

In-Class Exercise: Traditional Financial Infrastructure

Exercise 1: “Build the Payment Flow”

Format: Working in pairs, draw a complete payment flow for a cross-border salary payment (an employer in one country paying an employee in another through correspondent banking).

Your diagram **must** show:

- The employer’s bank (originating bank)
- At least one correspondent or intermediary bank
- The employee’s bank (beneficiary bank)
- SWIFT messages (dashed arrows) versus actual money movement (solid arrows)
- Three stages clearly labelled: **Initiation, Clearing, Settlement**

Use the space below (or a separate sheet) for your diagram.

Q: Where in this flow does settlement risk exist? Which institution bears it?

Exercise 2: “Gross vs Net Settlement Debate”

Scenario: A central bank is designing a new interbank payment system. Two proposals are on the table:

Option A: Real-Time Gross Settlement	Option B: Deferred Net Settlement
Every payment settles individually, immediately, in central bank money.	Payments are batched throughout the day, netted, and settled once at end of day.

Group A argues for RTGS:

- What are the risk advantages of settling each payment immediately?
- What is the liquidity cost?

Group B argues for DNS:

- What are the efficiency advantages of batching and netting?
- What risk does the delay introduce?

Q: *Joint question:* Is there a hybrid approach that captures benefits of both? Describe what it might look like.

Exercise 3: “The Disintermediation Debate”

Proposition: “Central banks should offer accounts directly to every citizen, bypassing commercial banks entirely.”

For the proposition:

- What trust hierarchy benefits would citizens gain? They would hold the safest form of money directly.
- What friction in today’s system would this eliminate?

Against the proposition:

- What happens to credit creation if deposits leave commercial banks?
- What happens to the commercial banking business model?

Q: *Synthesis:* Could a two-tier model (central bank issues digital currency, commercial banks distribute it) offer a middle ground? What would each tier be responsible for?

Exercise 4: “Architecture Audit”

Scenario: A fintech startup claims it can offer cross-border payments “without intermediaries.”

Your task (in small groups):

1. List the traditional layers this startup **cannot** bypass (e.g. regulatory, settlement).
2. List the layers it **could** replace or compress (e.g. messaging, correspondent chains).
3. For each bypassed layer, identify the regulatory or trust implications.

Deliverable: A one-page architectural assessment (bullet points) evaluating the startup’s claim.