

WHITEPAPER

Partner With Your Customers to Help Eliminate Check Fraud

Involving customers in a real-time inspection of suspicious checks can streamline and enhance fraud prevention.



Check fraud has both increased in magnitude and become more sophisticated in recent years. Now, criminals can alter legitimate checks at scale, thanks to the massive wave of mail theft coupled with powerful new technologies for manipulating the stolen checks. That makes fraudulent checks more difficult to identify and detect, even as the consequences for missing them remain high. It also shines a spotlight on the effectiveness of the actions banks take when they suspect possible check fraud – what’s working, what’s not and possible avenues to achieve better fraud resolution results.

In August 2024, Arizent, parent company of American Banker, conducted a survey on behalf of Refine Intelligence among banking professionals with significant knowledge of fraud prevention to better understand how banks and credit unions are experiencing, identifying and resolving check fraud. The results demonstrate that bankers are concerned about the impact of check fraud on their organizations, but they lack the tools to wade through the sea of alerts from their traditional check fraud detection solutions so they can identify and resolve bad checks quickly and efficiently. It also reveals potential opportunities for improvement in how they are resolving suspected check fraud.



87% of respondents believe that having an automated process for contacting customers to alert them of potential fraud and validate those checks would be beneficial, including 93% of mid-sized banks.

Check fraud is an acute problem for the banking industry and its customers

While the use of checks has declined steadily in recent years as businesses and individuals choose electronic payment options, the incidence of check fraud has [increased 385% since the beginning of the pandemic](#), according to the U.S. Department of Treasury. Criminals are combining traditional techniques such as breaking into mailboxes with new imaging technology and social engineering to steal checks, alter them and sell the adulterated version online. This surge in check fraud is creating real harm—from billions of dollars a year in financial losses to reputational damage,

customer dissatisfaction, write-offs and regulatory penalties. The impact affects both retail banking (74%) and business banking (52%) services. And the scale of the problem is even greater for community banks and mid-sized banks.

Small businesses are particularly vulnerable to check fraud. Big corporations have access to systems like Positive Pay that protect them from fraud by providing a way to upload issued checks so they can be automatically compared to what was deposited. Unfortunately, these solutions are too costly and resource-intensive for small businesses that frequently write high-value (or amount) checks to pay providers. Consumers, who still use checks for certain high-amount payments as well, are also vulnerable.

Banks are struggling to address the problem effectively

Check fraud is particularly difficult for banks to prevent given how they are leveraging their current tools, limited staff and current mitigation approaches. Many banks believe that their current check fraud detection software is inadequate to fulfill the task at hand. Their top concerns suggest existing software often creates an enormous volume of alerts and false positives that overwhelm bank staff, making it difficult for them to investigate thoroughly and be effective at mitigating fraud (see Figure 1). They also cite a lack of staff to review alerts, lack of context to investigate properly and overworked teams that can't get to all the alerts on time.

Figure 1: Banks encounter multiple issues preventing and mitigating check fraud



Source: Arizent/American Banker, 2024

Alert saturation – teams that are overwhelmed by the sheer volume of alerts that need resolution each day – is one of the biggest challenges banks face. In fact, 60% of banks find resolving and handling check fraud alerts equally as challenging as the detection itself (68% for mid-sized banks).

Only 5% of regional/national banks and 7% to 8% of mid-sized banks, community banks and credit unions say their system is highly effective at detecting check fraud. "In many cases, the issue may not be the specific detection system the bank uses, but rather the fact all systems seem to operate on signals that are too weak and produce too many false alarms to allow automated decisions," says Uri Rivner, CEO and Co-founder of Refine Intelligence. "As a result, regardless

of the system producing them, alerts need to be manually reviewed by a big team of analysts in a short window of time.” Those delays erode the effectiveness of banks’ systems because they limit the number of alerts a team can reasonably address.

Relying on detection systems is insufficient

Relying primarily on a bank’s detection systems to address check fraud is insufficient. Many banks receive an enormous volume of fraud alerts at varying frequencies. Although most of these alerts flag legitimate transactions, they are simply unable to address them all in a timely manner.

Unlike banks, customers can quickly validate checks presented to them for inspection. However, only 12% of alerts are escalated for customers to validate. This means 88% of alerts get resolved without customer involvement. That situation leaves banks with a substantial opportunity for improvement if they can find a way to perform automated, effective and user-friendly customer outreach.

“Customers are the best investigators of check fraud alerts, provided you can reach out to them effectively in the approval window and have them inspect the check,” Rivner says. “They are in the best position to rapidly understand if their check is going to the wrong business or person, or in the wrong amount and accurately resolve check fraud alerts.”

Currently customer outreach is perceived as a last-resort course of action, since the way it’s done today is manual, labor intensive, high-friction and low-yield. Banks rely primarily on phone calls to customers (67%) to validate suspect checks, an approach that places a significant burden on front-line staff. While 10% of banks use text message alerts, these communications lack the detail customers would need to inspect them thoroughly, such as when only the payee is changed, but not the amount or signatory.

With the right tools, customers can help banks tackle check fraud more effectively

Nearly nine in 10 respondents (87%) believe that having an automated process for contacting customers to alert them of potential fraud and validate those checks would be beneficial. This is particularly true for mid-sized banks (93%).

Automated alerts that include accurate data about all the elements of a potentially suspect check make it easy for a customer to validate the transaction (see “Best practices for check verification software”). If the automated alerts also make it easy for customers to provide feedback, the alerts can greatly expand the number of potential checks that banks screen in a short period of time. A system like this makes customers feel valued and reinforces the sense that the bank is safeguarding their funds. An automated process also frees up capacity so bank staff can respond to more-complex check investigations.

“Nobody can authenticate the data on a check as quickly and accurately as the person who wrote it,” adds Rivner.

Best practices for check verification software

Every bank has systems or practices in place for check fraud detection. Many banks are now adding a check verification capability that allows retail customers and small businesses to inspect suspect checks and resolve alerts themselves, quickly closing the gap from detection to prevention. Check verification capabilities vary greatly. To find the right solution for your bank, look for technology that makes it quicker and easier to spot fraud effectively. Key capabilities include:

- Automating customer outreach via multiple communication channels (e.g., text messages, email, in-app push notifications) in order to cut down on the need for time-consuming, often-ineffective phone calls.
- Making it easy for customers to access the information they need to inspect checks visually and respond immediately with that validation — or express concern that further investigation is required.
- An orchestration layer should incorporate intelligent outreach logic and automatic matching of customer populations to the most suitable RFI channels -- encouraging prompt customer responses and tracking details such as which specific account holders should and shouldn't be contacted, when they should they be contacted, what communication channels are most effective for them and what sort of reminders should be used.
- Providing structured questions that create consistency and avoid bias, tipping-off risks and customer friction.
- Workflow management specifically designed for fraud teams is a crucial component of check verification software, as it ensures that seamless coordination of tasks and activities is done at any point in the process. A well-designed system can automate the process of handling the check based on the customer's resolution and specifics of the case. For example, it should govern what communication a customer receives when they have decided on a check, which specific teams in the bank should be notified and how the internal process workflow should be managed.

Methodology

This research was conducted online in August 2024 among 128 banking professionals with significant knowledge or direct involvement in fraud mitigation.



About Refine Intelligence

Refine's Intelligent Customer Outreach platform engages customers with fully automated digital inquiries that allow customers to resolve alerts themselves or provide timely context that dramatically speeds up investigations. This unique "Catching the Good Guys" approach helps Fraud, AML and Compliance teams resolve alerts rapidly and effectively by making the bank's customer a partner in fighting financial crime. Playbooks are available for check fraud prevention, AML, EDD, scams, cash structuring education and more.

For more information, please visit refineintelligence.com.



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