

Name: LORENZO GASTON

Organization: SMART PAYMENT ASSOCIATION (SPA)

Industry Segment: Technology Solution Provider/Processor

General

1. Are you in general agreement with the payment system gaps and opportunities identified in the "Payment System Improvement Public Consultation Paper"? Please explain, if desired.

No. The document manages to present clearly the case for retail Real Time Settlement systems. However SPA believes that other areas deserve urgent discussion as well. See next.

1i. What other gaps or opportunities not mentioned in the paper could be addressed to make improvements to the U.S. payment system?

SPA considers that in a global strategic approach the following areas should be addressed:

1. Achieve global interoperability for cards issued in US- Since most of the world has migrated to EMV enabled chip technology, the benefits for the users of the technology (consumers and retailers) should be clearly expressed.

2. Education on EMV enabled chip technology is essential for social acceptance of the technology. There are evident benefits for users in migrating towards EMV enabled chip technology cards

3. Improve Security, so that the retail payment instruments at the disposal of the US consumer (contact cards, contactless and NFC-mobile handsets present a similar level of risk for the transaction)

4. To secure the Cloud using card based technology. Many currently offered electronic payment systems rely on the knowledge of some identification information only - as e.g. the credit card number, an email address + PIN. The new system shall be based on higher level security - e.g. using a 2 factor authentication

5. Analysis of the impact of capping debit card fees on the consumer side. Are annual fees being increased by issuers ? Is there a negative impact on rewarding, couponing and other side benefits for the use of a particular card ?

6. Roadmap to mobile payments both proximity & remote - POS terminals that support contactless EMV will in turn enable mobile EMV on NFC at merchants, meaning retailers will take advantages of all types of card payment methods. Evaluate the existing methods and promote those that facilitate control by the payer of the transfer of funds, convenience and security- Promote best practices by regulation to boost user confidence

7. Financial integration - How technology may facilitate financial integration and ease low-cost remittances

8. Data privacy should be early addressed.

Many currently offered electronic payment systems rely on the knowledge of some identification information only - as e.g. the credit card number, an email address + PIN. The new system shall be based on higher level security - e.g. using a 2 factor authentication. Offline payments. to be able to replace existing systems, the new system shall be able to perform payments offline.

Even though the reliability of online systems is very high - it is still a common experience, that a connection is not possible.

This delay or decline decreases the acceptance of such systems. Additionally there are situations where online connections are not possible.

2. Are you in general agreement with the desired outcomes for payment system improvements over the next 10 years? Please explain, if desired.

Yes. 10 years-time is a good timescale to plan a migration of the retail payment infrastructure aligning with EMVCo Next Generation Program. Offline payments. to be able to replace existing systems, the new system shall be able to perform payments offline. Even though the reliability of online systems is very high - it is still a common experience, that a connection is not possible. This delay or decline decreases the acceptance of such systems. Additionally there are situations where online connections are not possible. Also there will be sufficient background to get an in-deep insight into the impact of new payment instruments on US economy.

2i. What other outcomes should be pursued?

In the next 10 years many new forms of virtual currencies will appear. Social networking will boost P2P payments, using different revolutionary payment instruments using all means of personal communication devices. There is a strong need, not only in US, to early evaluate the potential impact of innovation coming from society and setting out the protective measures and regulations to avoid monetarian crisis. Finally, a common understanding and policy (to be negotiated worldwide) to fight against the risks of financial crime and money laundering of new payment instruments is needed.

3. In what ways should the Federal Reserve Banks help improve the payment system as an operator, leader, and/or catalyst?

The role of the Federal Banks is not necessary to compete with other commercial operators. A catalyst is a model that the European Commission for instance tried to play in the late 90's to promote the convergence of EU infrastructures and it did not work that well. A catalyst is not enough. The Federal Reserve Banks should lead the process once the final objectives are clearly. With this respect the Federal Reserve Banks should also increase the collaboration with other institutions (European Payments Council, World Bank) in order to promote best practices for the issuance and operation of new retail payment instruments

Ubiquitous near-real-time payments

4. In discussions with industry participants, some have stated that implementing a system for near-real-time payments with the features described in the second desired outcome (ubiquitous participation; sender doesn't need to know the bank account number of the recipient; confirmation of good funds is made at the initiation of the payment; sender and receiver receive timely notification that the payment has been made; funds debited from the payer and made available in near real time to the payee) will require coordinated action by a public authority or industry group. Others have stated that current payment services are evolving toward this outcome and no special action by a public authority or industry group is required.

4i. Which of these perspectives is more accurate, and why?

There must be some drive to manage such an ambitious project, for very good reasons: First the existence of strong conflict of interests is unlikely to result in large agreements. Second the investment required is huge and payback models uncertain.

4ii. What other perspective(s) should be considered?

The problem with any new infrastructure is the lack of business case for the substantial investment required. WHO's going to pay for this ? . The commonality of infrastructures has a cost that must be shared between the beneficiaries. How to share the investment effort without impacting retail payments market structure. How will be impact on existing infrastructure and players ? Would this migration facilitate the entrance of the new players in the market? . Are nonbanks PSP's to get direct access to the new facilities ?

5. The second desired outcome articulates features that are desirable for a near-real time payments system. They include:

- a) Ubiquitous participation
- b) Sender doesn't need to know the bank account number of the recipient
- c) Confirmation of good funds is made at the initiation of the payment
- d) Sender and receiver receive timely notification that the payment has been made
- e) Funds debited from the payer and made available in near real time to the payee

5i. Do you agree that these are important features of a U.S. near real-time system? Please explain, if desired.

Yes. SPA's opinion is that conditions a. b. and d. are needed for social acceptance and adoption by consumers. Feature e. is fine for payees a little bit less for payers. Feature c. seems a condition that enables the near-real time availability of funds without necessarily requiring the immediate debit of the payer's account. To summary c and e appear obvious desirable objectives.

5ii. What other characteristics or features are important for a U.S. near real-time system?

That guarantees strong control by the payers and the payees on the funds transfer timing. Security of course. Adapted to any types of retail payments (proximity, remote) and cost-effective even for low-value transfers. Adapted to both person-to-person and person-to-business payments

6. Near-real-time payments with the features described in the second desired outcome could be provided several different ways, including but not limited to:

- a) Creating a separate wire transfer-like system for near-real-time payments that leverages the relevant processes, features, and infrastructure already established for existing wire transfer systems. This option may require a new front-end mechanism or new rules that would provide near-real-time confirmation of good funds and timely notification of payments to end users and their financial institutions.
- b) Linking together existing limited-participation networks so that a sender in one network could make a payment to a receiver in another network seamlessly. This option may require common standards and rules and a centralized directory for routing payments across networks.
- c) Modifying the ACH to speed up settlement. This option may require a new front-end mechanism or new network rules that would provide near-real-time confirmation of good funds and timely notification of payments to end users and their financial institutions. Payments would be settled periodically during the day.
- d) Enhancing the debit card networks to enable ubiquitous near-real-time payments.
- e) Implementing an entirely new payment system with the features described in the second desired outcome above.

6i. What would be the most effective way for the U.S. payment system to deliver ubiquitous near-real-time payments, including options that are not listed above?

d. For one reason: The debit payment card is by itself close to a near-real time payment system. Promoting the use of the card for P2P payments would require little investment effort. Use of EMV enabled chip technology would enable strong user authentication by the issuer and get simultaneously security and a fast authorization if funds available. In that case there's no risk for the payee's bank to make the funds available to the payee, and if the payee's bank is settled in almost real time by the payer's bank, the system would work.

Further EMV is a well established technology and implementations are at very low risk.

6ii. What are the likely pros and cons or costs and benefits of each option? What rule or regulation changes are needed to implement faster payments within existing payment processing channels?

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For instance, a P2P service for "urgent" funds transfers at no cost for the payer nor the payee, could be envisioned

6iii. Is it sufficient for a solution to be limited to near-real-time authorization and confirmation that good funds are on their way, or must end user funds availability and/or interbank settlement take place in near-real time as well?

As argued in interbank settlement near-real time would prevent the payee's bank to delay the availability of the funds.

6iv. Which payment scenarios are most and least suitable for near real-time payments? (B2B, P2P, P2B, POS, etc.)

Near-Real Time is a suitable feature for all types of payments, for different reasons. For B2B because it enables reinvestment, for P2P because very often there is an urgent need for the

7. Some industry participants have said that efforts to make check payments easier to use, such as by enabling fully electronic payment orders and/or by speeding up electronic check return information, will incrementally benefit the payment system. Others argue the resources needed to implement these efforts will delay a shift to near-real-time payments, which will ultimately be more beneficial to the payment system. Which of these perspectives do you agree with, and why?

Check payments have exactly the opposite featuring that a near-real-time payment system facilitates. The main benefit is that it's easy to use. Now, the payment is not guaranteed, its processing is expensive and the payer has no control when the funds will be debited in her account. wouldn't an electronic cheque system not mean just another new electronic payment system? What would be the benefit of introducing such a system to using an established, gobally interoperable system?

8. How will near-real-time payments affect fraud issues that exist with today's payment systems, if at all?

There are electronic means, that can secure transactions on a much higher security level as it is possible for printed payments as e.g. checks

8i. Will near-real-time payments create new fraud risks? If yes, please elaborate on those risks.

Yes. Yes ... & No ! yes and no, there are new risks in electronic attacks, especially to the used server. But as electronic data processing is already used for any financial transaction, this is actually not a new risk

9. To what extent would a ubiquitous near-real-time system bring about pivotal change to mobile payments?

10. What would be the implication if the industry and/or the Federal Reserve Banks do not take any action to implement faster payments?

there will be a competition of non standardized, proprietary systems with open results in regards to their fulfillment of the mentioned requirements. The transfer between those systems will require significant costs

10i. What is the cost, including the opportunity cost, of not implementing faster payments in the United States?

11. To what extent will the industry need to modernize core processing and other backend systems to support near-real-time payments?

11i. What is the likely timeframe for any such modernization?

12. Some industry participants suggest that a new, centralized directory containing account numbers and routing information for businesses and/or consumers, to which every bank and other service providers are linked, will enable more electronic payments. A sender using this directory would not need to know the account or routing information of the receiver.

12i. What are the merits and drawbacks of this suggestion?

12ii. What is the feasibility of this suggestion?

13. Some industry participants say that check use is an enduring part of the U.S. payment system and that moving away from checks more aggressively would be too disruptive for certain end users.

13i. Is accelerated migration from checks to electronic payment methods a high-priority desired outcome for the U.S. payment system? (Accelerated means faster than the current trend of gradual migration.) Please explain, if desired.

Yes, of course - to facilitate payments and to increase security of the transactions

13ii. Should the Federal Reserve Banks establish a target for the percent of noncash payments to be initiated via electronic means, by a specific date? For example: "By the year 2018, 95% of all noncash payments will be made via electronic means." If Yes, what is the appropriate target lever and date?

SPA don't think, that anyone could be forced to use a specific system, so this would be very difficult target to spot.

14. Business-to-business payments have remained largely paper-based due to difficulties with handling remittance information. Consumer bill payments also are heavily paper-based due to the lack of comfort some consumers have with electronic alternatives. In addition, many small businesses have not adopted ACH for recurring payments due to technical challenges and/or cost constraints. The payment industry has multiple efforts underway to address these issues.

14i. To what extent are these efforts resulting in migration from checks to other payment types?

14ii. What other barriers need to be addressed to accelerate migration of these payments?

14iii. What other tactics, including incentives, will effectively persuade businesses and consumers to migrate to electronic payments?

14iv. Which industry bodies should be responsible for developing and/or implementing these tactics?

Cross-border Payments

15. To what extent would the broader adoption of the XML-based ISO 20022 payment message standards in the United States facilitate electrification of business payments and/or cross-border payments?

16. What strategies and tactics do you think will help move the industry toward desired outcome four - consumers and businesses have greater choice in making convenient, cost-effective, and timely cross-border payments?

Safety

17. Payment security encompasses a broad range of issues including authentication of the parties involved in the transaction, the security of payment databases, the security of software and devices used by end users to access payment systems, and security of the infrastructure carrying payment messages.

17i. Among the issues listed above, or others, what are the key threats to payment system security today and in the future?

At system level is cybersecurity and the fact that system may migrate to the Cloud without sufficient guarantees. In the consumer side, the fact that electronic payments means are outdated. It is obvious that mobile payments are going to grow-up. However the level of security of mobile devices is very unequal. Fraudsters always move to the weakest link. Because of worldwide migration towards advanced and safe cards, US risks to be identified as the vulnerable

17ii. Which of these threats are not adequately being addressed?

Mobile Devices should be secured. End-to-end security for payment application management is needed. A common program for certification of payment components is needed, based on best standards

17iii. What operational or technology changes could be implemented to further mitigate cyber threats?

Migration towards EMV enabled chip technology.

18. What type of information on threat awareness and incident response activities would be useful for the industry?

18i. How should this information be made available?

19. What future payment standards would materially improve payment security?

19i. What are the obstacles to the adoption of security-related payment standards?

20. What collaborative actions should the Federal Reserve Banks take with the industry to promote the security of the payment system from end to end?

21. Please share any additional perspectives on U.S. payment system improvements.