



# HOW FINANCIAL INSTITUTIONS CAN RESPOND TO CHECK FRAUD

Effective remediation of check fraud involves rapid containment, clear customer communication, objective investigation, prompt account remediation and continuous improvement informed by post-incident fraud analysis.



## 1 CONTAINMENT

When check fraud is detected, institutions can benefit from acting quickly to mitigate loss exposure, including:

- **Take steps to protect** impacted account(s) and prevent additional fraud.
- **Review recent and pending account activity** to identify other suspicious transactions.
- **Return or dishonor (decline to pay) fraudulent checks** if within the return window.
- **Promptly file a bank-to-bank or breach of warranty claim**, adhering to time limits based on the type of fraudulent check.
- **Work with law enforcement** for investigation and recovery.



## 2 FACT FINDING

Work with the customer to confirm fraudulent activity and gather key information:

- **Review transactions** with the customer to identify which checks are fraudulent and identify if there is any other unauthorized activity.
- **Ask questions** to identify if checks have been lost or stolen and determine the type of fraudulent check(s).
- **Obtain an affidavit** from the customer detailing the fraudulent check(s) and type of check fraud that occurred.
- **Inform the customer of next steps** and begin processing the claim.



## 3 INVESTIGATION

Review the transaction details and information provided by the customer to investigate the fraudulent check(s):

- **Analyze** the check images, transactional data and customer/account history.
- **Document findings and determine** if the customer was negligent (e.g., first party fraud) or if unauthorized party fraud has occurred.
- **Assess next steps** for remediation and recovery (e.g., breach of warranty claims may apply, customer account may need to be reimbursed, etc.).



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## 4 REMEDIATION

Reimburse customer based on findings of the investigation and pursue recovery options:

- **Issue credit to customer(s)**, as appropriate, for the fraudulent transaction(s) that cleared their accounts.
- Work with customers to **ensure their accounts are secure**, as applicable, based on any additional findings during the investigation.
- **Initiate recovery attempts** through returns, breach of warranty claims, or indemnification requests.
- **Record and classify** the fraud event and corresponding documentation in an internal tracking system.
- **File reports** for the fraudulent activity based on required thresholds and work with law enforcement if applicable.



## 5 POST-INCIDENT FRAUD REVIEW

Analyze event details and timeline to identify root cause(s) and provide a feedback loop for ongoing improvement.

- **Identify** if the cause was related to **people** (e.g., if a fraudulent check was not identified during an investigative review), **process** (e.g., if exception-handling procedures created a vulnerability) or **technology** (e.g., a check did not kick out for review).
- Make **informed updates to** prevention and detection rules, strategies or models.
- **Refresh** staff training and customer education to incorporate applicable findings.
- **Escalate** recurring and organized fraud patterns to inform other stakeholders (e.g., branches, contact centers and product teams) about risks.

*The check fraud mitigation toolkit was developed by the Federal Reserve to help educate the industry about check fraud and outline potential ways to help detect and mitigate this fraud type. Insights for this toolkit were provided through interviews with industry experts, publicly available research, and team member expertise. This toolkit is not intended to result in any regulatory or reporting requirements, imply any liabilities for fraud loss, or confer any legal status, legal definitions, or legal rights or responsibilities. While use of this toolkit throughout the industry is encouraged, utilization of the toolkit is voluntary at the discretion of each individual entity. Absent written consent, this toolkit may not be used in a manner that suggests the Federal Reserve endorses a third-party product or service.*