ASC X9 TR 8–2016

Check Security

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Contents

Page

Figures

Tables

Foreword

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Introduction

Check fraud is increasing in the United States in spite of overall decreasing check use, with reported fraud in the billions of dollars. Too, there has been a shift in the nature of check fraud. New technologies, increasingly widely available, have made it easier and more “profitable” for individuals to print fraudulent checks and alter legitimate checks.

Growth in remote deposit services presents new challenges with customers scanning their own checks for image deposit, while retaining original checks. It is important that these checks are not deposited multiple times or cashed, so knowing the customer is critical, as is having clear terms for both secure storage and secure destruction, until credit for the image deposit is affirmed.

Check fraud refers to fraudulent acts that involve making unlawful use of checks (in the broad sense of the term) in order to illegally acquire goods or services, or to borrow or access funds that do not exist within the account holder’s account balance, credit line, or legal ownership.

A fraudulent act has four key components:

1. The person committing the act has knowledge of the falsity of the act (known as scienter);
2. There is a deliberate intent to deceive and induce reliance on the deception;
3. Justifiable and actual reliance on the misrepresentation occurs; and
4. Damages or loss results from the act.

Financial institutions, and the remainder of this report, use a somewhat broader definition of check fraud to encompass all forms of theft that make unlawful use of checks in order to illegally acquire goods or services or to borrow or access funds that an account holder is not legally entitled to access. This broader definition allows financial institutions to categorize transactions for returns without having to attempt to discern whether or not all four elements, particularly the first two above, of fraud are present in a specific transaction.

Still, the vast majority of checks are good and are processed without incident or error. Most checks that are not paid by the financial institution when they are first presented are ultimately made good. Anyone who accepts checks – banks, businesses, consumers, merchants and retailers, government agencies – needs to assess risk of loss due to fraud, and to develop and implement prudent measures to reduce the risk without unduly inconveniencing or alienating honest customers, or compromising legitimate dealings with suppliers and creditors.

Suggestions for the improvement or revision of this Technical Report are welcome. They should be sent to the X9 Committee Secretariat, Accredited Standards Committee X9, Inc., Financial Industry Standards, 275 West Street, Suite 107, Annapolis, MD 21401 USA.

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This document cancels and replaces TR 8-2010 Check Security in its entirety.

1 Scope

X9 TR 8 *Check Security Guidelines* provides information for people involved in paper check or electronic check processing to become more familiar with industry practices and processes that identify and deter fraudulent use of paper checks, check images, and electronically transmitted check data. This technical report also discusses tools that detect and prevent fraud, covering topics from high-tech software to low-tech physical control of the source documents.

These guidelines do not cover all possible techniques or preventive measures. While there are no guarantees that these techniques or measures will prevent fraudulent check use, they do provide the basics necessary to evaluate vulnerability to check fraud.

2 References

Users of this Technical Report are encouraged to refer to the most recent edition of ASC X9 TR 100, *Organization of Standards for Paper-based and Image-based Check Payments Part 1: Organization of Standards and Part 2: Definitions used in Standards* to become familiar with the list of standards that cover checks. Users are also encouraged to become familiar with the most recent edition of ASC X9 TR 2, *Understanding, Designing and Producing Checks*.

3 Purpose

The increasing electronification of check processing enabled by image exchange, the Check 21 Act and *NACHA Operating Rules* has both expanded the ways in which fraud can be committed and has increased means of detecting and thwarting fraud. TR 8 can be useful to entities that accept checks to help assess risk of loss due to fraud and to take appropriate measures to reduce that risk without unduly inconveniencing or alienating honest customers, or compromising legitimate dealings with suppliers and creditors.

This technical report uses transition points where checks or check data moves from one point or stage in the processing cycle to another. At each point this Technical Report vulnerabilities for fraud. This report also expands discussion of fraud to include not only the traditional discussions around paper, ink and design; but also, to include the security necessary to thwart attempts at fraud with electronification of check data when the paper item is truncated or converted.

The reader should note that throughout this report, the term “bank” is interchangeable with “financial institution” and carries the meaning set forth in Regulation CC, section 229.2 (e), including, but not limited to, commercial banks, savings banks, thrifts and credit unions. It also encompasses a bank holding company. The term “check” encompasses many negotiable instruments, such as demand drafts, share drafts and source documents, as covered in the Uniform Commercial Code (UCC), Regulation E and Regulation CC.

In addition, TR 8 provides information about check security and fraud prevention but does not address subtleties of litigation and legal process.