

TREASURERS: FORTIFY YOURSELVES AGAINST CHECK FRAUD

By Magnus Carlsson

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Once again, check fraud topped the list of fraud methods criminals use, according to the latest [AFP Payments Fraud and Control Survey](#). But even though this is the case year after year, the latest survey is especially worrying. Why?

Check fraud is actually increasing. Oh, and treasury departments are actually doing less to protect themselves against it.

Fully 75% of organizations experienced check fraud last year, up from 71% in 2015. After years of seeing check fraud decrease, we're seeing it start to go back up.

But this actually doesn't come as much of a surprise, given what we observed just a few months ago. According to the [2016 AFP Electronic Payments Survey](#), 51% of companies' business-to-business payments are made by check, which is one percentage point higher than it was three years ago. It's not much, but it is significant because check payments had been in decline for years up until this point.

But whatever the reason companies are reverting to paying by check, they are actually doing less to secure check payments. The fraud survey also found that usage of prevention methods that safeguard businesses against check fraud has gone down dramatically.

Why businesses are paying by check more often in the digital age is anyone's guess, though it's possible that it could have something to do with the rise in business email compromise (BEC) scams. Although checks can also be targeted in these schemes, BEC scammers' preferred payment method remains wire transfers. According to the fraud survey, 74% of organizations experienced BEC in 2017. Thus, old-fashioned check payments might look more appealing to corporates.

But whatever the reason companies are reverting to paying by check, they are actually doing less to secure check payments. The fraud survey also found that usage of prevention methods that safeguard businesses against check fraud has gone down dramatically. Positive pay went from 88% in 2015 to 74% in 2016. Daily reconciliations dropped to 64% from 77%. Payee positive pay fell from 56% to 41%. Across the board, companies are using these measures less.

The reasons for this are unclear, but perhaps companies that began reducing check usage decided to scrap services like positive pay because their mindset was that they'd eventually be getting rid of checks altogether. But if so, that decision appears to have been premature. Another reason could be that, simply, these services are a cost, and not one that delivers guaranteed returns unless you're experiencing a lot of fraud attempts. So companies that, up until this point, haven't experienced much or any fraud might decide that the preventative measures are not worth the money.

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Nevertheless, these prevention methods — especially positive pay — can save companies a lot of money. As security consultant and reformed check forger Frank Abagnale explained last month, positive pay “[is probably the best technology in the world to prevent forgery.](#)” And he would know!

PROTECT YOURSELF

If you’re going to continue to use checks, make sure you’re investing in preventative measures. Positive pay is a must-have for any organization that’s paying this way — especially if you’re issuing more checks.

Lastly, as I touched on earlier, [checks can also be used in BEC scams](#). As Greg Litster, president of SAFEChecks, discussed at the latest AFP Treasury Advisory Group meeting, fraudsters have been known to impersonate executives and request check payments be sent to PO boxes that they control. The good news is that, unlike in BEC scams that target wires, **your company may not be held liable for the loss**. Litster explained that in that scenario, you have a “forged endorsement” — a check made payable to a particular party that was intercepted by someone else. “That becomes the liability of the bank of first deposit,” he noted. But you have to pay attention, and you have to have good legal counsel.

So protect yourself when using checks. It might cost a little money, and it might take some effort, but it’s well worth your time, because fraudsters aren’t taking a day off.

To discuss these topics in more detail, please contact your PNC Relationship Manager.

Take the quiz

How prepared is your organization to fight payments fraud? Take the quiz to see how you stack up.



ABOUT THE AUTHOR

Magnus Carlsson is the manager for Treasury & Payments at the Association for Financial Professionals. His responsibilities include covering payment efficiency through electronic payments, protection against payments fraud, and payments standards.

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