Electronic payment systems

- overview of basic concepts
- credit-card based systems
- electronic cash systems
- micropayment schemes

Overview of basic concepts

- traditional forms of payment
  - cash
  - payment through bank
  - payment cards

- electronic payment systems
  - basic classification
  - security requirements
Cash

- most commonly used form of payment today
  - ~80% of all transactions
  - average transaction value is low

- advantages of cash
  - easy to transport and transfer
  - no transaction costs (no third party is involved directly)
  - no audit trail is left behind (that’s why criminals like it)

- disadvantages of cash
  - in fact, cash is not free
    - banknotes and coins need to be printed and minted
    - old bank notes and coins need to be replaced
    - this cost is ultimately borne by the tax payers
  - needs extra physical security when
    - transported in large quantities (e.g., from the mint to banks)
    - stored in large quantities (e.g., in banks)
  - vaults must be built and heavy insurances must be paid
  - risk of forgery

Payment through banks

- if both parties have accounts in a bank, then it is unnecessary for one party to withdraw cash in order to make a payment to the other party who will just deposit it again in the bank
Payment by check

- **advantages**
  - no need for bank at the time of payment

- **disadvantages**
  - returned items
    - if funds are not available on the payer's bank account, then the check is returned to the payee's bank
    - if the payee has already been credited, then the bank loses money
    - otherwise the payee suffers
    - problem: no verification of solvency of the payer at the time of payment
  - processing paper checks is very expensive and time consuming
    - checks must be physically transferred between banks
    - authenticity of each individual check must be verified

- still popular in some countries
  - e.g., in the US, ~80% of non-cash payment transactions are check payments with an average value of ~1000$
Payments cards - brief history

- 1915: first card was issued in the US ("shoppers plates")
- 1950: Diners Club card (used for travel and entertainment)
- 1958: American Express card was born
- ...: many card companies have started up and failed
- today: two major card companies dominate the world
  - VISA International
  - MasterCard

Payment by card

- 0. issue card
- 1. present card
- 2a. authorization*
- 2b. authorization
- 2c. authorization
- 3. prepare voucher
- 4. sign voucher
- 5. send vouchers
- 6. clearing
- 7. monthly statement

* authorization is optional, depends on policy
### Payment cards – pros and cons

#### advantages
- flexibility of cash and checks (assuming infrastructure is in place)
- security of checks (no need to carry cash in pocket)
- solvency of the customer can be verified before payment is accepted

#### disadvantages
- needs infrastructure to be deployed at merchants
  - e.g., card reader, network connection, etc.
- transaction cost
  - covered by merchants
  - paying with cards is not worth for very low value transactions
    (below 2$)

### Payment card types

#### debit card
- the customer must have a bank account associated with the card
- transaction is processed in real time: the customer's account is debited and the merchant's account is credited immediately

#### charge card
- the customer doesn't need to pay immediately but only at the end of the monthly period
- if she has a bank account, it is debited automatically
- otherwise, she needs to transfer money directly to the card association

#### credit card
- the customer doesn't need to pay immediately, not even at the end of the monthly period
- the bank doesn't count interest until the end of the monthly period
Basic classification of e-payment systems

- **pre-paid, pay-now, or pay-later**
  - **pre-paid:** customer pays before the transaction (e.g., she buys electronic tokens, tickets, coins, ...)
  - **pay-now:** the customer’s account is checked and debited at the same time when the transaction takes place
  - **pay-later (credit-based):** customer pays after the transaction

- **on-line or off-line**
  - **on-line:** a third party (the bank) is involved in the transaction (e.g., it checks solvency of the user, double spending of a coin, ...) in real-time
  - **off-line:** the bank is not involved in real-time in the transactions

General security requirements for e-payment

- **authorization**
  - a payment must always be authorized by the payer
  - needs payer authentication (physical, PIN, or digital signature)
  - a payment may also need to be authorized by the bank

- **data confidentiality and authenticity**
  - transaction data should be intact and authentic
  - external parties should not have access to data
  - some data need to be hidden even from participants of the transaction
    - the merchant does not need to know customer account information
    - the bank doesn’t need to know what the customer bought

- **availability and reliability**
  - payment infrastructure should always be available
  - centralized systems should be designed with care
    - critical components need replication and higher level of protection
Further requirements

- atomicity of transactions
  - all or nothing principle: either the whole transaction is executed successfully or the state of the system doesn’t change
    - in practice, transactions can be interrupted (e.g., due to communication failure)
    - it must be possible to detect and recover from interruptions (e.g., to undo already executed steps)

- privacy (anonymity and untraceability)
  - customers should be able to control how their personal data is used by the other parties
  - sometimes, the best way to ensure that personal data will not be misused is to hide it
    - anonymity means that the customer hides her identity from the merchant
    - untraceability means that not even the bank can keep track of which transactions the customer is engaged in

Credit-card based systems

- motivation and concept:
  - credit cards are very popular today
  - use existing infrastructure deployed for handling credit-card payments as much as possible
  - enable secure transfer of credit-card numbers via the Internet

- examples:
  - MOTO (non-Internet based scheme)
  - First Virtual and CARI (non-cryptographic schemes)
  - SSL (general secure transport)
  - iKP (specific proposal from IBM)
  - SET (standard supported by industry including VISA, MasterCard, IBM, Microsoft, VeriSign, and many others)
SSL - Secure Socket Layer

- provides a secure transport connection between applications (typically between a web server and a web browser)

- SSL version 3.0 has been implemented in many web browsers (e.g., Mozilla Navigator and MS Internet Explorer) and web servers and widely used on the Internet

- SSL evolved into an Internet Standard called TLS

- most of today's credit-card based transactions on the Internet use SSL to protect the credit card number from eavesdropping

Credit-card payment with SSL

- the user visits the merchant's web site and selects goods/services to buy
  - state information may be encoded in cookies or in specially constructed URLs
  - or state information may be stored at the merchant and referenced by cookies or specially constructed URLs

- the user fills out a form with his credit card details

- the form data is sent to the merchant's server via an SSL connection
  - the merchant's server is authenticated
  - transmitted data is encrypted

- the merchant checks the solvency of the user

- if satisfied, it ships the goods/services to the user

- clearing happens later using the existing infrastructure deployed for credit-card based payments
Pros and cons of SSL

- advantages:
  - SSL is already part of every browser and web server
  - no need to install any further software
  - users are used to it
  - this payment method can be used as of today

- disadvantages:
  - eavesdropping credit card numbers is not the only risk
  - another risk is that credit card numbers are stolen from the merchant's computer

SET - Secure Electronic Transactions

- a protocol designed to protect credit card transactions on the Internet

- initiated and promoted by MasterCard and Visa
  - MasterCard (and IBM) had SEPP (Secure E-Payment Protocol)
  - VISA (and Microsoft) had STT (Secure Transaction Technology)
  - the two proposals converged into SET

- many companies were involved in the development of the specifications (IBM, Microsoft, Netscape, RSA, VeriSign, ...)

- the SET specification is available on the web (Google)

- it consists of three books:
  1. Business Description
  2. Programmer's Guide
  3. Formal Protocol Definition
     (around 1000 pages all together)
**SET participants**

- **cardholder**
  - wants to buy something from a merchant on the Internet
  - authorized holder of payment card issued by an issuer (bank)

- **merchant**
  - sells goods/services via a Web site or by e-mail
  - has a relationship with an acquirer (bank)

- **issuer**
  - issues payment cards
  - responsible for the payment of the dept of the cardholders

- **acquirer**
  - maintains accounts for merchants
  - processes payment card authorizations and payments
  - transfers money to the merchant account, reimbursed by the issuer

- **payment gateway**
  - interface between the Internet and the existing credit-card payment network

- **CAs**

---

**SET services**

- **cardholder account authentication**
  - merchant can verify that the client is a legitimate user of the card
  - based on X.509 certificates

- **merchant authentication**
  - client can authenticate the merchant and check if it is authorized to accept payment cards
  - based on X.509 certificates

- **confidentiality**
  - cardholder account and payment information (i.e., her credit card number) is protected while it travels across the network
  - credit card number is hidden from the merchant too!

- **integrity**
  - messages cannot be altered in transit in an undetectable way
  - based on digital signatures
Dual signature – basic concept

- goal:
  - link two messages that are intended for two different recipients (e.g., order info and payment instructions in SET)
  - link may need to be proven in case of disputes

Dual signatures in SET

- goal:
  - same as in the basic case, but ...
  - the two messages have the same signature
Overview of message flows

cardholder

order info + payment instruction

ack + services

Internet

authorization request

authorization response + capture token

capture response

merchant

payment gateway

issuer

payment network

money transfer

acquirer

Overview of message protection mechanisms

cardholder (C)  merchant (M)  acquirer (via payment gtw)


signature  dual signature  digital envelop

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Payment initialization phase

- cardholder \(\rightarrow\) merchant:

<table>
<thead>
<tr>
<th>PInitReq</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BrandID</td>
<td></td>
</tr>
<tr>
<td>LIDc</td>
<td></td>
</tr>
<tr>
<td>Chc</td>
<td></td>
</tr>
<tr>
<td>Thumbs</td>
<td></td>
</tr>
</tbody>
</table>

- e.g., VISA or MasterCard
- local transaction ID
- cardholder challenge
- (optional) list of certificates (only their hash values)
- stored by the cardholder software

- merchant \(\rightarrow\) cardholder:

<table>
<thead>
<tr>
<th>PInitRes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TID</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td></td>
</tr>
<tr>
<td>Chc</td>
<td></td>
</tr>
<tr>
<td>ChM</td>
<td></td>
</tr>
<tr>
<td>CertA</td>
<td>CertM</td>
</tr>
</tbody>
</table>

- transaction ID generated by the merchant from LIDc
- date
- cardholder challenge
- merchant challenge
- certificates (if the cardholder doesn’t have them)
- signature of the merchant

Purchase order phase

- cardholder \(\rightarrow\) merchant: \(\text{PReq} = \text{OI} + \text{PI}\)

<table>
<thead>
<tr>
<th>CardData</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Card #</td>
<td>Expiry PIN</td>
</tr>
<tr>
<td>Order</td>
<td>Description Amount ODSalt</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PIData</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TID</td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OIData</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TID</td>
<td>BrandID</td>
</tr>
<tr>
<td>Date</td>
<td>Chc</td>
</tr>
<tr>
<td>ChM</td>
<td>ODSalt</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PI</th>
<th></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>OI</th>
<th></th>
</tr>
</thead>
</table>

- direct RSA encryption
- hash
- dual signature process

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Purchase order phase (cont’d)

- merchant → cardholder: PRes

<table>
<thead>
<tr>
<th>PRes</th>
<th>Code</th>
<th>Code</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>TID</td>
<td>- transaction ID</td>
<td>- completion code indicates if authorization and capture took place</td>
<td>- authorization and capture codes (if they were performed)</td>
</tr>
<tr>
<td>ChC</td>
<td>- cardholder challenge proves freshness of the message</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Authorization phase

- merchant → acquirer: AuthReq

<table>
<thead>
<tr>
<th>Order</th>
<th>Description</th>
<th>Amount</th>
<th>OD:Salt</th>
</tr>
</thead>
<tbody>
<tr>
<td>from OI</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AuthReq</th>
<th>TID</th>
<th>Date</th>
<th>AuthReqAmt</th>
<th>H(Order)</th>
<th>H(OIData)</th>
<th>[Thumb]</th>
<th>SalesInd</th>
<th>MerchantDtls</th>
<th>BillingAddr</th>
</tr>
</thead>
</table>

- AuthReqAmt: requested amount
- SalesInd: indicates if the merchant wants to perform authorization and capture in a single step
- MerchantDtls: merchant details such as type of business
- Billing Addr: cardholder’s address is obtained outside of SET
Authorization phase (cont’d)

- acquirer → merchant: AuthRes

Capture phase

- merchant → acquirer: CapReq
- acquirer → merchant: CapRes
Why did SET fail?

- less benefits than expected
  - merchants like to collect credit card numbers (they use it as indexes in marketing databases)
  - optionally, SET allows the merchant to get the credit card number from the acquirer → security improvements of SET are negated

- too high costs
  - SET requires a PKI

- no advantages for the customer!
  - the idea was that SET transactions would be handled as “cardholder present” transactions (due to the digital signature)
  - customers prefer MOTO-like systems where they can freely undo a transaction if they are unhappy (not only in case of fraud) → customers were much worse off
  - SET requires the download and installation of a special software, and obtaining a public-key certificate

Electronic cash

- motivation and concept:
  - people like cash (75-95% of all transactions in the world are paid in cash)
  - design electronic payment systems that have cash-like characteristics
  - it is possible to ensure untraceability of transactions (an important property of real-world cash)

- examples:
  - DigiCash (on-line)
  - CAFE (off-line)
E-cash – a naïve approach

- electronic coins: (value, Sig_{bank}(value))
- problem 1: double spending
- a solution to problem 1:
  - coins can have a serial number: (sn, val, Sig_{bank}(sn, val))
  - the bank maintains a database of spent serial numbers
  - merchants deposit received coins before providing any service or goods
  - only coins that have never been deposited before are accepted by the bank

- problem 2: ever increasing database at the bank
- a solution to problem 2:
  - coins have an expiration time: (sn, val, exp, Sig_{bank}(sn, val, exp))
  - bank needs to store deposited coins until their expiration time only

E-cash – a naïve approach (cont’d)

- problem 3: traceability

- a solution to problem 3: DigiCash
The main idea of DigiCash

- blind RSA signatures
  - the bank’s public RSA key is (e, m), its private RSA key is d
  - user U generates a coin (sn, exp, val) and computes its hash value
    \( h = H(sn, exp, val) \)
  - user U generates a random number \( r \) (blinding factor), computes
    \( h \cdot r^e \), and sends it to her bank
  - the bank signs the blinded coin by computing \( (h \cdot r^e)^d = h^d \cdot r \)
  - when U receives the blindly signed coin, it removes the blinding:
    \( h^d \cdot r \cdot r^{-1} = h^d \)
  - U obtained a digital signature of the bank on the coin
  - the bank cannot link \( h^d \cdot r \) and \( h^d \) together (\( r \) is random)

problem 4: How much should the user be charged?
  - the bank signs the blinded coin \( \rightarrow \) it does not know the value of
    the coin

a solution to problem 4:
  - the bank can use different signing keys for different
    denominations

Further mechanisms in DigiCash

- the user must authenticate herself to the bank when
  withdrawing money, so that the bank can charge her account

- the merchant must authenticate himself to the bank when
  depositing money, so that the bank can credit his account

- messages should be encrypted in order to prevent theft of
  money
Brands’ untraceable off-line cash

- most important outcome of European ESPRIT project called CAFE (1992-1995)
- no need for on-line checking of double spending
- the user is untraceable unless she cheats (double-spends)
- if a user spends the same coin twice, her identity will be revealed by the bank when the coins are redeemed

The representation problem

- preliminaries
  - let $G_q$ be a group of prime order $q$
  - a generator-tuple of length $k$ is a $k$-tuple $(g_1, g_2, \ldots, g_k)$ such that $g_i \in G_q \setminus \{1\}$ and $g_i \neq g_j$ if $i \neq j$
  - a representation of an element $h \in G_q$ with respect to a generator-tuple $(g_1, g_2, \ldots, g_k)$ is a tuple $(a_1, a_2, \ldots, a_k)$ such that $g_1^{a_1} g_2^{a_2} \cdots g_k^{a_k} = h$

- the representation problem
  - given a group $G_q$, a generator-tuple $(g_1, g_2, \ldots, g_k)$, and an element $h \in G_q$, find a representation of $h$ with respect to $(g_1, g_2, \ldots, g_k)$

- complexity
  - assuming that it is infeasible to compute discrete log in $G_q$, the representation problem cannot be solved in polynomial-time
Protocols

- Setup
  - Public parameters: $G_q$, $g_1, g_2 \in G_q$, hash function $H$
  - The bank's secret parameter: $x$

- Opening an account
  - The user identifies herself, selects a random number $u$, and computes an account number $g_1^u$.
  - The bank stores $g_1^u$ together with U's identifying information.

- Withdrawal
  - The user generates random numbers $s, x_1, x_2$, and computes $A = g_1^{us} g_2^s$ and $B = g_1^{x_1} g_2^{x_2}$.
  - The user authenticates herself to the bank, and obtains a signature of the bank $\text{Sig}(A, B)$ in a blinded manner.
  - The bank cannot link the signature to the identity of the user.
  - The coin is the triplet: $(A, B, \text{Sig}(A, B))$.

Protocols (cont'd)

- Payment
  - The user sends the coin $(A, B, \text{Sig}(A, B))$ to the merchant.
  - The merchant generates a challenge $d = H(A, B, \text{ID}_M, \text{date/time})$, and sends it to the user.
  - The user computes a response $r_1 = d \cdot u \cdot s + x_1$ and $r_2 = d \cdot s + x_2$, and sends $(r_1, r_2)$ to the merchant.
  - The merchant verifies $\text{Sig}(A, B)$ and checks if $g_1^{r_1} g_2^{r_2} = A^d B$.

- Notes:
  - $(r_1, r_2)$ is a representation of $A^d B$ with respect to $(g_1, g_2)$.
  - Computing such a representation is infeasible unless the user knows representations of $A$ and $B$.
  - In our case the user knows that $A = g_1^{us} g_2^s$ and $B = g_1^{x_1} g_2^{x_2}$, and thus, $A^d B = g_1^{dus + x_1} g_2^{d s + x_2}$.
  - It can be proven that a user can spend a coin if and only if she knows a representation of both $A$ and $B$. 
Protocols (cont’d)

- deposit
  - the merchant sends \((A, B, \text{Sig}(A, B)), \text{ID}_M, \text{date/time}, (r_1, r_2)\) to the bank
  - the bank re-computes the challenge \(d = H(A, B, \text{ID}_M, \text{date/time})\), verifies \(\text{Sig}(A, B)\), and checks if \(g_1^{r_1} g_2^{r_2} = A^d B\)
  - the bank looks up its database to see if this coin has been deposited before
  - if not, then it stores the transaction and credits the merchant
  - if the coin is found, then the bank has
    \[
    \begin{align*}
    r_1 &= d \cdot u \cdot s + x_1 \\
    r_2 &= d \cdot s + x_2 \\
    r_1' &= d' \cdot u \cdot s + x_1 \\
    r_2' &= d' \cdot s + x_2
    \end{align*}
    \]
    \[
    \frac{g_1^{(r_1-r_1')/(r_2-r_2')}}{g_1^{(d-d')us/(d-d')s}} = g_1^u \rightarrow \text{the user is identified}
    \]

Micropayment schemes

- motivation and concept:
  - many transactions have a very low value (e.g., paying for one second of a phone call, for one article in a newspaper, for one song from a CD, for 10 minutes of a TV program, etc.)
  - transaction costs of credit-card, check, and cash based payments may be higher than the value of the transaction
  - need solutions optimized for very low value transactions (perhaps by sacrificing some security)

- examples:
  - Millicent
  - PayWord
  - MicroMint
  - probabilistic micro-payment schemes

- the truth: micropayment schemes are not very successful so far
  - people are used to get these kind of things for free
  - if they have to pay, they prefer the subscription model
**Millicent**

- developed by DEC in the mid 90's (published in 1995)
- subscription-like, pre-paid system
- scales very well with the number of customers
  - decentralized
    - a Millicent payment can be validated at a vendor without contacting a third party
  - entirely based on symmetric key cryptography
    - payments can be processed very efficiently

**High level overview**

- start of a week:
High level overview (cont’d)

- new day or new vendor:

  user

  broker scrip of value V

  request for vendor scrip of value v

  broker

  broker scrip of value V-v

  vendor scrip of value v

  vendor

High level overview (cont’d)

- purchase:

  user

  vendor scrip of value v

  request for services of value s

  vendor

  vendor scrip of value v-s

  services of value s

  broker

  Millicent protocol
Role of the broker

- provides all the different vendor scrips needed by the customer in return for a single macropayment
  - if the customer bought scrips from the vendors directly, then she would need to run a macropayment transaction with each of them
  - in Millicent, the macropayments are aggregated by the usage of the broker

- the broker can get vendor scrips in two ways:
  - scrip warehouse model:
    - vendor scrips are produced by the vendors
    - the broker buys them from the vendors in large batches
    - scrips are stored and re-sold piece by piece to different customers
  - licensed scrip production:
    - the broker generates the vendor scrip on behalf of the vendor
    - the license allows the broker to generate only a specific amount of vendor scrip
    - the license is enforced through normal business practices
    - the broker(s) are typically assumed to be trusted

Scrip properties

- a scrip represents a pre-paid value (like a phone card)
- a scrip is protected by using a one-way hash function and limited symmetric cryptography
  - a scrip can be efficiently produced and validated
  - it cannot be tampered with or its value changed without detection
  - it is computationally expensive to counterfeit a scrip
- each scrip is vendor specific
  - it has value at one vendor only
- a scrip can be used only once
  - double spending is detected by the vendor locally at the time of purchase
- a scrip can be used only by its owner
  - using a scrip requires the knowledge of a secret
  - a stolen scrip cannot be used without the secret
- scrips do not provide anonymity
  - scrips have visible serial numbers that can be traced
Scrip structure

- VendorID: identifies the vendor
- Value: value of the scrip
- ScripID: unique serial number of the scrip
- CustomerID: used to compute a shared secret*
- Expiry: expiration time of the scrip
- Info: optional details about the customer
- Certificate: manipulation detection code

* CustomerID:
- unique to every customer
- need not have any connection with the customer's real identity
- a scrip returned as a change will have the same CustomerID as the original scrip used to make the payment

Double spending prevention

- the vendor stores the ScripID of all used scrips
- before accepting a scrip, it looks up the database of used ScripIDs
- a scrip is accepted only if its ScripID is not found in the database
- a ScripID must be stored only until the expiration date of the corresponding scrip
  - when the scrip expires, it is not accepted anymore in any case
  - this ensures that the size of the database does not grow forever
**Scrip encryption**

- **motivation:** to prevent a scrip being stolen
- **protocol:**
  \[
  C \rightarrow V: \text{VendorID}, \text{CustomerID}, \{\text{Scrip, Request}\}_K
  \]
  \[
  V \rightarrow C: \text{VendorID}, \text{CustomerID}, \{\text{NewScrip, OldCert, Response}\}_K
  \]
- **generation of \( K \):**
  \[
  \text{CustomerID selects}
  \]
  \[
  \begin{array}{c}
  \text{master cust. sec. i-1} \\
  \text{master cust. sec. i} \\
  \text{master cust. sec. i+1} \\
  \vdots
  \end{array}
  \]
  \[
  \text{CustomerID selects}
  \]
  \[
  \begin{array}{c}
  \text{hash e.g., MD5} \\
  \end{array}
  \]
  \[
  K
  \]
- **transport of \( K \) to the customer:**
  - the scrip is sold together with \( K \) by the broker
  - buying the scrip needs a secure connection between the customer and the broker (e.g., based on SSL)

**Performance**

- **initial tests on DEC Alpha 400 4/233:**
  - 14000 scrips produced per second
  - 8000 payments validated per second with change scrip being produced
  - 1000 Millicent request per second can be received from the network and validated

→ the bottleneck is the handling of network connections (TCP)
### Other applications of the Millicent design

- **authentication to distributed services**
  - a scrip is similar to a Kerberos ticket
  - authorization can be given in a more dynamic way than in Kerberos
- **metering usage**
  - a scrip can keep track the number of accesses to a given service
- **usage based charges**
  - Millicent can be used for per-connection charging for services like e-mail, ftp, etc.
- **discount coupons**
  - further fields can be added to the scrip to provide discounts for certain contents (e.g., once the customer has bought half of an article, the change scrip can contain a discount for the second half)
- **preventing subscription sharing**
  - a scrip can be used as a capability to access a subscription service
  - the double spending detection mechanism prevents two users from using the same scrip for accessing the service (i.e., subscription sharing)

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### PayWord

- designed by Rivest and Shamir in 1996
- representative member of the big family of **hash-chain based** micropayment schemes
- check-like, credit based (pay later) system
  - payment tokens are redeemed off-line
- uses public key crypto, but very efficiently (in case of many consecutive payments to the same vendor)
  - the user signs a single message at the beginning
  - this authenticates all the micropayments to the same vendor that will follow
PayWord model

- players:
  - user (U)
  - vendor (V)
  - broker (B)

- phases:
  - registration (done only once)
  - payment
  - redemption

Registration phase

- U provides B with
  - account information in a real bank (e.g., her credit card number)
  - shipping address
  - public key

- B issues a certificate for U
  \[ \text{Cert}_U = \{ B, U, \text{addr}_U, K_U, \text{exp}, \text{more\_info} \}_{KB}^{-1} \]
  more\_info: serial number, credit limit, contact information of B, broker terms and conditions, ...

- the certificate is a statement by B to any vendor that B will redeem authentic paywords (micropayment tokens) produced by U turned in before the expiration date
Payment phase – generating the commitment

- when U is about to contact a new vendor, she computes a fresh payword chain
  \[ w_n, w_{n-1} = h(w_n), w_{n-2} = h(w_{n-1}) = h^{(2)}(w_n), \ldots, w_0 = h^{(n)}(w_n) \]
  where
  - \( n \) is chosen by the user
  - \( w_n \) is picked at random

- U computes a commitment
  \[ M = \{ V, \text{Cert}_U, w_0, \text{date}, \text{more\_info} \}_{K_U^{-1}} \]
  - the commitment authorizes B to pay V for any of the paywords \( w_1, \ldots, w_n \) that V redeems with B before the given date
  - paywords are vendor specific, they have no value to another vendor

Payment phase – sending micropayment tokens

- the \( i \)-th micropayment from U to V consists of the \( i \)-th payword and its index: \( (w_i, i) \)

- when V receives \( w_i \), it can verify it by checking that it hashes into \( w_{i-1} \) (received earlier, or in the commitment in case of \( i = 1 \))

- since the hash function is one-way (preimage resistant) the next payment \( w_{i+1} \) cannot be computed from \( w_i \)

- V needs to store only the last received payword and its index

- variable size payments can be supported by skipping the appropriate number of paywords
  - let's assume that the value of each payword is 1 cent
  - and the last payword that U sent is \( (w_k, k) \)
  - if U wants to perform a payment of 10 cents, then she sends \( (w_{k+10}, k+10) \)
**Redemption phase**

- at the end of each day, the vendor redeems the paywords for real money at the broker
- \( V \) sends \( B \) a redemption message that contains (for each user that contacted \( V \)) the commitment and the last received payword \( w_k \) with its index \( k \)
- \( B \) verifies the commitment and checks that iteratively hashing \( w_k \) \( k \) times results in \( w_0 \)
- if satisfied, \( B \) pays \( V \) \( k \) units and charges the account of \( U \) with the same amount

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**Efficiency**

- **user \( U \)**
  - needs to generate one signature per "session"
  - needs to perform as many hash computation as the number of paywords needed (pre-computation of hash chains is possible)
  - needs to store the hash chain and her current position in the chain (time-memory trade-off is possible)

- **vendor \( V \)**
  - needs to verify one signature per "session"
  - needs to perform one hash computation per micropayment received
  - needs to store only the last received payword with its index, and the commitment

- **broker \( B \)**
  - needs to verify signatures and compute lot of hashes but all these are done off-line
**MicroMint**

- designed by Rivest and Shamir in 1996
- optimized for **unrelated** low-value payments
  (recall: PayWord is optimized for repeated payments to the same vendor)

**model:**
- MicroMint coins are produced by a broker
- the broker sells coins to users (many coins in a single macropayment transaction)
- the user gives coins to a vendor as payment (any coin can be used with any vendor)
- the vendor redeems coins at the broker (many coins in a single transaction)

**MicroMint coins**

- basic requirements
  - coins should be difficult to generate by anyone but the broker
  - validity of coins should be easy to verify by anyone
  - digital signature of the broker?
    - would satisfy these requirements
    - would be costly in terms of computation compared to the value of a coin

- instead, MicroMint coins are represented by **hash function collisions**
  - let \( h : \{0, 1\}^n \to \{0, 1\}^n \) be a hash function
  - a pair \( (x_1, x_2) \) is a two-way collision if \( h(x_1) = h(x_2) \)
  - a k-way collision is a k-tuple \( (x_1, x_2, \ldots, x_k) \) such that \( h(x_1) = h(x_2) = \ldots = h(x_k) \) and all \( x_i \) are different

- each MicroMint coin \( (x_1, x_2, \ldots, x_k) \) is worth 1 cent
Minting coins

- the broker generates $x$ values at random, hashes them, and stores $(x, h(x))$ pairs (sorted by $h(x)$ values)
- when $k$ $x$ values are found that have the same hash value, a coin has been minted
- analogue: throwing balls into $2^n$ bins

\[ h(x) = y_i \]

- the broker should produce at most one coin from each bin (why?)

Minting costs

- finding the first $k$-way collision needs processing $\sim 2^{n(k-1)/k} \times x$ values
- however, further coins are found easier (there are already many balls in the bins): after processing $c2^{n(k-1)/k} \times x$ values ($1 \leq c \leq 2^{n/k}$), one expects $c^k$ $k$-way collisions
- $k > 2$ has two advantages
  - increases the effort to find the first collision
  - accelerates minting once the threshold is passed
- problem: computation is much cheaper than storage
  - the number of $x$ values that can be processed in a month far exceeds the number of $x$ values that can be stored on a reasonable hard disk
  - how to balance the computation and memory requirements?
Computation-storage trade-off in MicroMint

- solution
  - let \( n = t + u \), and let \( z \) be a bit string of length \( t \) specified by the broker
  - \( x \) is a "good" value if the high order \( t \) bits of \( h(x) \) are equal to \( z \)
  - a coin is valid only if it consists of "good" \( x \) values

- why is this good?
  - \( x \) values that are not "good" need not be stored
  - but they need to be processed in order to know that they are not "good"

- trade-off
  - computation cost is increased (minting process is slowed down) by a factor of \( 2^t \)
  - storage requirement is \( \sim k^2 u \) (there are only \( 2^u \) bins)

A detailed scenario

- business plan
  - the broker wants 1M $ profit per month
  - the broker charges 10% brokerage fee
    - he sells each coin for 1 cent, but redeems it for 0.9 cent only
  - thus, the broker needs to sell \( \sim 2^{30} \) coins per month
  - if each user buys 2500 coins (25 $) per month, then the broker needs to have a customer base of 0.4 million customer

- example parameters
  - \( k = 4, t = 21, u = 31 \rightarrow n = 52 \)
  - the broker needs to process \( \sim k^2 n = 2^{54} \) \( x \) values
  - only one in \( 2^{21} \) will be "good" \( \rightarrow \) only \( \sim 2^{33} \) "good" \( x \) values need to be stored (\( 2^{31} \) bins, on average 4 values in each bin)
  - around half of the bins will contain 4 or more "good" \( x \) values \( \rightarrow \) \( \sim 2^{30} \) coins are generated
A detailed scenario (cont’d)

- the broker will invest in special hardware that gives him computational advantage over potential forgers
  - $2^{54}$ hash/month $= 2^{33}$ hash/sec
  - 256 special chips $\rightarrow 2^{25}$ hash/sec/chip
  - such a chip costs a few hundred dollars
  - if x values are 16 byte long, then the broker needs $2^{33} \times 16$ byte $= 2^{37}$ byte $= 128$ GB storage

Preventing large-scale forgery

- short coin validity period
  - coins are valid for a short time (e.g., one month)
- coin validity criterion
  - there is a new coin validity criterion in each month
  - the coin validity criterion can be the value of z or the hash function itself
  - the broker keeps the new coin validity criterion secret while minting coins for the next month; it is made public at the beginning of the month when the new coins are started to be used
- unused bins
  - only half of the bins contain valid coins
  - the broker can detect forgery by noting when he receives coins corresponding to bins that he didn’t produce coins from
  - a bit array of size $2^t$ is enough to keep track of unused bins
- special hardware
  - the broker can increase t, and invest in more expensive hardware to keep its advantage over attackers
Double spending

- MicroMint coins can be spent several times
- double spending will be detected only when the vendor wants to redeem the doubly-spent coin
- the broker knows to which user the coin was sold, and he knows which vendor wants to redeem it
- thus, the broker can keep track of how many doubly-spent coins are associated with each user and each vendor → a large-scale cheater can be identified and expelled from the system
- coins can be made user and vendor specific (see later)

Extensions

- hidden predicates
  - x values are required to satisfy a number of hidden predicates
  - example:
    - x[1..n] are selected randomly
    - \( x[j] = f_j(x[1..n]) \) for \( n < j \leq m \)
  - the hidden predicates should be difficult to learn from random examples
  - the broker can have a hidden predicate for each day of the month (\( m-n = 32 \)); he would reveal them day by day
- user specific coins
  - the broker sells coins to user U such that for each coin \( (x_1, ..., x_k) \) \( h'(x_1, ..., x_k) = h'(U) \), where \( h' \) is another hash function that produces short outputs (e.g., 2 bytes)
  - the vendor authenticates the user and checks that the coins she uses belong to group \( h'(U) \)
  - in order to reuse a stolen coin, the cheater must be member of \( h'(U) \)
Probabilistic micropayment schemes

- **motivation:**
  - in traditional micropayment schemes, the vendor cannot aggregate micropayments of different users
  - if the user spent only a few cents, then the cost of redeeming the micropayment tokens may exceed the value of the payment
  - example: typical value of a payword is 1 cent, whereas processing a credit-card transaction costs about 25 cents

- **main idea:**
  - suppose that U wants to pay 1 cent to V
  - U sends to V a lottery ticket that is worth 10$ if it wins, and it wins with probability 0.001
  - the expected value of U’s payment is exactly 1 cent
  - if V conducts business with many users, then he approximately earns the value of the services/goods provided
  - advantage: only winning lottery tickets are redeemed at the bank
    - number of vendor-bank transactions is greatly reduced
    - value of lottery tickets surely exceeds the transaction cost

Micali-Rivest scheme

- check based, the user simply signs the transaction

- **notation**
  - $T$ – encoding of the transaction (IDs of user, merchant, bank, transaction time, etc.)
  - $F$ – fixed public function that maps an arbitrary bit string to a number between 0 and 1
  - $s$ – fixed selection rate of payable checks

- **setup**
  - everyone establishes his own public key and corresponding private key for a digital signature scheme
  - the merchants signature scheme must be deterministic
    - $\text{Sig}_m(x) = \text{Sig}_m(x')$ if $x = x'$
Micali-Rivest scheme (cont’d)

- payment
  - user U pays by sending $C = (T, \text{Sig}_U(T))$ to merchant $M$
  - $M$ verifies if $C$ is payable by checking if $F(\text{Sig}_M(C)) < s$

- selective deposit
  - $M$ sends only payable checks to the bank for deposit
  - after verification, $B$ credits $M$’s account with $1/s$ cents and debits $U$’s account with the same amount

Some properties of the Micali-Rivest scheme

- $\text{Sig}_M(C)$ is unpredictable for both $U$ and $M$
  - practically, $F(\text{Sig}_M(C))$ is a random number with close to uniform distribution over $[0, 1]$
  - the probability that $F(\text{Sig}_M(C)) < s$ is $s$
  - expected value of a check is 1 cent

- the bank essentially processes macropayments of value $1/s$
  - e.g., if $s = 1/1000$, then the value is 10$

- potential “psychological” problem
  - possibility of user’s excessive payments (in the short term)
  - e.g., it has a positive probability that the first 10 checks sent by the user are all payable
    - value of the goods/services received by the user is 10 cent
    - but her account is debited 100$
  - in the long run it will work, but users may not tolerate the risk of short term overpaying
**Modified Micalli-Rivest scheme**

- **notation and setup**
  - same as for the basic Micalli-Rivest scheme

- **payment**
  - U pays by sending \( C = (T, \text{Sig}_U(T)) \) to M
  - T contains a serial number SN (assigned sequentially to transactions by U)
  - M verifies if C is payable by checking if \( F(\text{Sig}_M(C)) < s \)

- **selective deposit**
  - M sends only payable checks to the bank for deposit
  - \( \text{maxSN}_U \) denotes the highest serial number corresponding to U processed by B so far
  - if B receives a new payable check, then
    - B credits M's account with \( 1/s \)
    - if \( SN > \text{maxSN}_U \), then it debits U's account with \( SN - \text{maxSN}_U \) and sets \( \text{maxSN}_U \) to \( SN \)

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**Illustration of the modified MR scheme**

- Issued checks with serial numbers:
  1. 1 2 3 4 5 6 7 8 9
- Time:
  - Deposit (1)
  - Deposit (2)
  - Deposit (3)

- **Transactions:**
  1. **Deposit (1):**
     - \( 3 = SN > \text{maxSN} = 0 \)
     - \( \text{SN-maxSN} = 3 \)
     - Debit 3 units
     - Total debit so far is 3
     - \( \text{maxSN} := SN = 3 \)

  2. **Deposit (2):**
     - \( 5 = SN < \text{maxSN} = 8 \)
     - \( \text{SN-maxSN} = 8 \)
     - Debit 5 units
     - Total debit so far is 8
     - \( \text{maxSN} := SN = 8 \)

  3. **Deposit (3):**
     - \( 8 = SN > \text{maxSN} = 3 \)
     - \( \text{SN-maxSN} = 5 \)
     - Debit 5 units
     - Total debit so far is 8
     - \( \text{maxSN} := SN = 8 \)

**Note:** The total debit of the user is always less than or equal to the highest serial number signed by the user so far.
Some properties of the modified MR scheme

- cheating is possible
  - the same serial number may be used with different merchants
  - if only one of the two checks is payable than the cheating will not be detected

- however, large scale cheating can be detected with statistical auditing
  - example:
    - assume the user uses every serial number twice
    - number of payments made by the user is $N$
    - highest serial number used is $N/2$, user is charged at most $N/2$ cents
    - the joint credit of the merchants is approximately $N$
    - this can be detected by the bank!
    - in addition, the more the user cheats the higher the probability of two merchants depositing checks with the same serial number

Summary

- credit-card based
  - SSL
  - SET

- e-cash
  - DigiCash: untraceable, on-line
  - CAFÉ: untraceable, off-line

- micropayments
  - MilliCent: symmetric crypto, change
  - PayWord: hash chains
  - MicroMint: hash collisions
  - probabilistic: lottery tickets