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Catch Me If You Can? Practical Approaches to Preventing Check Fraud

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Most of us have seen the movie, the one where Frank Abagnale, Jr., cons his way through much of his young adult life in the 1960s by creating and using fraudulent checks. However, check fraud is not just a thing of the past like Pan Am or go-go boots. Over the past few years, check fraud has increasingly been on the rise. While determining a bank's liability for loss is generally heavily fact dependent, the drawee bank is liable for losses on a late return, which unfortunately does not leave the bank with many recovery options. Fortunately, there are actions banks can take to help mitigate the risks associated with check fraud. This article outlines practical steps for banks to take to protect themselves against check fraudsters.

1. Positive Pay Agreements

Positive Pay Agreements (Agreements) are one of the most effective ways to help the bank combat check fraud. These Agreements are typically between a commercial customer and the bank. While the terms of the Agreements may vary from bank to bank, the general idea is the same – the bank uses positive pay to match checks issued by the customer with the checks presented for payment, matching check numbers, dollar amounts, and account numbers against those on a list provided by the customer. If discrepancies or other issues are identified with the check, the bank flags the issues and notifies the customer, withholding payment until the customer tells the bank to accept or reject the check. Positive pay can be highly effective as banks can more easily determine discrepancies between issued and presented checks, and because by its very nature, positive pay requires customers to be proactive in identifying potentially fraudulent checks.

2. High Security Checks

High security checks often have multiple layers of defense to protect against fraud, making it incredibly difficult for fraudsters to copy or forge. Some of these security features may include safety holograms, true watermarks, thermochromic ink, warning borders, anti-copy technology, and other security features. If not doing so already, banks should strongly consider offering high-security checks to their customers, particularly their small business customers who are more likely to fall victim to check fraud schemes.

3. Customer Education

Banks should encourage their customers to be on the alert for check fraud and to take proactive steps to protect themselves. In addition to security features the bank may offer its customers (like positive pay and high security checks), the bank can also encourage/remind customers to:

- Maintain adequate security over physical checks and deposit slips
- Mail checks from a secured mailbox such as the post office, rather than a personal mailbox
- Routinely and promptly review account statements, and notify the bank immediately of any issues or concerns

Preventing check fraud is a joint effort between the bank and its customers, and banks should encourage their customers to do what they can to help mitigate fraud risk.

4. Employee Training

Most banks have training in place for employees to be able to recognize and report fraudulent checks and different types of fraudulent check schemes, but the importance of adequate training should not be underestimated. Banks may want to consider additional or enhanced training for their frontline personnel on topics such as acceptable identification, opening new accounts, detecting counterfeit checks, cashing checks, and accepting deposits. Employees should also be well trained on the proper procedures and reporting mechanisms when encountering a fraudulent check.

Fraudsters have become increasingly more sophisticated in their attempts, and while these steps cannot completely prevent check fraud, when taken together, a well-rounded proactive approach can help mitigate the risks associated with check fraud.