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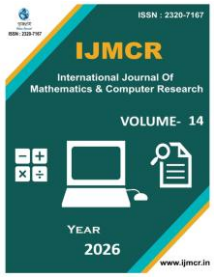

Combating Payments Fraud: Emerging Trends and Strategic Solution

Shraddha Khorgade, Prajakta Phakatkar

Department of Computer Science, Dr. D. Y. Patil, Arts, Commerce & Science College, Pimpri, Pune, Maharashtra, India

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Corresponding Author:
Shraddha Khorgade

ABSTRACT

The rapid digitization of financial systems has amplified the risk of payment fraud, posing significant challenges for businesses, consumers, and financial institutions. This research paper explores the evolving landscape of payment fraud, identifies trending techniques employed by fraudsters, and proposes a comprehensive set of solutions to mitigate risks. Emphasis is placed on leveraging emerging technologies such as artificial intelligence, block chain, and machine learning, alongside regulatory compliance and consumer education, to create a robust defense mechanism against fraud.

KEYWORDS: Payment, Block Chain, Cyber Attack, Crypto Currency

INTRODUCTION

The digital transformation of financial systems has revolutionized how payments are made, offering unparalleled convenience, speed, and accessibility. The advent of online banking, mobile wallets, and real-time payment systems has enabled consumers to transact effortlessly across the globe. However, this convenience comes with an alarming increase in payment fraud. Payment fraud encompasses unauthorized or deceptive activities aimed at gaining financial advantage by exploiting vulnerabilities in payment systems. From identity theft and phishing to sophisticated cyber-attacks on financial networks, the scope of payment fraud is vast and continuously evolving.

The surge in digital payments, accelerated by the COVID-19 pandemic, has created fertile ground for fraudsters. As e-commerce volumes rise and cash transactions diminish, fraudsters are adapting their techniques, leveraging advanced technologies such as artificial intelligence (AI) and machine learning (ML) to exploit system vulnerabilities. The increasing popularity of decentralized payment systems, such as crypto currencies, adds another layer of complexity to the fraud landscape by facilitating anonymity and cross-border transactions that are harder to trace.In addition to financial losses, payment fraud undermines consumer trust in digital payment systems, making it a critical issue for businesses and financial institutions. To address this growing threat, it is essential to understand the diverse types of payment methods, the mechanisms fraudsters use, and the real-world impact of these fraudulent activities. This paper seeks to provide a comprehensive overview of payment fraud, offering insights into emerging trends and exploring how cutting-edge technologies, regulatory frameworks, and consumer education can collaboratively fortify defenses against these threats.

TYPES OF PAYMENTS

Cash Payments Traditional physical currency exchanges remain common in certain regions but are susceptible to counterfeit currency fraud. Cash payments refer to the use of physical currency—such as coins and paper money—to settle financial transactions. This is one of the most traditional and direct methods of payment used in both personal and business dealings. Despite the rise of digital transactions, cash payments remain common in many regions and industries due to their simplicity and immediacy.

Key Characteristics of Cash Payments

1. **Immediate Settlement**: The transaction is completed instantly, with no delay in payment or settlement.
2. **No Credit Involvement**: Cash payments typically do not require any banking systems or electronic platforms.
3. **Simple Recording**: Businesses often use **cash vouchers** or **receipt books** to keep a record of cash outflows.
4. **Limited Traceability**: Without proper documentation, it may be difficult to trace cash payments during audits.

Credit and Debit Card Payments Widely used for both in-person and online transactions, these payments are prone to skimming, cloning, and Card-Not-Present (CNP) fraud. Credit and debit card payments are widely used methods of cashless transactions that allow individuals and businesses to make purchases without using physical cash. These cards provide a secure and efficient way to complete payments, both in physical stores and online.

How Card Payments Work

1. **Initiation**: The cardholder presents the card at the merchant's point of sale (POS) terminal or enters card details online.
2. **Authorization**: The payment system verifies card validity and available funds or credit.
3. **Approval**: Once approved, the transaction is processed and funds are transferred.
4. **Settlement**: For credit cards, the bank pays the merchant immediately, while the cardholder settles the bill later. For debit cards, the amount is deducted from the cardholder's account right away

Online and Mobile Payments Digital wallets (e.g., PayPal, Apple Pay, Google Pay) and peer-to- peer platforms (e.g., Venmo, Zelle) are convenient but face risks like phishing, ATO, and malware attacks. Online and mobile payments refer to the process of paying for goods and services electronically using the internet or mobile devices. These payment methods have become increasingly popular due to their convenience, speed, and the growing use of smart phones and digital platforms worldwide.

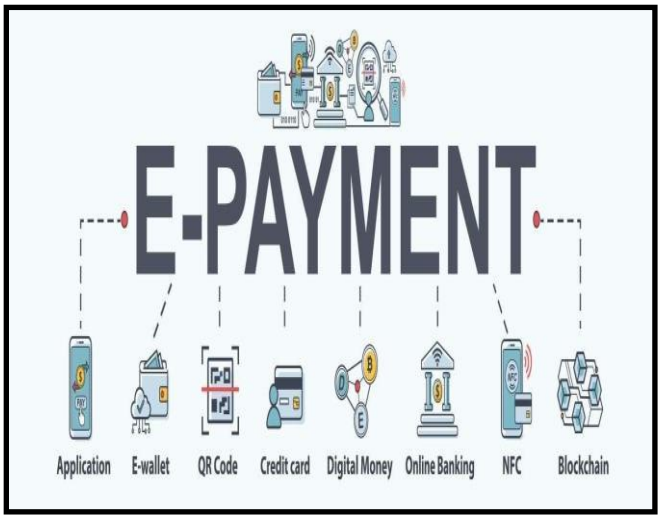
- Online **Payments** involve transactions made over the internet, usually through websites or web- based applications. This includes payments for e-commerce purchases, subscriptions, bill payments, and more.

- Mobile **Payments** are transactions conducted through mobile devices, such as smartphones or tablets, often via apps or mobile wallets like Apple Pay, Google Pay, or Samsung Pay.

Crypto currency Payments Crypto currencies offer anonymity and decentralized control, making them attractive for legitimate transactions and fraud activities like ransom ware payments and money laundering. Crypto currency payments involve using digital currencies like Bitcoin, Ethereum, or other crypto currencies to complete transactions. These payments are conducted electronically over decentralized networks using block chain technology, providing an alternative to traditional fiat currency payments.

Bank Transfers and Wire Payments: Direct transfers between bank accounts, often used for high-value transactions, are targeted by Business Email Compromise (BEC) and social engineering schemes. Bank transfers and wire payments are common electronic methods used to transfer money from one bank account to another. These payment methods are widely used by individuals and businesses for domestic and international transactions due to their reliability and security.

Contactless and IoT Payments: Payments via NFC-enabled devices or IoT platforms like smart watches are convenient but vulnerable to relay attacks and device hacking. Contactless and Internet of Things (IoT) payments represent the forefront of modern payment technologies, enabling seamless and fast transactions through wireless communication between devices.



These methods enhance convenience for consumers and businesses by reducing the need for physical contact or manual input during payments. Contactless payments allow users to make purchases by simply tapping or waving a payment card, Smartphone, or wearable device near a compatible point-of-sale (POS) terminal. This technology uses Near Field Communication (NFC) or Radio Frequency Identification (RFID) to transmit payment data securely.

1. Types of Payment Frauds

1.1 **Phishing and Social Engineering** Fraudsters manipulate individuals into divulging sensitive payment information through deceptive communication. This is commonly used to access online banking or digital wallet credentials.

Phishing is a type of cyber attack where attackers impersonate trusted organizations or individuals to trick people into revealing sensitive information such as passwords, credit card numbers, or personal details. This is usually done through deceptive emails, fake websites, or messages that appear legitimate but are designed to steal data or install malware.

Social Engineering refers to a broader set of techniques

where attackers manipulate people into divulging confidential information or performing actions that compromise security. Instead of targeting technical vulnerabilities, social engineering exploits human psychology—like trust, fear, or urgency—to gain unauthorized access to systems or data.

Phishing is actually a subset of social engineering. While phishing typically uses electronic communication (email, SMS, social media), social engineering can involve phone calls, in-person interactions, or other methods.

Both phishing and social engineering rely heavily on deception and psychological manipulation, making awareness and education critical defenses. Individuals and organizations can protect themselves by verifying requests for information, being cautious with links and attachments, and using multi-factor authentication to reduce risk.

1.2 **Card Payment Fraud** This includes:

- **Skimming:** Capturing card information using physical or electronic devices.
- **Cloning:** Duplicating card details to create fake cards.
- **Card-Not-Present (CNP) Fraud:** Unauthorized use of card details for online transactions.

Card Payment Fraud involves unauthorized or illegal use of credit or debit cards to steal money or make purchases without the cardholder's permission. This type of fraud can occur in various ways, including physical theft of the card, cloning the card details, or using stolen card information online.

Common methods of card payment fraud include:

- **Skimming:** Criminals use devices called skimmers to capture card information from the magnetic strip during a legitimate transaction, often at ATMs or point-of-sale terminals.
- **Card Not Present (CNP) Fraud:** This happens in online or phone transactions where the physical card is not needed, making it easier for fraudsters who have stolen card data to use it.
- **Counterfeit Cards:** Fraudsters create fake cards by copying the details from a genuine card.
- **Lost or Stolen Card Use:** If a physical card is lost or stolen, someone else may use it to make unauthorized purchases.

To combat card payment fraud, banks and businesses employ technologies like chip cards (EMV), tokenization, and real-time transaction monitoring. Cardholders are also advised to regularly check their statements, use secure websites for online purchases, and report suspicious activity immediately.

1.3 **Account Takeover (ATO)** Using stolen credentials, fraudsters gain unauthorized access to online payment accounts, redirect funds, or make unauthorized purchases.

Account Takeover (ATO) is a type of cybercrime where an attacker gains unauthorized access to a user's online account. Once inside, the attacker can perform harmful actions such as stealing personal information, making fraudulent transactions, or locking the legitimate owner out of their account.

Attackers typically use stolen credentials obtained through methods like phishing, data breaches, or malware. They may also use automated tools to try many username and password combinations until they find a match, a technique known as credential stuffing.

ATO attacks can target a wide range of accounts, including banking, email, social media, and online shopping platforms. The consequences for victims can be severe, including financial loss, identity theft, and damage to reputation.

To prevent account takeover, it is important to use strong, unique passwords for each account, enable multi-factor authentication (MFA), and be vigilant about suspicious activity such as unexpected login alerts or password reset emails.

1.4 **Identity Theft and Synthetic Identity Fraud**

- **Identity Theft:** Stealing personal details to impersonate someone.
- **Synthetic Identity Fraud:** Combining real and fabricated information to create a new, false identity used for payments and credit.

Identity Theft occurs when someone steals another person's personal information—such as their name, Social Security number, or financial details—to commit fraud or other crimes. The thief may use this information to open credit accounts, make purchases, or access the victim's bank accounts, often causing financial damage and harming the victim's credit.

Synthetic Identity Fraud is a more complex type of fraud where criminals create a new, fake identity by combining real and fabricated information. For example, they might use a real Social Security number paired with a made-up name and birthdate. These synthetic identities can be used to open new credit accounts or obtain loans, which the fraudster then exploits without the victim's direct knowledge.

Unlike traditional identity theft, synthetic identity fraud is harder to detect because it does not involve stealing a single person's full identity. Instead, it leverages pieces of real data mixed with false information, creating an identity that may not exist in reality but appears legitimate to financial institutions.

Both identity theft and synthetic identity fraud cause significant harm to individuals and businesses. Protecting personal information, monitoring credit reports, and using identity verification tools can help reduce the risk of these crimes.

Business Email Compromise (BEC) Business Email Compromise (BEC) is a sophisticated form of cybercrime in which attackers use social engineering and email spoofing techniques to deceive organizations into transferring money or sensitive information. Unlike traditional phishing attacks that target a wide audience, BEC focuses on specific individuals—often executives, finance officers, or employees with authority over payments. The primary goal is to manipulate victims into performing actions that benefit the attacker, such as authorizing fraudulent wire transfers or revealing confidential data.

A typical BEC attack begins with careful reconnaissance. Cybercriminals research the target organization to identify key personnel and understand internal communication patterns. They may then impersonate a senior executive, business partner, or vendor using a forged or compromised email account. The email message usually conveys a sense of urgency or confidentiality, pressuring the recipient to bypass standard verification procedures.

The consequences of BEC incidents can be severe. Organizations may suffer significant financial losses, reputational damage, and operational disruptions. Since these scams rely more on human error than on technical vulnerabilities, traditional cyber security tools alone are often insufficient to prevent them.

To mitigate BEC risks, companies should implement robust email authentication protocols such as SPF, DKIM, and DMARC, along with multi-factor authentication (MFA) for email access.

Regular employee awareness training is essential to help staff recognize suspicious requests and verify communications through alternate channels. Additionally, establishing strict financial approval procedures can reduce the likelihood of unauthorized transactions.

In summary, Business Email Compromise represents a major and growing threat to organizations worldwide. By combining technological defenses with employee vigilance and strong internal controls, businesses can significantly reduce their exposure to this type of cyber-attack.

Ransom ware and Crypto-Driven Fraud Ransom ware and crypto-driven fraud have become two of the most pressing cyber security challenges facing individuals, businesses, and governments today. Both exploit the growing dependence on digital technologies and the anonymity of crypto currency transactions to carry out financially motivated attacks.

Ransom ware is a type of malicious software that encrypts a victim's data, rendering it inaccessible until a ransom is paid to the attacker. Typically, the ransom is demanded in crypto currencies such as Bitcoin or Monero to conceal the attacker's identity and make the payment untraceable. Cybercriminals often deploy ransom ware through phishing emails, malicious downloads, or exploitation of software vulnerabilities. Once activated, the malware locks critical files or systems and displays a ransom note demanding payment within a set time frame. Failure to comply may result in permanent data loss or public release of sensitive information.

The impacts of ransom ware attacks extend beyond financial losses. Organizations may experience prolonged downtime, loss of customer trust, reputational harm, and potential legal consequences for data breaches. In recent years, healthcare institutions, educational organizations, and government agencies have become prime targets due to their reliance on continuous access to critical data.

Crypto-driven fraud, on the other hand, involves the misuse of block chain and crypto currency platforms to deceive investors, launder money, or conduct illegal transactions. Common examples include fraudulent Initial Coin Offerings (ICOs), Ponzi schemes disguised as investment opportunities, and fake crypto currency exchanges. The decentralized and pseudonymous nature of block chain technology makes it difficult for authorities to trace illicit activities, encouraging cybercriminals to exploit it for profit.

Preventive measures against ransom ware and crypto-driven fraud require a combination of technological, procedural, and educational strategies. Organizations should regularly back up critical data, update software to patch vulnerabilities, and employ endpoint protection solutions. For crypto currency-related risks, regulatory oversight, user awareness, and transparent reporting standards are essential. Training employees to recognize phishing attempts and suspicious investment offers further enhances defense against these evolving threats.

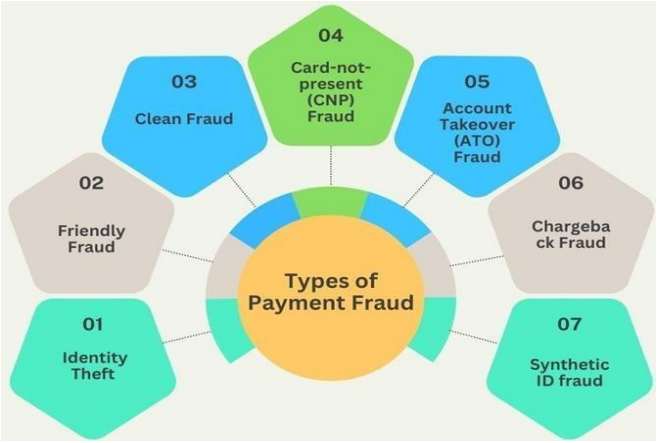
In conclusion, ransom ware and crypto-driven fraud represent significant aspects of the modern cybercrime landscape. The convergence of advanced malware techniques and the anonymity of digital currencies demand a proactive and integrated approach to cyber security, combining both technical safeguards and human awareness.

Fake Invoicing and Overpayment Schemes ake invoicing and overpayment schemes are deceptive financial fraud tactics that exploit trust and weaknesses in organizational payment systems. These schemes are designed to manipulate companies or individuals into making illegitimate payments, often by imitating legitimate business transactions.

Fake invoicing occurs when fraudsters send counterfeit invoices that appear to come from genuine suppliers, vendors, or service providers. The fraudulent invoice usually mimics authentic documentation, including company logos, payment details, and formatting. Unsuspecting employees, particularly those in finance or

accounts payable departments, may process the payment without verifying the authenticity of the request. This type of scam often targets large organizations that process high volumes of invoices, making fraudulent claims harder to detect.

Overpayment schemes**,** on the other hand, involve the deliberate overpayment of goods or services—usually by check or electronic transfer—followed by a request for a refund of the excess amount. The original payment often comes from a stolen or invalid account, and once the victim processes the refund, the fraudster disappears, leaving the victim responsible for the financial loss. This tactic is frequently used in online marketplaces,



international trade, and business-to-business transactions.

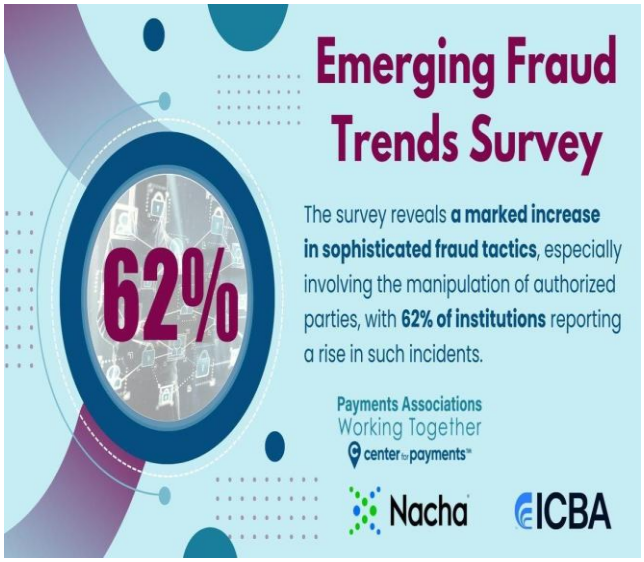
The impact of these schemes extends beyond direct financial losses. They can damage supplier relationships, disrupt financial operations, and expose weaknesses in an organization's internal controls. Moreover, repeated exposure to such scams can erode stakeholder trust and tarnish a company's reputation.

To prevent fake invoicing and overpayment fraud**,** organizations should implement strong internal control mechanisms such as vendor verification procedures, dual authorization for payments, and regular auditing of financial transactions. Employees should be trained to recognize warning signs, such as urgent payment requests, unfamiliar banking details, or inconsistencies in invoice information. Additionally, automated invoice management systems and fraud detection tools can enhance accuracy and reduce the risk of human error.

In summary, fake invoicing and overpayment schemes highlight the importance of vigilance, verification, and robust financial governance within organizations. By combining technological safeguards with employee awareness and strict payment validation processes, businesses can significantly reduce their exposure to these types of financial fraud.

1.1 **Insider Payment Fraud** Insider payment fraud refers to deceptive or unauthorized financial transactions carried out by employees or individuals within an organization who have legitimate access to internal systems, financial data, or payment processes. Unlike external fraud, this type of fraud exploits the organization's internal trust and control weaknesses.

In insider payment fraud, an employee or insider manipulates payment systems, vendor accounts, payroll data, or financial authorizations to divert funds for personal gain. This could include creating fake vendors, altering payment instructions, or approving illegitimate invoices. Because insiders understand the company's internal procedures, they can exploit gaps in monitoring and controls



to conceal their actions.

1.2 **E-Wallet and Mobile Payment Exploits** E-wallet and mobile payment exploits are techniques and attacks that target digital wallets, mobile banking applications, and payment services on smartphones or other mobile devices to steal funds, credentials, or sensitive information, or to manipulate transactions.

As consumers and businesses shift payments to mobile devices and digital wallets, attackers focus on the mobile environment's unique weaknesses: app permissions, device configuration, network connections, and the complex interplay between apps, operating systems, and backend payment processors. Exploits can be technical (malware, man-in-the-middle) or social (phishing, SIM swapping), and often combine several techniques to bypass authentication and anti-fraud controls.

2. Emerging Trends in Payment Fraud

The rapid evolution of digital payments has transformed how individuals and businesses conduct financial transactions. However, this growth has also expanded opportunities for cybercriminals to exploit vulnerabilities in payment systems. As technology advances, so do the methods used by fraudsters. Emerging trends in payment fraud now combine social engineering, automation, artificial intelligence (AI), and advanced technical manipulation to bypass security defenses and exploit human behavior.

Artificial Intelligence is increasingly being used by

criminals to conduct more sophisticated fraud. Fraudsters now use AI tools to create fake identities, automate phishing messages, and analyze stolen data for profitable targets. Deep fake technology enables the creation of convincing fake voices or videos to authorize fraudulent transactions or manipulate verification systems. For example, AI-generated voice calls can imitate company executives to authorize wire transfers, making traditional verification methods less effective.

Account takeover fraud continues to rise as attackers exploit stolen credentials from data breaches and dark web markets. Once inside an account, they change passwords, update contact details, and perform unauthorized transactions. Modern ATO attacks leverage device spoofing and behavioral mimicry to evade detection.

Synthetic identity fraud involves creating a new identity by combining real and fake information, such as using a real social security number with a fabricated name or address. This type of fraud is difficult to detect because the identity appears legitimate during verification checks. Fraudsters often use these identities to open bank accounts, obtain credit, or register digital wallets, which they later exploit for payment fraud.

3. Real-Life Examples of Payment Fraud

Payment fraud is not only a theoretical risk—it has caused billions of dollars in losses worldwide. Real-world cases demonstrate how criminals exploit both technological and human vulnerabilities to carry out sophisticated schemes. Understanding these examples helps organizations identify warning signs, strengthen internal controls, and design effective prevention strategies.

In one well-documented global incident, a multinational company lost millions when cybercriminals impersonated a senior executive. The attackers sent convincing emails from a spoofed domain closely resembling the company's real address, instructing the finance department to urgently transfer funds to a "partner account."

Because the request appeared legitimate and time-sensitive, the employee authorized the transfer without additional verification. Later investigations revealed the funds were routed through multiple offshore accounts to conceal their origin.

A payroll manager at a mid-sized financial organization exploited system privileges to redirect salary payments. The employee created several "ghost workers" in the payroll system and funneled the extra salaries into personal bank accounts over several months. The fraud went unnoticed until an internal audit uncovered discrepancies in employee data and duplicate payment entries.

An online retailer experienced repeated small-value transactions followed by a surge in chargebacks. Cybercriminals were using the retailer's website to "test" stolen credit card details. Each small transaction helped verify which cards were still active before using them for larger purchases elsewhere.

Although each fraudulent payment was small, the cumulative financial and reputational damage was significant.

A customer's mobile number was hijacked through SIM swap fraud, allowing attackers to intercept SMS-based one-time passwords (OTPs). Using these codes, the fraudsters accessed the victim's mobile banking app and transferred funds to multiple mule accounts. The victim only realized the breach after losing mobile service and discovering unauthorized transactions.

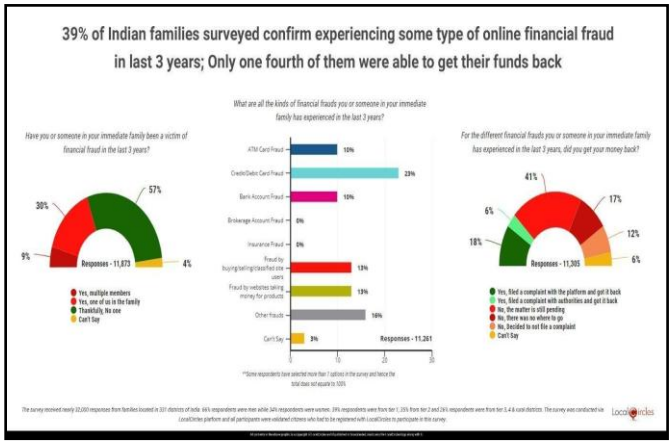
In a popular city café, fraudsters placed fake QR code stickers over genuine ones used for digital payments. When customers scanned the QR code, payments were redirected to the fraudster's account instead of the café's. The scam went unnoticed until customers complained about failed payments.

Fraudsters created a fake crypto currency investment platform promising high returns and fast withdrawals. Users funded accounts with digital assets through integrated e-wallet payments. The platform appeared legitimate, complete with fake testimonials and a professional interface. Once large sums were deposited, the website was shut down, and the funds vanished.

Following a major natural disaster, fake charity websites and mobile payment links surfaced online, urging people to "donate" to victims. These platforms used legitimate-looking branding and emotional appeals to collect money that never reached the intended recipients.

Criminals installed miniature skimming devices on point-of-sale terminals in a retail store. These devices secretly recorded card details and PINs during legitimate purchases. The data was later sold on the dark web and used for unauthorized online transactions.

- Verify the authenticity and licensing of any financial or crypto platform.
- Be skeptical of guaranteed high returns and pressure to invest quickly.
- Regulators and payment providers must monitor and flag suspicious payment gateways.



4. Solutions to Payment Fraud

As payment systems become increasingly digital, the complexity and scale of fraud have also grown.

Organizations must therefore adopt a multi-layered strategy that combines technology, policy, and human awareness to protect financial transactions. Effective solutions to payment fraud involve a blend of **preventive, detective, and corrective** controls that reduce exposure to risk while maintaining user convenience and trust.

One of the most effective ways to prevent fraud is to ensure that only legitimate users can access and authorize transactions.

Key Solutions:

- **Multi-Factor Authentication (MFA):** Require at least two verification methods— something the user knows (password), has (token or phone), or is (biometric).
- **Biometric Verification:** Use fingerprint, facial recognition, or voice ID to reduce risks associated with password theft.
- **Device Binding:** Link accounts to specific devices to prevent unauthorized access from unknown sources.
- **Adaptive Authentication:** Adjust security requirements based on transaction risk level, device reputation, and location.

Modern fraudsters use automation and artificial intelligence to launch attacks, so businesses must respond with equally intelligent defenses.

Key Solutions:

- **AI and Machine Learning (ML):** Analyze large volumes of transaction data to identify unusual patterns, spending anomalies, and behavioral deviations in real time.
- **Real-Time Transaction Monitoring:** Detect suspicious transactions instantly before they are completed.
- **Behavioral Analytics:** Profile normal user behavior (e.g., typical purchase times or locations) to spot deviations that suggest fraud.
- **Risk Scoring Systems:** Assign risk scores to transactions, allowing automatic blocking or secondary verification for high-risk activities.

Fighting payment fraud requires coordination among financial institutions, regulators, and technology providers.

Key Solutions:

- **Industry Collaboration:** Participate in fraud information-sharing networks to stay updated on emerging threats.
- **Regulatory Compliance:** Follow global standards like PCI DSS, GDPR, and PSD2 to ensure secure payment operations.
- **Partnership with Law Enforcement:** Work closely with authorities for investigation and recovery when fraud occurs.
- **Cross-Border Cooperation:** Share data and intelligence across jurisdictions to combat international fraud networks.

5. FUTURE DIRECTIONS

The landscape of payment systems is evolving rapidly with the rise of digital wallets, contactless payments, block chain, and artificial intelligence. While these innovations enhance convenience and financial inclusion, they also introduce new avenues for cybercriminals. To stay ahead of emerging threats, the future of payment security must focus on **proactive, technology-driven, and collaborative approaches** that blend innovation with resilience.

Artificial Intelligence (AI) will play a central role in the future of payment fraud prevention. Instead of reacting to fraud after it occurs, AI-powered systems will predict and prevent fraudulent activities in real time.

Future Outlook:

- **Predictive Fraud Detection:** Advanced algorithms will anticipate fraud based on behavioral trends, transaction velocity, and geo-location data.
- **Adaptive Learning Models:** Systems will continuously evolve and refine detection capabilities as new fraud patterns emerge.
- **Automated Incident Response:** AI will not only detect but also automatically block suspicious transactions before completion.

Block chain technology is expected to redefine how transactions are verified and secured. Its decentralized and tamper-resistant nature makes it ideal for creating transparent and traceable payment systems.

Future Outlook:

- **Immutable Transaction Records:** Block chain will reduce manipulation by providing permanent transaction histories.

- **Smart Contracts:** Automated execution of payment rules will eliminate manual errors and reduce insider manipulation.
- **Cross-Border Settlements:** Block chain-based networks will enhance transaction speed and security for international payments.

6. CONCLUSION

Payment fraud is a dynamic and evolving threat that requires a multi-faceted approach to combat effectively. By leveraging advanced technologies, fostering regulatory compliance, and promoting consumer awareness, stakeholders can significantly mitigate risks. Enhanced collaboration and innovation will ensure a secure payment ecosystem.

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