

What is the Single Instructing Party settlement model for instant payments?

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With Riksbank joining the TARGET Instant Payment Settlement (TIPS) service, in addition to the existing TIPS settlement service, a new settlement model is introduced, based on a Single Instructing Party (SIP). Once all relevant validations and checks are performed successfully by the SIP, the settlement occurs immediately with no need for reservation of funds in TIPS. So far, the SIP model is envisaged for the SEK market, however, the EUR community could also find it of interest in the future.

The need for this model originated during the preparation for the onboarding of the Swedish krona in TIPS. In Sweden, currently all instant payments settle on the private technical infrastructure, Payments in Realtime. In order to accommodate the current setup of instant payments and promote an efficient settlement in central bank money, P27, the future Automated Clearing House (ACH) in the Nordics, is planned to take on the role of instructing party for both Originator and Beneficiary bank. This is different to the standard TIPS settlement model.

TIPS is attentive to the needs of its users. The SIP settlement model provides an alternative settlement model for banks participating in the same clearing and settlement mechanism (e.g. ACH), giving banks an additional layer of flexibility, i.e. keep their relationship with their ACH and at the same time settle all their instant payments in Central Bank money.

[What is the standard TIPS settlement model?](#)

The standard TIPS settlement model allows for an instant payment to be initiated by a participant (TIPS Participant or Reachable Party) or a third party acting as Instructing Party on behalf of a participant. For the sake of simplicity let's consider the case of an Originator bank and a Beneficiary bank that are TIPS Participants. When receiving the payment, TIPS checks that the payment message is compliant with the SCT-Inst scheme and verifies that the sender is authorised to send instructions. After some further compliance checks, TIPS verifies that the funds available on the Originator's account are sufficient and that the involved accounts are not blocked.

Once the instant payment passed all checks successfully, TIPS reserves the required amount and forwards the payment for acceptance to the Beneficiary bank. The reserved amount on the Originator's account cannot be used for any other instant payment or liquidity transfer. The Beneficiary bank receives the payment and responds to TIPS, either accepting or rejecting the transaction.

Accepting the payment results in TIPS releasing the reserved amount and settling the payment, thus crediting the Beneficiary's account and debiting the Originator's account. Finally, TIPS sends a settlement notification to the Beneficiary bank.

[How does the SIP settlement model work?](#)

The Single Instructing Party (SIP) settlement model allows an originator participant or a third party to instruct on behalf of the Originator bank as well as the Beneficiary bank, i.e. to act as SIP. When receiving an instant payment, TIPS verifies that the sender, with its unique identifier being its Distinguished Name (DN), acting on behalf of the Originator coincides with that of the Beneficiary. TIPS also verifies that the same DN is granted with the appropriate privilege to instruct as SIP.

TIPS thus does not need to check whether the payment will be accepted by the Beneficiary bank. There is also no need for TIPS to reserve funds on the Originator's bank account. The payment is sent to TIPS for immediate settlement. TIPS settles the instant payment and sends the settlement confirmation, called status report, to the SIP. The SIP can subsequently inform both originator and beneficiary of the settlement.

Like with the standard settlement model, instant payments are always settled for the full amount; partial settlement is not foreseen in TIPS. An instant payment can fail to settle in the SIP settlement model, like in the standard TIPS model, for example in case of the account being blocked. Should the sender of the instant payment not have the privilege to instruct as SIP, TIPS attempts to use the standard settlement model, hereby checking whether the sender is granted with the privilege to instruct according to the standard settlement model.

[What distinguishes the SIP from the standard TIPS settlement model?](#)

From the TIPS processing perspective, the SIP settlement model is simplified compared to the standard TIPS settlement model. TIPS only interacts with the SIP in a one-step settlement phase.

As there is no conditional phase in the SIP settlement model, the status of the transaction may only have one of five values (received, validated, settled, failed, or expired), whilst there are two more values possible in the standard model (reserved, or rejected). Settlement certainty in the standard model is ensured by reservation of funds, whilst in the SIP model the SIP can ensure this before instructing in TIPS. The clearing function of the SIP practically ensures that a transaction is forwarded to TIPS only if sufficient funds are present on the account. The SIP settlement model entails less messages to be exchanged on the network and therefore represents a cost-effective solution.

[Learn more about Riksbank joining TIPS \(RIX-Inst\)](#)