

# A Brief Overview of Payment Systems

1. There are three main elements of a payment system - Clearing, settlement and messaging
2. Clearing is the reconciliation and netting process, settlement is the actual mechanism of moving the funds from one account to another, messaging provides the communication required for doing clearing and settlement.
3. There are various methods of clearing and settlement - bilateral and multilateral clearing, net, gross or real time settlement
4. SWIFT is a messaging system, it is only an information carrier. It has no role in either clearing or settlement
5. Messages can be classified as -
  - a. Value or non-value
  - b. Following regional standards or global standards
6. Payment systems -
  - a. enable multiple parties to transact with each other
  - b. Operate within a single country
  - c. denominated in the currency of that country
  - d. subject, directly or indirectly, to regulation by the government of that country
7. Banks create correspondent accounts to make payment in a foreign currency by accessing the payment system of another country
8. Such accounts are called nostro/ vostro accounts - terms used to denote the same account, depending on who is referring to the account
9. Relationship Management Application or RMA of SWIFT allows banks to control message traffic by giving authorization about which bank can send them messages and also which messages are allowed to be sent.