

CTS FRAUD AWARENESS



NFS

CTS

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
ATM AND POS

IMPS

RuPay

Agenda

- ❑ Fraud & Cheque-Fraud
- ❑ CTS Challenges
 - Issues at Presenting Bank's end
 - Issues at Paying Bank's end
- ❑ Different kinds of Cheque Frauds
- ❑ Fraud Prevention support system - CTS 2010 standards
- ❑ Ways to mitigate Frauds
 - Internal Processes
 - Outward Clearing Process
 - Inward Clearing Process
 - Customer Awareness

NFS

CTS

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
AUTOMATED CLEARING PROCESS

IMPS

RuPay

Fraud

❑ What is Fraud ?

Fraud is intentional deception made for personal gain or to damage another individual; the related adjective is fraudulent, and verb is defraud. Defrauding people or entities of money or valuables is a common purpose of fraud.

❑ What is Cheque Fraud?

Cheque fraud refers to a category of criminal acts that involve making the unlawful use of cheques in order to illegally acquire or borrow funds that do not exist within the account balance or account-holder's legal ownership.

NFS

CTS

NACH
NATIONAL AUTOMATED CLEARING HOUSE

AAPS

IMPS

RuPay

What is Cheque Truncation?

Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point with the presenting bank en-route to the drawee bank branch. In its place an electronic image of the cheque is transmitted to the drawee branch by the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc.



NPS

CTS

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
CENTRAL AUTOMATED PAYMENT SYSTEM

IMPS

RuPay

Challenges at Presenting Bank

- ❑ Processing Cheques for 400+ banks at Western Grid.
- ❑ Various types of stationery for several banks.
 - ❖ Still Old Stationary getting processed (NON CTS 2010)
- ❑ Activities at presenting bank require more time
 - ❖ Technical verification
- ❑ Hardware based solution to detect frauds not available in big machines. Majority work is manual, prone to omissions`

NFS

CTS

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
AUTOMATED PAYMENT SYSTEM

IMPS

RuPay

Challenges at Drawee Bank

- ❑ Drawee/Paying Bank receives Black & white + Grey Scale Image of the cheque.
- ❑ Reduced visibility to verify Client Mandate:
 - ❖ Alteration on the cheque. Less visibility to verify cuts and scratches.
- ❑ Unable to Verify Security Features on Cheque :
 - ❖ Dandy Mark & Watermark.
 - ❖ Micro-lettering of cheque.
 - ❖ Glow-mark of Bank logo & VOID Pantograph.

NFS

CTS

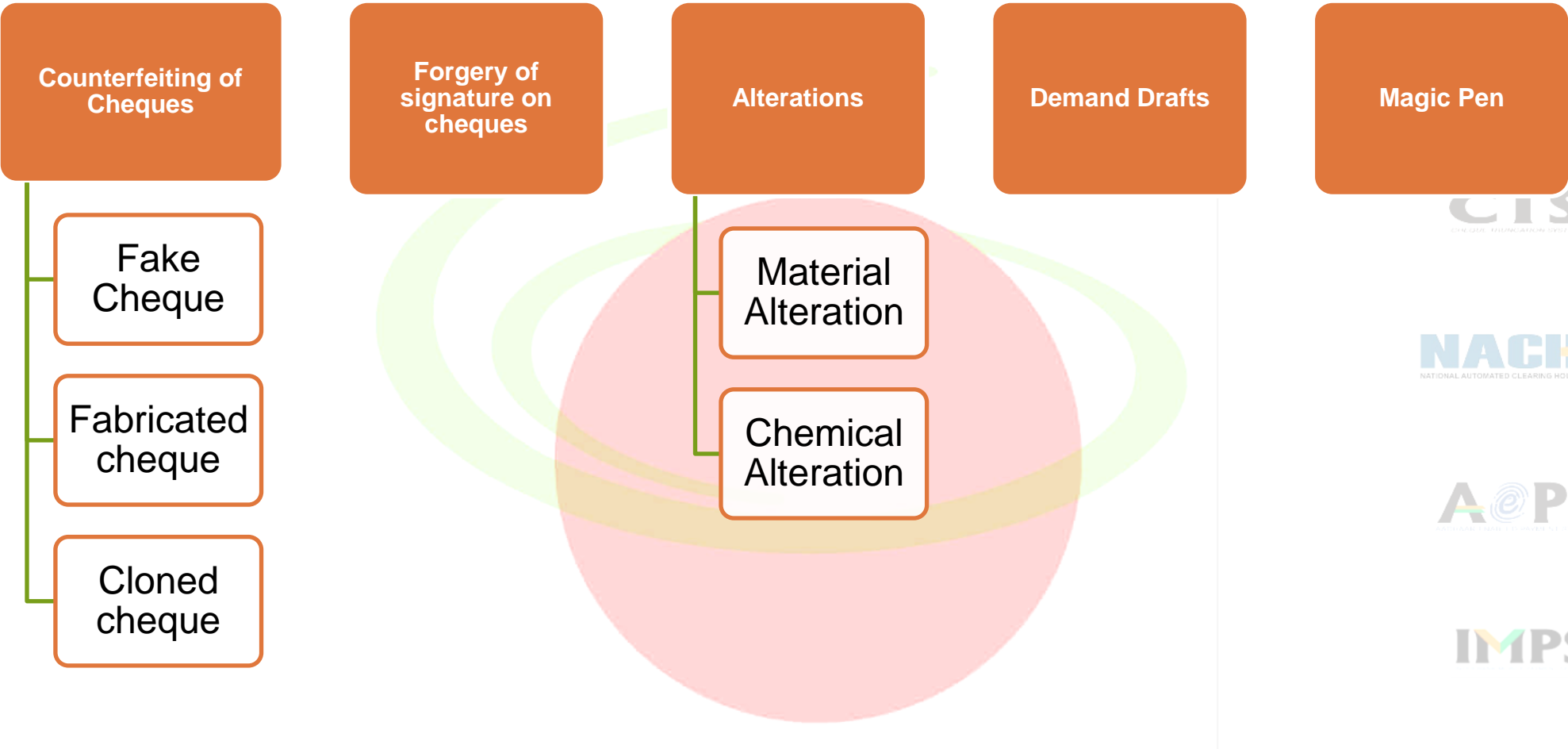
NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
CENTRAL AUTOMATED PAYMENT SYSTEM

IMPS

RuPay

CTS Related Frauds



Counterfeiting of cheques

- ❑ Cheque counterfeiter's use today's sophisticated color copiers to copy valid cheques. Exact imitations of genuine cheques can be created with readily available desktop publishing capabilities and then using desktop publishing software to change some of the cheque information, allows the counterfeiter to include many valid cheque components into the imitation and get it printed on a high quality laser printer
- ❑ The different type of counterfeiting are:
 - Fake Cheque
 - Fabricated Cheque
 - Cloned Cheque

NPS

CTS

NACHI
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
CENTRAL AUTOMATED PAYMENT SYSTEM

IMPS

RuPay

Counterfeiting of cheques

❑ Fake Cheque-

- ❖ Colour Photocopy of the Instrument
- ❖ Scanned & Printed Cheques

❑ Fabricated Cheque-

- ❖ Portions of 2 Separate leaves used to make the cheque

❑ Cloned Cheque-

- ❖ Fraudsters printing the instruments similar to the ones issued by banks

NFS

CTS

NACHI
NATIONAL AUTOMATED CLEARING HOUSE

A@PS

MPS

RuPay

Forgery & Alteration on Cheques

❑ Forgery:

It usually involves the use of legitimate blank cheques, with a false imitation of the drawer signature on the signature line. Many cases of forged signatures are perpetrated by a person known to the valid drawer.

❑ Alteration:

Alterations are defined as valid cheque with certain fields changed. When the payee name is changed, payment is made to the wrong person. The courtesy and/or written amount can be increased, resulting in overpayment to the payee.

NFS

CTS

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS

IMPS

RuPay

Types of Alterations

❑ Material Alteration -

- ❖ Altering / Changing the field names in the stolen / misplaced cheques



❑ Chemical Alteration -

- ❖ Using the chemicals to erase and modify the contents in the cheque with fraudulent information



NFS

CTS

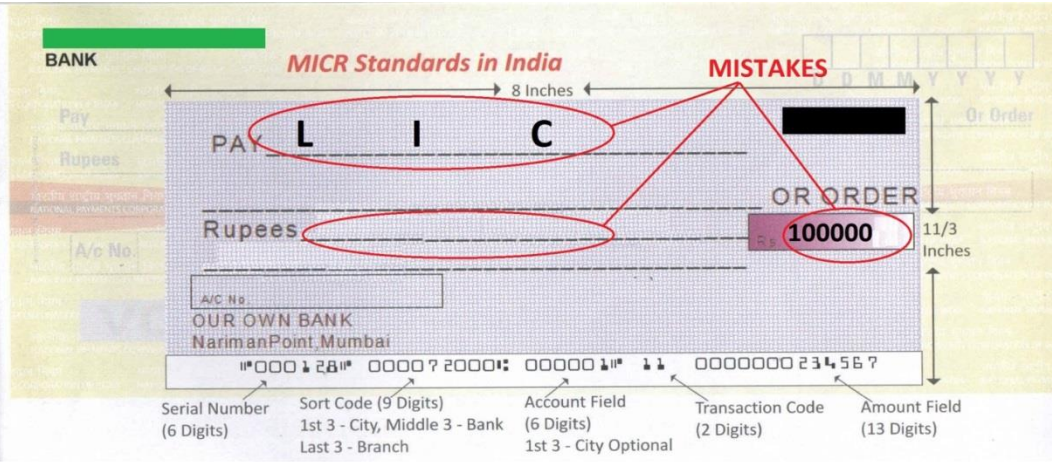
NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
ATM NETWORK

IMPS

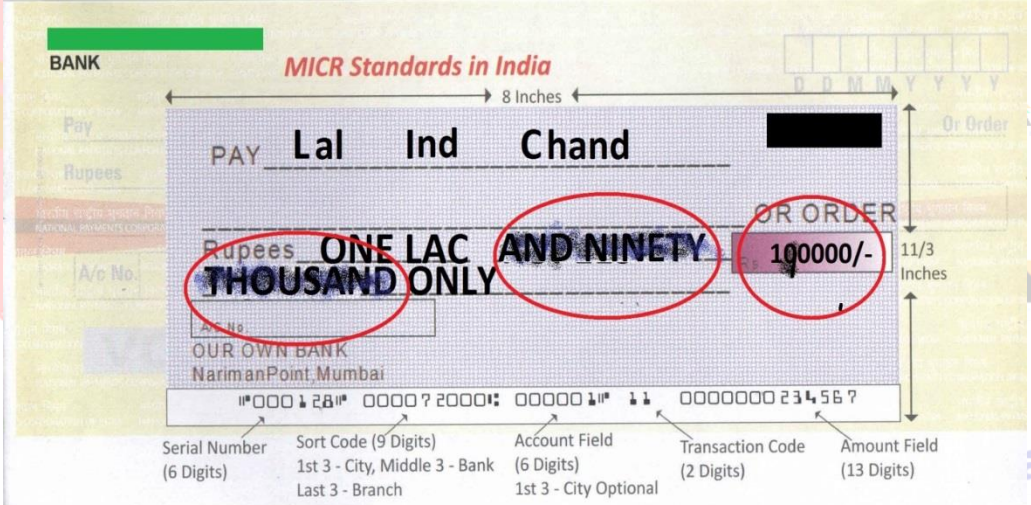
RuPay

Alterations examples



Alteration in Payee Name

Alteration in Amount



NFS

CTS

NACHI
NATIONAL AUTOMATED CLEARING HOUSE

PS

MPS

ay

Demand Drafts

❑ Demand Drafts:

It can be misused to commit fraud because this practice involves misusing of account information to obtain funds from a person's bank account since demand draft does not require that person's signature on a negotiable instrument.

NFS

CTS

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
ATM NETWORK

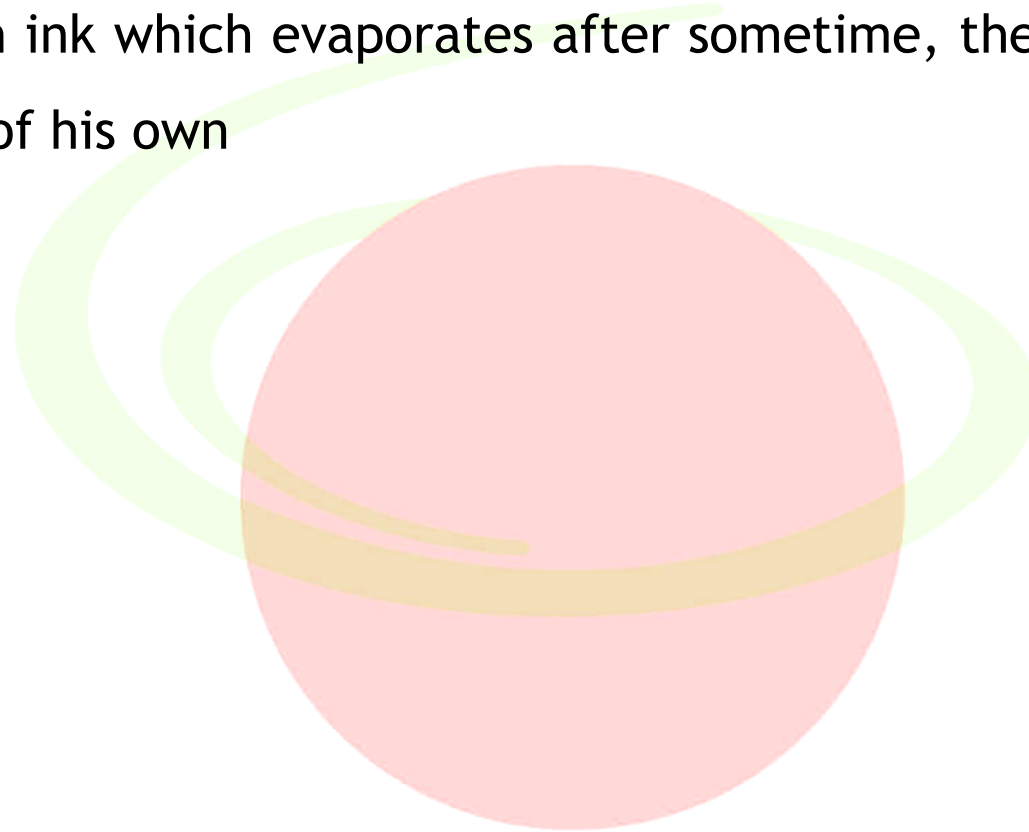
IMPS

RuPay

Magic Pen

❑ Magic Pen:

A pen with ink which evaporates after sometime, the fraudster can then fill up the details of his own



NFS

CTS

NACH

A@PS

IMPS

RuPay

Fraud Prevention Techniques

- ❑ Banks / Customers should use "CTS 2010" cheques which are not only image friendly but also have more security features.
- ❑ Banks should exercise care while stamping the cheque forms, so that it does not interfere with the material portions such as date, payee's name, amount and signature.
- ❑ It is necessary to ensure that all essential elements of a cheque are captured in an image during the scanning process and banks / customers have to exercise appropriate care in this regard.

NPS

CTS
CENTRALIZED CHEQUE CLEARING SYSTEM

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
ATM @ POINT OF SALE

IMPS
INSTANT MONEY PAYMENT SERVICE

RuPay

Fraud Prevention Techniques

- ❑ Customers should preferably use dark coloured ink while writing cheques and avoid any alterations / corrections thereon. Preferably, a new cheque leaf may be used in the event of any alterations / corrections in the cheque.
- ❑ Customers must ensure that details in the cheque should be written without leaving any space in between, giving no room for any insertions in between.
- ❑ Apart from above mentioned fraud prevention techniques, the customers/banks must have awareness about void pantographs, Micro lettering, UV Logo, etc.

CTS 2010 Standards

- ❑ Standardization of fields
 - ❖ Helps in physical verification of instruments of other banks
- ❑ Void Pantograph
 - ❖ Visible on a photo copy of 2010 standard compliant instruments
- ❑ UV Logo
 - ❖ Help the banks identifying the fake instruments by running them through UV lamp and looking for UV logo
- ❑ Micro lettering
 - ❖ In case of material/chemical alteration the Micro lettering on the instrument will get distorted. Banks will be able to identify this by physical verification or through UV lamp
- ❑ Water Mark
 - ❖ Cheque should carry standard water mark with the words “CTS-INDIA”

NFS

CTS

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
CENTRAL AUTOMATED PAYMENT SYSTEM

IMPS

RuPay

CTS 2010 Standards

➤ Bank's logo printed with ultra-violet ink (At Printing Stage):

Bank's logo shall be printed in ultra-violet (UV) ink. The logo will be captured by / visible in UV-enabled scanners / lamps. It will establish genuineness of a cheque.

➤ Field placements of a cheque:

Placement of significant fields on the cheque forms shall be mandated. However, placement of additional fields shall be left to banks. This will enable data capturing by Optical / Image Character Recognition (OCR / ICR) engines in offline mode and help banks in automating their payment processes.

NFS

CTS

NACH

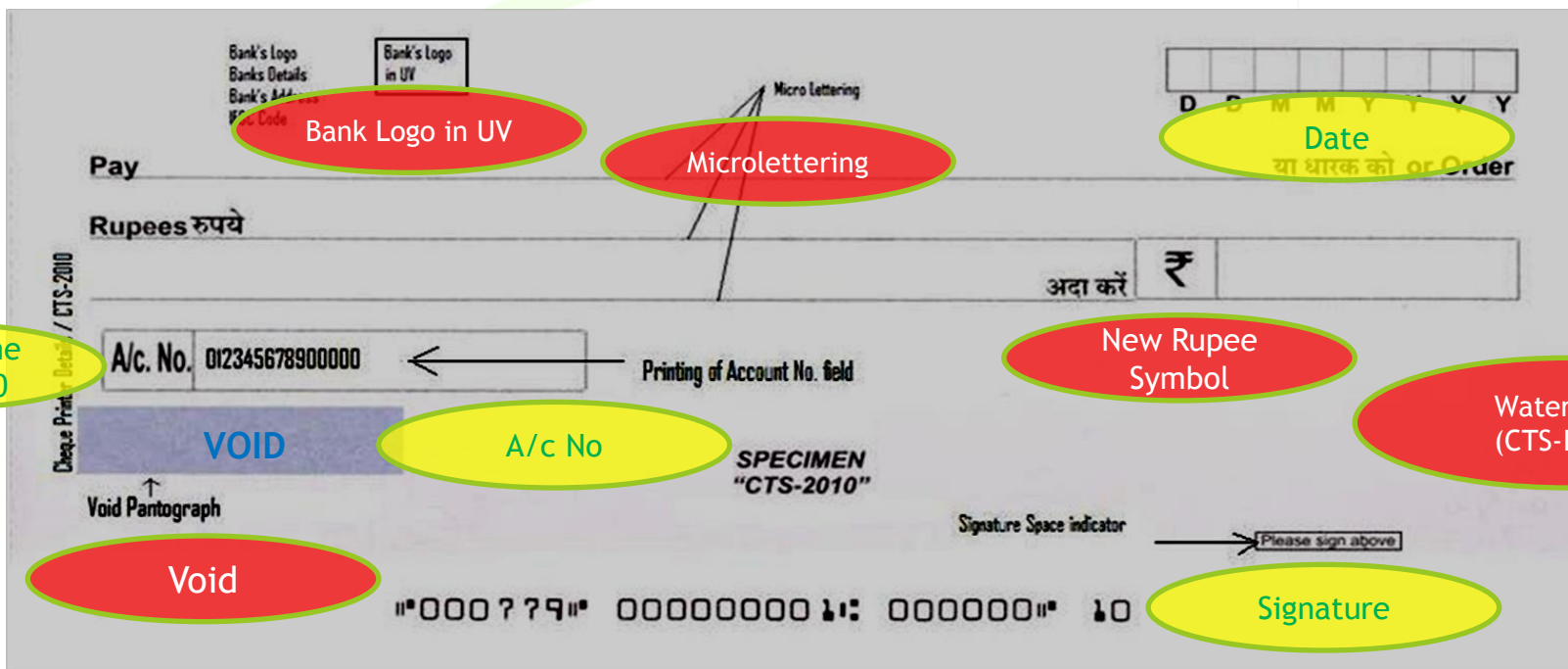
A@PS

IMPS

RuPay

CTS 2010 Standards

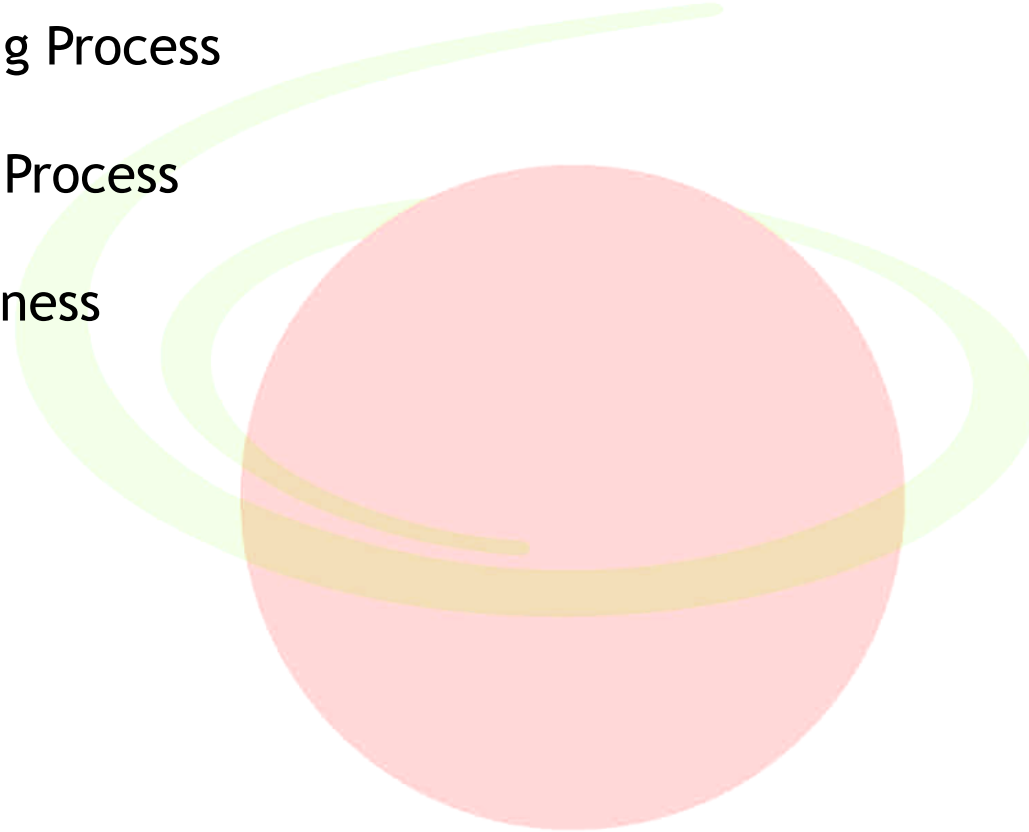
CTS 2010 Standards:



Cheque Validity period is 3 months

Ways to Mitigate Frauds

- Internal Processes
- Outward Clearing Process
- Inward Clearing Process
- Customer Awareness



NFS

CTS

NACHI
NATIONAL AUTOMATED CLEARING HOUSE

A@PS

IMPS

RuPay

Internal Process

- Ensure that KYC done for all the new accounts as per the guidelines issued, from time to time, by RBI
- Monitor the transactions of all the new accounts for a period as may be decided
- Upper limit may be set for ATM and internet based transactions of new accounts till such time bank is comfortable with the operation of the account
- All the cheque leaves pertaining to an account closed should be defaced and then shredded
- Document the standard operating procedures
- Staff dealing the customer accounts and cheques should be given fraud awareness training

NFS

CTS

NACHI
NATIONAL AUTOMATED CLEARING HOUSE

MPS

IMPS

RuPay

Internal Process

- Provide the details of beneficiary in the account statement of the customer
- Verify the credentials of any agency or person engaged to carry out activities on behalf of the bank
- Follow the RBI norms and act accordingly on the accounts where cheques are frequently returning for insufficient funds especially high value cheques
- Should a fraud occur in your bank - share the modus operandi with fellow bankers so that they will be alert to such type of frauds

NFS

CTS

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS

IMPS

RuPay

Outward Clearing Process

- Monitor the process of Cheque movements from drop boxes and ATM sites to the processing Centre
- Slab wise Verification - for high value cheques - it is suggested to have dual checking
- UV lamp verification
- Check for any alterations, erasures on the cheques
- Check the quality of paper, printing and uneven spaces (if any)
- Be alert while high value instruments are getting presented through dormant or inoperative accounts
- If it is a CTS 2010 standard instrument then look for Void pantograph

NFS

CTS
CENTRAL TRANSACTION SYSTEM

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
AUTOMATED PAYMENT SYSTEM

IMPS

RuPay

Outward Clearing Process

- ❑ Processed CTS instruments should be stored with proper processed seal to avoid duplication. Please refer to the CTS procedural guidelines
- ❑ In case of suspicion, please check up with the customer before presentation
- ❑ MICR rejects
 - ✓ In case of Xerox copy or duplicate instrument there is a very high possibility of MICR reject at the time of scanning.
 - ✓ At the time of scanning, if the MICR code can't be read by the scanner, the instrument will be shown as MICR reject.
 - ✓ Before updating the MICR code manually the bank should ensure the following
 - ❖ Verify the reason for MICR reject.
 - ❖ Double check whether all the CTS2010 features of the instrument are in order
 - ❖ Whether the account to which the instrument is being collected is an active account

NFS

CTS
CENTRAL BANK OF INDIA

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
ATM NETWORK

IMPS

RuPay

Inward Clearing Process

- ❑ Technical Scrutiny of the instruments
- ❑ Verify the signature on the cheque
- ❑ If Image not clear/looking suspicious then ask for physical instrument from the presenting bank
- ❑ Reconcile the Paper to follow Inward items
- ❑ Do not process any P2F instrument without verifying physical instrument
- ❑ In case of CTS 2010 Instrument check for VOID pantograph
- ❑ Return any cheque with material alteration even if such an alteration is duly authenticated by the drawer of the cheque (exception being date field)

NFS

CTS

NACHI
NATIONAL AUTOMATED CLEARING HOUSE

A@PS

IMPS

RuPay

Inward Clearing Process

- ❑ Be very careful in case of instruments for which MICR reject repair performed by the presenting bank
 - ✓ System provides an indicator for reject repair being done for an instrument
 - ✓ Thoroughly check the instrument before clearing the same
 - ✓ In case of high value transactions, it is suggested to seek confirmation of the account holder

NFS

CTS
CITY CLEARING TECHNOLOGIES

NACHI
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
AUTOMATED CLEARING SYSTEM

IMPS

RuPay

Customer Awareness

- At the time of receipt of cheque book, make sure all of the cheques are there, and that none are missing. Report missing cheque to your bank at once
- Store cheque book, deposit slips, bank statements and cancelled cheques in a secure and locked location
- Always issue Account Payee cheques
- Don't leave blank spaces on the payee and amount lines
- Draw a Line after the name, amount and wherever empty space was left
- Always use Gel ink pen
- Never Pre-sign the cheques

NPS

CTS
CENTRALIZED TRANSACTION SYSTEM

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
ATM @ POINT OF SALE

IMPS

RuPay

Customer Awareness

- Always write the details of the cheques issued in the appropriate column provided in the cheque book
- Reconcile / Review Bank statements regularly
- Start using CTS 2010 standards cheques
- Never give your account number and other credentials to anybody
- Unless needed, destroy old cancelled checks, account statements, deposit slips, ATM receipts
- At the time of closure of an account, return unused cheques to the bank
- Use alternate channels of payment for High Value transaction

NFS

CTS
CHECK CLEARING TECHNOLOGY SOLUTIONS

NACH
NATIONAL AUTOMATIC CLEARING HOUSE

A@PS
ATM@POST

IMPS

RuPay

RBI Master Circular on Frauds Classification & Reporting:

<http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=7381&Mode=0#gui>

NFS
NATIONAL FINANCIAL SERVICES

CTS
CITY UNION TECHNOLOGICAL SERVICES

NACHI
NATIONAL ACCOUNTING INFORMATION SYSTEMS

A@PS
ATM@PS

IMPS

RuPay

THANK YOU

mumctsops@npci.org.in

NFS
NATIONAL FINANCIAL SERVICES

CTS
CITY UNION TRADING SYSTEM

NACH
NATIONAL AUTOMATED CLEARING HOUSE

A@PS
ATM @ POINT OF SALE

IMPS

RuPay