

November 2012



Welcome to the first issue of Velocitates! One of the core tenets of the SWIFT Institute is the dissemination of knowledge and information, and through this quarterly newsletter that is exactly what we will do.

Here we will share all that is new, interesting and hopefully exciting in our quest to foster new research in the world of transaction banking. You will find updates on research we are sponsoring as well as details of calls for new research proposals. There will be updates on SWIFT Institute events, along with details on how you can participate.

Of course Velocitates is not just about giving you updates; it is also about sharing views on hot topics. So in the appropriately named 'Hot Topic' section you can read the somewhat differing views of academia and the financial industry on key issues of today. In this first issue Darrell Duffie and Peter Wallison discuss and debate network liquidity effects in the global interbank market. Related to this debate you'll also take a step back in time to 1907 for a little history lesson.

Going forward I want Velocitates to be a two-way dialogue, so I am keen to hear from you on what you like (and dislike) about our newsletter, along with your suggestions for future hot topics, did you knows, and ideas for future events and research topics. Our next round of Calls for Proposals will be issued in 2013, so send me your ideas for topics before the end of 2012 for consideration. I look forward to hearing from you!

And if you are not quite sure what Velocitates means, read on to find out...

*Peter Ware*

Topics in this issue

[Sibos News](#), [Hot Topic](#), [Research](#), [Conferences](#), [Coming Soon](#)

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## Sibos News

### Sibos Colloquium brings new insights into OTC reforms

This year's Sibos saw the debut of the Sibos Colloquium organised by the SWIFT Institute, with industry and academia debating the pros and cons of regulation on OTC derivatives clearing, one of the hottest and far-reaching topics in the industry.

At the Colloquium, Manmohan Singh, senior economist at the International Monetary Fund, and Godfried de Vidts, director of European affairs at ICAP, presented their views to a packed audience,

who not only got a deep view on swaps clearing from both an industry practitioner and specialist academic, but also intensified the debate with questions and concerns on regulation. The session was introduced by SWIFT CEO Gottfried Leibbrandt, who said the aim of the SWIFT Institute is to “answer those deeper questions that are not easily solved.”

[Read full article](#)

## New thoughts emerge as industry join hands with academia

Sibos, one of the biggest annual events on the financial industry calendar hosted by SWIFT, in Osaka this year, saw active participation by the SWIFT Institute with a view to promoting research in the financial industry and bridging the gap between industry and academia. Talking about the Institute’s presence in Sibos, Peter Ware, Director of the SWIFT Institute, says, “By engaging with the industry academics can gain practical insights into the financial industry which can deepen their research, whilst the industry in turn can benefit from the research completed by academics.”

Sibos is a unique forum for those working in the payments, securities, cash management and trade industries to come together and discuss, debate and take collective action. Drawing more than 6,000 participants in Osaka from across the globe, this four-day conference is unparalleled in its reputation to reach the entire financial services industry.

[Read full article](#)

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### Hot Topic

## Network Liquidity Failures of 2008: Did counterparty risk matter and will it count in the future?

Was the financial crisis of 2008 a one-off event, or the result of a flawed financial system desperately in need of reform? Whilst academics generally agree that a run on financial institutions occurred in the autumn of 2008, there are differing views as to the cause of the financial crisis and therefore differing opinions as to what prescriptive measures regulators should introduce to prevent future recurrence.

SWIFT Institute interviewed renowned academics Darrell Duffie, Dean Witter Distinguished Professor of Finance at Stanford University’s Graduate School of Business, and Peter J. Wallison, Arthur F. Burns Fellow in Financial Policy Studies at the American Enterprise Institute, regarding their differing perspectives on network liquidity effects.

Both Duffie and Wallison agree that during the last financial crisis there were three main channels through which network effects were felt: counterparty risk; a run on liquidity; and fire sales. It is surrounding the important question of counterparty risk and capital requirements, however, that disparity arises between their respective views.

Did you know...



*Peter J. Wallison is the Arthur F. Burns Fellow in Financial Policy Studies at the American Enterprise Institute, and is renowned for claiming that financial panics, such as that caused by the collapse of Lehman Brothers in 2008, are very rare - the one prior was in 1907.*

*The Panic of 1907 occurred when there was a failed attempt to corner the stock of the United Copper Company. Eight days later when the failure became apparent and the share price of United Copper had collapsed, there was an old-fashioned bank run on the Knickerbocker Trust Company who had close ties with United Copper. On 22 October, \$8 million was withdrawn from the Knickerbocker before lunchtime. Within two days,*



**Professor Darrell Duffie**  
Dean Witter Distinguished Professor of Finance  
Graduate School of Business, Stanford University

Darrell Duffie is the Dean Witter Distinguished Professor of Finance at the Graduate School of Business, Stanford University. He is a Fellow and Member of the Council of the Econometric Society, a

Research Fellow of the National Bureau of Economic Research, a Fellow of the American Academy of Arts and Sciences, a member of the Financial Advisory Roundtable of the Federal Reserve Bank of New York, a member of the board of directors of Moody's Corporation since 2008, and the 2009 president of the American Finance Association. Darrell is also a member of the SWIFT Institute's Advisory Council.



**Peter J. Wallison**  
Arthur F. Burns Fellow in Financial Policy Studies  
American Enterprise Institute

Peter J. Wallison is a lawyer and the Arthur F. Burns Fellow in Financial Policy Studies at the American Enterprise Institute (AEI). He is a codirector of AEI's program on financial policy studies, and

researches banking, insurance, and securities regulation. As general counsel of the U.S. Treasury Department he had a significant role in the development of the Reagan administration's proposals for the deregulation of the financial services industry. He also served as White House counsel to President Ronald Reagan.

*the panic had spread and 11 other trust companies were forced to close their operations. Banks were reluctant to lend money, interest rates on broker loans rocketed and stock market prices fell as a result.*

*At the time a central bank did not exist in the United States. It was the famous banker J.P. Morgan that stepped in and coordinated an injection of cash into the system to restore confidence. Morgan even had to resort to locking the bankers in his library until they agreed to a bailout plan. The Federal Reserve System was created six years later.*

[Read full topic discussion](#)

## Research

Every year the SWIFT Institute will issue 12 research grants. Each grant will cover a different topic, for which we will issue individual Calls for Proposals. In 2012 we started things a bit differently just to get things up and running. We launched in April with the announcement of the first three grants. They are all underway exploring three very interesting topics, and we are lucky to have researchers of the highest calibre conducting the studies.

Working papers resulting from the studies will be freely available to all. They will be posted in a database on our web site as well as being listed here in future issues of *Velocitates*.

The first working paper will likely be related to Financial Inclusion, based on a study of mobile banking in Ghana being carried out by Jenny Aker and Kim Wilson from The Fletcher School at Tufts University in Boston. Their field work is complete and the working paper is underway.

A working paper from the RMB Internationalisation study should be next, helping to determine whether a tipping point is

Did you know...



*The name of the SWIFT Institute newsletter, *Velocitates*, comes from the Latin *velocitas* meaning swiftness, and in our case the plural, therefore swiftnesses.*

*Velocitates appeared in print in the early 1700's in the world's first scientific journal; *The Philosophical Transactions* published by the Royal Society of London for Improving Natural Knowledge. The journal's aim was and continues to be, to inform readers of the latest scientific discoveries. A worthy*

approaching. This study is being carried out by Jonathan Batten at the Hong Kong University of Science & Technology and Peter Szilagyi from the Judge Business School, University of Cambridge.

*aim, and a goal the SWIFT Institute will strive to emulate.*

And last but certainly not least, Dr. Asad Ata and Dr. Mahender Singh from the Malaysia Institute for Supply Chain Innovation (MISI) are in the midst of a yearlong study to map and analyse SME value chains to identify and address structural and operational constraints limiting their performance and sustainability. Their aim is to propose enhancements to the financial supply chain. An interim white paper on this study may become available sooner than expected.

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## Conferences

Every year the SWIFT Institute will host two or three conferences where we will bring together academia and the financial industry to engage in dialogue on a specific topic. Some of these conferences will be intimate gatherings by invitation only, whilst others will be much larger in scale for which you can register to attend. In all cases we will issue Calls for Papers to invite academic research to be presented and discussed at the conferences. Visit the [SWIFT Institute](#) regularly to find out the latest news on upcoming events.

## Coming up

- 28/2/2013 – 1/3/2013

### **Financial Inclusion Research Conference 2013**

**Harvard Kennedy School, Cambridge, Massachusetts**

*Partners:* The Ash Center for Democratic Governance and Innovation, and The Mossavar-Rahmani Center for Business and Government (Harvard Kennedy School)

*Overview:* Globally, approximately 50% of adults do not have a bank account. These are the financially excluded in society. Whilst predominantly a developing world problem, there are also significant numbers of excluded or unbanked adults in developed regions including Europe and North America. For the unbanked it is a challenge to gain access to banks and the services they offer. For banks it is a challenge to reach the unbanked. How do we bridge the gap? There is a need for a better understanding of the macro-level effects of financial inclusion.

What are the relationships between financial inclusion and aggregate saving rates, economic growth, income distribution and poverty rates? What is the economic channel through which these relationships are sustained? The aim of the conference is to bring together researchers and financial industry leaders from around the world to explore how to bridge the gap.

Researchers will bring the results of their latest research, while industry leaders will bring their experience and operational insights to a discussion of the nature of the gap between the unbanked and the banking sector, and how it can be bridged. The conference will also identify common ground for future research.

*Agenda:* The agenda will be finalised in the coming weeks following the review of the more than 45 submissions received in response to the Call for Papers.

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## Coming Soon

## Here is what you can look forward to from the SWIFT Institute in the weeks ahead...

- Announcement of the next five SWIFT Institute grant recipients - December 2012
- Announcement of the agenda plus the papers and authors selected for the Financial Inclusion Research Conference 2013 – December 2012
- Call for Proposals for the next round of research grants – Q1 2013

[Visit the website](#) to see what else is happening at SWIFT Institute.

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