



CHECK SCAMS

Recently BancInsure has received several claims involving altered checks. One of the claims involved a bank in a small town in a southwestern state and serves as a good example of how very cautious and careful bankers can get “burned” by check scams.

In this case, a long time customer deposited what the bank knew was a suspicious check. The check was for slightly over \$100,000. The bank held the deposited funds as long as allowable and verified with the bank on which the check was drawn that the check had been paid before releasing the funds. As soon as the funds were available the depositor, through a series of wire transfers, sent the funds to overseas entities. The check was returned as altered. The alteration was virtually undetectable. We understand that the depositor was promised a large payment for depositing and transferring the funds, but it appears that he did not receive anything. We further understand that the depositor is in jail on unrelated charges and there are no funds available for to repay the bank. Our insured bank was able to negotiate a reduced settlement payment to the bank on which the check was drawn of \$75,000. BancInsure paid our insured bank \$50,000 after the application of the \$25,000 under the Financial Institution Bond.

This appears to be what is often referred to as a “Nigerian check scam.” “Nigerian check scams” typically involve the illicit transfer of funds that often end-up in Nigeria through the use of altered, forged or counterfeit checks. The scam involves the enlistment of an accomplice or duping an “innocent” third party into depositing an altered, forged or counterfeit check into his or her checking account and transferring the funds, often by wire transfer, to a third party, usually an overseas entity, with the promise of a large payment for their assistance. When the check is returned as altered, forged or counterfeit, it is very difficult, if not impossible, to recover the funds.

There are several methods to protect your bank from losses. First inspect large, unusual or suspicious items closely. In cases of counterfeit checks, they are sometimes on poor quality paper and/or the printing may not be sharp and clear. They may even contain misspellings. In cases of alterations, the fonts for the payee and payment amount may not match the rest of the check. In this case this would have been of no avail as the alteration was nearly undetectable.

For some customers, particularly those whom you know well, you may want to consider discussing the source and nature of an unusual deposit.

Contacting the bank on which a large, unusual or suspicious check is drawn to verify that it is a valid account, that sufficient funds are available to pay the check at that time or better yet that the check has been paid before releasing the funds are prudent procedures; however, as one can readily see from the above that may not be enough.

To positively confirm the validity of a check, you should consider contacting the maker of the check to verify the amount of the check and the payee. There should be enough information on the check to establish contact.

If it is not possible to confirm the validity of the check with the maker, you should consider sending the check for collection directly to the bank on which it was drawn and not give credit to the customer and until the bank received payment for the check.

BancInsure has become a leading writer of Financial Institution Bonds in the United States by providing a sound, stable market, excellent service and fair claims service. If you would like to learn more about BancInsure coverages, please contact your BancInsure marketing representative.