



VERIFYING SIGNATURES MAY NOT BE ENOUGH

One of BancInsure's insured banks recently incurred a loss that highlights the growing problem of counterfeit checks. The bank has a customer that is a medical center. Several months ago the bank received a check for payment on the medical center's checking account in the amount of approximately \$110,000. The check was payable to a business located in a nearby major city. The bank had a policy of verifying signatures on all checks over \$5,000 coming in for payment. The signature was verified and the check was paid. When the customer received the checking account statement showing the payment of the \$110,000 check, the bank was immediately notified that the check was a counterfeit. Through investigation the bank determined that the check was indeed a counterfeit. The customer's account was replenished. The bank attempted to return the check to the bank of first deposit; however, the bank of first deposit refused the item as a late return.

It appears that person or persons unknown probably obtained a legitimate check of the customer, scanned into a computer, changed the check number, payee and payment amount. The check was printed and then negotiated.

BancInsure paid the claim in the amount of approximately \$100,000 after applying the appropriate \$10,000 deductible. Efforts to recoup the funds are continuing.

Bank personnel compared the signature to the signature card, but failed to notice differences in the color of the paper and printing, quality of the check paper and the lack of watermarks on legitimate checks. The bank has modified its large check review procedures to include a comprehensive review of the item.

This is illustrative of claims BancInsure is receiving concerning counterfeit checks. You may wish to review your own bank's procedures in this area to try to avoid similar losses. The review procedures should include a verification of signatures. However, on computer scanned checks, this is very difficult. The review also should include the general appearance of the check, i.e. the color of the paper, the color of the printing, weight and texture of paper, the check number (Does it appear to be way out of sequence?), absence of watermarks and payee (Does the payee look reasonable?).

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