

Giesecke & Devrient (G&D) thanks you for the opportunity to respond to the Federal Reserve Bank Payment System Improvement – Public Consultation Paper. We have reviewed the paper and found it more appropriate to respond with a free form document outlining our vision of how to improve the U.S. Payment System.

G&D is in general agreement with the payment system gaps and opportunities identified in this Paper. Like many industry participants, we would like to see substantial progress in a shorter timeframe than 10 years. We appreciate the proactive approach the Federal Reserve Banks have taken in pushing for improvement in the payment system. Specifically G&D has analyzed the gaps and desired outcomes of potential changes introduced. The goal of our response is to address one significant aspect of change and how it can be applied in an overall strategy for long term improvement.

The evolution of the payment system from a manual, paper transaction to electronic processing has been embraced throughout the world. G&D's perspective on the reason why this migration has not been as rapid as desired is firstly due to the differentiators caused by the size and complexity of the U.S. Payment market, and secondly due to the legacy infrastructure already established to address these unique requirements. Electronic payment is the key factor to achieving near real-time transaction processing and the focus should be on what needs to be done to improve its adoption.

G&D is a technology provider of secure devices in all forms - card, mobile, tokens, etc. As such, our value as a contributor to the improvement as outlined here is focusing on the end points of a financial transaction. Improving the end points for both payer and payee is one of many steps necessary to address the overall system improvement. How a transaction is routed or processed is outside the scope of our response. We believe that migrating the payment system to incorporate more secure transaction processing at the point of initiation of the payment is critical to achieving all of the Desired outcomes listed in the paper.

We are all aware that the payment industry in the U.S. is looking to adopt EMV chip technology for both credit and debit card acceptance. We would like to bring to your attention that the perception held by many in the U.S. that EMV is proprietary or old is inappropriate. In short, EMV presents the opportunity to secure payment by creating a strong cryptographic token (called a cryptogram or signature) in 2 different flavors: one that can be verified at the point of initiation and a second that can be carried over through the payment system for verification. In no way do we see this to be a proprietary technology as first the standard is open and royalty free, and second it uses cryptography algorithms known and used in many other industries, including telecommunication, identification for both government and corporate, and the emerging machine to machine communication.

Here is how securing the end points in the payment system addresses the Desired outcomes and closes the gaps as outlined in the paper:

- Desired outcome 1: We strongly believe that the introduction of more secure payment end points, i.e. chip card, mobile device, tokens (logical or physical) and host systems, will be a catalyst of accelerated electronic payment adoption and serve as a foundation to improve processing throughout the payment system. We support the Federal Reserve Banks ongoing

role as a catalyst for collaboration; bringing together industry leaders via groups such as the Mobile Payments Industry Workgroup and supporting other key industry initiatives like the EMV Migration Forum.

- Desired outcome 2: A secure EMV token offers ubiquitous electronic solutions as it can be implemented in many different form factors and does not introduce additional complexity in the consumer experience. It can offer immediate confirmation of funding account origin and authenticity and thus provide additional assurance good funds will be made available.
- Desired outcome 3: The consumer trust and protection in the payment system by using a secure token is clear and proven around the world. It is a natural prerequisite of accelerating electronic payment adoption. In addition, higher security will minimize fraud in the system and thus reduce the cost of the payment transaction.
- Desired outcome 4: EMV has been adopted around the world. It has become a global standard. Many financial institutions in the U.S. have started deploying EMV chip cards because of the difficulties consumers have experienced in cross-border transacting.
- Desired outcome 5: We are confident that the best way for the Federal Reserve Bank to promote the safety and security of the payment system from end-to-end is to promote the adoption of EMV, while monitoring the activities of the industry consolidated around the formation and work of the EMV Migration Form.

## Conclusion

G&D strongly supports the Federal Reserve Banks efforts to improve the payment system. The Paper has identified well the key gaps and opportunities in the system as well as the Desired outcomes. The Federal Reserve Bank has and should continue to play an active and visible role in driving collaboration and consensus. Their participation in numerous industry forums and hosting events is key to bringing the detailed understanding of the complexities of the market and delicate balance between technical versus business issues.

There are clearly many technologies available in the market to drive innovation, efficiency and security in our payment system. G&D recommends to the Federal Reserve Bank to look at the EMV migration in the U.S. as a foundation of a long term strategy of overhauling the aging payment industry and to consider the principles of security of EMV – i.e., a secure payment transaction token that has a significant and important part of an improved payment system in the United States.