CHEQUE IMAGE CLEARING SYSTEM:

AN INNOVATIVE APPROACH TO DEFEATING CHEQUE FRAUD

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Introduction

In our first whitepaper of 2019, *Fighting Cheque Fraud in the 21st Century: Cheque Fraud Detection in the New Clearing Model*, it was explained that whilst volumes have steadily fallen during the 21st century, the cheque is now a modernized and very efficient money transmission option. In fact, just seventeen months ago, this resilient payment instrument perhaps underwent its most significant revamp to date, as the first phase of the highly anticipated Image Clearing System (ICS) came into effect.

ICS: The journey so far

This saw a clearing infrastructure put in place to accept and switch data and scanned images, in lieu of the actual paper cheque. As a result, cheques are 'truncated' (digitised) at the point of deposit and are no longer transported during the clearing process.

ICS went live on 30 October 2017 with, initially, very low volumes, however, the number of processed items has significantly and steadily grown over recent months. Since its introduction, industry commentators have overwhelmingly agreed that ICS has dramatically enhanced the efficiency of the cheque as a payment tool. For

instance, all items deposited on a weekday will be cleared by no later than 11.59pm the following weekday – a huge improvement compared to the previous 2-4-6 model.

As we reach the spring of 2019, it is fair to suggest that ICS is in the final stages of its roll-out, and by the end of Q2 the industry expects the system to be fully deployed.

Recognition of fraud

During the early implementation of ICS, there was a widespread industry expectation that professional fraudsters would test the new system and those expectations have been met. It is understood that increased attempts to defraud the cheque payment system have been made but it is encouraging to note that the vast majority have been foiled due to a combination of the historic paper-based fraud prevention processes and procedures, as well as the success of the first wave of Image Survivable Features (ISF), which has been typified by the use of UCNs (Unique Coded Numbers). Refer to our earlier whitepaper for access to cheque fraud figures.

Traditional fraud prevention measures

The traditional security features, which are both overt and covert, include but are not limited to printed devices involving the use of invisible ultra violet ink, as well as the use of fugitive and solvent sensitive inks. These are part of the prevailing regulated Cheque Standard - which is known as Cheque & Credit Clearing Company (C&CCC) 3.1 - and they remain the requirement for the printing of all cheques in the UK.

In the new image world, the document only retains a value, for the purposes of clearing, up until the point at which the cheque is digitised. This can be as early as its receipt by the payee whereupon an individual or a small business could, by agreement with its bank, capture the image using a smartphone app and deposit the cheque remotely into the clearing infrastructure. This process is achieved in the corporate sector with the use of a desktop scanner, which can process multiple cheques at one time. As a result, as soon as the cheque has been remotely deposited the paper document has no legal value and can be destroyed.

At this point, the visible features retained in the image are the only active elements that can prevent fraud attempts from the point of deposit until the clearing of the funds. The work the industry is undertaking to ensure that features retained in the image are active, robust and verifiable, is the key to enhanced fraud prevention in image-based clearing.

For many years, images of cheques have been taken as part of the clearing process even though the paper has, until now, remained the clearing instrument. Elements of those images - such as the nature of the handwriting, the positioning and profile of the signature, and the payee name and amounts - have and will continue to form the basis of a fraud prevention profiling exercise, which is undertaken by DIA Europe (Kappa).

The growth in Image Survivable Features

The historic and ongoing image-based fraud profiling tool (as discussed above) now has greater significance, due to the invalidity of the paper document once any image has been submitted. This is being supplemented by the introduction of new and enhanced ISFs – and these are under continuous development – the most established of which is UCN.

UCN has been deployed by the majority of financial institutions in the UK, which enables the Kappa profiling tool to additionally the match the UCN (typically an alphanumeric string printed visibly in two places on the front of every cheque) to the magnetic ink code line to ensure that it is authentic, it has not been altered, and that any representation of the code line genuine and not a counterfeit.

Another new and exciting feature involves the addition of a QR (‘Quick Response’) two dimensional barcode on the face of the cheque, which incorporates not only the magnetic ink character recognition (MICR) line - the account number, sort code and serial number of cheque – but also the key variable data, such as the payee name, the amount in value and the date of the issuance of the cheque.

This feature has been developed jointly by the TALL Group of Companies and DIA Europe/Kappa, and introduced under the registered trade name UCN Plus ®
and made available to corporate users, financial institutions and SMEs. Many such cheque issuers use in-filling software applications, which apply the variable data and the code line at the point of issuance. This is where the UCN Plus feature automatically generates an encrypted data stream, which drives the application of

the two-dimensional bar code (QR code) and is then decoded and matched within the clearing infrastructure by the fraud prevention platform (DIA Europe - Kappa).

Looking ahead

The industry envisages further developments to support the fraud prevention solutions delivered through ISFs, and the TALL Group of Companies intends to inform the industry, and educate users, as to the importance, simplicity and cost effectiveness of such features as they emerge.

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