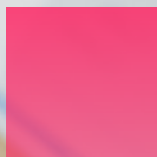




Insights Article

Check Fraud is Running Rampant



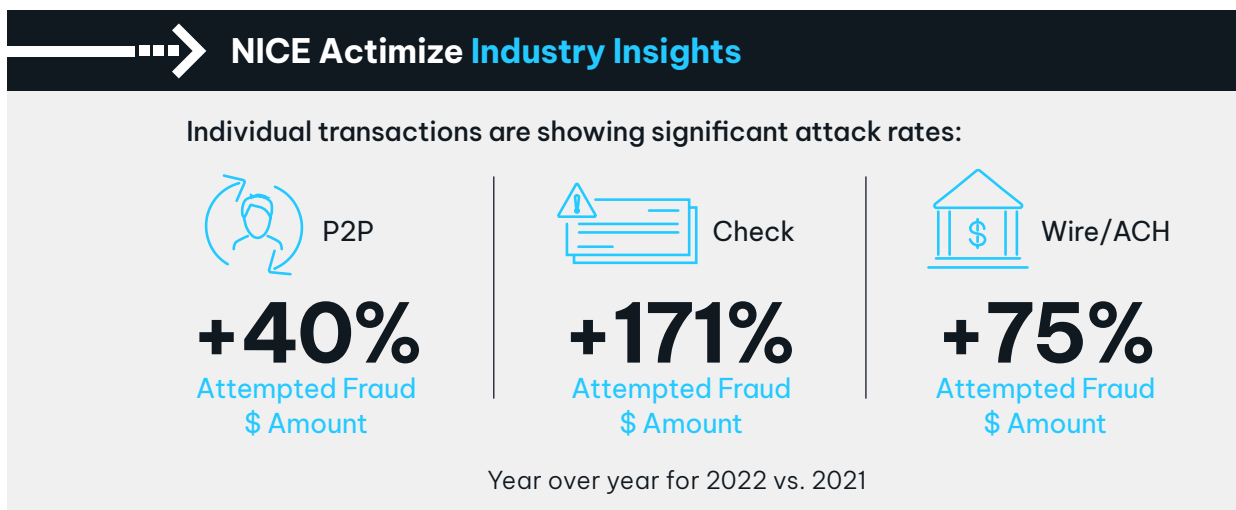
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Check Fraud: What is the Issue?

The [2023 NICE Actimize Fraud Insights Report](#) shows a significant spike in check fraud that correlates to first-party deposit fraud. In this scenario, bad actors are opening bogus bank accounts for the sole purpose to defraud the bank. This is done by depositing forged or counterfeit check items into accounts, then depleting the accounts before the funds are reversed.

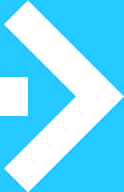
An even more alarming scenario is consumers falling victim to scams: They receive fraudulent checks from fraudsters, deposit the items into their accounts and are told to keep some, but send a majority to the fraudster. The fraudulent funds are later returned, leaving accounts in overdraft. Typically, these funds are charged off by financial institutions.



Why checks and why all the losses?

Checks really haven't evolved much. Controls like watermarks and faster processing have helped cut down some of the risks but fraud is still prevalent.

Doctoring a check today is easy with the use of computer tools. Obtaining images or actual checks is relatively simple. A simple Google search yields compromised accounts like the one below, and accounts are actively sold in the dark web. Additionally, fraudsters are becoming increasingly brazen about stealing mail. News outlets share [stories](#) on a weekly basis depicting recurring issues related to [check fraud](#).



NICE Actimize research shows that in 2022 there was a considerable increase in deposits, both from a units and dollars perspective.

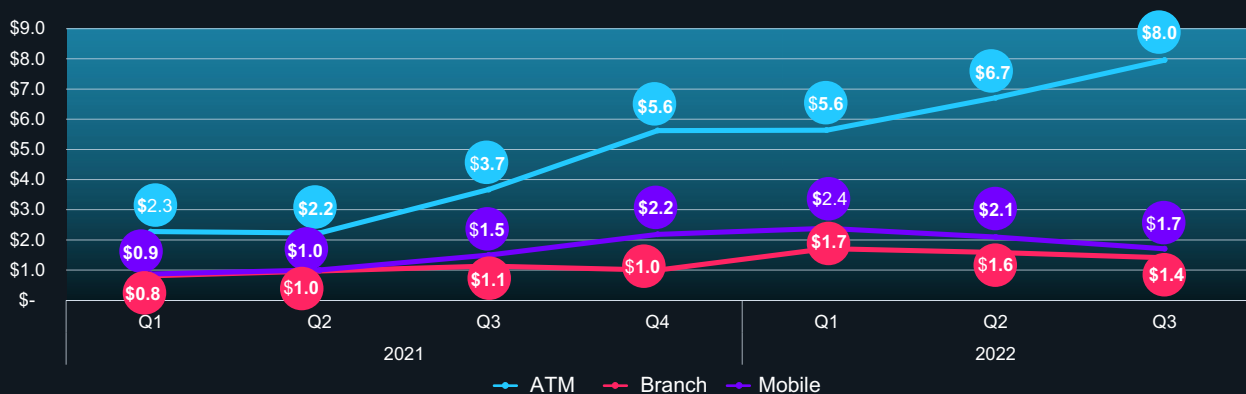
Deposit volume has increased by 2.6% YoY, while at the same time fraud volume has increased by 62%, meaning from a fraud rate of 2.09 BPS in 2021 to 3.31 BPS in 2022, that's 58% increase YoY.

Data also showed that fraudsters are exploiting ATMs to carry out their plays. The average loss per check made at an ATM increased from \$2.30 in 2021 to \$8.00 in 2022. This amount of \$8.00 is also the highest compared to other channels that average less than \$2.00 per check.

Average Loss per Check Over Time



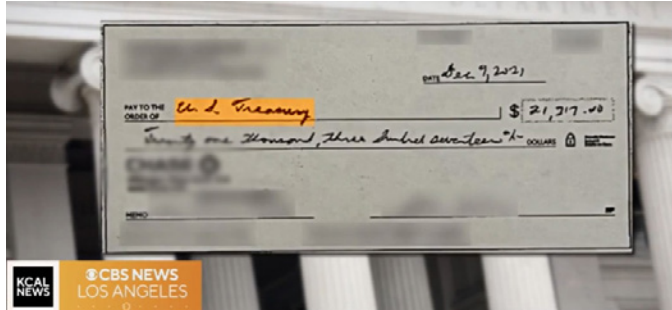
Average Loss per Check Deposit



Fraudsters are taking advantage of the relaxed controls surrounding ATM deposits. They are capitalizing on factors such as cut off times, the ability to make deposits anytime, operational working hour gaps, and the availability of funds. As a result of these activities, the average losses incurred from ATM deposits are 129% higher compared to other channels. This trend is a clear indication that there are significant gaps in organizations' control frameworks that need to be addressed to mitigate the risks posed by fraudsters. It's essential to implement stricter controls to prevent further losses and safeguard organizations and customers' interests.

Mitigating check fraud risk

Given the advancements to fraudulently manipulate checks, advanced technology must be leveraged to mitigate the associated risk. Monitoring with rules and models have to be applied for both the outbound (in-clearing item) and deposit side, ensuring detection on both the credit and debit parts of the transaction. The analysis has to be complete and comprehensive.



CBS News:
On Your Side: Check fraud is on the rise - here's how to protect your money

Fraud analytics teams need technology and tools to assess the risk with check items, such as:

- Image scoring: 100% of items need to be scored for check stock, payee, signature, payment amount, and range of item. Too often the full population of checks isn't scored, leaving gaps in detection capabilities.
- Account reference data: Customer tenure and other non-monetary data needs to be leveraged. Third-party enrichment data can be sourced to provide greater insights with payment history on the sending and receiving of accounts.
- Rules/models/AI/machine learning: A combination of tactics should be applied, and given continuous changes in trends, models need continuous learning with feedback loops.
- Negative lists: All practitioners should contribute to a shared negative intelligence list that is easy to update and maintain.

When it comes to operational execution, it's not just about having the right technology and tools, it's also about ensuring that teams can use them efficiently and effectively. This means enabling teams with interfaces that are user-friendly and intuitive, allowing for quick and streamlined check reviews.

One such interface could be an image comparison widget that visualizes suspect items alongside comparable legitimate items. This tool can help reviewers quickly identify any discrepancies or irregularities in the check, making it easier to detect potential fraud.

Furthermore, providing real-time access to relevant information, such as customer history and transaction data, can help streamline the review process and enable teams to make more informed decisions.

Overall, investing in the right technology and tools is crucial for mitigating the risk of check fraud. However, it's equally important to ensure that teams are equipped with user-friendly interfaces and have access to relevant information in real time. This approach can help ensure efficient and effective check reviews, reducing the risk of fraud and safeguarding the integrity of the banking system.

About NICE Actimize

NICE Actimize is the largest and broadest provider of financial crime, risk and compliance solutions for regional and global financial institutions, as well as government regulators. Consistently ranked as number one in the space, NICE Actimize experts apply innovative technology to protect institutions and safeguard consumers and investors assets by identifying financial crime, preventing fraud and providing regulatory compliance. The company provides real-time, cross-channel fraud prevention, anti-money laundering detection, and trading surveillance solutions that address such concerns as payment fraud, cybercrime, sanctions monitoring, market abuse, customer due diligence and insider trading.
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