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## ASSESSMENT OF PAYMENT SYSTEMS ON THE PROPOSITION THAT COSTS AND RISKS OUTWEIGH BENEFITS TO USERS, BANKS AND SOCIETY

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### ABSTRACT

To support the successful implementation of cashless policy of Central Bank of Nigeria (CBN), through massive acceptance of e-payment, the study examined the proposition that the costs and risks of e-payment outweigh its benefits to users, banks and society. The assumption of the study was that if the benefits of e-payment outweigh its costs and risks to users, banks and society over other payment systems, then it will be easy to convince individuals and corporates to accept and prefer it. A questionnaire seeking to establish the extent to which the different payment systems perform on the basis of costs and risks outweighing benefits to users, banks and society, was administered on 282 highly educated and financially active users of the three payment systems based on their experiences in Nigeria. Using the data analyzed, the research questions were answered and the following findings made: compared to cash and cheque payment systems, e-payment was rated better to users, banks and society on the proposition that costs and risks outweigh benefits. The study concluded therefore that individuals, banks and society will accept and prefer e-payment platforms in their financial transactions. To sustain this conclusion the study made the following recommendations: Communicate the benefits of e-payment to customers, banks and the society; reduce the costs and risks of e-payment; and persuade on the superiority and acceptance of e-payment in spite of its costs and risks.

### KEYWORDS

Cashless Policy, Electronic-Based Transactions, Payment Systems, Perceived Ease of Use (PEOU) and Perceived Usefulness (PU).

### 1.0 INTRODUCTION

The role of payment systems in driving economic growth and development has been well documented (Financial Derivatives Company Limited (FDCL), (2012) and Okeke, 2014). An efficient and modern payment system is positively correlated with economic development, and is a key enabler for economic growth (CBN, 2014).

Deriving from the established role of good payment systems in growing the economy, the Central Bank of Nigeria (CBN) was not satisfied that the Nigerian payment system was for long dominated by cash-based transactions. To reverse the trend and ensure that best practice is adopted in Nigeria, the CBN introduced cashless policy in 2012. The cashless policy of CBN "aims at reducing, not eliminating, the amount of physical cash (coins and notes) circulating in the economy, and encouraging more electronic-based transactions (payments for goods, services, transfers, etc.)".

The cashless policy was introduced to:

- drive development and modernization of our payment system in line with Nigeria's vision 2020 goal of being amongst the top 20 economies by the year 2020.
- reduce the cost of banking services (including cost of credit) and drive financial inclusion by providing more efficient transaction options and greater reach.
- improve the effectiveness of monetary policy in managing inflation and driving economic growth.

The policy was also introduced "to curb some of the negative consequences associated with the high usage of physical cash in the economy". The negative consequences included:

High cost of cash: There is a high cost of cash along the value chain - from the CBN & the banks, to corporations and traders; everyone bears the high costs associated with volume cash handling.

High risk of using cash: Cash encourages robberies and other cash-related crimes. It also can lead to financial loss in the case of fire and flooding incidents.

High subsidy: CBN analysis showed that only 10 percent of daily banking transactions are above 150k, but the 10 percent account for majority of the high value transactions. This suggests that the entire banking population subsidizes the costs that the tiny minority 10 percent incurs in terms of high cash usage.

Informal Economy: High cash usage results in a lot of money outside the formal economy, thus limiting the effectiveness of monetary policy in managing inflation and encouraging economic growth.

Inefficiency & Corruption: High cash usage enables corruption, leakages and money laundering, amongst other cash-related fraudulent activities.

The expected benefits of the new policy as listed by CBN included the following:

- For Consumers: Increased convenience; more service options; reduced risk of cash-related crimes; cheaper access to (out-of-branch) banking services and access to credit.
- For Corporations: Faster access to capital; reduced revenue leakage; and reduced cash handling costs.
- For Government: Increased tax collections; greater financial inclusion; increased economic development. Increased tax collections; greater financial inclusion; increased economic development.

To drive cashless policy and ensure that it is adopted and preferred by a critical mass of users (individuals and banks) CBN has adopted a mixed strategy of incentives and sanctions in implementing it. To motivate individuals and corporates to switch from cash-based to electronic payment systems, a sustained national campaign aimed at educating, informing and persuading individuals, organizations and governments to make the switch has been launched. The campaign has focused on explaining what e-payment is, how it operates, what it does, how it is useful and better than other payment systems and the benefits derivable from its use. To make its adoption easier, the implementation strategy and plan has spanned three stages of introduction. It was started on pilot basis in Lagos on April 1, 2012. Thereafter, it was extended to six states of the federation- Federal Capital Territory (Abuja), Abia, Anambra, Kano, Ogun, and Rivers in July 1, 2013. The national rollout is planned for July 1, 2014. On the other hand, the implementation strategy has built in sanctions aimed at compelling individuals to adopt the policy. This involves the imposition of cash withdrawal and payment limits beyond which fines are paid. For individuals, the limit is 150,000 Naira while for corporates it is 3,000,000 Naira.

The rebasing of Nigeria's GDP has added a more imperative impetus for cashless policy to succeed. The bigger GDP figure needs a more efficient payment system if it is to be sustained and grown. Indeed, the bigger the size of an economy, the more the need for an efficient payment system to support and enhance it.

While CBN has articulated the benefits of cashless policy to three key stakeholders (consumers, corporations and governments) in the economy, this study is of the view that the policy will be adopted and sustained more if its benefits can be demonstrated to three critical stakeholders- customers/users/individuals, banks who anchor it and the larger society whose interest is the overriding socio-economic justification for the formulation and implementation of government policies. The framework of the study goes further to note that like all new systems, the cashless policy will not only offer benefits to customers, banks and the society. There must be costs and risks associated with cashless policy those customers, banks and society will do well to analyze and manage if they are not to lose out even as the policy on cashless transactions is being implemented.

The rationale for the study derives from the appreciation of the need to balance the benefits of e-payment against the associated costs and risks. Placing the benefits against the costs and risks will make for a more meaningful appreciation of the issues involved in selling cashless policy to the nation. It will also help in explaining the ease or difficulty in getting individuals and corporates to make the expected switch from cash-based financial transactions to e-based financial transactions. The central questions listed for the study to answer were:

Compared to cash and cheque payment systems, do the costs and risks of e-payment system outweigh the benefits to users/customers?

Compared to cash and cheque payment systems, do the costs and risks of e-payment system outweigh the benefits to banks?

Compared to cash and cheque payment systems, do the costs and risks of e-payment system outweigh the benefits to society?

The major assumption of the study was that cashless policy will be easily adopted and sustained as the preferred payment system if the benefits outweigh the costs and risks to consumers, banks and the society. Conversely, e-payment will be difficult to adopt and be preferred, if the costs and risks outweigh the derivable benefits to consumers, banks and society.

## 2.0 LITERATURE REVIEW

Many studies have been conducted on defining and determining the benefits of e-payment especially in Nigeria. Among these studies are Idowu (2005), FDCL (2012) and Okeke (2013). Idowu (2005) listed the following as the specific benefits of e-payment: quality service enjoyed, great reduction in time being spent in banking halls, confidentiality, bank statement, balance etc. obtained with ease, 24/7 service delivery and account could be accessed almost anywhere in the world. For FDCL (2012), the major benefits of using cashless platforms are in a descending order-free from carrying large sum of money, make transactions faster, convenient to use, reduce frauds/theft, have access to money out of bank branch and make impulse purchase possible. For Okeke (2013), the benefits of e-payment are-reduced transaction costs (ATM and internet channels are cheaper than tellers), information is readily available to all market participants on multiple providers because there are sites that aggregate information on product offerings) and perfect competition (internet brings about transparent pricing and aggregation of buyers and sellers.

While the specific benefits determined by the different studies are valid, they cannot constitute a good basis for comparing all payment systems. For the purpose of this study, what was required was a framework within which all payment systems, cash, cheque and e-payment, can be appraised in terms of what users are or should be benefiting from using them. This common framework was found in Technology Acceptance Model (TAM). TAM hypothesizes that a person's acceptance of a technology is determined by his/her voluntary intentions to use that technology. The intention, in turn, is determined by the person's attitude toward the use of that technology and his/ her perception concerning its usefulness. Attitudes are formed from the beliefs a person holds about the use of the technology. The first dimensions of the attitude are Perceived Usefulness (PU) and Perceived Ease of Use (PEOU).

A key purpose of TAM is to provide a basis for tracing the impact of external variables on internal beliefs, attitudes, and intentions. It suggests that PEOU, and PU are the two most important factors in explaining system use. Davis (1989) defines PU as the degree to which a person believes that using a particular system would enhance his job performance and PEOU as the degree to which a person believes that using a particular system would be free from effort.

For the benefits of e-payment system, the study relied on the ten factors used in TAM in explaining the PU of technology based services (Davis (1989) and Davis, Bagozzi, and Warshaw, (1989)). These factors included the following:

1. E-payment enables me to accomplish financial transactions more quickly
2. Using e-payment gives me greater control over my financial transactions
3. Using e-payment reduces my need to carry cash
4. Using e-payment increases the convenience of financial transactions
5. Using e-payment reduces incidences of fraud in financial transactions
6. E-payment application reduces the cost/bank charges of financial transactions
7. Using e-payment makes financial transactions more reliable
8. Using e-payment makes financial transactions more dependable
9. Using e-payment allows the minimization of mistakes/errors in financial transactions
10. Overall, I find e-payment helpful in my financial transactions.

For the costs and risks of e-payment system, nineteen (19) factors drawn from the PEOU under the TAM framework (Davis (1989) and Davis, Bagozzi, and Warshaw, (1989)), disadvantages and problems of e-payment sourced from Adewuyi (2011), Okeke (2013), E-Payment Providers Association of Nigeria (E-PPAN) (2013), and FDCL (2012) were adopted. The nineteen factors used were:

- 1) Electronic fraud
- 2) Security at cash points/robbery attack
- 3) Trust/confidence that the platform will always work and be available
- 4) Infrastructural inadequacies/network/service failure-technology breakdown
- 5) Dispute resolution mechanism/it takes many days to reverse failed ATM withdrawal from other banks machines
- 6) Long queues at ATM points
- 7) Withdrawal/spending limits
- 8) Inconvenience of being served by machines instead of human beings
- 9) Hidden charges
- 10) Mental effort and dexterity necessary in operating the platforms
- 11) Privacy/security of customers data and financial worth
- 12) Prone to error/mistakes
- 13) Availability/accessibility
- 14) Poor customer service experience
- 15) Rigidity/inflexibility of platforms
- 16) Reliability/dependability
- 17) High costs
- 18) Legal difficulty in accepting electronically generated evidence
- 19) Ill-defined responsibilities and liabilities of banks and customers

## 3.0 RESEARCH METHODOLOGY

The data need of this study was defined in two broad areas. First is the articulation of core benefits of e-payment from the perspective of enlightened users of the payment system to consumers, banks and society. Second is the determination of the costs and risks associated with the payment system again from the perspective of its users.

To ascertain the relative importance of the benefit factors, the study requested respondents to identify and rank the first five most important factors to them based on their experience of e-payment system on a scale of 1-5, with 1 representing the most important and 5 the least most important. The benefit factors were as listed in section 2 of this report. In calculating the cumulative points for the important benefit factors, the first most important factor was assigned a scale of 5, the second a scale of 4, the third a scale of 3, the fourth a scale of 2 and the last one a scale of 1. The aggregate point for the factors was used in ranking them from the first to the tenth.

For the costs and risks of e-payment system, nineteen (19) factors were drawn from the Perceived Ease of Use (PEOU) under the TAM framework (Davis (1989) and Davis, Bagozzi, and Warshaw, (1989)). The costs and risks factors were listed for the respondents to choose the five most important ones. The five chosen



factors were ranked on a scale of 1-5 based on the experiences of the respondents. The cumulative points for each of the factors was computed based on multiples of 5 for the first most important, 4 for the second, 3 for the third, 2 for the fourth and 1 for the fifth. The aggregate cumulative point was used in ranking the factors from first to nineteenth. The nineteen factors used were as listed in section 2 of this report.

The study relied on questionnaire as the survey instrument for collecting data on the benefits and costs and risks of e-payment system based on Nigerian experience of respondents. With a view to enhancing the validity and reliability of survey instrument, the initial draft of the questionnaire was pilot tested among MBA students of National Open University of Nigeria, Lagos. Based on the responses received, ambiguous statements were recast, redundant questions dropped and additional questions included to fill identified gaps. The questionnaire listed the factors and required respondents to identify and rank them based on their personal experience of e-payment system. It became imperative therefore to select respondents from a population of highly literate and financially active Nigerians who are aware of the three payment systems obtainable in Nigeria.

To meet the outlined requirements of the data collection source, the study used a population of students of Enugu State University of Technology (ESUT) Business School, located in Enugu, the capital of Enugu State in South East, Nigeria. Being an executive programme with students mostly working, drawn from all states, tribes and religions in Nigeria, the population surveyed met the requirement of financially well to do and active users of e-payment system in Nigeria. This is in line with the Grounded Theorists rule of selecting purposive samples from participants who represent the major categories of people relevant to the research (Charmaz (2003) and Henwood and Pidgeon (1993). Being a lecturer on the ESUT programme facilitated access to the students and cooperation from them in completing the questionnaire. With a population of 550 students, the questionnaire was administered on all the willing students in MBA, M.Sc and PGD classes on the 14<sup>th</sup> and 15<sup>th</sup> of December, 2013. A total of 319 copies of the questionnaire were administered and retrieved within the two days. Given incompleteness and inconsistency in completion 37 returned questionnaire were rejected. Thus, 282 returned questionnaires were analyzed. This gave an effective response rate of 88.40%.

The collected primary data were presented on tables and analyzed using frequency distribution and aggregation of points to arrive at cumulative points and enable ranking. Data were also collected and analyzed to define the profile of respondents.

## 4.0 RESULTS AND DISCUSSION

### 4.1 PROFILE OF RESPONDENTS

The study drew the profile of respondents with respect to gender, age, marital status, gross annual income, employment status, sector of employment, operation of accounts with Nigerian banks and highest educational qualification factors as presented on Table 1 below.

TABLE 1: PROFILE OF SURVEY RESPONDENTS

Category	Statistics
<b>Gender</b>	
Male	177(62.77%)
Female	105(37.23%)
<b>AGE</b>	
20-30 years	42(14.89%)
30-40 years	165(58.51%)
40-50 years	45(15.96%)
50-60 years	27(9.57%)
60 years and above	03(1.06%)
<b>Marital Status</b>	
Single	73(25.89%)
Married	201(71.28%)
Divorced	4(1.42%)
Widowed	4(1.42%)
<b>Gross Annual Income</b>	
Less than N1m	54(19.15%)
N1M-N3M	111(39.36%)
N3M-N5M	63(22.34%)
N5M-N7M	27(9.58%)
N7M-N9M	6(2.13%)
N9M- N11M	3(1.06%)
N11M-N13M	2(0.71%)
N13M and above	1(0.36%)
<b>Employment Status</b>	
Employed	267(94.68%)
Unemployed	15(5.32%)
<b>Sector Of Employment</b>	
Private	119(42.20%)
Public	163(57.80%)
<b>Operation Of Account With Nigerian Banks</b>	
Yes	282(100%)
No	0(0%)
<b>Highest Educational Qualification</b>	
HND/BSc	177(62.77%)
PGD	33(11.70%)
M.Sc/MBA/MPA	69(24.47%)
PhD	03(1.06%).

Source: Field Survey, 2013.

The profile of respondents is captured on table 1 above as follows: The respondents are highly educated with 62.77% having a minimum educational qualification of first degree (BSc, BA and HND). Others hold higher educational qualifications.

The major age bracket of respondents was 30-40 years, accounting for 58.51%, and the least being 60 years and above with 1.06%. 62.77% of respondents are male.

While 71.28% of the respondents are married, 25.89% are single and 1.42% are divorced.

The major income brackets of respondents were N1M-N3M (39.36%) and N3M-N5M (22.34%) per annum.

94.68% of respondents are employed with 57.80% working in the public sector and 42.420% in the private sector.

100% of the respondents have been involved with all payment system and maintain account with banks in Nigeria.

**4.2 ANALYSIS ACCORDING TO RESEARCH QUESTIONS**

On the three tables that follow, the responses of respondents based on the ranking of cash, cheque and e-payment systems on the proposition that the costs and risks outweigh benefits to users, banks and society are presented.

**TABLE 2: RANKING OF CASH, CHEQUE AND E-PAYMENT SYSTEMS ON THE PROPOSITION THAT THE COSTS AND RISKS OUTWEIGH BENEFITS TO USERS**

Factor	Cash	Cheque	E-Payment
The Costs and Risks Outweigh Benefits to Users/Customers	First -213(3)=639 Second -9(2)=18 Third -60(1)=60 Total =717(First)	First -12(3)=36 Second -237(2)=474 Third -33(1)=33 Total =543(Second)	First -60(3)=180 Second -33(2)=66 Third -189(1)=189 Total =435(Third).

Source: Field Survey, 2013.

Table 2 above reveals that respondents ranked the three payment systems on the basis of costs and risks outweighing benefits to users/customers as cash, first, cheque, second and e-payment third. Put differently, the benefits of cash, cheque and e-payment systems are outweighed by their costs and risks in a descending order of magnitude: 717 points, 543 points and 435 points respectively based on the experiences of respondents. The payment system with the lowest costs and risks/ benefits ratio is e-payment, with 435 points. Having established the payment systems performance on the basis of costs and risks/benefits to users/customers, the study went on to establish their performance on the basis of banks. The data is presented on Table 3 below.

**TABLE 3: RANKING OF CASH, CHEQUE AND E-PAYMENT SYSTEMS ON THE PROPOSITION THAT THE COSTS AND RISKS OUTWEIGH BENEFITS TO BANKS**

Factors	Cash	Cheque	E-Payment
The Costs and Risks Outweigh Benefits to Banks	First -195(3)=585 Second -12(2)=24 Third -75(1)=75 Total =684(First)	First -24(3)=72 Second -234(2)=468 Third -24(1)=24 Total =564(Second)	First -72(3)=216 Second -30(2)=60 Third -180(1)=180 Total =456(Third).

Source: Field Survey, 2013.

Table 3 above reveals that respondents ranked the three payment systems on the basis of costs and risks outweighing benefits to banks as cash, first (684 points); cheque, second (564 points); and e-payment third (456 points). For banks therefore the payment system with the lowest costs and risks/benefit ratio is e-payment. For the society, the data on costs and risks outweighing benefits is presented on Table 4 below.

**TABLE 4: RANKING OF CASH, CHEQUE AND E-PAYMENT SYSTEMS ON THE PROPOSITION THAT THE COSTS AND RISKS OUTWEIGH BENEFITS TO SOCIETY**

Factors	Cash	Cheque	E-Payment
The Costs and Risks Outweigh Benefits to Society	First -192(3)=576 Second -9(2)=18 Third -81(1)=81 Total =675(First)	First -9(3)=27 Second -234(2)=468 Third -39(1)=39 Total =534(Second)	First -81(3)=243 Second -39(2)=78 Third -162(1)=162 Total =483(Third).

Source: Field Survey, 2013.

Table 4 above reveals that respondents ranked the three payment systems on the basis of costs and risks outweighing benefits to society as cash, first (675 points); cheque, second (534 points); and e-payment third (483 points). For the society therefore the payment system with the lowest costs and risks/benefit ratio is e-payment.

**4.3 ANSWERS TO RESEARCH QUESTIONS**

**Question 1:** Compared to cash and cheque payment systems, do the costs and risks of e-payment system outweigh the benefits to users/customers?

**Answer:** Reference to Table 2 will reveal that based on the experiences of respondents with the three payment systems, e-payment was ranked lowest on the factor of costs and risks outweighing benefits to users/customers. Based on this assessment the study answers that the costs and risks of e-payment system do not outweigh its benefits to users when compared to cash and cheque payment systems. While e-payment system scored a total of 435 points on this factor, cash and cheque payment systems scored 717 points and 543 points respectively.

**Question 2:** Compared to cash and cheque payment systems, do the costs and risks of e-payment system outweigh the benefits to banks?

**Answer:** question 2 is answered with reference to Table 3. it reveals that e-payment has the lowest points of 456 when compared to cash and cheque payment systems with 684 points and 564 points respectively on the factor of costs and risks of payment systems outweighing benefits to banks. Consequently, the answer to question 2 is that compared to cash and cheque payment systems, e-payment system does not have costs and risks outweighing benefits to banks.

**Question 3:** Compared to cash and cheque payment systems, do the costs and risks of e-payment system outweigh the benefits to society?

**Answer:** Reference to Table 4 will reveal that based on the experiences of respondents with the three payment systems, e-payment has the lowest points on the respondents ranking of payment systems and costs and risks outweighing benefits to society. While e-payment has 483 points to occupy third position, cash and cheque payment system have 675 points and 534 points to occupy the first and second positions respectively. To answer question three directly, e-payment compared to cash and cheque payment systems is better on the proposition that costs and risks outweigh benefits to society.

**5.0 CONCLUSION AND RECOMMENDATIONS****5.1 CONCLUSION**

Based on analyzed data and answers to research questions, e-payment is considered better than cash and cheque payment systems on the proposition that costs and risks outweigh benefits to customers, banks and society, given the experiences of Nigerian users of the three payment systems. If the benefits of e-payment system compared to costs and risks are better than the other payment systems to customers, banks and the larger society, it follows that individuals, banks and society will accept and prefer it in their financial transactions. The challenge of selling e-payment is to highlight its features and effectively communicate its benefits even as its costs and risks are explained.

**5.2 RECOMMENDATIONS**

To facilitate the acceptance of e-payment options in financial transactions in Nigeria and enhance the successful transition from a cash-based to e-payment based transactions as articulated by the cashless policy of CBN, the following recommendations are proffered:

**1. COMMUNICATE THE BENEFITS OF E-PAYMENT TO CUSTOMERS, BANKS AND THE SOCIETY**

In communicating to inform, educate, persuade and remind individuals and corporates on the acceptance of e-payment as the dominant payment system in Nigeria, the message should emphasize the key benefits of speed, greater control over financial transactions, reduced need to carry cash-making the society safer, increased convenience and reduced incidences of mistakes/errors in financial transactions. When people know what the stand to benefit in using e-payment system and what they will be losing by using other payment options, they will be minded to make the necessary switch given the logic of rationality in human behavior.

**2. REDUCE THE COSTS AND RISKS OF E-PAYMENT**

Communicating the benefits of e-payment should go with efforts to reduce the costs and risks of its usage in Nigeria. The specific costs and risks to emphasize will include the following:

Electronic fraud, security at cash collection points(ATMs), trust/confidence that the platform will always work seamlessly as at when and where needed, infrastructural inadequacies-causing service failure and unavailability, and dispute resolution mechanism ,that will resolved issues between operators and users speedily and equitably.

### 3. PERSUADE ON THE SUPERIORITY AND ACCEPTANCE OF E-PAYMENT IN SPITE OF ITS COSTS AND RISKS

Engage in persuasive marketing communication that will effectively demonstrate the clear benefits of e-payment system over and above cash and cheque payment systems and the lower costs and risks of it. Listing and explaining the features of e-payment system supporting the claimed benefits and the reduced costs and risks will be convincing and getting people to try, accept and prefer it to other payment modes.

## 6.0 LIMITATIONS OF THE STUDY AND FURTHER RESEARCH

The major limitation of the study was the segment of the population studied. The class of respondents represented the educated elite. With a minimum educational qualification of a first degree, this is an extreme segment of Nigerian population. Given that the literacy rate in Nigeria is 61.3 % ( UNHDR, 2011), a segment as educated as this group cannot represent the reality of general Nigerian situation. Another extreme of the study sample is their level of employment which stood at 94.68%. This is a far cry from the employment circumstances of the Nigerian population. The unemployment rate in Nigeria stands at 23.90 % ( NBS, 2014).

Given the centrality of education and employment status of people in determining their PU and PEOU of e-payment platforms and level of financial activity respectively, the lopsidedness of the study sample in these two critical areas pose a limitation in drawing conclusions on the benefits and costs and risks associated with e-payment system in Nigeria. It is useful however studying this segment of the population as a basis for the articulation of targeted interventions that may be necessary in securing quick wins and building a critical mass of early adopters of e-payment system that will serve as a platform for subsequent spreading of the need for the wider acceptance of the payment system by the general population. The choice of the sample studied was therefore deliberate and strategic. It nonetheless necessitates further studies to assess the factors other less educated and less financially active Nigerians consider as the benefits and costs and risks associated with e-payment system in Nigeria. Other social issues like religion and tribe can also be explored in establishing the factors that define the core benefits and costs and risks associated with e-payment system in Nigeria.

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