

BUILT FOR BETTER BUSINESS

Keeping your information safe



CHECK FRAUD AND SMALL BUSINESS

You are an expert at your business, and you likely have several tasks to manage and master each day. But how much can small businesses know about fraud prevention? Each year, fraud takes a toll on companies large and small, but in recent years, criminals are increasingly targeting local small businesses. The key trends and some common sense action steps we can each take are identified below, some of which you may be acting on presently. No matter how prevalent you think fraud is among small businesses, this information presents a chance to see if there are one or two small steps you can take to safeguard you and your customers.

Fraud Trends

The 2018 Association for Financial Professional's Payments Fraud Survey found that payments fraud reached a new high in 2017 after a decline earlier in the decade. A record 78% of all organizations were hit by payments fraud last year, according to the survey of nearly 700 treasury and finance professionals. Checks continue to be the subject of more deception than any other payment method, with 74% of respondents reporting this form of attack. Wire fraud followed at 48%, while corporate card fraud ranked third at 30%. In the check fraud category, the most frequent types of deceit include altered check amounts, duplicate check numbers, altered payees or account numbers, stale dated checks and voided items.

Key Takeaways from the Payments Fraud and Control Survey

#1 Payments Fraud reached a record high

Though finance professionals are actively implementing controls to prevent payments fraud, 78% of organizations were still impacted in 2017.



#2 Checks remain the primary target for fraudsters

Checks were subject to more payments fraud than any other payment method, a staggering 75% of finance professionals report that their organizations' check payments were exposed to fraud.

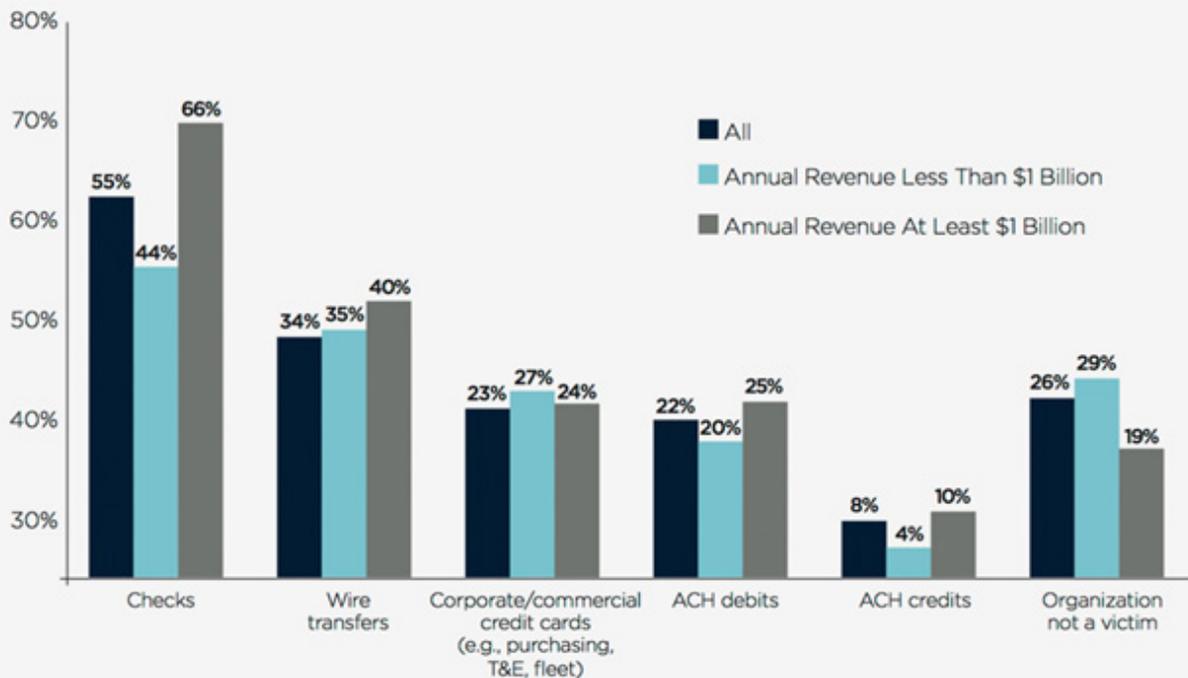
#3 Business Email Compromise (BEC) continues to be popular among fraudsters

77% of organizations experienced fraud via Business Email Compromise in 2017. From CEOs to treasury analysts, anyone and everyone is a likely target.



Source: <https://www.paymentscardsandmobile.com/afp-survey-payments-fraud-hits-record-high-of-78/>

Payment Methods that Were Targets of Attempted and/or Actual Payments Fraud in 2016* (Percent of Organizations)



*This chart also includes data for organizations that had not experienced attempted/actual fraud

Source: <https://www.afponline.org>

Check Fraud in Context (Association for Financial Professionals)

According to the survey, attempted fraud against bank deposit accounts reached \$19.1 billion in 2016, up from \$12.9 billion in 2014. Despite that 48% increase over the two-year period, industry fraud losses only rose 16% to \$2.2 billion. Other highlights of the 2018 AFP Payments Fraud and Control Survey include:



Source: 2018 AFP Payments Fraud and Control Survey

Meanwhile, the Association of Certified Fraud Examiners, or AFCE, has found that small businesses with fewer than 100 employees exhibit the greatest victimization rates of all companies. As a result, small companies need to be aware of the types of fraud and given its prevalence, focusing on check fraud is a natural place to turn additional attention. Meanwhile, the Association for Financial Professionals research highlights that that check payments increased by 1 percentage point for business-to-business (B2B) transactions after years of decline. This was an important trend reversal. “While 1 percentage point might not sound like a lot, you have to understand that we’ve observed check use to be declining since 2004, back when it was at 81 percent,” noted Magnus Carlsson, AFP’s manager of treasury and payments.

AFP President and CEO Jim Kaitz noted, “It is alarming that the rate of payments fraud has reached a record high despite repeated warnings. In addition to being extremely vigilant, treasury and finance professionals will need to anticipate scams and be prepared to deter these attacks.” The AFP study adds, “...fraudsters are familiar with checks and so are able to commit check fraud (e.g, counterfeits, altered, forged maker, forged endorsement, duplicates, etc.) with relative ease with the help of sophisticated equipment.” These unique issues require smart, strategic steps by business owners to help thwart check fraud occurrences.

Action Items for Small Businesses

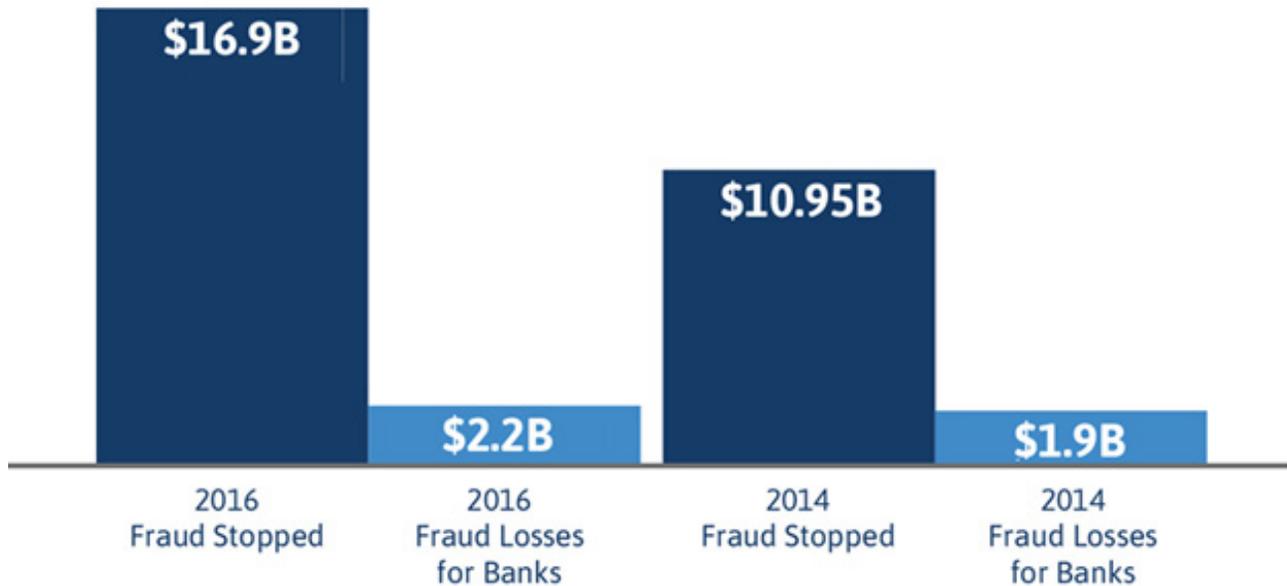
Several methods can be implemented to make it more difficult for criminals to commit check and other payment fraud. Small businesses may consider the following:

- Use more secure ACH, wire, and card payment methods to replace check payments.
- Implement positive pay service on all accounts. This will allow you to verify, approve and pay/return all presented checks manually.
- Make fuller use of your online banking platforms, giving you easy access to items such as balance reporting, transaction history, check images, copies of statements.
- Set up debit filter or debit block to protect accounts from fraudulent electronic debits.
- Implement dual control with check issuance. Have one employee create checks and another employee reconcile the checks.
- Secure check stock, blank checks and facsimile signatures, and require dual control when accessing these items.
- Keep check issue files and online check registers up-to-date to ensure accuracy.
- Shred unused or out-of-date check stock, blank checks and facsimile signatures prior to disposing these items.
- Track and investigate claims in which a customer, vendor, or client claims to have paid a bill, but your records do not indicate payment was made.
- Run background checks and credit checks on all new employees who have access to your finances.
- Get all changes to vendor payment account numbers in writing, and verify with a phone call the number you have on file is correct.
- Keep account authorizations up to date and notify the bank when an authorized signer or online banking user leaves.
- Security Features Most Effective in Preventing Check Fraud

Security Features Most Effective in Preventing Check Fraud (Percentage Distribution of Organizations that Experienced Payments Fraud via Checks)					
	All	Annual Revenue Less Than \$1 Billion	Annual Revenue At Least \$1 Billion	Annual Revenue At Least \$1 Billion and Fewer Than 26 Payment Accounts	Annual Revenue At Least \$1 Billion and More Than 100 Payment Accounts
VOID Feature (The word "VOID" appears if check is scanned or copied)	59%	62%	59%	65%	37%
Dual-tone true watermark	36	43	31	31	37
Micro print (a fine line of print can be read when magnified—difficult to photocopy)	35	43	31	29	33
Customized controlled paper stock (not available in the marketplace)	26	25	27	30	7
Chemical wash detection box (deters check washing by warning forgers that fraud will be evident)	22	23	23	19	23
Chemical reactive paper (causes the check to stain from ink eradicator chemicals)	22	21	23	28	10
Thermochromatic ink (reacts to changes in temperature)	21	21	19	19	13
Warning banners (calls attention to the safety features in the check)	19	23	16	19	10
High resolution border with chemically reactive ink that dissolves in acetone	15	16	16	18	7
Fluorescent fibers	8	6	10	10	13
Fluorescent ink	7	5	8	9	10

The good news is that the banking industry has been proactive in helping small businesses, working to prevent \$9 out of every \$10 of attempted deposit account fraud according to the 2017 American Bankers Association Deposit Account Fraud Survey Report. “Fraud prevention never stops,” said James Chessen, executive vice president of ABA’s Center for Payments and Cybersecurity. “Banks are constantly monitoring for patterns and trends and quickly evolving their techniques to stay a step ahead of fraudsters.” Combined with bank diligence, small businesses can take small steps to reduce payments fraud over time.

BANK DEPOSIT ACCOUNT FRAUD



Source: American Bankers Association Deposit Account Fraud Survey Report

Top Resources

Use the following resources to learn more about payments fraud and its impact on small businesses.

[2017 ABA Deposit Account Fraud Survey*](#)

[AFP Survey: Payments Fraud Hits Record High*](#)

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