



Empowering Frontline Fraud Defense

October 2023

Trevor Lain, Founder & CEO

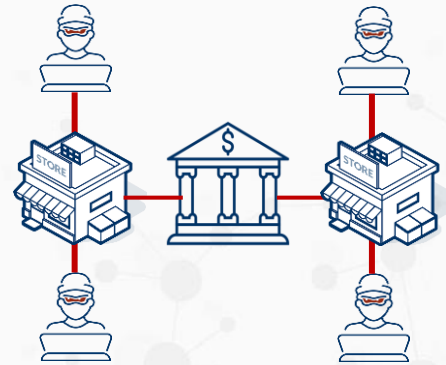
The Problem

- The migration of fundamental banking operations like check deposits, wires and ACH originations from banks' own internal environments to **50,000,000** remote SMB locations in the US has created significant risk for banks. Auditors consider these locations to be the same as a bank branch for risk management.
- SMBs are easily compromised. To rob a bank, criminals don't need to breach the bank walls when they can exploit vulnerable cracks in the customers' business operations.
- The banks' outdated methods to assess and mitigate risk and audit compliance are too costly, too slow, incomplete, and inefficient.

Results of the Problem

An explosion of fraud targeting SMB payment activities:

- According to the **Federal Reserve**, the dollar volume of fraud is growing faster than the volume of noncash payments.
- Business email wire fraud **up 380% in 12 months**, from \$1.8B in 2020 to \$6.9B in 2021.
- Check fraud **rising 50% annually** since 2019. (One of our clients lost \$35M in one year to highly sophisticated check fraud before turning to LexAlign.)
- ACH fraud is **growing exponentially**.
- **65%** of businesses attacked in 2022.



The Opportunity

SaaS Subscription Model



**FIs Pay Monthly
Subscription**

(For each audit
module on each
customer dashboard)



**50,000,000
SMB accounts**

(US market)



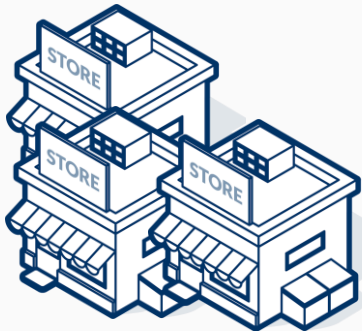
**\$4.3 Billion
Annually**

(TAM for first 3 products –
& banks already asking for
more...)

The \$4.3 Billion Opportunity in Risk Management



- After SVB and First Republic, banks are focused on cutting costs, improving risk management, and preventing commercial deposit flight.
- Their most profitable customers are commercial deposit holders that use core treasury products like remote check deposits (“RDC”), ACH and Wires, transacting over \$120 Trillion in volume each year.
- These are also the customers most susceptible to increasingly sophisticated fraud schemes, like check fraud and “business email compromise,” which threaten banks’ safety and soundness, causing tens of billions in losses and billions more in risk management costs.



A true story



Fraudster's hacked a major bank's client, and were tracking the CEO.

As soon as he left on holiday, they sent an email *in his name* to the CFO...



"My wife Jeanie and I have gone on a cruise but I need you to wire some money for an acquisition we just made."



To the bank, this was a valid request from the client.

By the time the CEO checked in, \$2M had been sent to accounts in Asia and was lost.



It wasn't the bank's mistake, but the bank covered the loss rather than face a lawsuit by their client and *dire* reputational harm.

Fraudsters exploit gaps in business operations that are invisible to banks.

What Banks do today

Tactics for remote operational risk management:

- One-size-fits-all questionnaires
- Audit only a fraction of business customers
- Perform attestation only
- Do nothing, hoping auditors won't notice



These tactics are ineffective:

- They are manual processes that require expensive people resources
- They offer no value to the customer
- They don't address the risk

What's Missing?

Transaction Monitoring

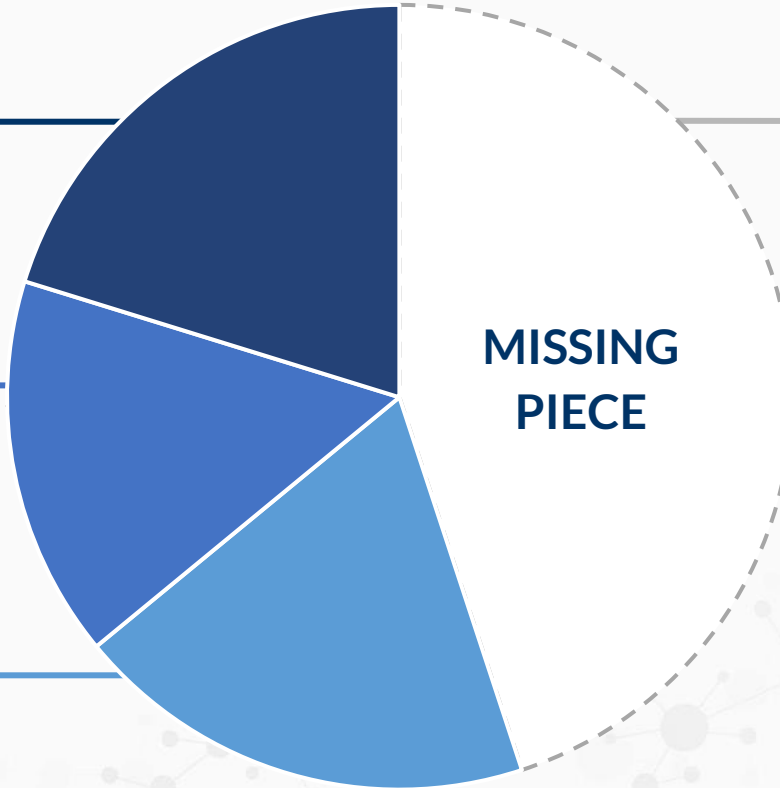


VERAFIN

KYC (Know Your Customer)



Public Source Info



An effective & proactive way to assess, measure & mitigate SMB operational risk – & empower Frontline Fraud Defense.

Barriers to entry - Why hasn't this been solved?



- To manage remote operational risk, gaps in SMB operations need to be made visible to both the SMBs and their banks, enabling proactive, targeted, scalable, and efficient risk management.
- This requires making expertise on the relevant rules and risks accessible to SMBs by automating the operational audit.
- But the risks and related regulation are too complex, multi-source, multi-dimensional and ever-changing for standard automation techniques that rely on decision trees.
- It is not reasonably feasible to build and maintain a multi-dimensional decision tree.
- Take the experience of one of our partners...

Barriers to entry - LexAlign's hard-to-copy IP

- Allen & Overy is a leading “Magic Circle” international law firm that prides itself in using technology to improve the delivery of guidance to its clients, including most of the world’s largest financial institutions.
- Automating financial regulatory advice was too complex for Allen & Overy’s usual vendors.
- Allen & Overy turned to LexAlign for help after years trying to work with different so-called “expert systems” creators.
- Founded by one of America Banker Magazine’s 2023 Innovators of the Year, **LexAlign solves this problem using a mathematical model and bespoke programming language that enable us to convert any area of expertise into a relational database, dynamic diagnostic interview, and tailored guidance.**

Remote operational risk management

LexAlign enables banks to manage frontline operational risk in three steps:

1. **Dynamic diagnostic interviews** that illuminate gaps in customer operations and knowledge,
2. **Instant Customized Guidance** that customers need to protect themselves, and
3. **Automated risk Intel, data analysis, scoring, and records** that banks need to measure, manage, and demonstrate superior risk management, *at scale*.



What LexAlign clients & experts are saying...



- “LexAlign is the future of compliance, security monitoring and data management for treasury products and services.”
- “I would recommend LexAlign to any financial institution looking to reduce the burden of compliance monitoring and/or improve their RDC risk management.”
- “Before LexAlign, monitoring customer adherence to their responsibilities related to a high-risk service like RDC was extremely difficult and laborious.”
- “Without LexAlign, tripling our treasury customer base via merger would’ve been a nightmare. With LexAlign, growth and risk management are aligned.”
- “LexAlign takes fraud risk management from triage to prevention.”

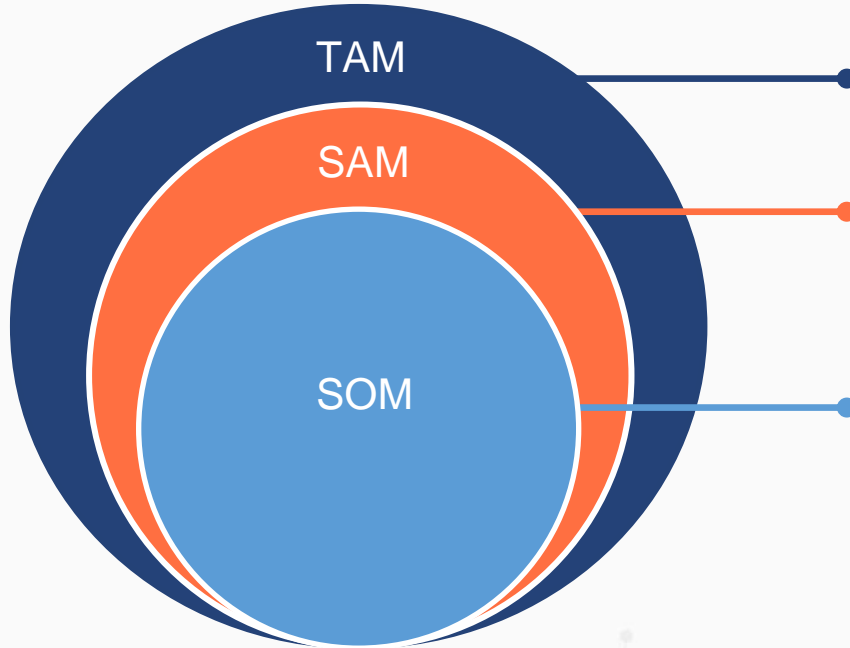
Highly Effective Distribution

LexAlign is a turnkey solution. Selling through partners makes access to our service a simple click of a button.



Launched with FIS: November 2022. Any FIS client (6000+) can obtain LexAlign under their MSA.

TAM SAM SOM Analysis



\$4.3 Bn

Applicability of initial 3 modules for SMBs

\$3.5 Bn

6000+ FIS clients can now obtain LexAlign solutions under their ITSA

\$2.1 Bn

Given target FI asset size and commercial customer base

Investment Seed Round

- Seeking \$2M at pre-money valuation of \$12M
- Use of proceeds, increasing staff with key competencies to enable us to:
 - Support FIS mass enablement (including training FIS on implementations and support, attending client meetings in Jacksonville, FL)
 - Launch the ACH Diagnostic & risk management features that banks, FIS and NACHA are demanding we produce (completing the initial product suite banks have requested)
 - Adding 20 new bank clients with average net ACV of \$75K
 - Adding one new channel partner

Coming soon...

LexAlign AI: “FICO for Fraud”

As we help, we also create what FICO and the owner of Zelle have called our **“unique data asset.”**

Using machine learning and pattern analysis we create even more value: first an **Early Warning System** for fraud, and later a **Ratings System** for compliance and risk.

We can **advance the needle from risk detection to risk prediction** across a wide spectrum of risk types.

LEXA™ RATINGS



Steven's Chevrolet	888
Millennial Health Club	459
Tucson Timeshares	536
Popper Payroll Services	692
Max Title Loans	721

Leadership Team

Over 75 years of combined experience creating new businesses and solving big problems for major institutions



Trevor Lain
Founder & CEO

Attorney, led 100 attorneys helping banks in last financial crisis,
Finalist - American Banker Magazine's
2023 Innovator of the Year



Sebastián Brocher
Co-Founder & CTO

IT expert for fintech, telecom
& healthtech



Michael Cohen
VP, Marketing

Marketing expert with successful
startup exit experience

Welltok. **tangoe** **traq-wireless**



Advisory Team

Leaders in finance and law and a top former regulator.



**Kristy
Duncan**



**Brendan
Holt Dunn**



**Michael
Benoit**



**Andy
Brown**



**Dan
Quan**



“LexAlign is among the very few regtechs truly able to significantly reduce the compliance burden and cost by automating haphazard and error-prone manual processes.”

Summary

Problem:

The shift in banking to remote locations has created significant risk for banks who don't have an effective way to manage this risk.

Opportunity:

Initial focus area is an \$4.3B opportunity.

Solution:

After being told it wasn't possible, we've brought a new capability and growing set of solutions to market, with groundbreaking IP and channel relationships that create steep barriers to entry.

Team:

We have the right team to lead the company. Need to add more resources.

The greatest risk comes from millions of small companies.

CONTACT INFORMATION

Trevor Lain, Founder

trevor@lexalign.com

202.365.7054