Check Fraud:

Detection Mechanisms

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Introduction

This document explains some of the potential technology solutions and operational mechanisms that are available to community banks to detect instances of check fraud. It is intended to be brief and to serve as a reference for community banks to evaluate tools and leverage internal practices to identify and prevent check fraud.

Effectively detecting check fraud requires a layered approach that combines both software and manual processes. Every community bank's approach will differ and should be guided by deliberate strategic planning that incorporates a cost-benefit analysis of all available mechanisms, a historical loss analysis, and the parameters of each bank's compliance program.

This document was developed by community bankers working together as part of ICBA's Check Fraud Task Force. This document is for general information purposes and is not intended to be, and should not be taken as, legal advice, an endorsement of any specific company or product, or a comprehensive treatment of the subject matter.

Technology Solutions

Positive pay

Description: Positive pay enables customers to compare checks that post to their account with checks they have written. This can help to prevent fraud losses by proactively alerting customers to discrepancies when checks clear, enabling fraudulent checks to be returned to banks of first deposit in a timely manner.

Application and usage: Customers enter information, including the payee and amount, about each check they write in their online banking platform or using a third-party interface. Customers receive alerts when posting checks do not match the checks they entered. Customers can choose to return or to pay a discrepant check.

Check image analytics software

Description: Check image analytics software analyzes check images to detect alterations or other indicia of fraudulent checks. The software looks at a variety of characteristics of a presented check, including placement of lines, fonts, images, layout, and size. This software sometimes makes use of artificial intelligence to enable its analysis.

Application and usage: Tellers or back-office personnel run each check presented to the bank through the analytics software. The software generates alerts and/or a risk score if there are discrepancies between the check being presented and checks that have been historically presented by a particular customer. Banks can choose to further investigate, return, or pay a discrepant check.

Check validation software

Description: Check validation software enables bank personnel to validate check information using a repository that aggregates information from multiple financial institutions. The software looks for checks that have been reported as altered, duplicate, or returned, as well as for accounts that have been reported for non-sufficient funds or as closed.

Application and usage: Tellers or back-office personnel enter the routing number, account number, check number, and dollar amount into the software. The software generates alerts and/or a risk score if a check has already been presented or an account has been flagged. Banks can choose to further investigate, return, or pay a flagged check.

FedPayments® Reporter Service for Check

Description: FedPayments Reporter Service for Check provides banks with a variety of reports that deliver advance notice of checks processed by the Federal Reserve Banks. The reports include information, such as: banks of first deposit information about forthcoming returned items; paying banks information about forthcoming large checks for settlement; and, corporate customers information about checks the morning they are presented.

Application and usage: Back-office personnel receive scheduled reports. Collectively, these reports help banks find large, potentially altered checks that warrant further investigation or return.

Treasury Check Verification System (TCVS)

Description: The Treasury Check Verification System enables banks to verify a U.S. Treasury check's validity.

Application and usage: Tellers or bank-office personnel input information about the check at https://tcvs.fiscal.treasury.gov and receive a validation response. Banks that suspect fraud can provide a copy of the check and an explanation of their concern via e-mail to the Check Integrity Program at checkintegrity@tigta.treas.gov.

Operational Mechanisms

Check reviews

Description: Banks can manually review presented checks. Completing these reviews may help banks identify checks that are fraudulent or those where the payee's name or the dollar amount have been altered and may impact hold timelines.

Application and usage: Tellers or back-office personnel physically examine checks. Banks can consider reviewing, for example, over-the-counter checks, mobile-deposited checks, checks deposited into CDs or IRAs, checks drawn on home equity lines of credit, cashier's

checks drawn on the bank, or incoming checks from the Federal Reserve Banks. Banks can also set a review threshold based on their risk tolerance, which may vary for different types of checks, or other criteria determined by the bank.

Check cashing limits

Description: Banks and/or their customers can place limits on the checks they cash. Restricting check cashing may help to reduce banks' risk exposure to potentially fraudulent checks and provide an opportunity scrutinize certain checks. It is important to balance any bank-imposed restrictions with the risk of lower customer satisfaction.

Application and usage: When check cashing limits are in place, tellers only cash checks under certain circumstances. Banks can consider prohibiting non-customers from cashing checks, verifying information with the account holder before releasing funds, or setting a maximum threshold for check cashing. Banks can determine which restrictions are appropriate based on their risk tolerance.

New account reviews

Description: Banks can apply heightened scrutiny to check-related activities related to newly opened accounts. New accounts are potential vectors of check fraud, so reviewing checks deposited into or drawn from new accounts could enable banks to detect check fraud.

Application and usage: Banks utilizing new account reviews apply stringent identity verification processes for new account holders, limit access to certain products like mobile deposit, and maximize use of the regulatory guidelines for check holds. Banks can determine which restrictions are appropriate and the necessary length of time to apply any restrictions based on their risk tolerance.