

CONSUMER COMPLIANCE OUTLOOK®

COMPLIANCE SPOTLIGHT

FOCUSING ON A SPECIFIC COMPLIANCE TOPIC

RESOURCES TO COMBAT INCREASED CHECK FRAUD

The Federal Reserve System (Federal Reserve) recognizes that check fraud is a top concern of bankers. In 2023, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) noted that financial institutions reported 680,000 suspicious activity reports for possible check fraud in 2022, a significant increase from 2021. While the Federal Reserve actively monitors trends in check fraud, it generally does not intervene in fraud disputes between banks, including banks over which it may not be the primary federal banking regulator. The Federal Reserve is sharing these resources and sound practices to help financial institutions respond to check fraud.



• The Federal Reserve

- **Consumer Compliance Outlook (CCO).** In 2018, *CCO* published an article titled “Responding to Counterfeit Instrument Scams.” This article identifies common schemes involving counterfeit instruments and sound practices to mitigate risk.
- **Contact Us link.** Financial institutions can communicate their concerns about check fraud and other issues to the Federal Reserve at this link. If a bank chooses to report a fraud incident, the notice should provide full details in the comment section at the bottom, without including any personally identifiable information. Board staff will review the information received, which may include sharing it within the Federal Reserve System and with other banking supervisory agencies.

• FinCEN

On February 27, 2023, FinCEN issued an alert about the surge in check fraud. This alert provides red flag indicators to assist financial institutions in meeting their Bank Secrecy Act obligation to identify and report suspicious activity. It emphasizes that information sharing among financial institutions is critical to identifying, reporting, and preventing mail-theft related check fraud. The alert strongly encourages financial institutions to share information under the safe harbor authorized by Section 314(b) of the USA PATRIOT Act; refer to FinCEN's Section 314(b) page for additional information.

• U.S. Postal Inspection Service (USPIS)

The USPIS has published Tips & Prevention on scams in general, an information page on check fraud, and a brochure financial institutions can send to their customers, titled “Don't Be a Victim of a Check Scam.” It also provides forms to report fraud.

• The American Bankers Association (ABA)

The ABA's Check Fraud Claim Directory provides a searchable database of contact information for banks needing to file a check warranty breach claim with another financial institution. To access the directory, a bank must participate by providing its fraud contacts but does not need to be an ABA member.

• Check Service Providers

Check service providers may offer products and services designed to mitigate check fraud, such as duplicate detect and positive pay products that can help spot duplicate check presentation or accelerated presentation options that may help institutions detect problems earlier in the check collection process. Institutions can contact their provider about whether these sorts of potential features are offered.

CCO occasionally issues individual Compliance Spotlights or Compliance Alerts to our electronic subscribers to share timely regulatory information. To receive Alerts and Spotlights electronically, go to the *CCO* home page and select the email notification link to subscribe. ■