



# CHECK FRAUD REPORT



How You Can Protect Your Business  
from the Potential Risks



## BUSINESSES FIND VALUE IN CHECKING BUT BEWARE THESE RISKS

Surprisingly, while the use of personal checks has given way to debit card transactions and e-checks, businesses pay other businesses using checks 51% of the time, even with the inherent risk that comes from using checks.<sup>1</sup> Smart businesses make sure they and their employees are aware of the growing need to manage check fraud risk. Businesses have lots of people taking care of many different responsibilities. Their attention gets diverted easily. Even security conscious employees make mistakes. Fraudsters have been taking advantage of flaws, discrepancies, outdated systems and antiquated practices in business-to-business checking in order to rip off many thousands of businesses every year. In the United States, check payments are the banking instrument most often subject to fraud. Fortunately, there are many things you can do to minimize these risks.

According to a 2018 survey by the Association for Financial Professionals, 78% of the membership's clients experienced payment fraud sometime in 2017. Checks were among fraudster's favorite target, with 74% of finance professionals reporting that their organization's checks were vulnerable to check fraud.<sup>1</sup>

The Federal Trade Commission, the government agency

charged with protecting consumer trade, has warned that counterfeit check scams are on the rise.<sup>2</sup> These are scams where fake checks are passed for goods or services, sometimes in amounts that substantially overpay for the merchandise.



A 2004 federal law known as 'Check 21' has allowed check clearing houses to implement new systems that process payments faster.<sup>3</sup> This has meant that checks are now typically processed as soon as they reach the banking system. Transactions are often completed electronically

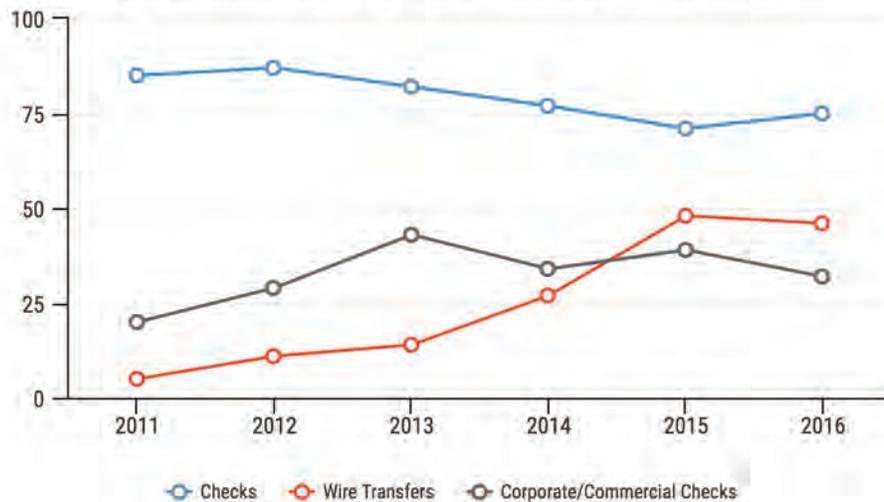
by the next day. On top of faster processing, phone apps are allowing personal and business customers to scan checks for immediate deposit. These advancements have given fraudsters a whole landscape of new areas ripe for exploitation.

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% Organizations that Experienced Attempted/Actual Fraud<sup>4</sup>



## IS CHECK FRAUD AN 'EASY TARGET' ?

Scam artists have been adroit at keeping ahead of the ever more stringent security measures both on physical checks themselves and in the electronic banking system. Knowledge bases and full-service marketplaces exist on the dark web where novices can find the methods and equipment to forge checks, access hacked personal data, buy stolen credit card information, stolen social security numbers, and find easy-to-use software tools to help gain access to financial institutions' networks.

The FTC has noted that counterfeit checks are looking more and more like their real counterparts.<sup>2</sup> With each watermark, hidden image, background design, and 3D hologram added to physical checks someone somewhere reverse engineers the feature and puts the knowledge on special forums that fraudsters use on the anonymous dark web.

Physical checks need numerous features which are hard to copy. There are two hurdles to counterfeiting a



check. First is know-how, reverse engineering the safety feature. But just because someone knows how a safety feature is created doesn't mean they can re-create it. Fraudsters need the right equipment as well as the knowledge. So it's important to choose safety features that

require multiple pieces of hard-to-get equipment in order to accurately reproduce a check.

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	% Total	% Annual Revenue >\$1 Billion	Annual Revenue <\$1 Billion
Checks	75	61	81
Wire Transfers	46	49	49
Corporate / Commercial Credit Cards	32	38	29

Payment methods on which Attempted and/or Actual Fraud Occurred in 2016<sup>4</sup>

## WHO IS RESPONSIBLE IN THE EVENT OF CHECK FRAUD?



Simply stated, the customer is responsible for all financial instruments that are used to make deposits into their accounts. The Uniform Commercial Code (UCC) makes the depositor responsible for any deposits made available before the legitimacy of a check is confirmed. Under federal law, banks must make available the first \$200 of any deposited check on the day after a customer makes the deposit. The remaining funds must be made available by the second business day.<sup>5</sup>

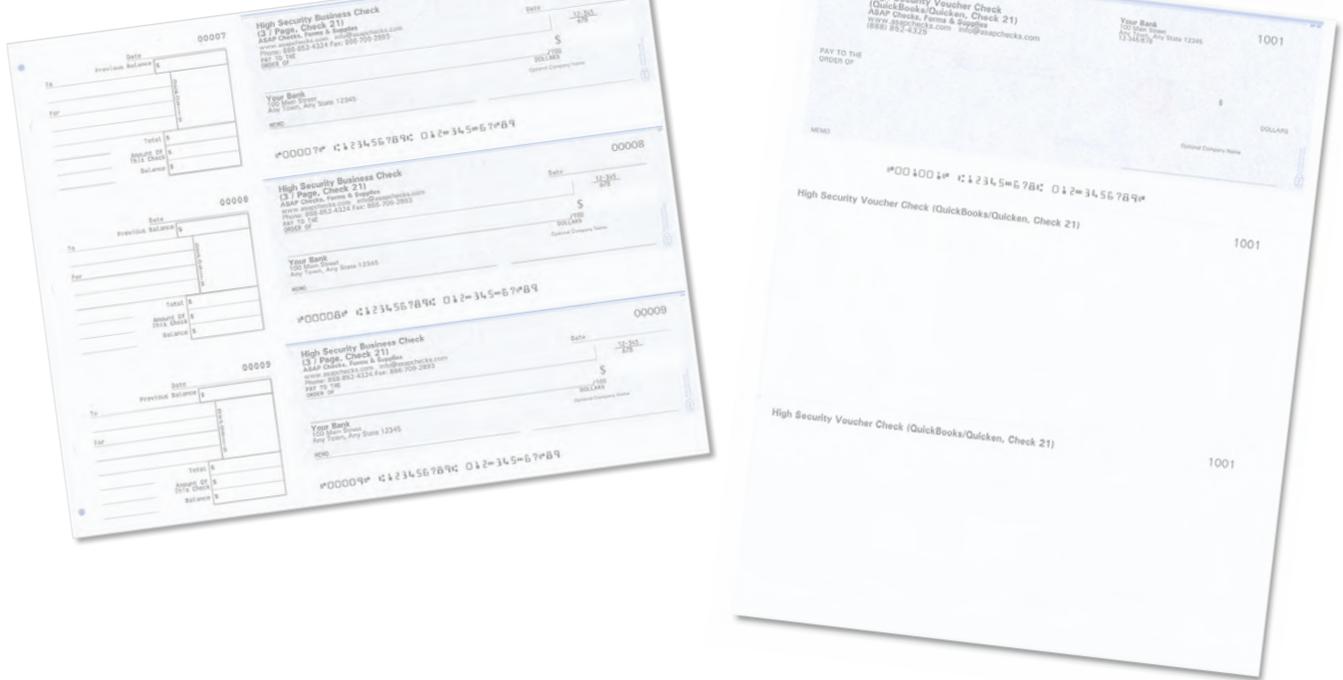
This means that the customer usually has full access to the funds before the physical check makes it back to the issuing bank. Once back at the bank it can take

weeks for the physical check to be processed, especially at small banks with only a few branches. That is why small banks are a fraudster's favorite target.

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## 5 TIPS TO PREVENT CHECK FRAUD

**1** Reduce your risk when sending and receiving checks. Accept checks drawn on a local bank so that you can visit and make sure the check is valid. If visiting is not possible, you can call the bank where the check was purchased, and request verification of its authenticity.

**2** Restrict access to sensitive information. Make it company policy to change lock combinations and software access codes when staff leave the company or change positions within the company, and at regular intervals throughout the year.

**3** Maintain sensitive account information. Have a minimum of two signatory requirement on large dollar check amounts.

**4** Use only secure checks to ensure your checks are

produced with specific security features. This is at the very core of any security and check fraud prevention strategy. Choose your check printer carefully to ensure credibility and adherence to Check 21 as set out by the Federal Reserve Board.



**5** Maintain safe accounting and bookkeeping systems and codes of conduct in your organization. For example, always record the number of the last check number used, and store in a secure place which is inaccessible to others.

At ASAP Checks, we have the security of your business in mind. We take great measures to provide you with bank quality checks without bank prices, ready to ship within 24 hours. If you are looking for more ways to protect your business from check fraud, download the [Ultimate Check Fraud Prevention Guide](#).

Sources:

1 "2018 AFP Payments Fraud Survey", Association for Financial Professionals, retrieved from <https://www.afponline.org/publications-data-tools/reports/survey-research-economic-data/Details/payments-fraud-2016>

2 "Fake Checks", Federal Trade Commission Consumer Information, retrieved from <https://www.consumer.ftc.gov/articles/0159-fake-checks>

3 "Check Clearing for the 21st Century Act (Check 21)", FDIC, retrieved from <https://www.fdic.gov/consumers/assistance/protection/check21.html>

4 "2017 AFP Payments Fraud Survey", Association for Financial Professionals, retrieved from <https://commercial.jpmorganchase.com/jmpm/pdf/1320732417358.pdf>

5 "FDIC Compliance Manual", FDIC, retrieved from <https://www.fdic.gov/regulations/compliance/manual/6/vi-1.1.pdf>