

## CHECK FRAUD

### You Are At Risk

By Les C. Cseh

(photos illustrating check security features can be made available)

### **You Could Be On the Hook!**

Did you know that the UCC (Uniform Commercial Code) regulations place responsibility for forgery losses partially on bank customers, rather than solely on the banks? But in addition to this exposure, there can be significant expenses and lost time investigating the crime, not to mention damage to your credibility and reputation.

Your only defence is to show that you have taken due diligence. One way to demonstrate this is by implementing careful practices regarding your checks. Another is to use checks with well implemented security features.

### **How Bad Is the Problem?**

The problem is so serious that the banks don't like to reveal the extent of the problem. Estimates range from hundreds of millions to *10 billion dollars annually*.

In 1991, the FBI tracked over 26,000 cases, but this is just the tip of the iceberg, because the FBI mostly focuses on cases where the amount exceeds \$100,000. Just one example comes from The Green Sheet (a publication to the Financial Services Industry), reporting an incident where a family had allegedly stolen more than \$1 million from area merchants since 1993 by writing checks on closed and non-existent accounts at 11 financial institutions in Indiana and Chicago under 25 different names.

In just 4 years, Northern Trust Bank has detected more than 3 million dollars worth of counterfeit checks.

### **What Kinds of Things Do Criminals Look For?**

It is an endless list, but here are some of the types of things that someone looking to counterfeit or tamper might look for:

- High volume bank accounts where a fraudulent check can easily slip through.
- Checks that are easy to reproduce using a color copier.
- Checks that are easy to tamper with.
- Easy access to checkbook or check stock.

## What Can I Do To Protect Myself?

By protection, I mean reducing the chance of someone counterfeiting or altering your checks, as well as reducing your liability when it occurs.

Be aware that it is impossible to prevent fraud. But you can significantly minimize the risk using a two-prong approach. It is critical that good procedures related to your check processing are put in place, and that you use a check that is difficult to counterfeit or alter (see sidebar).

- Reconcile your bank statement promptly. Now that bank statements are available online, you can do this as frequently as you feel is necessary for your situation.
- Restrict access to your checkbook/check stock. Ensure that only trusted staff that need access have it.
- Audit your checks. However, this can be difficult because often checks are removed from the bottom or middle of the book or stack.
- Use a custom design. While this isn't an affordable option for many businesses, look into it. The next best thing is to ensure that your check supplier uses comprehensive security features. Remember though that a custom design is not a substitute for security features.
- Advise your bank branches' officials of the security features in your checks .. in person or in writing (and keep a copy of the letter on file!).
- If you issue a large number of checks, particularly with a low amount (eg. rebate checks), open a separate account and alert the bank staff of an upper limit for that account.

## The Bottom Line

Don't take unnecessary chances. The more security you have through procedures and choice of check form, the less likely that someone will tamper with your checks.

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## Check Security Features – A Primer (sidebar)

There are numerous security features available today, with new ones coming available all the time. While it would not be practical to include all the features on a single check form, the more security features your check has, the better you are protected against fraud and liability.

The best approach is to combine "overt" and "covert" features. The overt approach makes it clear to anyone looking at the check what features you have implemented, with the effect of deterring criminals and providing bank staff and your staff with an easy method of identifying tampering. Covert features are deliberately hidden to surprise and fool most would-be tamperers.

### ***Tamper Detection and Prevention***

A common approach to fraud is to alter the amount or other information on the check by erasing or using various chemicals. Some inks used on backgrounds and some papers react to these chemicals by disappearing, fading or staining in a very obvious way.

Laser printer toner is notoriously easy to remove. Some check papers are treated so that toner fuses much better to the paper. This goes by names such as "toner grip" or "toner fuse".

### ***Beating The Color Copier***

The most recent wave of fraud was brought on by the color copier. They can do such a good job, that security features beyond the copier's abilities have been developed. These include:

- One of the most recent and exciting features uses thermochromic ink, such as TouchGuard™ used by ASAP. The ink changes color when rubbed or breathed on, and reappears when you stop. This requires no special equipment to check, and the color change characteristic cannot be reproduced using color copiers or inkjet printers.
- Fluorescence is something that color copiers cannot reproduce. Secure checks may include some printing using fluorescent ink, and/or have fluorescent fibers woven into the paper. While some banks have UV lights which can be used to detect that the check does not glow, many banks do not, nor do tellers typically check for this.
- Visible fibers are also used for the same purpose. A close examination of a copied check will reveal that the fibers are only copies.
- Depending on the type, watermarks can be viewed from one or both sides of the form when held up to light at a 45 degree angle, something that cannot be photocopied or scanned and is very difficult to duplicate.
- A void pantograph is a special way of printing a message in the background that is not obvious to the naked eye. Because of the resolution used on many copiers, this printed message becomes very obvious when copied.
- Microprinting is a technique where signature lines or borders are printed using such tiny text that it looks like a line, but magnified you can see the text. The text is so small, however, that current copiers cannot reproduce the text.

### **Warnings**

Several types of warnings can be used to discourage criminals and to raise alarms that something is wrong.

- A message such as "The face of this check is blue and contains the security features listed on the back" is very effective.
- A padlock symbol indicates that your check contains the minimum set of security features standardized by the Financial Stationers Association.
- The "MP" symbol is used to indicate that elements of the check have been micro-printed.