

Protecting your business from check fraud

Check fraud is impacting businesses of all sizes. Despite the growing use of digital payments, checks remain a common method for vendor payments, payroll, and other transactions, making them a continued target for fraudsters.

At KeyBank, we're committed to helping you keep your business accounts safe and secure. Here are a few guidelines to help you safeguard your business against check fraud.

What is check fraud?

Check fraud is the unauthorized or deceptive use of checks to access funds. Businesses are common targets due to high transaction volumes and check-based payments. If your business falls victim, it can incur financial losses, reputational damage, and operational disruptions.

Common check fraud tactics

- **Check washing** – Criminals chemically erase ink to alter check details (i.e., payee, amount)
- **Forged signatures** – Unauthorized signing of company-issued checks.
- **Counterfeit checks** – Fake checks designed to mimic legitimate business checks.
- **Altered checks** – Legitimate checks that have been modified post-issuance.



A spotlight on check kiting

Check kiting is a fraud scheme that exploits the time (or "float") it takes for checks to clear between different bank accounts.

Here's how it works: A check is written from account #1 with insufficient funds and deposited into account #2. As soon as the check is deposited, transactions or withdrawals are conducted from the inflated balance in account #2 **before** the original check is returned for insufficient funds (the "float period").

— Continued on reverse —



Tips to help protect your business from check fraud:

- Use other payment methods, such as electronic payments, whenever possible.
- Use tamper-resistant checks and secure ink.
- Store check stock and financial records in locked locations.
- Conduct regular account reconciliations and audit trails.
- Educate employees on fraud awareness and reporting procedures.
- Limit check-writing authority to trusted personnel.
- Avoid pre-signing checks or issuing blank checks.
- Use secure disposal methods for voided or outdated checks.



Be sure to leverage KeyBank services¹ that help prevent check fraud:

- **Positive Pay:** Matches checks presented for payment to those your business issues
 - Payee Name Verification (PNV): Reviews payee information for accuracy.
- **ACH Filters and Blocks:** Prevent unauthorized electronic withdrawals
- **Account Alerts:** Receive real-time notifications of suspicious activity
- **Remote Deposit Capture:** Reduces check handling and storage risks

Protecting your business from check fraud

How check kiting can affect your business

Businesses can be vulnerable to both *internal* and *external* check kiting schemes.

Internal Check Kiting (Employee Fraud)

The fraud is perpetrated by someone inside your company — usually an employee with access to multiple bank accounts and/or check-writing authority. They often continually commit check kiting across business accounts, giving the illusion of available funds while no real money exists.

Impact on your business:

- Your business may unknowingly rely on these inflated balances for financial decisions.
- Your business may face account freezes, bank penalties, or even criminal investigations.
- Your business can face reputational damage and strained banking relationships.

External Check Kiting (Third-Party Fraud)

This form of kiting is committed by a vendor, customer, or other outside party. For example, the fraudster pays your business with a check. The fraudster depletes the funds in their account during the time it takes for the check to clear. Your business provides the goods or services, only to find out days later that the check bounced.

Impact on your business:

- Financial loss due to unrecoverable inventory or services.
- Time and resources wasted trying to collect from the fraudulent party.
- Risk of indirect involvement in a broader financial crime if funds are moved through the business's account.

Check kiting is a serious federal offense and a risk to both your business and bank relationships. Even unintentional involvement can damage your business's credibility.



How to spot check kiting and avoid becoming a victim

- Frequent account overdrafts or accounts with consistent negative or low balances
- Increase in number of checks being deposited and intercompany funds movement
- Excessive requests to approve expedited situations, including unfunded wire transfers or wire transfers funded by same-day check deposits
- Repetitive check number sequences
- Frequent returned or bounced checks
- Checks drawn on multiple unfamiliar or out-of-region banks



Be sure to leverage the following preventive measures:

- Conduct daily bank account reconciliations; consider reconciliation by someone other than the predominant check issuer
- Require multi-personnel process for check issuance
- Restrict access to blank checks and check printing
- Avoid providing goods/services until check payments clear
- Set policies for accepting check payments: limits, waiting periods, and verification
- Vet new customers and vendors thoroughly before accepting checks as payment

¹ Subject to terms and conditions of service agreement. Applicable fees may apply.

Content provided for informational and educational purposes only and is in no way to be construed as financial, investment, or legal advice. We cannot and do not guarantee their applicability or accuracy in regard to your individual circumstances. All examples are hypothetical and are for illustrative purposes. We encourage you to seek personalized advice from qualified professionals regarding all personal financial issues.

©2025 KeyCorp®. All rights reserved. KeyBank Member FDIC 250521-3233128