

Preventing Check Fraud on Your Business Account

Checks, or negotiable paper instruments used to make payments drawn directly from a checking account, are as old as our country.

As checks became more popular, fraud increased in the banking industry. Governments and banks around the world have spent hundreds of years attempting to control and eliminate this fraud, with varying results. Today, check fraud is still one of the biggest challenges that United States banks and businesses face. Despite the decreasing use of checks overall, financial criminals continue to find it easy to manipulate checks and defraud consumers and businesses.

Amalgamated Bank of Chicago has highlighted important information on the fundamentals of check fraud, as well as what its business customers can do to prevent becoming a victim.

Types of Check Fraud

Those that commit and/or facilitate check fraud may be the people you least expect. They may be employees, third parties, independent actors/operators, or organized crime teams.

Fraudsters have many techniques to gain access to your checks and banking information. These may include:

- **Counterfeit:** Creating fake checks that mimic your legitimate checks.
- **Altered:** Changing the payee name and/or dollar amount.
- **Forged:** Signing on behalf of someone.
- **Stolen:** Taking checks from inside a business, in-transit, or from the payee.
- **Duplicate:** Depositing or cashing checks more than once, using multiple channels (*i.e. mobile, branch, currency exchange, etc.*)
- **Getting information from insiders**
- **Leveraging several people as part of a chain/ring**
- **Mining information from discarded records** (*i.e. dumpster diving*)

Mitigating Check Fraud

There are a number of measures businesses can take to detect and prevent check fraud. These measures may involve simple procedures implemented at a business, or taking advantage of services offered by your bank. Considering that businesses have a short timeframe to return fraudulent checks, there are several excellent safeguards they can employ:

- **Reconciling Accounts Daily:** Businesses can take advantage of services offered by the bank to monitor their accounts daily. These services may include online banking using a desktop or laptop computer, or mobile banking using a phone or tablet. Through these services businesses can view paid check information, as well as check images, to look for irregularities. Additionally, businesses should take proactive measures to track their outstanding check payments, following up with payees and placing stop payments if applicable when checks haven't cleared in a timely manner.
- **Heightened Internal Controls:** Business should consider dual control in their accounts payable processes, segregation of duties (i.e. signers vs. processors/reconcilers), sound mailroom procedures, keeping outgoing mail and unused check stock secure, and maintaining strong internal audit measures.
- **Consider Electronic Payments:** While checks have been around forever, businesses should consider a switch to electronic payments such as ACH, Bill Pay, or Wire Transfer. These payment channels take the paper check with your business's banking information out of the equation, and allow for a more efficient, expeditious, and secure process. While some banks may charge a slightly higher fee for these types of payment services, the cost benefit outweighs the potential of loss for the business if check fraud were to occur on their account.
- **Basic Positive Pay:** This banking service compares issued check number and dollar amount of the check to the daily checks clearing their account. Any exceptions identified in the matching process will be researched and/or presented to the business for further analysis and pay or return decision to be made in a timely manner.
- **Reverse Positive Pay:** This banking service is similar to basic positive pay, but the business is not required to send an issued check file to the bank. In a reversed fashion, the business maintains that information and compares it to paid check information provided by the bank on each check that clears the business's account daily. If a check needs to be returned, the business communicates this action to the bank in a timely manner.

While fraud tends to be cyclical in nature, it always exists in some form or fashion. Businesses must be aware, proactive, and timely in the management of their check payments and the mitigating controls safeguarding their funds.

If you have questions or want to learn more, please contact your relationship manager at the Bank.

Thank you for being a valued customer.

**Amalgamated Bank
of Chicago**