



Virtual accounts offer strong protections against payment fraud

*by Nicole Tackett, Head of Emerging Markets and Strategy,
U.S. Bank Corporate Payment Systems*



Think quick – where is your checkbook? Do you carry it with you, or is it at home collecting dust? If you're like most people, you write significantly fewer checks than you used to. But that's not the case in the business world. According to the 2017 CRF/NACHA Payment Benchmark survey, checks still make up 49% of all commercial payments.

Top performing A/P departments use a strategic mix of payment methods to optimize working capital, and checks will always have a place in that mix. But as check fraud schemes become increasingly sophisticated, the need for more secure payment alternatives has grown.

Consider these indicators:

- The National Check Fraud Center estimates \$10 billion in annual losses from check fraud and counterfeiting.
- The 2018 AFP Payment Fraud Survey reports that 78% of surveyed organizations experienced payment fraud in 2017. Seventy-four percent of that fraud involved checks.
- American Banker magazine estimates that check fraud losses will grow by 2.5% annually in the coming years.

Virtual payment accounts offer several fraud protections that make them significantly safer than checks. Virtual payments are cardless account numbers set to a specific supplier, payment amount and date range. Strong control features make them an ideal defense against payment fraud.



Five-point virtual payment protection

While no payment method is 100% immune to fraud, cardless virtual accounts are significantly more secure than checks. Five features help prevent theft and protect against loss.

- 1 Unique account number** – Virtual account numbers are coded for a specific supplier and a set amount. They can't be processed without the correct supplier credentials and they can't be charged for an unauthorized amount.
- 2 Automatic deactivation** – Once a payment is processed, a virtual account number automatically becomes inactive and can't be used again. This reduces the risk of intentional fraud as well as accidental duplicate charges.
- 3 MCC controls** – Organizations have the ability to designate allowable MCCs for their program. Fraud risk can be reduced by blocking MCCs that your organization wouldn't likely be making payments to.
- 4 Account number expiration** – Virtual accounts can be coded with expiration dates to ensure that suppliers process payments in a timely manner. If a payment isn't processed within the allowable timeframe, the account number expires and can't be charged. Limiting the time that an account number is active reduces exposure to fraud.
- 5 Liability waiver** – Virtual accounts carry liability protection – a significant advantage that organizations often overlook or aren't aware of. In the unlikely event that a virtual account is fraudulently charged, the loss is covered by the paying organization's commercial card association. Visa and MasterCard offer similar liability waiver protections. If a virtual account number is processed for an unauthorized charge, organizations have the same chargeback rights as "card not present" commercial card transactions. That means that if the fraud is reported according to contract terms, the paying organization won't be liable for the loss.

Mount a strong defense

The best defense against fraud is to prevent it from happening in the first place. If your organization doesn't conduct regular reviews of its payment security policies and practices, make that the first priority. Plans should address scams initiated by individuals – such as phone calls and letters – as well as automated, electronic cybercrimes like phishing and hacking. Are procedures in place? Do employees have the tools and training they need to put them into practice?

Review current payment methods

Consider the security features of your organization's payment methods. If your A/P department relies heavily on check payments, the addition of virtual accounts could reduce your exposure to fraud. And your card association's liability waiver can provide an additional layer of protection against loss.