

FRAUD PROTECTION AWARENESS SERIES

Fraud Tip #11 – Check Fraud

According to the Federal Reserve, the number of checks used for payments continues to decline in favor of electronic payment methods. However, the total value of check payments – \$27.34 trillion in 2015 according to the Federal Reserve Bank – eclipses the total value of credit and debit card payments – \$5.72 trillion – by more than 4 to 1. Checks are still where the money is – and so are the scammers who are committing check fraud in increasing numbers.

In this quarter's fraud awareness communication, we revisit the topic of check fraud, which despite the trend toward electronic payments, still accounts for the largest financial losses among all fraud types. In fact, according to the American Bankers Association, *1.2 million fraudulent checks enter the banking system every day.*

The good news is that check fraud is preventable. ***The single most important factor in avoiding loss from check fraud is daily account reconciliation – by simply reviewing cleared checks and balancing your account.*** We urge you to incorporate this and other best practices we describe below into your business processes and share them with your employees.

Types of Check Fraud Scams

Check forgery occurs in several ways:

- *Forged Payee Endorsement* – A company check sent for payment of a bill is intercepted – likely stolen from an outgoing or incoming mailbox – and cashed or deposited after a fraudster forges the payee's endorsement on the back of the check.
- *Forged Payer Signature* – A forger steals new blank check stock from a company's incoming mailbox. The forger fills in the check's payee name and amount, and forges the issuer's authorized signature. The check is then cashed or deposited.
- *Missing Endorsement* – A fraudster deposits an intercepted check into an account without an endorsement. This is especially easy to do using today's image deposit technology (ATMs that scan a check for deposit, or mobile phone-based check deposit). These technologies bypass traditional bank teller scrutiny, so the lack of an endorsement – or that the check isn't even payable to the account holder – goes unnoticed.



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Other variations of check fraud include:

- *Alteration* – Changing the payee name and/or amount of a check sent for payment. In these cases, a fraudster steals and then “washes” an issued check using a chemical process. A new payee name and/or amount are entered on the check, which is then deposited or cashed.
- *Counterfeiting* – Creating a fake check using legitimate bank routing number and account number, which are obtained from a stolen bank statement, another issued check or blank check stock. A company’s logo can even be obtained from its own website and used to create an authentic-looking counterfeit.

Why Check Fraud is Effective

- Outgoing/incoming check payments and blank check stock are often left unprotected, making them an easy target for theft by fraudsters.
- Readily available technology – inexpensive, high quality printers and bookkeeping software – can produce counterfeit checks that are nearly indistinguishable from real ones. Technology can also be used to create fake IDs or to alter stolen IDs, which are then used to cash forged or counterfeit checks.
- Remote electronic deposit technology – via mobile phones and ATMs – eliminates inspection by bank tellers who could identify counterfeit or altered items, or verify endorsements.

How to Prevent Check Fraud

- ***The single most important factor in avoiding loss from any type of check fraud is daily account reconciliation – simply verifying cleared checks and balancing your account.***
- *Increase your physical security around outgoing/incoming check payments and your company’s blank check stock:*
 - Keep outgoing mail in a secure area – preferably under lock and key – until it’s delivered to or picked up by the postal service.
 - Have incoming mail delivered to a person with responsibility for securing it until distribution, or use a sturdy, locked mailbox, preferably inside the office or monitored by a security camera.
 - Blank check stock should always be kept under lock and key and be handled only by designated employees.



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- *Use Positive Pay or Reverse Positive Pay services to monitor your daily check clearing activity:*
 - With standard Positive Pay, you upload a data file each day providing information about the checks you've issued. We then make sure that every check that clears your account has a matching issued check record (based on date, check number and amount). Any mismatches are flagged for your review online prior to posting, allowing you to reject any fraudulent check within the 24-hour return window. An enhanced version of Positive Pay that allows for payee name matching – which can often detect a stolen check where only the payee name has been altered – is also available.
 - The Reverse Positive Pay service provides you with online images of ALL your checks ready to be cleared each day. You then review each check image and approve or reject them individually.
- *Consider using electronic payment methods such as wire transfer or ACH (automated clearing house) instead of paper checks.* These types of electronic transactions are cost-effective, efficient, and much more secure than traditional checks, especially when dealing with large dollar amounts.
- *Consider only mailing checks to companies that offer lockbox services.*

What to Do if You Identify Check Fraud

Quickly identifying check fraud is critical, because the more time that passes, the lower the likelihood of funds recovery.

- If you identify check fraud or unauthorized transactions on any of your accounts, contact your bank **immediately**.
- You should also report instances of fraud to your local law enforcement and/or the FBI. Information about when and how to contact the FBI is available at: www.fbi.gov/contact-us. Law enforcement will likely require completion of a fraud affidavit (available from your bank), which will also be required for any insurance claims.

As you consider the fraud awareness information provided above, please also bear in mind your important role in the fraud detection and reporting process. Your vigilance in reviewing your accounts and transactions is vital to fraud prevention and detection. Fraud schemes – as well as loss recovery efforts and outcomes – can be complicated. Early detection and prompt reporting of a fraud incident is critical because the passage of time might adversely affect the potential recovery of a fraud loss or the outcome of a customer claim. Your attentiveness is often the first line of defense for fraud. If a fraud incident does occur, your diligence might aid in a potential loss recovery.