



Stay ahead of check fraud with payee positive pay

If your company did not experience some form of check fraud last year, consider yourself fortunate. According to the Association for Financial Professional's 2010 *Payments Fraud and Control Survey*, nearly three out of four organizations were victims of fraud attempts or losses last year, and 90% of the affected companies experienced paper check fraud.

Fraudulent check writing reached \$50 billion in 2009, up from \$20 billion in 2001, according to consulting firm Treasury Strategies. It is still the primary method of payment fraud, ahead of both credit card fraud and ACH fraud, despite growth in electronic banking, the AFP survey reports.

Part of the rise is attributable to a slight increase in business check writing in 2009 due to the increased reliance on check float in a tight economy when cash reserves are low. With the proposed elimination of Saturday delivery by the U.S. Postal Service, these trends may continue.

Contrary to common perception, larger organizations are more vulnerable to check fraud than are smaller organizations. According to the report, 80% of companies with annual revenue over \$1 billion were affected last year, as opposed to 63% of companies with revenues under that figure.

Fighting savvy criminals

Fighting financial fraud has long been a game of cat and mouse, with criminals growing increasingly more sophisticated in order to penetrate ever-more complex layers of security. Long gone are the days when the perpetrators simply added a "0" to a check amount. They are well aware that almost all financial institutions have adopted positive pay services, where commercial customers supply a list of all outgoing checks and their dollar amounts. The list is matched against the actual checks as they are presented at the bank, and any discrepancies are sent back to the customer for review.

Instead of tampering with figures, criminals changed the payee name in 58% of check fraud incidents last year, either by altering the check itself or by producing a counterfeit version. In response, financial institutions have implemented payee positive pay programs, which match payee names against client-furnished outgoing checklists.

Effective safeguards

Payee positive pay not only validates the dollar amount and the payee name, but also the issue date and serial number of the account from which the funds will be drawn. Combined with positive pay and account reconciliation, it provides the most effective defense against check fraud available today.

“Having payee positive pay is like having an insurance policy,” says James Clark, Union Bank’s Senior Vice President and Unit Manager for Comprehensive Solutions. “In this environment, any company that writes checks should be on payee positive pay—it’s as simple as that.

“Recently a check for several hundred thousand dollars was presented for payment; it looked authentic in every way, including the correct check stock and client signature for this particular business. The only way to detect that the check was fraudulent was that the payee didn’t match up with the client’s issue file. Without payee positive pay, there would have been a major financial loss.”

With payee positive pay, customers have secure access through their bank’s online business portal to submit check issue information and later view all exceptions to the list. All exceptions are sent to the customer the next morning for payment decisioning. This protection is often fully integrated into transactions conducted at bank branches, where tellers receive automatic validation on all checks presented against customer-supplied check issue information.

“We continue to look into the future,” Clark says. “We study the trends to proactively develop products to meet our clients’ needs, and are committed to developing innovative fraud prevention solutions. Upcoming plans include providing access to payee positive pay through mobile banking.”

Steps to mitigate the risk of check fraud

- Review internal controls frequently
- Monitor all accounts daily on Information Reporting
- Secure access to critical financial information, systems and supplies
- Segregate payment-related accounts and duties
- Keep current on check stock security features
- Maintain posting restrictions on accounts that do not issue checks

To see how payee positive pay can help protect your business against fraud, contact your bank or **Tracy Kelley**, Vice President, Union Bank, at 866-799-5135.