



# Zafin, the Vancouver fintech that helps banks fight off digital rivals, makes acquisition and eyes 2023 IPO

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A Vancouver software company that helps banks compete more effectively against fast-growing digital rivals has bought a quantitative analysis company to expand its products and clients ahead of possibly going public next year.

Zafin Labs Americas Inc. is paying US\$32.7-million for Surrey, B.C.-based FinancialCAD Corp., or Fincad, a provider of derivatives valuation software. The combined entity will have revenue in the high tens of millions of dollars and 500 employees.

The deal enables Zafin to offer expanded analytics capabilities to its 30 bank customers, including Canada's Big Five, Barclays PLC, ING Groep NV and Bank of America Corp., and to cross-sell to Fincad's 400 capital markets clients.

The deal "allows Zafin to build depth around strong analytics they can do across the banking industry by leveraging Fincad's strengths," said Zafin board member Dave Revell, former Canadian Imperial Bank of Commerce chief information officer. "It helps enter an area [capital markets] where Zafin doesn't really play today."

Zafin has built one of Canada's larger financial technology providers by selling software that doesn't challenge banks but instead helps them fend off digital upstarts. Regulated banks typically have outdated, cumbersome computer systems where information on customers, products, pricing and billing is siloed across its mainframes. That makes it hard to innovate or nimbly change pricing or products or target offers to specific customers as they compete with cloud-based fintechs.

Banks want to modernize their technology cores but that would be a timely, costly effort, said Daniel Moore, Bank of Nova Scotia's former chief risk officer. "All banks know they need to evolve ... and are working hard on this, but it's hard to do when you have the weight of legacy systems and processes behind you."

Zafin's answer is not to replace its clients' systems but give them an expedient workaround. Its cloud-based platform acts as an external layer, connecting to a bank's billing, transaction and other systems and pulling out the necessary data. Bank product teams work with the data in Zafin's software to hash out products and calculate pricing for new offers.

Banks previously would "have to go into the systems and make all the changes manually, then patch together at the front end to deliver a solution for customers" every time they created products or changed prices, said Mr. Revell. "Once Zafin is installed, you no longer have to go to the IT department to make all those changes."

Canada's large banks spend billions of dollars annually on technology, and invest heavily in digitization initiatives to fend off the threat of disruption from digital-first competitors and tech giants. But they are also in a constant battle to keep a lid on costs so that rising expenses don't outpace revenue growth, and sometimes turn to partnerships as a way to adapt quickly without significant up-front spending. CIBC CM-T -1.42% decrease used Zafin to automate pricing, billing and analytics for its business customers. That reduced IT expenses and costs to enact fee changes, identify revenue opportunities and ended manual billing errors, enabling CIBC to launch products much faster, a 2018 case study found.

Australia and New Zealand Banking Group Ltd. used Zafin to create its 10-minute mortgage approval offering. Pittsburgh-based PNC Financial Services Group, Inc. PNC-P-N -0.47% decrease has used the platform extensively; PNC chief information officer of retail banking Charaka Kithulegoda said on a webinar last June that Zafin provides tools to "be able to live in both of these worlds in very effective ways" and "put on hyperdrive things like products, pricing, relationship management."

Zafin was founded in 2002 by chief executive officer Al Karim Somji, chief product officer Dinesh Krishnan and chief customer officer Anugopal Venugopalan. They set out to help telecommunication companies increase revenue but shifted their focus to banks, realizing "the whole aspect of product and pricing was hard-coded into the mainframe systems," Mr. Somji said in an interview. "There was no concept of how you create pricing based on the customer rather than on a single product you're selling into the market."

Banking executive Dubie Cunningham joined in 2021 as executive vice-president of strategic growth after calling bank chief information officers for their views on Zafin. "They raved about the capabilities and how much it helps them compete with fintechs and creating agility in terms of how they bring products to market" in retail and corporate-commercial segments, said Ms. Cunningham, now president of Zafin's banking group.

Zafin has raised more than US\$30-million to date from Kayne Partners, Vistara Growth, Beedie Capital and Accenture Ventures. It is growing by about 35 per cent to 40 per cent a year and could accelerate that pace as banks step up digitization efforts, Mr. Somji said.

Zafin generates between US\$45-million and US\$50-million in annual revenue and has 400 employees; Fincad generates “tens of millions of dollars” in revenue and has about 100 employees, Mr. Somji said.

With the debt-funded deal closed, Zafin is looking to raise US\$200-million next year, either by going public or from private funders, Mr. Somji said. Asked if he was worried about falling tech stock valuations, the CEO said: “Not really. Public markets are always happy to have quality companies come into play.”

Vistara managing partner Randy Garg said Zafin is “funded and well-run” and doesn’t need to raise, “but the opportunity is certainly there to look at a larger round” in the next year.

With a report from James Bradshaw in Toronto

<https://www.theglobeandmail.com/business/article-zafin-the-vancouver-fintech-that-helps-banks-fight-off-digital-rivals/>

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