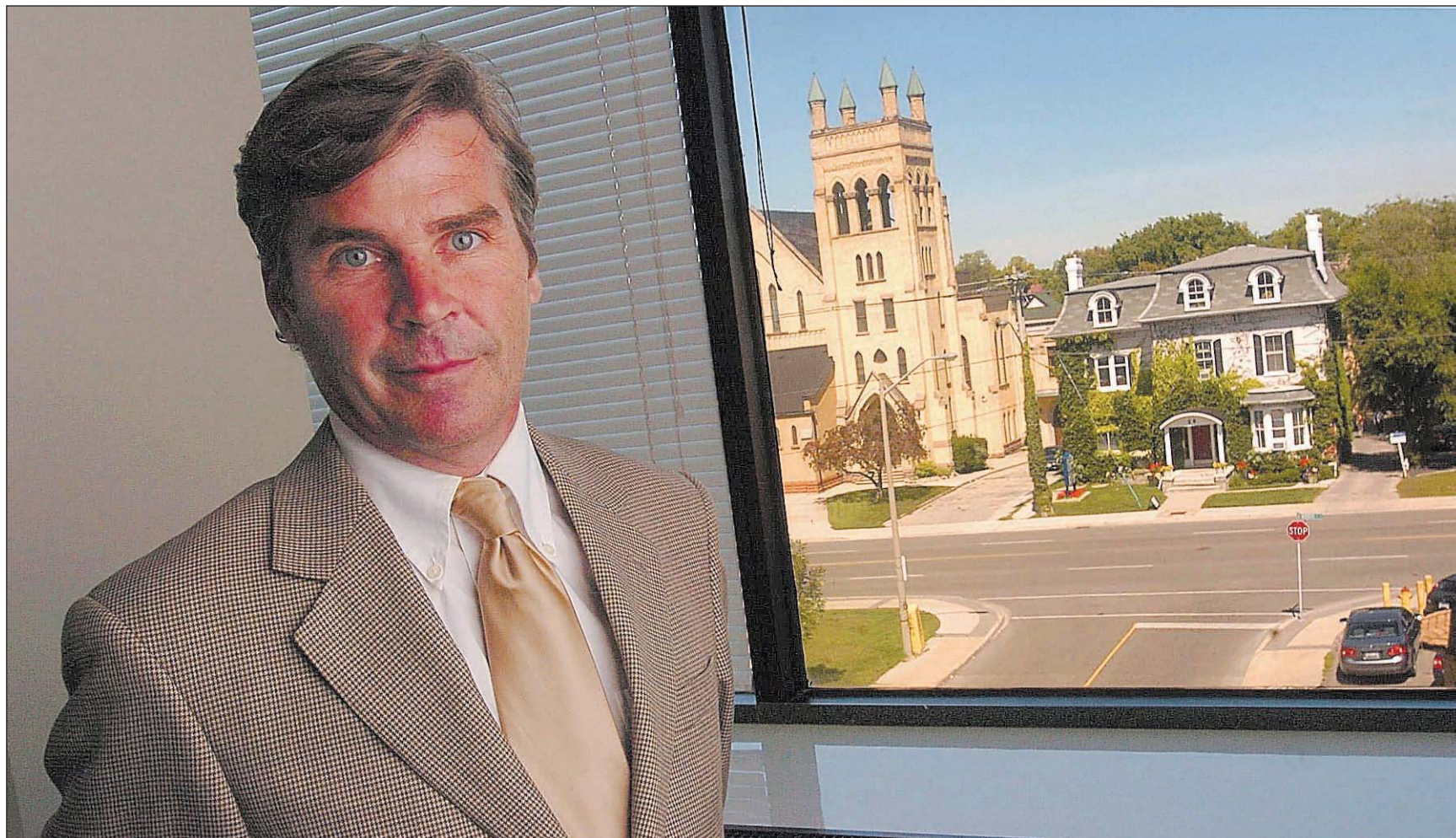


Software brings order to banking business



DAVID BEBEE, RECORD STAFF

Rod Foster, chief executive officer of Covarity Inc., is confident that demand for the company's loan management software is ready to explode.

By Michael Hammond, Record staff

To understand how the playing field is changing for banks, consider the recent history of Kitchener's Covarity Inc.

Late last year, a week after the financial software company finalized a multi-year contract with HSBC Bank Canada, it inked a deal with the RBC Financial Group, Canada's largest bank. That deal included RBC's U.S. banking unit. The company is now targeting the U.S. market, as it sees demand for its software about to explode.

"We're seeing a window open for us," says Rod Foster, Covarity's chief executive officer. "If we figure out the right story, we'll be in a good position to go into the (U.S.) market in 2009."

Part of that new opportunity has emerged from the credit crisis in the U.S., which has cost banks and lending institutions a combined \$1 trillion by some estimates.

Although much of those losses were from bad personal loans and mortgages, the crisis has raised questions about how banks monitor their commercial loans.

Enter Covarity's software, which Foster describes as bringing order into an area of banking that had no order before.

With two major banks and dozens of credit unions onside, Covarity's message seems to be resonating

FACTS

- Covarity Inc.:
- 30 Duke St. W., Kitchener
- Founded in 2001
- Covarity's software automates the commercial loan process for banks and borrowers, and allows banks to keep track of their loan portfolios

FACTS

- Customers include Laurentian Bank of Canada, RBC Financial, HSBC Bank Canada and numerous credit unions.
- Privately owned
- 40 employees

within the industry. This year, the company's revenues have quadrupled while its staff has grown from 29 to 40, Foster says.

The company, which plans to expand its workforce to 50 by the end of the year, is beginning to run short of space on the two floors it occupies in an office tower in downtown Kitchener.

Things certainly are changing rapidly for Covarity, a software company

that has kept a low profile for much of its seven-year history. That low profile is partly a necessity, given the sensitive data the company handles for its customers.

However, as Covarity looks to make a breakthrough into the U.S., not to mention with other large Canadian banks, the software firm might be thrust into the spotlight soon.

"With recognition comes expectations," says Foster, who has been chief executive since 2005.

Part of that recognition might include facing off against competing software products.

"We're fortunate to have no direct competition with the market environment as it is," Foster says. "But, you know people are coming. The beauty of competition is it gives you fear. Our job is to make our product better, easier to use and more cost-effective."

Covarity's software allows banks to automate the commercial loan process. All of the forms a borrower must file are done online and compiled into usable data so the bank can monitor its portfolio of loans.

Foster says being able to compile borrower data makes sense because it allows a bank to adjust its business model. For example, if 50 per cent of a bank's commercial loans are in the transportation industry and the price of fuel rises, the financial institution has the data to change course and reduce its exposure to high oil prices.

Having this type of visibility into

where its money is being lent allows banks to better predict where their fortunes are headed, Foster says.

Given the extent of the damage from the U.S. credit crisis, Foster thinks banks will want tools that will help them avoid future disasters.

Covarity bills itself as a software-as-a-service company, known in tech circles as SaaS. That means financial institutions subscribe to use Covarity software.

Waterloo's Tech Capital Partners has been a financial backer of Covarity since it was launched. The company secured additional rounds of venture financing in 2003, 2006 and 2007.

There were tough times, Foster admits, when banks were reluctant to embrace the company's software. However, landing two large banks has reinforced Covarity's credibility and made life easier, he says.

Fears over the credit crisis have boosted the company's fortunes, says Jim Whitaker, a board member with Covarity investor VentureLink. "We're all hearing about the credit issues," he says. "They (the banks) don't want this to happen to their commercial loan portfolios."

Covarity is serving a need that's always been there, Whitaker says. Now, it's just a matter of taking advantage of the company's recent momentum.

mhammond@therecord.com