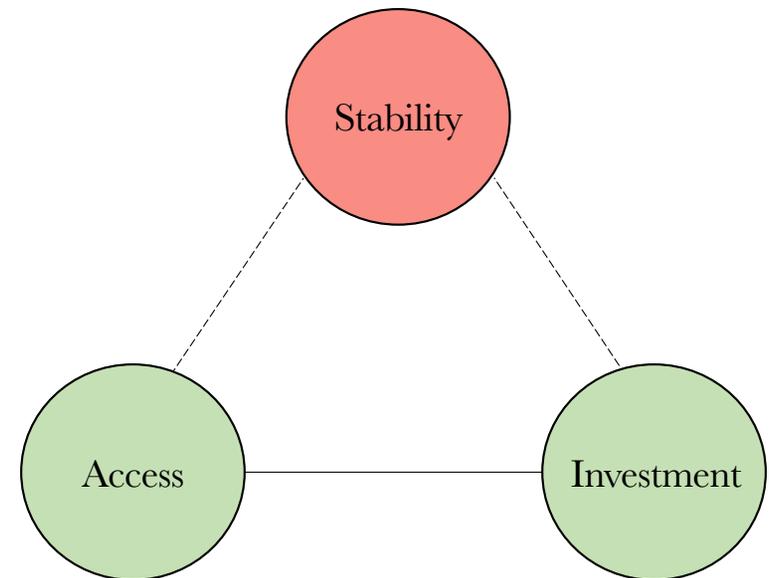
- By definition, you cannot have a well-defined regulatory perimeter and open access. So *stability* demands some degree of *closed access*.
- However, closed access plus a well-defined regulatory perimeter, along with strong and consistent prudential regulation, can distort competition, leading to private *under-investment* in innovation.
- An example: the current US payment system.





The payments trilemma

- In the short run, in the absence of a well-defined regulatory perimeter, *open access* is likely to lead to *(over-)investment* as firms compete for the market.
- Yet over the longer run, many new entrants will likely fail. In the absence of strong and consistent prudential regulation, these failures can jeopardize *stability*.
- An example: stablecoins and the emerging crypto payment system.





The payments trilemma

- With strong and consistent prudential regulation within a well-defined regulatory perimeter, it is possible for policymakers to subsidize investment. However, this requires policymakers to make a choice about the type of *access* and *investment* they want.
- If policymakers want to subsidize private investment, effectively targeting the subsidy requires a degree of *closed access*.
- Conversely, if policymakers want to prioritize *open access*, this will require public investment.

