



## Keeping Check Fraud in Check

 FinCen risk management

**Summary:** Despite advances in technology, check fraud is on the rise across the US. Given the significant impact on CFIs and their customers, we suggest ways in which CFIs can reduce exposure to fraudulent activity.

In 18th-century England, bankers used to carry cash and checks from bank to bank to settle payments for their customers. In a chance turn of events, a couple of clerks ran into each other at the Five Bells Tavern in London and realized that they could simply meet there to handle all of their transactions, saving them each a longer trip. Other banks caught onto the idea, and the tavern soon became a hub for bankers to exchange cash and settle checks over pints of ale. In fact, [Five Bells is commonly referred to as the first clearing house](#).

Thankfully, settling checks has gotten much more sophisticated than clandestine meetings in a pub. However, the security of checks is becoming a large concern. According to the Financial Crimes Enforcement Network (FinCEN), suspicious activity reports (SARs) for check fraud at depository institutions, [reports increased by more than 200% between 2018 and 2022](#), with 2022 data just crossing the 500K mark with check fraud SARs. The most recent 2023 data from FinCEN shows an [increase to 528K check fraud SARs for the year](#).

### Far-Reaching Implications for CFIs and Customers

As the payment method most vulnerable to fraud, an increase in check fraud has massive implications for both community financial institutions (CFIs) and their customers.

**Impact on FIs.** Although newer technologies and customer convenience tools such as remote deposit capture can help improve the customer experience, they also provide fraudsters with more opportunities and make it more difficult for financial institutions (FIs) to spot check alterations. A large proportion of check fraud occurs [because of mail theft](#), making it even harder for FIs to combat this crime.

Because they are liable for the funds once a check is deposited or cashed, the financial losses for FIs can be significant. SB Financial Group Inc., ServisFirst Bancshares Inc., Truist Financial Corp, and Regions Financial Corp. all reported check fraud losses in 2023, with the latter's amounting to \$135MM. FIs' regulatory obligations to prevent fraud and money laundering mean they also incur significant costs in relation to check fraud monitoring, prevention, and investigation.

**Impact on Customers.** If they deposit a fraudulent check, customers can be held responsible for the funds, even if it was done unknowingly. Aside from the potential financial losses, customers may feel the impact in terms of their credit score and potential legal consequences. What's more, delays resolving fraudulent check complications can result in anxiety, frustration, and the customer losing trust in their FI and the wider banking system.

A 2023 report by Mitek and Cornerstone Advisors highlighted that one-third of small businesses encountered check fraud in the last year, with almost [two-thirds experiencing losses of over \\$50K](#).

### How CFIs Can Help Prevent Check Fraud

These days, check fraud is quite sophisticated — usually involving multiple players and complex operations — and combatting it therefore requires a collective and multifaceted approach. If they haven’t done so already, CFIs should consider implementing mitigation strategies to reduce their exposure to check fraud. In addition to [the methods we highlighted previously](#), CFIs may want to do the following:

- 1. **Capitalize on new technologies.** A system that can automatically evaluate, cross-reference, and verify checks with high accuracy is essential. Recent advances in artificial intelligence (AI) have also increased the capabilities of signature verification software and check data extraction software. CFIs may also want to implement positive pay services which automatically compare a company’s issued check with the one presented for payment.
- 2. **Regularly update employee training.** It’s imperative that CFIs train their staff on how to identify forged or altered checks and other check-related scams. This includes knowing how to spot and flag possible fraud when they see higher-than-normal check amounts for specific accounts and knowing to contact a customer to confirm a check they are unsure about. With check fraud experiencing such a spike, it’s especially important to take a proactive approach by keeping staff informed of current trends as they’re happening so that they can be prepared.
- 3. **Support and educate customers.** Public awareness is critical in the fight against check fraud. Alongside running information sessions and providing materials to help educate their customers, CFIs should encourage them to use safer, more secure electronic payment methods — such as automated cash management services for businesses. Those customers who want to use checks should be encouraged to deliver them in person whenever possible, deposit mail containing checks close to collection times or inside post offices, use pens with permanent ink, and monitor and balance checking accounts regularly to quickly spot anomalies.

Overcoming the surge in check fraud requires a proactive, multifaced, and collective effort from across the industry. CFIs, their employees, and their customers need to remain informed and vigilant and have the necessary systems and resources in place to respond to and reduce these risks as early and as quickly as possible.

**IMPROVED EFFICIENCY WITH CHECK IMAGING FOR CANADIAN CASH LETTERS**  
PCBB’s enhanced [check imaging service for Canadian checks](#) can help your institution minimize credit exposure, increase operational efficiency, and deliver faster fraud notifications.

ECONOMY & RATES

Rates As Of: 02/26/2024 10:12AM (GMT-0800)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.46	0.04	0.06
6M	5.32	0.14	0.06
1Y	5.02	0.31	0.25
2Y	4.72	0.51	0.47
5Y	4.34	0.50	0.49
10Y	4.31	0.39	0.43
30Y	4.42	0.25	0.39
FF Market	FF Disc	IORR	
5.33	5.50	5.40	

SOFR	Prime	OBFR
5.31	8.50	5.31

*Copyright 2024 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.*