

Preventing Cheque Fraud

You Are At Risk

By Les C. Cseh

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We have all seen how good color scanners, printers and copiers have become. So good that unless you take adequate precautions, you are at risk from cheque fraud like never before.

.. And You Could Be On the Hook!

To make matters worse, responsibility for fraud losses are increasingly shifting from the banks to the victims of fraud. This on top of what can be significant expenses and lost time investigating the crime, not to mention damage to your credibility and reputation.

How Bad Is the Problem?

There are few statistics available in Canada, but according to KPMG's 1999 Fraud Survey Report, the average amount lost through fraud from Canada's largest companies was just under \$1 million, with one firm reporting a loss of \$25-million! Particularly frightening is that 75% of the companies reported fraud through employees, and customers were also reported by a significant number of companies! In the U.S., cheque fraud loss estimates range up to *10 billion dollars annually*.

What Do Criminals Look For?

It is an endless list, but here are some of the types of things that someone looking to counterfeit or tamper might look for:

- Easy access to chequebook or cheque stock.
- Cheques that are easy to tamper with (eg. Changing the payee or amount).
- Cheques that are easy to reproduce using a scanner and color printer, or with a color copier.
- High volume bank accounts where a fraudulent cheque can easily slip through.

What Can I Do?

It is impossible to completely protect yourself. However, you can significantly minimize the risk and your liability by using a two-prong approach. It is critical that good procedures related to your cheque processing are put in place, and that you use a cheque that is difficult to counterfeit or alter (see sidebar). Here are a few ideas to get you started:

- Restrict access to your cheques! Keep them locked up and ensure that only trusted staff that need access have it.
- Reconcile your bank statement promptly. Now that bank statements are available online, you can do this as frequently as you feel is necessary for your situation.
- Audit your cheques. However, this can be difficult because often cheques are removed from the bottom or middle of the book or stack.
- Purchase cheques that have comprehensive security features. At a minimum, the cheque should contain what are now considered basic features (eg. micro-printing, inks that stain or reveal messages if tampered with). If you can afford it, holograms are great; if you cannot, the next best thing is color-change ink that lets anyone verify that the cheque is an original by simply rubbing it. If you print your cheques on a laser printer, ensure that the paper is treated with “toner grip” or else the toner can be readily removed.
- Ensure that your vendor exercises extreme caution with your sensitive information (eg. verifies your identity and authority to order with your bank; only ships to the address that the bank has on file; etc.)
- Advise your bank manager of the security features in your cheques .. in person *and* in writing (and keep a copy of the letter on file!).
- If you issue a large number of cheques, particularly with a low amount (eg. rebate cheques), open a separate account and alert the bank staff of an upper limit for that account.

The Bottom Line

Don't take unnecessary chances. The more security you have through procedures and choice of cheque form, the less likely that someone will tamper with your cheques.

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Cheque Security Features – A Primer (sidebar)

There are numerous security features available today, with new ones being introduced all the time. While it would not be practical to include all the features on a single cheque form, the more security features your cheque has, the better you are protected against fraud and liability.

Don't forget that no matter how good your cheque form is, it won't do you much good if anyone can get at your cheques. A secure cheque form must be used together with best practices.

The best approach is to combine "overt" and "covert" security features. The overt approach makes it clear to anyone looking at the cheque what features you have implemented in order to discourage criminals, and to provide bank staff and your staff with an easy method of identifying tampering. Covert features are deliberately hidden to surprise and fool most criminals.

Tamper Detection and Prevention

A common approach to fraud is to alter the amount or other information on the cheque by erasing or using various chemicals. Some inks used on backgrounds and some papers react to these chemicals by disappearing, fading or staining in a very obvious way.

Laser printer toner is notoriously easy to remove. Some cheque papers are treated so that toner fuses much better to the paper. This goes by names such as "toner grip" or "toner fuse".

Beating The Color Scanner & Printer

The most recent wave of fraud was brought on by the color scanner, printer and copier. They can do such a good job, that security features beyond their abilities have been developed. These include:

- Holograms attached to cheques are very effective. However, they are still very expensive.
- One of the most recent and exciting features is the use of thermochromic ink, such as TouchGuard™ used by ASAP. A special "verification" area of the cheque is printed using this ink which changes color or disappears when rubbed or breathed on, and reappears when you stop. Unlike fluorescent ink, this requires no special equipment to check, and the color change characteristic cannot be reproduced.
- Fluorescence is another feature that cannot be readily reproduced. Some cheques may include some printing using fluorescent ink, and/or have fluorescent fibers woven into the paper. While some banks have UV lights which can be used to

detect that the cheque does not glow, many banks do not, nor do tellers typically check for this.

- Visible fibers are also used for the same purpose. A close examination of a copied cheque will reveal that the fibers are only copies.
- Depending on the type, watermarks can be viewed from one or both sides of the form when held up to light at a 45 degree angle, something that cannot be photocopied or scanned and is very difficult to duplicate.
- A void pantograph is a special way of printing a message in the background that is not obvious to the naked eye. Because of the resolution used on many copiers and scanners, this printed message becomes very obvious when copied. However as resolution on these devices has increased, the pantograph is losing effectiveness.
- Microprinting is a technique where signature lines or borders are printed using such tiny text that it looks like a line, but magnified you can see the text. The text is so small, however, that current copiers cannot reproduce the text.

Warnings

Several types of warnings can be used to discourage criminals and to raise alarms that something is wrong.

- A message such as "The face of this cheque is blue and contains the security features listed on the back" may encourage a criminal to find an easier target.
- A padlock symbol indicates that your cheque contains the minimum set of security features standardized by the Financial Stationers Association.
- The "MP" symbol is used to indicate that elements of the cheque have been micro-printed.