

For Immediate Release



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## New research paper from the SWIFT Institute evaluates real-time payment systems

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*Academics from the Singapore Management University describe a new mechanism to optimise the settlement process*

**Brussels, 12 November 2015** – The SWIFT Institute announces the availability of a new paper that proposes a hybrid model for real-time retail systems, combining the benefits of a real-time gross settlement system (RTGS) with those of a deferred net settlement (DNS) system. The report, entitled "Near Real-time Retail Payment and Settlement Mechanism Design" by Zhiling Guo, Robert J. Kauffman, Mei Lin, and Dan Ma from the School of Information Systems at Singapore Management University focuses on the development of a 'hybrid priority queuing mechanism' for faster payment settlement systems.

Rapid expansion of e-commerce, along with rising domestic and cross-border payments, has fuelled the demand among financial institutions for a cost-effective means to expedite clearing and settlement of low-value retail payments. Traditionally, retail payments have made extensive use of interbank netting systems, in which payments are accumulated for end-of-day settlement. This approach, known as deferred net settlement (DNS), reduces the liquidity needs of the payment system, but bears inherent operational and financial risks for unsettled intraday payments. As large dollar volumes of retail payments accumulate, real-time gross settlement (RTGS) has been recognised as an attractive option, especially for high-value payments. It permits immediate settlement of transactions during the day, but it brings up other risks and incentives issues that require consideration.

This research proposes a mechanism that supports centralised queuing, permits payment prioritisation, reduces payment delays, enhances liquidity, and optimises the settlement process, including a modelling framework and experimental simulations to evaluate the proposed approach.

The results point out the qualities of a cost-effective and value-maximising mechanism to quickly settle increasingly large volumes of retail payments, while ensuring that the incentives for payment system stakeholders are given careful consideration.

"Currently, there are 18 countries live with a domestic real-time payments (RTP) system," says Peter Ware, Director of the SWIFT Institute. "There are another 12 countries that are exploring, planning or building, and an additional 17 Eurozone countries also in the exploratory stage. We hope that this paper contributes to the ongoing debate around the best methods for devising these systems."

Please [click here](#) to download a full copy of the research paper.

### About SWIFT Institute

Launched in April 2012, the SWIFT Institute fosters independent research to extend the understanding of current practices and future needs across the financial industry. Managed by SWIFT, and working in close collaboration with academics from top international universities, the SWIFT Institute brings the financial industry and academia together to explore ideas and share knowledge on topics of global importance.

The research covers various aspects of transaction banking, including the following areas: Payments, Clearing / Settlement, Cash Management, Trade Finance, Trust and Securities.

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### **About SWIFT**

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,800 banking organisations, securities institutions and corporate customers in more than 200 countries and territories. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest.

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