

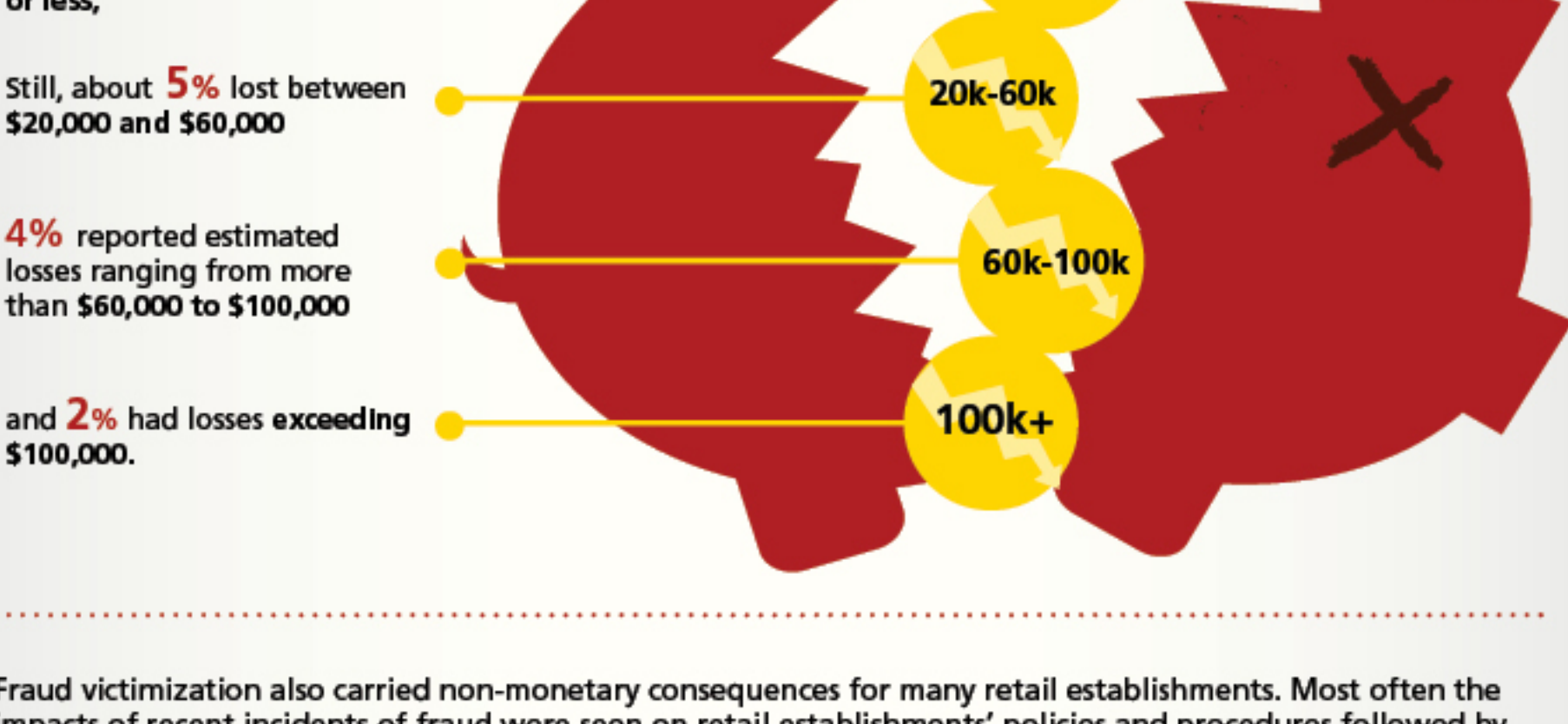
How to reduce Payment Fraud

Payment fraud can come in many guises. Businesses need to be wary, not just of fraud risks around how they take payment, but also in how they themselves pay their suppliers. How concerned should you be?



Specifically in the retail industry, about **80%** of business establishments that had been victims of fraud in the previous 12 months reported suffering monetary losses due directly to the frauds committed against them.

More specifically among retail establishments indicating losses,



Fraud victimization also carried non-monetary consequences for many retail establishments. Most often the impacts of recent incidents of fraud were seen on retail establishments' policies and procedures followed by staff morale and client relationships.



Fraud risks around taking payments

Payment fraud can be difficult to detect – most business owners want to assume payments for their goods or services are legitimate. Back in the old days, counterfeit currency might have been used but fake notes were easier to spot.



How payment fraud occurs

A Statistics Canada survey of fraud against retail businesses found the most common methods of fraud by customers were:



Preventing retail payments fraud



Returning products

Watch out for customers returning products they didn't buy from you – or customers who pick up products in store before walking up to the counter for a cash refund!

Display clear refund policies needing proof of purchase to help prevent such incidents.



Bad cheques

Cheques tend to bounce if they're stolen or a customer's account is empty. Avoid accepting cheques if you can. Instead, ask for a credit card with identification or for funds to be banked online.

Always ask for photo identification.



Counterfeit money

Keep an eye out for counterfeit money, especially \$100 bills. Tell your cash handling staff to be on the lookout. Search online for common images of counterfeit bills so they know what to look out for.



Stolen credit

If you're suspicious of a customer, ask for further photo identification to check their credit card is actually theirs. Make sure you double check signatures.

Credit card tricks

Beware of the following from your customers:

- Ordering multiple products in a short space of time.
- Buying expensive items just before closing time – employees are focused on going home rather than security.
- Complaining in an effort to distract employees.
- Nervousness.
- Credit cards that have expired.



It's not just retail businesses

Any business is open to payments fraud when a customer:

- Orders product or services and then doesn't pay
- Requests deposits to 'clear customs' with no intention of buying
- Asks for duty or delivery charges to be paid into a fictitious bank account.



Pay for a little, steal a lot

A customer from another country places and pays for a very small order for equipment/stock. They then place a very large order which you send. But this is the fraud which you don't suspect as they have previously paid.



Prevention measures

So we know how businesses can fall victim to fraud from their customers, so let's look at how we can prevent it. Prevention is better than cure – Statistics Canada found the most common methods used by businesses to reduce fraud were:



Training employees

Employees are your front line so give them the tools and training to spot fraud at the source.



Background checks on customers

If you're even slightly suspicious, there's nothing wrong with checking up on a customer. Search for them online or in social media, ring up the company, or conduct a credit check.



Daily Finance Review

Keeping tabs on your bank accounts to monitor what goes in and out on a daily basis and reconcile that to your records allows you to spot inconsistencies early, before they become a problem. Using tools in more sophisticated online banking platforms, such as CIBC's Cash Management Online can help to automate some of this work for you.



Use of public information on fraud scams

Keep your eyes peeled – talk to other business owners and search online for news of any recent fraud.



Signing procedures for release/transfer of funds

Document everything – identify the main types of payment fraud that could impact your business. Then, clearly outline how to prevent it happening. Make sure your employees understand, and include complying with these rules as part of their employment.



Other tactics to prevent payment fraud

- Offer debit and credit card options
- Take payments electronically, such as using Electronic Funds Transfer or PayPal.
- Don't accept cheques at all.
- Set up Closed Circuit TV next to your checkout if you are a retailer.

Now let's look at how paying your suppliers may open your business up to fraudsters...

Cheque Fraud

Cheque fraud is one of the fastest growing financial crimes today.

Projections indicate that cheque fraud will grow by **25 percent each year**², costing North American businesses **\$20B CAD** annually.³



Canadian Cheque Processing

923 million cheques cleared each year.⁴

\$3.5 trillion dollars settled per year.⁴

With so many cheques floating around, it's pretty easy for fraudsters to get their hands on some and wreak havoc with a company's financials.

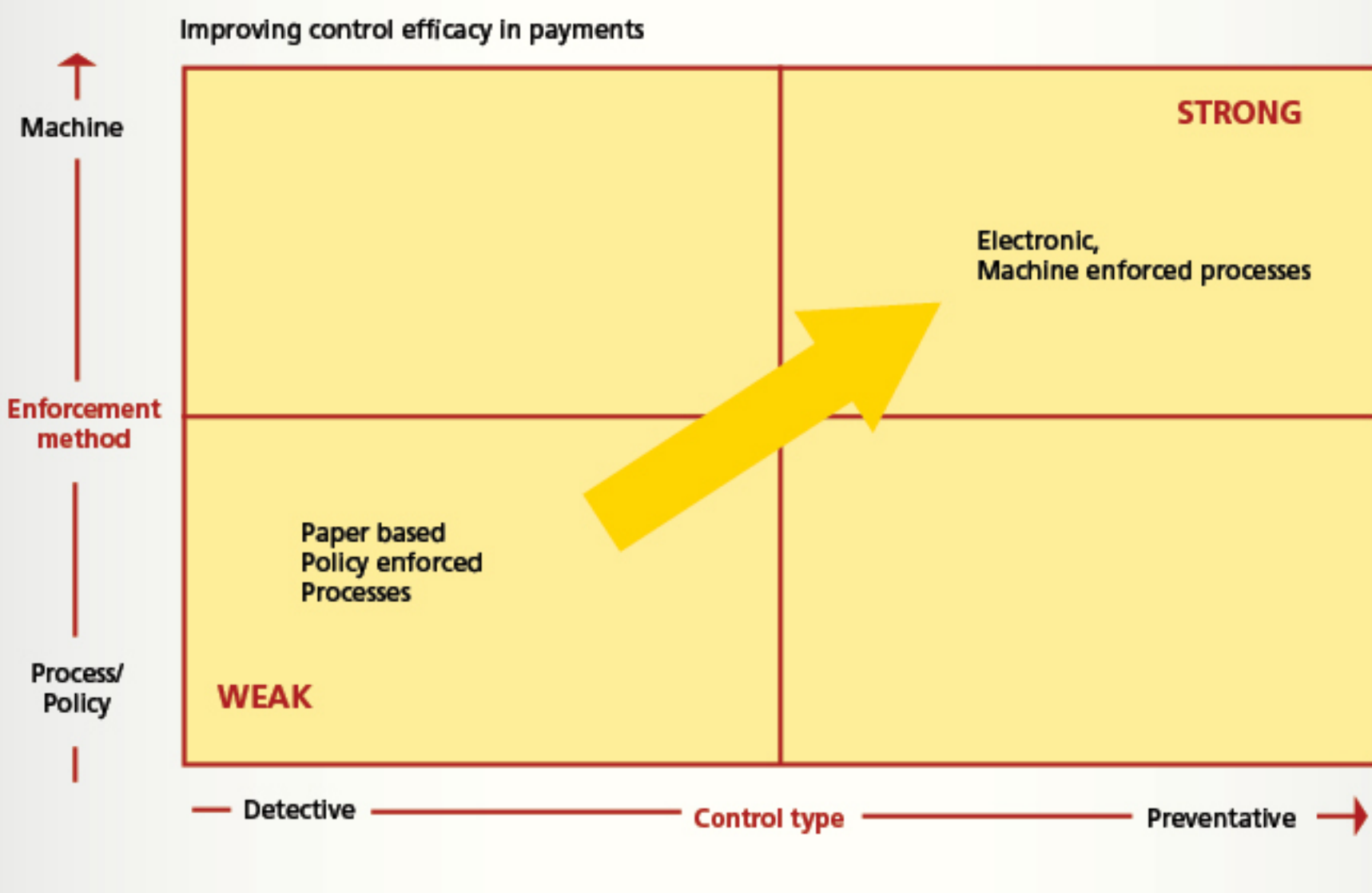
Why cheques?



1. They are paper based, so easy to copy or forge and alter either the payee name or the payor's name.
2. They can be mailed, so easy to intercept.
3. As there is a lag between depositing the cheque and having cleared funds, criminals hope to receive goods before you discover the fraud.

Payment Fraud prevention

Improving control efficacy in payments



Tactics to prevent cheque fraud

1. Use Credit cards, Electronic Funds Transfer (EFT) or wires to pay suppliers
2. Take advantage of online banking tools. Eliminate the fraud opportunities that cheque payments create, by moving from detective to preventative capabilities. Take a tour of **CIBC Cash Management Online** <https://cmo.cibc.com>
3. Use **CIBC "Positive Pay"** and **"Positive Pay Plus"** where cheque issuing files are sent to the bank daily, and as cheques arrive for clearing they are reconciled with the record of cheques issued, and then items not found on the issuing file are held for instructions
4. Use **CIBC Corporate Clearing** which provides daily notifications of items of items cleared against your accounts, reducing risk by accelerating the time between clearing and reconciliation

How do I report online fraud?

To report suspected fraud with your CIBC bank account, or if you think you have been a victim of fraud (such as email fraud, text message fraud, identity fraud, phishing, spyware), send an email to fraud@cibc.com and:

- Ring police to report the theft.
- Contact the Canadian Anti-Fraud Centre toll free on 1-888-495-8501

1. Statistics Canada
2. Bank of Canada
3. The Nilsson Report
4. Canadian Payments Association (CPA)

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