

by Elise Hacking Carr

# Know Your Enemy

## *The fight against check fraud*



**C**ELEBRITY BLUNDERS AND political scandals arguably are comedy gold. But the climbing rate of check fraud is one hot topic that's no joke. The 2011 AFP (Association for Finance Professionals) Payments Fraud and Control Survey showed 71 percent of the participating organizations experienced attempted or actual payments fraud in 2010. Checks by far were the primary payment form targeted by criminals. According to the survey, an astounding 93 percent of affected organizations reported their checks had been targeted. To provide some perspective, the percentages of organizations affected by alternate methods of payment fraud were:

- ACH debit (25 percent)
- Consumer credit/debit cards (23 percent)
- Corporate/commercial cards (15 percent)
- ACH credits (4 percent)
- Wire transfers (4 percent)

Incidences of check fraud show no signs of slowing down, particularly in the business-to-business marketplace. J.J. Sorrenti, president of Dallas based Safeguard Business Systems, Inc., believes the troubled economy will continue to influence the increasing number of fraud cases.

“Crime, in general, tends to run counter to the economy, so a weak economy contributes to an increase in theft—and checks are a common target,” he said. “Safeguard is seeing more customer interest in protection and prevention, and has taken steps over the years to incorporate added layers of security in the paper, inks, packaging, ordering and shipping processes. Currently, we are adding new services to assist with monitoring and recovery, including business identity restoration, to help customers recover in the event of fraud.”

Sorrenti went on to say that Safeguard offers up to 22 standard security features on its checks. Customers can stick with basic features such as chemical-sensitive paper, warning borders and security backers to thermochromic ink, true watermarks and toner adhesion. They also can take the more advanced route with foil holograms that have embedded features, including nano-text and lightrefracting alternating images.



“We are seeing that void-pantograph technology is increasingly becoming ineffective with newer scanners and copiers, and that it sometimes interferes with digital conversion of checks in the banking system (per Check 21),” Sorrenti observed. “However, features like thermochromic ink and authentic holograms are proving even more effective than hidden ‘void’ backgrounds because they are much more difficult to replicate, even with the many advances in scanner/copier technology.”

Greg Litster, president of Canoga Park, California based SAFEChecks believes the company's beginnings have given it a huge advantage when detecting check fraud.

In 1993, the company was merely a division of a southern California business bank battling an epidemic of check fraud. In the early '90s, check fraud attempts at the bank had skyrocketed from \$90,000 to \$3 million in just two years.

Litster was then a senior vice president of the bank and was responsible for solving this crisis. Upon Litster's recommendation, the bank hired Frank Abagnale, the former elusive con man and check forger who inspired the 2002 film *Catch Me If You Can*, as a consultant.

Abagnale's suggestion? Use high security checks. Abagnale later helped the bank design a line of high security checks, called SafeChecks, for customers to use.

Litster was in charge of the Financial Services Division of the bank, which included Cash Management. He organized the SAFEChecks operation as part of Cash Management, and required all the bank's customers to use the SafeCheck or its equivalent. As a result, the bank cut its check fraud attempts from \$3.2 million to \$120,000 in just three years.

Litster eventually acquired the SAFEChecks operation from the bank in 1997, and SAFEChecks, as a privately owned company, remains strong.

One way SAFEChecks protects against fraud is through its ordering procedures. Litster explained SAFEChecks always verifies the name, account number and shipping address on every new order. For every re-order with a change of address, the change is re-verified with the bank. Not even orders from the company's authorized distributors are exempt from this policy.

"Because of this type of effort we are willing to exert, our checks have never been used in a check fraud scam in over 15 years," Litster boasted.

Similarly, Safeguard Business Systems utilizes proprietary order-screening software that looks for known fraud indicators such as names, addresses, phone numbers (caller ID) and account numbers.

In addition, Safeguard consultants are local with tenured experience. "This provides them with a valuable layer of familiarity and awareness that comes into play when they speak with or visit customers before accepting orders," Sorrenti said.

He continued, "We offer order confirmation and shipping notification via e-mail to ensure customer awareness of check orders placed on their account. We can even accommodate the requirement of a password so that only authorized persons can place a check order."

Check security doesn't come without its challenges. Sorrenti stressed exacting quality control is critical with checks.

"Banks expect incredibly high levels of compliance without rejection, and they will burden the customer if their supplier's quality leads to rejections or misreads," he remarked. "To prevent this, our manufacturing testing and quality control has been elevated to six sigma proficiency, and we continue to improve our processes even further each quarter."

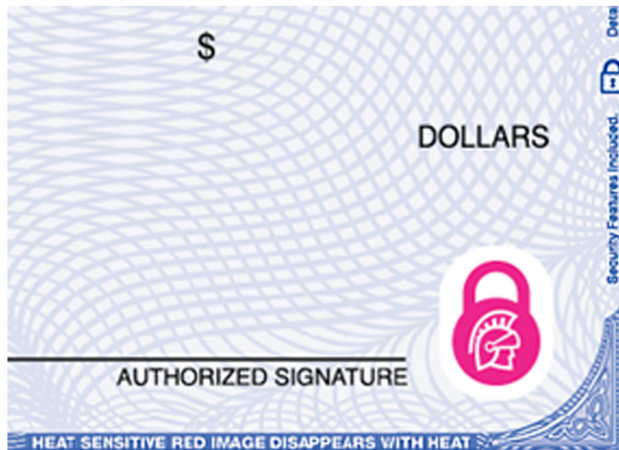


Misguided customers also can prove difficult. Litster mentioned some manufacturers think they can simply add a feature without any consideration. If certain features are not constructed or added correctly, they will offer little (if any) protection, he emphasized.

“Some of our clients or authorized distributors don’t understand why they can’t just send a PDF or fax of their check to producing a new order. Faxes and scans distort the size and proportions of the check, the MICR line placement, etc. So, for a new order we always request an actual check sample, or for a MICR line, a specification sheet from their bank,” Litster stated. “This is very annoying to some people, who are used to doing everything online, and it is sometimes difficult to explain that producing a check, which is a negotiable instrument, is not the same as producing a flyer, a business form or a magazine.”

Some of the current trends in the check sector can introduce a new set of problems. For example, Litster noted that the conversion of paper checks into electronic debits (ACH) or digital images is hot right now. This includes depositing checks remotely using a scanner supplied by the bank (remote deposit capture), or a .jpg picture taken with a cell phone (mobile banking), he said. However, while check conversion makes banking easier for customers, it makes check fraud a “lucrative venture” because the physical evidence is gone.

“Because most checks are converted into digital images and processed by automation, it is very difficult for a bank to authenticate a check. Tellers and cashiers are trained to look for check security features in checks, but have no way to authenticate if the check being presented is a legitimate check,” Litster explained.



Sorrenti added, “No security feature is of any value if the bank or person accepting the check doesn’t know it’s there. That’s why all Safeguard checks include specific wording in the border on the face of the check that describes exactly what to look for. We even include the industry standard padlock icon to refer acceptors to the back of the check for even more detail about the included features and how to verify them.”

## Money Talks

With many companies operating on tight budgets, it is important to make every penny count. Are high security checks with high security features really worth the investment? It may sound expensive, but think of the money you save in attorneys' fees.

"The actual cost of the check itself is only a tiny portion of the overall costs of the entire check disbursement process. The overall disbursement costs are somewhere between \$1.00 and \$1.50 per check. Costs include the labor costs to prepare the check for printing, the cost to reconcile the bank account, the cost of the envelope and USPS postage, the cost the bank charges on account analysis to pay the check (usually 0.12 per check, which is more than the price of the actual check)," Litster asserted. "The difference in price per check between a 'vanilla' check and a high security check is, quite literally, pennies. The question becomes, 'Do I want to spend \$1.50 and use a vanilla check, or spend \$1.54 and use the SuperBusinessCheck?' Those additional pennies help protect a check worth hundreds or thousands of dollars.

Looking ahead, more companies will likely report incidents of check fraud. The final decision is quite simple. "There are three reasons to use high security checks: discourage the attempt; thwart the attempt; protect yourself legally," Litster concluded.