

BUSINESS INSIGHTS

THE PAYMENT FRAUD DILEMMA

Navigating Risks With
Smart Solutions



Running a successful business is already a significant achievement, and part of maintaining that success involves being aware of challenges that could impact its growth and financial health.

One such challenge is payment fraud specific to check and Automated Clearing House (ACH) payments. While it's a persistent issue, addressing it proactively can protect your business's bottom line and ensure its continued prosperity.

Imagine this scenario.

- Your company runs smoothly, writing 50 or more checks monthly.
- So smoothly that you typically don't check your bank accounts daily.
- One day, an employee tells you they weren't able to cash their payroll check.
- Upon investigation, it's discovered that a fraudulent check was paid, and depleted the funds meant for mid-month payroll.

This scenario illustrates just one of the ways businesses can be impacted by payment fraud. However, it's important to remember that knowledge and preparation can make a significant difference.

Fraud protection for business doesn't have to be daunting. With the right approach and resources, ensuring the safety of your company's finances can be an empowering part of your overall strategy for success. Companies that proactively implement measures to prevent fraud are better protected and less likely to be targeted by criminals than those that do not take such steps.

A growing challenge for businesses.

Any report you find regarding payment fraud shows the same information. Not only is it a growing concern for business, but losses continue to grow every year.

According to a survey by the Association of Financial Professionals (AFP), 80% of businesses reported they have been victims of attempted or actual payment fraud¹. It makes you wonder how many successful fraud instances went undetected before they realized what was happening.

It should also encourage all businesses to address the issue of payment fraud now because, according to security experts, it's likely to get worse. That's especially true as criminals and their schemes become more sophisticated and more digitally advanced, while businesses try to shore up their defenses.

And although the fight will be ongoing for business, it doesn't have to be a losing battle.

Decoding payment fraud: Understand its forms and mechanisms.

By definition, payment fraud occurs when someone deceptively, surreptitiously and deliberately uses stolen or manufactured information to make a purchase or arrange a transfer that puts money or ill-gotten goods in their hands. Here are a few examples:

- Submitting a fake, modified or stolen check for purchases
- Arranging an ACH transaction using a victim's stolen

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credentials or account information

- Tricking an employee into authorizing a payment transaction that should not have been approved, and the transfer goes into the account of a fraudster

Check and ACH scams.

- **Check fraud.** According to reports, processing check payments remains the most vulnerable method when it comes to fraud. Just a few years ago, it accounted for more than 65% of payment fraud reports. Stolen checks altered checks and forged signatures represent the majority of cases.
- **ACH fraud.** If a criminal is crafty enough, they can reach an authorized employee to initiate and approve a vendor payment that seems 100% legitimate. A thief can steal genuine account numbers, obtain login credentials in various ways or convince a rushed or new employee to add a new checking account number to forward payments or deposits.

The FBI's Internet Crime Complaint Center, or IC3, has reported that the bulk of fraudulent ACH transactions are initiated through an email phishing campaign targeting business employees and/ or executives.

Proactive payment fraud prevention for businesses.

It's essential to take the time to review your fraud prevention strategies. One step is to work with your business bank to assist you with some proactive financial strategies and products that can help to detect and deter payment fraud attempts.

It starts by working with your Relationship Manager to discuss the issue, who then partners with a Treasury Relationship Manager at the bank for additional consultation and solutions.

Some of the solutions you might discuss include the following:

- Segregation of accounts
- Daily reconciliation
- Placing a "post no ACH debits" restriction on your accounts
- Segregation of duties
- Additional controls inside non-bank systems

Custom solutions that help prevent payment fraud.

Business banks typically have financial products designed to help with check and ACH fraud protection. For example, here are two specific fraud prevention products Banc of California offers:

- **Check Positive Pay** prevents check fraud by screening incoming transactions. With Check Positive Pay, which you access through our online banking portal, we will send you an alert if we find a discrepancy between the check presented for payment and the check-issue information that you provided to the bank. This allows you to decide to approve the payment or have the check returned.
- **ACH Positive Pay** allows you to establish and control payment parameters and profiles for companies you allow to directly debit your account. It will send an alert to you if any pending ACH debit falls outside the parameters you've put in place. If you do not indicate whether to pay or return the invoice, the system will return the ACH debit to you. You may also review and update current authorized debits or future ones.

These types of fraud prevention products have been proven to detect and deter potential losses. Have a discussion with your Relationship Manager and Treasury Relationship Manager to learn more.

Take steps now to deter payment fraud in the future.

Today's scammers and fraudsters are relentless and will continue to target businesses. They will look for the weak points in your payment processes and exploit them if they get the opportunity. Companies that deter fraud will take steps to strengthen their payment systems with a proactive strategy and specialized products. Not surprisingly, in the AFP survey mentioned earlier, nearly 80% of respondents said they're extremely likely to seek assistance from their banking partner to minimize the impact of fraud.

At Banc of California, our Relationship Managers partner with our Treasury Relationship Managers to create custom solutions for fraud prevention and the losses that come with fraud. With the rise in cybercrime and the new strategies criminals use, we know it's important for us to help our clients protect their accounts and money, in addition to helping them succeed and grow their businesses.

We call that focused effort on behalf of our clients "**The Banc of California Difference.**"

For more information on protecting your business from fraud, visit:

bancofcal.com/business-insights



TOGETHER WE WIN®

¹2023 AFP Payments Fraud and Control Survey.

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