

THE TRUE COST OF A CHEAP CHECK

One of the most common objections to using a high security check is price. High security checks usually cost more than checks that are less secure. However, check fraud is now one of America's fastest growing and least prosecuted financial crimes. The legal environment has changed, placing more responsibility for preventing check on customers instead of banks. Hence, prudent companies view using high security checks as one of the most effective, easiest, and least expensive steps they can take to protect themselves from unnecessary losses. As it's been said, "High security checks are cheaper than attorneys' fees."

To begin with, it is important to realize that the actual cost of the check itself is only a small portion of the overall costs of the entire disbursement process. The entire disbursement costs for each check are somewhere between \$1.00 and \$1.50, and include:

- labor costs
 - calculating the amount to be disbursed
 - filling out the check
 - preparing the check for mailing
 - reconciling the check
- cost of the envelope or other means used to send check to the recipient
- cost of postage
- cost of the check itself
- other costs specific to each organization

When purchasing checks, clients typically think in terms of "how much do they cost per thousand." However, a criminal does not take a block of 1000 checks up to the teller window and try to commit fraud on all of those checks simultaneously. Fraud occurs one check at a time! And so it is more appropriate to think in terms of "how much per check." A high security check is only a few pennies more expensive than a cheap check! Given that each check presents an individual opportunity to commit fraud, spending a few pennies more in order to protect the tens, hundreds, or thousands of dollars that each check represents is a wise choice.

On the contrary, it takes only one or two fraudulent checks to wipe out any supposed savings gained from using a less expensive check. Even if the bank absorbs the actual dollar losses, the management time, legal costs, and sheer harassment required to solve the fraud problem is significant.

Why Use High Security Checks

Deterrence

There are many important reasons for using a high security check. The first reason is to discourage criminals from attempting fraud in the first place: if there is no attempt, there will be no loss! How can using a high security check discourage, or deter, criminals? An analogy answers this very well: imagine there are two houses on a street. One has a picket fence around it, and one has a chain link fence topped with barbed wire, a guard dog, and an armed guard.

If you were a burglar, which house would you try to hit first?

Check fraud is a "crime of opportunity" and deterrence is the first line of defense in the fight against it. From our experience as bankers fighting fraud, and having to cover fraud losses, we know for a fact that high security checks deter criminals.

Prevention

The second reason to use high security checks to prevent the attempts that do take place from being successful. Not all criminals use the same method to commit fraud. Therefore, multiple features need to be built into the check to prevent various methods from being successful. These security features must also be incorporated correctly to actually discourage fraud. We have seen many printers “add” security features to their checks in an attempt to capture the growing market niche for high security checks, but because they don’t understand fraud, their features are often incorporated incorrectly and are essentially useless in preventing the crime they were intended to protect against! Because of our background as bankers fighting fraud, we understand how criminals attempt fraud, which security features are important, and how they should be applied.

Legal Protection

A third reason to use high security checks is to protect oneself legally. In the past, banks automatically absorbed fraud losses. However, as check fraud losses skyrocketed in the early 1990’s, the laws were changed. The Uniform Commercial Code (UCC) now states that the liability for fraud is shared between the bank and the customer, with the party in the best position to have prevented the fraud bearing the greater share of the loss. Also, the new Check 21 rules directly impact which entity is liable for fraud losses. By using high security checks, you shift the liability back to the bank.

Another legal element involves what is known as Holder in Due Course, or the damages incurred by an innocent third party because of a company’s fraudulent check. Depending on the circumstances, your company could be held liable for those losses. For a better understanding of the power of “Holder in Due Course” under the UCC, visit www.fraudtips.net.

Check 21

Check 21 allows banks to:

- 1) Convert original paper checks into electronic images
- 2) Truncate (shred) the original check
- 3) Process the images electronically
- 4) Create “substitute checks” when a paper document is needed

The question arises, “What happens if the check that was imaged was a fraudulent check?” This question is answered by the Indemnity, which is part of the Check 21 rules. The Indemnity provides that if a fraudulent check is imaged, and it was a check the bank normally would have physically inspected and because of its security features would have been able to tell it was a fraudulent check, but those features could not be seen in the electronic image, the bank that imaged the check becomes liable for the fraud. The involved parties have a year from the time they become aware of the fraud to issue a claim against the converting bank!

However, in order to qualify for the protection of the Indemnity, one must be using checks with security features that do not “survive imaging”, such as a true watermark, thermochromatic ink, chemical sensitivity, etc. “Vanilla” checks do not qualify! In our opinion, this makes using a high security check even more important.

SAFEChecks and Check Fraud Prevention

SAFEChecks is different from other check manufacturers. We did not begin as a printer trying to capture a new market niche by adding some security features to checks. We began as a division of a California business bank battling an epidemic of check fraud in the early 1990’s. Losses skyrocketed

from \$90,000 to over \$3 million in just a few years. The bank hired Frank Abagnale, the world's foremost authority on check fraud, and together we created America's first true high security check. After the bank required its clients to use these checks, and implemented other internal fraud prevention controls, fraud losses and fraud attempts dropped by 95%. We now continue to be the leader in check fraud prevention.

Because of our background in banking, we understand the various ways criminals commit fraud, and are uniquely able to help companies defend themselves. Not only were the security features on our checks born from direct experience fighting check fraud, we are the only check manufacturer to create and follow strict Secure Ordering Procedures to prevent unauthorized persons from ordering your checks.

Once again, our mission is not merely to print checks. Our mission is to fight fraud, with high security checks being an essential element.

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