

# Shielding Your Business

— *Positive Pay Shields Business Checks From Check Fraud* —



## Foreward

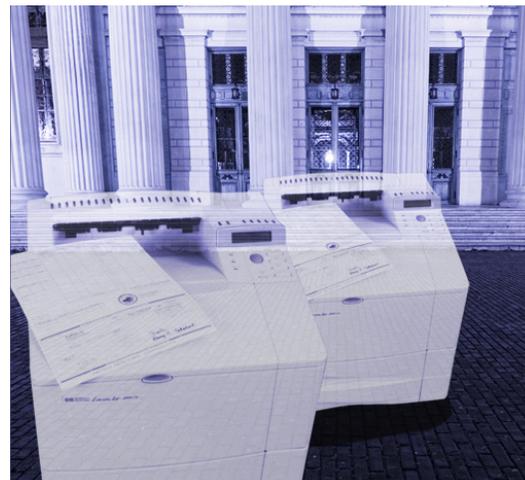
The necessity of bank positive pay services becomes apparent when your organization considers the following:

- Check fraud is an enormous problem and, without positive pay, your company is highly vulnerable.
- Your company may be held liable for check fraud, if you do not use your bank's positive pay services.
- There is a cost-effective way to implement positive pay.

## Check Fraud Continues to Grow While Businesses Pay the Price

Access to low-cost and sophisticated graphics software and printers, has made it quite easy for criminals to create realistic counterfeit and fictitious checks, along with false identification, to defraud businesses and financial institutions. Industry experts agree that check fraud is a growing problem and is projected to continue burgeoning for many years to come.

According to the 2013 AFP Payments Fraud and Control Survey, check fraud in 2012 was very widespread. 87% of organizations affected by payments fraud reported that checks were targeted. Checks continue to be the #1 payment target of criminals, as nearly all organizations that experienced payments fraud were victims of attempted check fraud. With such a large portion of surveyed businesses experiencing check fraud, the importance of check fraud prevention becomes obvious.



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## Why the Rise in Check Fraud Each Year?

The continued popularity of paper checks is one reason check fraud is booming. The 2013 AFP Electronic Payments Survey reports that 92% of organizations use checks when paying at least some of their major vendors/suppliers, and the average company still makes 43% of its payments to major suppliers by check - making checks the #1 vehicle for B2B transactions, according to this report. We will have billions of checks for written for years to come. The banking industry knows that checks and check fraud activity will be with us for a long time. With such a large volume of checks being processed, and at speeds of 2,500 items per minute, banks will not be identifying most fraudulent check through visual audits.

In addition, regulations and competitive pressures to accelerate availability encourage banks to make funds available for checks before those checks have actually cleared, and this makes it easier for criminals to successfully manipulate fraudulent bank transactions.

Although the number of electronic payments made by business are growing each year, paper checks are still a dominate payment method in the B2B payments space. Checks issued by business also tend to be of higher dollar value than other forms of payment and this is reflected in the fact that the fraud committed on these items is also of significantly higher average value, making them an even more enticing target for criminals. According

to the 2013 Federal Reserve Payments Study, checks (including both consumer and business) were the payment instrument with the highest average value of unauthorized transactions in 2012. The average unauthorized check transaction was valued at \$1221.

Since the advent of Check 21, check conversion has allowed banks to use check images in lieu of an actual check for check processing. Check truncation increases the likelihood of check fraud by removing the security information that exists on a real check at the point where the check is scanned in the clearing process.

Another reason for rising check fraud is simply the availability of low-cost, professional desktop publishing and copying technology. Using color copiers, laser printers, scanners and publishing software, counterfeiters can easily create excellent-quality duplicate, forged, or amount-altered checks. Criminals no longer need high-cost equipment or large resources to reproduce or alter checks.

Simply put, committing check fraud is easy if positive pay is not safeguarding your bottomline by identifying fraudulent checks at the point of presentment. Your company will be a target, if you do not do something to prevent it.



## Types of Check Fraud

### Forgery

Internal forgery occurs when an employee falsifies an authorized signature on bogus payroll checks or checks from other company accounts. According to FBI statistics, most check fraud occurs externally when criminals steal, endorse, and present a check for payment at a retail location or at the bank teller window, using falsified personal identification.

### Paperhanging

Paperhanging involves the deliberate use of a closed checking account to write fraudulent checks. Criminals who commit paperhanging check fraud are usually hindered by a fixed number of checks. This being the case, these criminals often buy large ticket items and leave the area before discovery.

### Check Kiting

Check kiting occurs when numerous accounts are opened at two or more institutions and utilize "the float" or "processing time" to artificially inflate funds,

or overdraw the account. The check kiter takes advantage of the time required by a bank to clear a check and walks away with fraudulently-obtained funds.

### Counterfeiting and Alteration

- Counterfeiting can either mean fabricating a check in its entirety or manipulating an existing check using readily available desktop publishing equipment.
- Alteration most often refers to using chemicals and solvents such as brake fluid, acetone, alcohols, carbon tetrachloride, and bleach to remove or modify handwriting and other pertinent information on a check. An attempt to erase all information from a check is often referred to as "check washing." When performed on specific security marks on the check, such as the payee's name or amount, it is called "spot alteration."



## Who is Liable for Check Fraud?

It is important for companies to know that check fraud is not the exclusive responsibility of financial institutions. In 1990, revisions to the Uniform Commercial Code (UCC) introduced the concepts of comparative negligence and relative “standards of care” related to whether a bank or its customer would be liable for check fraud losses. All but two states ratified the revisions by 1993 — the goal of which was to make banks and disbursing corporations allies in the war against check fraud. In fact, the 1990 changes have actually made corporate treasurers adversaries in finger-pointing battles (and sometimes court cases) over who is responsible when check fraud occurs.

### ***UCC Regulations Define the Rules***

To encourage business customers to utilize special check security measures such as positive pay, banks often insert statements into deposit agreements that absolve the bank from liability when defensive measures are offered to a customer, but not utilized. Under such an agreement, a bank would be protected in paying a check that has been verified using positive pay and would be justified in refusing to pay checks that do not pass security screens. The UCC, however, prohibits a bank from disclaiming its responsibility (or limiting its damages) for lack of good faith or for failing to exercise ordinary care.

## Criminals say “Check Fraud Pays”

Unfortunately, check fraud goes unreported or unprosecuted much of the time. In the AFP’s July 2011 issue of Risk, corporate treasury and finance professionals described their common experience with attempting to take legal action when check and payments fraud occurs. The common ground was that it is very challenging to get the attention of law enforcement in regards to check fraud. The case seems to require high dollar losses, involvement of company insiders, or losses suffered by a family member to gain any sort of attention. The typical recourse is to have the bank file an SAR with the FDIC.

**Positive pay allows your company to avoid check fraud losses.**



**Businesses are protecting themselves and promoting a technique called positive pay because it is the best method of fighting check fraud.**

## Positive Pay

“Positive Pay is the best product in 25 years to deal with the problem of forged, altered and counterfeit checks.”

— FRANK W. ABAGNALE

*(Mr. Abganale’s legendary life story is told in the hit movie “Catch Me if You Can”)*

### How Does Positive Pay Work?

With positive pay, the paying bank compares checks submitted for payment to an electronic file sent by the issuing company. If there is a discrepancy, the company is contacted for a decision on payment. By adopting a positive pay defense, businesses can substantially limit exposure and potential liability for fraudulent checks.

### Is Positive Pay an Affordable Solution for Every Size Business?

Yes! AP Technology’s SecurePay positive pay software provides an easy and affordable way for any size business to implement positive pay.

In the past, a company would have spent considerable amounts of time and money to integrate its accounting systems with its bank’s individual positive pay applications. Due to the high implementation costs, many small and mid-size companies have not adopted positive pay, despite aggressive efforts by many banks to enroll all corporate accounts into positive pay services.

SecurePay software is designed to provide an easy way to convert check issue files from any accounting application into a bank’s positive pay format. The solution works with any bank and is used by thousands of companies across the U.S. And, SecurePay is recommended by almost every major bank as a check fraud prevention method.

With SecurePay, positive pay protection is processed in two easy steps:

- 1. Conversion:** SecurePay imports check data from any accounting package and converts it into a positive pay file that matches the bank’s required specifications.
- 2. Transmission:** SecurePay can automatically transmit check issue files to the bank and notify the client upon receipt.

## Summary

Despite a changing payments landscape, check fraud remains a staggering problem and looks like it will be with us for years to come.

There is good news, however. Check fraud does not have to affect your business. Positive pay prevents check fraud, helps attenuate your liabilities, and assists in maintaining your valuable reputation. Positive pay is an essential best-practice for every business, and SecurePay software from AP Technology makes implementing positive pay both easy and economical.

## References

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- “Peer to Peer: Prosecuting Check Fraud.” *AFP Risk* (July 2011): 5.



## Contact

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