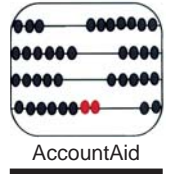


AccountAbleTM

ASIA

The risk with cheques Issue 12; Released: January' 09



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provides an automatic third party record also. This is very useful for audit and tax assessment. But there are risks involved in using cheques too. This issue of AccountAble would discuss about some of those risks.

Ways of the Wicked

What are the ways in which people can cheat you through a cheque? Alteration of the cheque is one, theft of cheques is another.

1. Alteration of Cheques

This is one of the oldest tricks. You give someone a bearer cheque, after filling the amount in words and figures, and sign it.

That person changes the amount in some way. This could be done by altering the figures and words. After that he or she encashes the cheque and disappears with the money. For instance, seven thousand can be changed rather easily to seventy thousand by adding a zero, and the letters 'ty':

seventy 70000

This alteration is done very carefully and could not have been noticed without a very careful examination. As a result the bank pays Rs.70,000 to this person.

Or if an account payee cheque gets into the wrong hands, they could change the name of the payee and collect the amount. This trick has been around for many years. Let us look at some of the cases.

We all use cheques and to an extent, consider it as a safe mode of making financial transactions. Over the last few years, there has been a big increase in the use of cheques. This is a part of Government policy to encourage the growth of banking habits.

China is one of the most rapidly growing economies in Asia. It processed half a million cheques in 2005 and this trend is growing at a significant rate. Similarly in Singapore, Malaysia, Philippines, Thailand, Vietnam, Sri Lanka and India cheques have remained the most acceptable form of non-cash payment. On an average, the annual volume of cheques cleared in India was estimated to be 1.2 billion (1200 million) cheques for the year 2005. Approximately 40% of all the payments processed by the International Banks in Asia are in the form of cheques¹.

There are many advantages in using a cheque, instead of cash. There is less risk of your pocket being picked or your office being burgled. It



¹ HSBC's Guide to Cash and Treasury ... - Google Book Search - pg 60

www.AccountAid.net

Cheque fraud checked

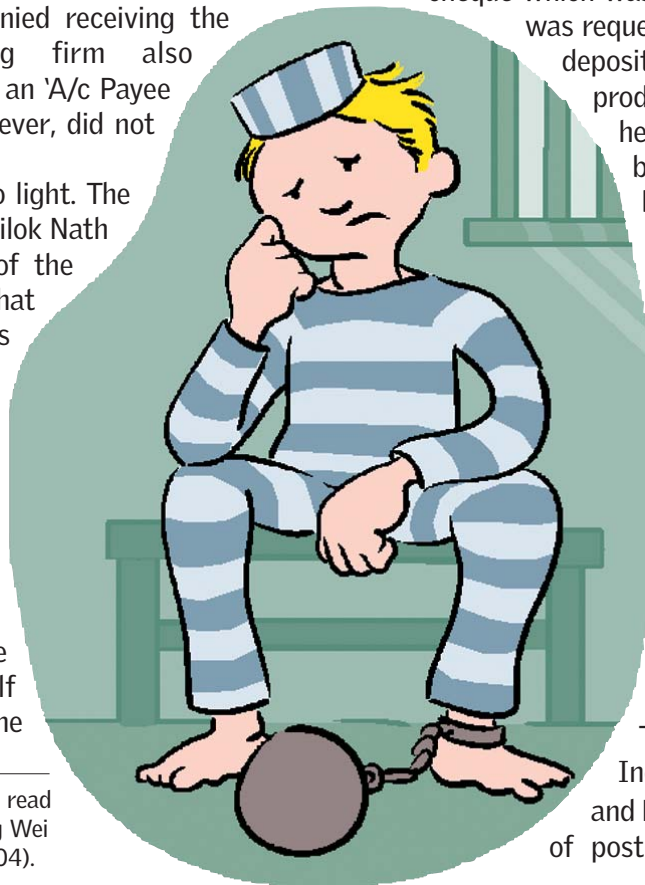
In Singapore, the Commercial Affairs Department (CAD) smashed a cheque fraud syndicate after it got an alert from DBS Bank on February 18, 2003.² A group of miscreants had been stealing the cheques from letterboxes in industrial buildings. They would then change the particulars and forge the signatures. Later they deposited these altered cheques in quick cheque deposit boxes to avoid detection. These alterations were made in such a way that it took quite a lot of time to get hold of these crooks. They used the Post Office Savings Bank (POSB) accounts of persons who had left Singapore, making it difficult for investigators to trace the fraud. But the vigilance and alertness of the bank brought the offenders under control.

Bearer or A/c Payee?

In 1948, Bank of India paid Rs. 25,000 in cash to a person over the counter. This was a bearer cheque favoring Sh. Krishna Baldev.

However, Sh. Baldev denied receiving the money. The publishing firm also insisted that it had issued an 'A/c Payee Cheque'. The cheque, however, did not bear any such crossing.

Later the story came to light. The cheque had come to Sh. Trilok Nath Sood, Chief Accountant of the bank for initials. He saw that the 'A/c Payee' stamp was on the white edge of the cheque. It did not cover any of the background patterns on the cheque. So he erased the crossing with Benzene without disturbing the pattern. Then he initialed the cheque and collected the payment in cash, himself being a top official of the



² Source: <http://www.cad.gov.sg> read 'Cheque fraud checked, by Wong Wei Kong (Business Times 1 Mar 2004).

On an average, the annual volume of cheques cleared in India was estimated to be 1.2 billion cheques for the year 2005.

bank. Sh. Sood received a jail sentence of seven years for his wrong intentions.

Cashier's cheque fraud

Alan pretended to be a buyer and paid Raghav a cashier's cheque which was in excess of the purchase price. Raghav was requested to wire the balance back to him. He deposited Alan's cheque and then sent out the products and balance as requested. But later he was informed by his bank that the buyer's cheque was fraudulent. He lost both, his money and the merchandise. Alan knew the trick of the cashier's cheque that the payee's bank credits the seller's account before the funds have actually arrived from the paying bank. Therefore, it looks like the funds have cleared and everything is OK.

2. Theft of Cheques

In the good old days, sometimes cheques used to be stolen if sent by ordinary post. Let us look at some of these cases.

The Imposter Postmen

This happened during the Emergency in India, in 1976. Two persons, Lalit Kumar and Radhey Shyam put on the 'khaki'³ uniform of postmen. Then they went around stealing

mails from letter boxes placed at selected locations. Later they would open these and take out things which were useful for them. One day they got a signed cheque of a Trust, 'Jnanpith Sansthan (ज्ञानपीठ संस्थान).'

First they printed an exact copy of the requisition slip. Then they forged the signatures and obtained a cheque book from Syndicate Bank. Then they started forging bearer cheques of Jnanpith Sansthan. In ten days, they managed to draw seventy thousand rupees from the account. The next cheque was for forty thousand rupees. The bank got suspicious and the balloon went up. But the bank had already lost seventy thousand rupees.

Later, it was discovered that these people had defrauded several banks for lakhs of rupees in the same manner.

That was in another age and time. Most people now prefer to use private couriers. Ordinary mail is now used mainly for bulk mailing. But stealing of cheques continues. In fact, the increasing use of couriers has made this more widespread.

The Courier Menace

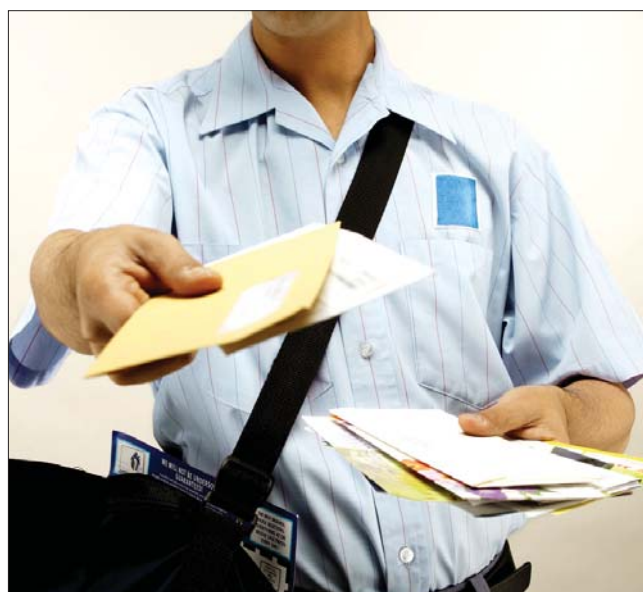
Our experience shows that if you send out money (cash) or anything valuable through a courier, you are likely to lose it. This is very common among the cheaper services.

To do this, they cut several corners, employing people at extremely low wages. They also network with other courier services. As a result, they have very little control over who handles the packets.

In some cases, the envelopes are scanned to detect currency or anything valuable. These are then simply cut open and the money stolen. The courier will then often simply staple the envelope and deliver it to the addressee. Even if the addressee figures out that something has been stolen, he can't really do much to recover it.

The Cheques that you send out

In some South Asian countries, the cheques must be sent by registered post only. It is a common practice



to get the cheques in your mails. Sometimes even this does not help and there remains a fair risk of losing it.

In one case, Indo Aid sent a crossed account payee draft by registered post to an NGO called PRAKRITI. The envelope was opened at an RMS⁴ station, and the draft stolen. The empty envelope was delivered to PRAKRITI. PRAKRITI's accountant then called up Indo Aid's office and reported the matter.

By the time Indo Aid started follow-up; the thief had coolly walked into a bank, and opened a bank account with IDFC in the name of Prakriti, an individual. The draft was collected in two days, and the money withdrawn.

Though this happened three years ago (and a police case registered), the money has not been recovered so far.

So does that mean that we should start carrying the money in sacks? In Accountable 13, we would discuss ways to protect ourselves.

³ Brownish and tanned yellow coloured fabric, often used for military uniforms

⁴ Railway Mail Service

ORIGIN OF CHEQUE

There are two common viewpoints about the humble origin of "Cheque." Some people believe that it has got its name from the action of putting a king in 'check' in the game of chess. In a game of chess, when the King is under threat, the player calls out 'shah' (डककग). Shah here means influence, power and threat. It is an abbreviated form of another Persian word Sh?h (डककग | King). The other player then tries to defend the King. If there is no way to defend, the winning player calls out 'maat' (कर) and the game ends there. This means that once you have the king in check, no other move is allowed. Similarly the term 'check' was started to be used in the banking terminology to check, recheck and prevent us from forgery and alterations. In British



English the spelling was changed and modified to 'Cheque.'

Apart from this, another school of thought exists. For some people the modern concept of cheque has come from the Arabic term 'Saqq' which was used as "a promise to pay the bearer" for carrying trade and transactions by the Muslims since the 9th century. It is also believed that during that time a

Muslim business man could cash his cheque in China drawn on sources in Baghdad.

Sources: www.etymonline.com; Bloomsbury Dictionary of Word Origins, John Ayto (1990); American Heritage dictionary of Indo-European Roots, The Calvert

Watkins, 2nd Edition, Houghton Mifflin

Company, Boston, 2000;

<http://www.leicesterisoc.org/dyk.htm>

About AccountAid: AccountAid is a private consulting firm based in New Delhi. It works on accounting and regulatory issues concerning NPOs. For this purpose, it conducts research, workshops, and publishes reference material relevant for NPOs and grant-makers. It also provides advice to donor agencies on grant management systems.

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