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Imaging Has Changed Check Fraud Detection

By Phillip J. Britt

Check fraud losses grew by 3%, according to the American Bankers Association banking survey, far less than in previous years, though there was a significant increase in the amount of check fraud suffered by mid-sized and community banks. Imaging can greatly enhance a financial institution’s fraud detection and prevention program, Jodi Pratt, svp for Carreker Corp. told those attending BAI’s TransPay 2003 Conference in early May in New Orleans, LA.

“Existing check and deposit fraud detection solutions have been major aids in reducing fraud losses, but the battle is not over,” Jodi adds. “The Internet and the changing payment structure add opportunities. Fraud evolves—as old avenues dry up, criminals just regroup.”

Fraud Detection Has Changed

Fraudulent check identification is historically a sensory process, according to Jodi. Verification by touching and seeing the check goes back as far as checks themselves. Check fraud was a much smaller problem several years ago because counterfeits were poor quality. Any attempts to alter checks were obvious.

“Old-timers could ‘smell’ a fraudulent check,” Jodi says. “That’s lost in an image environment. However, image compensates for this loss and also improves detection options.”

Imaging Improves Fraud Detection

Being able to provide the image with the suspect report allows prioritization by level of risk, not account number. By investigating the highest risk items first, you have a better chance of stopping the fraud and reducing your potential losses, according to Jodi.

Imaging also provides the following benefits:

- Eliminates paper handling.
- No manual handling during review.

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- No re-filing the “false positives.”
- Productivity increases due to loss reduction.
- You can look at more items so you find more fraud, or, on the other hand, you could look at the same number of items with a smaller staff.
- You can pull reference (“companion”) items from previous days work.
- More assurance of using a legitimate item.
- More information is available for better decision-making.
- Not just the on-us check, but also transit checks can be inspected.
- The back office can also see images of deposit slips and other transaction-related items.

As the quality of counterfeits and alterations improves, finding the frauds through sensory identification is more difficult, Jodi cautions.

With so much automation, many items are never looked at by trained personnel. Additionally, improved desktop publishing and new methods of check washing make fraudulent items harder to identify.

Greater Fraud Prevention

There are improvements in fraud prevention as well:

- New techniques are becoming available to further improve detection and loss prevention rates.
- Truly automated signature verification allows signatures to be verified by a smaller staff.
- Better check stock recognition. Many counterfeit items look “legitimate,” but nothing like the customer’s real check.
- Image archive enables the bank to easily inspect transit as well as on-us items.
- Positive Pay validates date, amount, and check number of issued checks.
- Payee name verification plugs the hole in Positive Pay to catch counterfeits.

Imaging allows faster inspection of checks, enabling a bank to review and catch fraudulent items the same day a bad check is written, Jodi adds. Imaging also enables online, real-time fraud reviews.

Steps To Improve Imaging

You can improve your use of imaging to detect fraudulent transactions by:

- Moving image-based detection to the teller line.
- Moving images between multiple units within seconds.
- Referring checks, other documents to specialists for review from anywhere to anywhere.
- Maintaining complete files on losses taken and losses avoided; also maintaining new account information, as required by the USA PATRIOT Act requirement

For Patriot Act compliance and other security benefits, Jodi recommends that you scan and store images of IDs used to open accounts, documentation related to loss (e.g. claims, reports filed, letters) and the chain of evidence for court while providing access to the information in the file for all who need it.

However, installing an imaging system alone isn’t enough by itself to help financial institutions stem the tide of fraud. Jodi also recommends that you:

- Create an internal team to review current detection processes and identify future opportunities.
- Consider cross-bank initiatives.
- Use ECP.
- Take advantage of national fraud databases and other inter-bank fraud detection services.
- Extend fraud verification programs to the merchant community.
- Develop a migration plan (usually 12-24 months) to move to the “ideal” imaging strategy, incorporating technology as it becomes available.
- Include infrastructure and policies that ensure the collection and delivery of images from the right place to the right place.
- Examine Web-based technology.
- Consider scanning at the front line.
- Prioritize and implement on what promises the best results.

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