



CHEQUE FRAUD REPORT



Protecting Your Business
from the Potential Risks of Cheque Fraud



BUSINESSES FIND VALUE IN CHEQUING BUT BEWARE THESE RISKS

Though it may seem counter-intuitive, cheques remain an important part of payment methods in Canada, making up a significant portion of payments made each year. Nearly 798 million cheques go through the Canadian banking system annually with an approximate value of \$4 trillion.¹

Though the use of EFT and online money transfer methods, overall cheque usage has decreased in recent years. However, cheques are still a popular payment method among commercial businesses. The total value of these cheques has been rising over the last few years. So even though there are few cheques being written, those that are written are for higher amounts. Payments Canada estimates that in 2017 over 550 million commercial cheques were written worth over \$3.8 trillion.¹

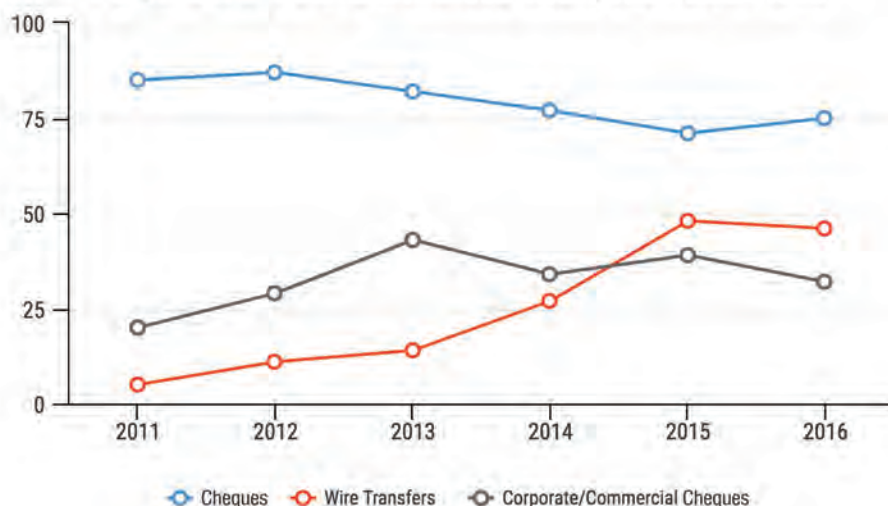
According to a 2018 survey by the Association for Financial Professionals, 78% of the membership's clients experienced payment fraud sometime in 2017. Cheques were among fraudster's favorite target, with 74% of finance professionals reporting that their organization's cheques were vulnerable to cheque fraud.²

The banking system in Canada has become increasingly efficient at processing cheques at ever fast turnaround times. It's gotten so fast that cheques are now processed electronically as soon as they enter the banking system. Businesses are taking advantage of apps for scanning cheques from a mobile device into a bank account. However, as new techniques develop to move money around at faster speeds, so have the methods of fraudsters evolved to take advantage of the faster turnaround times.



CHEQUES WERE AMONG FRAUDSTER'S FAVORITE TARGET, WITH 74% OF FINANCE PROFESSIONALS REPORTING THAT THEIR ORGANIZATION'S CHEQUES WERE VULNERABLE TO CHEQUE FRAUD.

% Organizations that Experienced Attempted/Actual Fraud⁹



IS CHEQUE FRAUD AN 'EASY TARGET' ?

Scam artists have been adroit at keeping ahead of the ever more stringent security measures both on physical cheques themselves and in the electronic banking system. Knowledge bases and full-service marketplaces exist on the dark web where novices can find the methods and equipment to forge cheques, access hacked personal data, buy stolen credit card information, stolen social security numbers, and find easy-to-use software tools to help gain access to financial institutions' networks.



With each watermark, hidden image, background design, and 3D hologram added to physical cheques someone somewhere reverse engineers the feature and puts the knowledge on special forums that fraudsters use on the anonymous dark web. Easy access to high-quality copying equipment like printers, scanners, and copiers has made it even easier for fraudsters to perpetrate these crimes.

Physical cheques need numerous features which are hard to copy. There are two hurdles to counterfeiting a

cheque. First is knowing how to reverse engineer the safety feature. But just because someone knows how a safety feature is created doesn't mean they can re-create it. Fraudsters also need the right equipment and knowledge. So it's important to choose safety features that require multiple pieces of hard-to-get equipment in order to accurately reproduce a cheque.

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	% Total	% Annual Revenue >\$1 Billion	Annual Revenue <\$1 Billion
Cheques	75	61	81
Wire Transfers	46	49	49
Corporate / Commercial Credit Cards	32	38	29

Payment methods on which Attempted and/or Actual Fraud Occured in 2016³

WHO IS RESPONSIBLE FOR CHEQUE FRAUD?



Recent legal developments such as the Teva Canada Limited v Bank of Montreal decision furthers the legal shifting that has been going on making cheque fraud the burden of the defrauded customer, and not the bank which accepted the fraudulent cheque. This trend brings Canada in line with the US where sole responsibility has been distributed between the bank and the customer for a long time.⁴

Ultimately, legal rulings have allocated risk to the party best positioned to have prevented the fraud in the first place. This means that in the case of cheque fraud, it is the customer who received and used the fraudulent

cheque who is responsible and not the bank for accepting it.

ULTIMATELY, LEGAL RULINGS HAVE ALLOCATED RISK TO THE PARTY BEST POSITIONED TO HAVE PREVENTED THE FRAUD IN THE FIRST PLACE.



HOW CHEQUE FRAUD VICTIMS ARE BEING MADE TO PAY FOR CHEQUE FRAUD COMMITTED AGAINST THEM



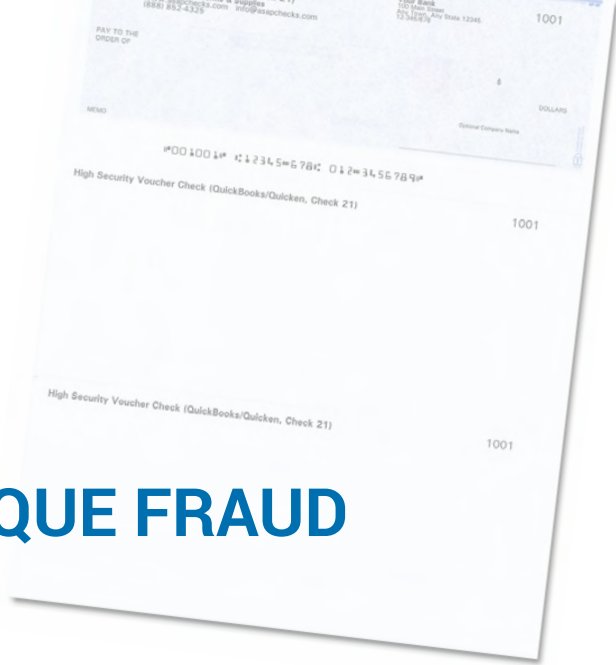
Financial institutions like banks are obligated to make \$100 available to their customers within a day. This is to protect the bank from loss if there are insufficient funds from the cheque writer.⁵

This means the account holder may have access to some of the funds of a cheque despite it not having been verified as genuine. The account holder is responsible for the use of any funds withdrawn against a fraudulent cheque. Until the bank confirms that the funds from a cheque have been deposited into an account, the account holder continues to be responsible for any money withdrawn.

Due to the ease with which a customer could spend

funds withdrawn against a bad cheque, and the responsibility that flows from the use of those funds, it is essential that account holders take every security precaution available when ordering cheques. These instruments should be made to a security standard that will compel fraudsters to go away.

**THE ACCOUNT HOLDER IS RESPONSIBLE
FOR THE USE OF ANY FUNDS
WITHDRAWN AGAINST A FRAUDULENT
CHEQUE.**



7 TIPS TO PREVENT CHEQUE FRAUD

1 Restrict access to your cheques! Keep them locked up and ensure that only trusted staff who need access have it.

2 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.

3 Audit your cheques. However, this can be difficult because often cheques are removed from the bottom or middle of the book or stack.

4 Purchase cheques that have comprehensive security features. At a minimum, the cheque should contain what are now considered basic features (eg. microprinting, 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 or breathing on 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.

5 Ensure that your cheque printer 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.)

6 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!).

7 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.



At ASAP Cheques, we have the security of your business in mind. We take great measures to provide you with bank quality cheques without bank prices, ready to ship within 24 hours. If you are looking for more ways to protect your business from cheque fraud, download the [Ultimate Cheque Fraud Prevention Guide](#).

Sources:
1 "2017 Canadian Payment Methods and Trends Report", Payment Canada, retrieved from https://www.payments.ca/sites/default/files/14-Dec-17/paymentscanada_trendsreport2017_final.pdf

2 "2018 AFP Payments Fraud Survey", Association for Financial Professionals, retrieved from <https://www.afponline.org/publications-data-tools/reports/survey-research-economic-data/Details/payments-fraud-2016>

3 "2017 AFP Payments Fraud Survey", Association for Financial Professionals, retrieved from <https://commercial.jpmorganchase.com/jmpdf/1320732417358.pdf>

4 "Banks Cleared in Cheque Fraud Case", Financial Post, retrieved from <https://business.financialpost.com/legal-post/banks-cleared-in-cheque-fraud-case>

5 "Cheques What You Need to Know", Canadian Bankers Association, retrieved from <https://www.cba.ca/cheques-what-you-need-to-know>