
Counterfeit check schemes continue to tick up

You have probably seen the headlines in the media that check fraud is on the rise. In 2022, we too have been seeing an uptick in check schemes and fraud, with nearly half of the bond claims submitted in 2022 (so far) related to counterfeit checks claims.

In one example, a bank fell prey to a counterfeit check ring in which the perpetrators cashed almost 200 fraudulent checks at multiple branches. The checks appeared to be payroll checks from one of the bank's commercial customers. When the customer's employee came to the bank to handle payroll, the teller noted that the customer had already completed payroll early and issued checks. The employee advised the teller that was incorrect, and that no checks were issued. By the time the bank was able to notify all of its branches not to accept any more checks from the company, the fraudsters had already stolen \$150,000.

Though most check fraud schemes involve commercial account checks, personal checking accounts are also susceptible to being compromised. In 2022 YTD, the FTC ranks "Bank Fraud," which includes writing fraudulent checks against a consumer's bank account, as the #4 identity theft type, up from its #5 ranking in 2021.¹

In another claim example, over 30 counterfeit checks totaling upwards of \$70,000 cleared an elderly couple's personal checking account. The checks were written in various amounts and made payable to a number of different individuals. They were then deposited at 15 different financial institutions. One of those banks contacted our insured bank because a check that was presented for deposit looked suspicious. Our bank then contacted their customer, who confirmed that they did not issue the checks and that the checks were forged. The signatures on the forged checks did not resemble the signatures appearing on the customer's signature card; however, the forged checks were written in amounts under the bank's review guidelines and thus were not reviewed by the bank before they were paid.

At some level, signature verification is a good way to possibly circumvent loss since fraudsters do not necessarily know who the authorized signers are on an account or know what a legitimate signature looks like. In the claims that we are seeing, the banks have abandoned signature comparison on checks and instead are relying on software programs that look for various other parameters like checks out of sequence, duplicate check numbers or checks written in amounts that are out of line with what is typically seen on the account. These measures are not foolproof. ***All you need to create a counterfeit check is the routing number and account number for an account.***

For commercial accounts, positive pay is highly recommended—where the bank obtains a record from its customer by check number, amount and payee of legitimate checks that have been issued. The software allows a bank to pay only those specific checks that have been issued by its customer.

1. <https://public.tableau.com/app/profile/federal.trade.commission/viz/TheBigViewAllSentinelReports/TopReports>

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