

Smartphone Payment Solutions for Financial Institutions

About Ondot Systems

Ondot provides solutions for financial institutions to put cardholders in control of when, where and how their cards can be used through their smartphone.

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine

CEOCFO: Mr. Bharghavan, what is the basic concept at Ondot Systems?

Mr. Bharghavan: The basic premise of Ondot is very simple. Pretty much everyone has a credit or debit card in their wallet and most everyone has a smartphone. Therefore, we have created a solution that allows consumers to essentially use their smartphone as a remote control to manage their payment cards from their mobile phone.

CEOCFO: How does it work?

Mr. Bharghavan: What it means to you as an end user is that with one touch, you can turn the existing plastic card in your wallet on or off. You use the phone in order to determine whether you can use your existing card and existing credentials online. You also have the ability to set granular controls in terms of location, transaction types, merchant categories and threshold amounts to essentially customize when, where and how your payment cards can be used. We provide this solution as a white label solution to banks and their card processors and they roll this out, either as a branded application or integrate it into their mobile package.



Vaduvur Bharghavan
CEO

CEOCFO: How easy or how cumbersome it is to set up the controls. How does the process work?

Mr. Bharghavan: From a consumer prospective, simplicity of use is of paramount importance. A consumer downloads an application from an app store, registers their cards and then with one touch, you can turn your cards on or off. You go to the control panel and essentially, just turn on and off individual controls. For example, if I do not shop online, often I can just turn off eCommerce with one button. If I give a card to my daughter and say that she can use it for restaurants and groceries but not for age restricted establishments, I can just turn those corresponding knobs on and off. For locations, for my card I say "My locations," which means the card is only active around me for card-present transactions.

CEOCFO: What were the challenges in putting the technology in place?

Mr. Bharghavan: Fundamentally, what we have done is introduce user preferences and user context into the transaction authorization process. The challenge as well as the value of this technology is getting into the authorization stream. That is the reason why we have two go to market approaches. We have integrated with four of the top seven processors in the country today. That allows processors to roll out the service so that when an individual bank that is serviced by one of our processor partners wants to enable the service there is not additional integration required. The heavy lifting has already been done with the processor. For larger banks, we also have a direct integration. We integrate very similar to how a fraud engine integrates today. When a transaction comes in for authorization, a fraud engine determines whether the transaction is compliant with the risk qualities of the bank. Likewise, the card control engine determines if a transaction is compliant with the cardholder preferences.

CEOCFO: Has anything similar been tried in the past or is this a totally new approach?

Mr. Bharghavan: Our solution enables banks to give consumers control over when and where their cards can be used, instantly and at the point of purchase. We believe we are the first to provide this kind of granular control to consumers on the go. We have done this in a way that both the consumers and the banks benefit.

CEOCFO: What has been the response when you present the idea? Do people intuitively understand the value? Is there a typical aha moment?

Mr. Bharghavan: The response has been exactly what we hoped, given the heightened awareness for payment card security. Given all the recent data breaches, this is just one of those things that make sense from a consumer perspective, like being able to turn my card on and off and being able to specify when, where and how it will be used, and is resonating

really well. From a banks perspective or a financial institutions perspective, the value is lowering fraud as well as increasing the card usage. That directly drives their interchange revenue and interest revenue. That is the reason why I think we have seen the sort of response and hopefully you have seen that as well from many of the publications that are covering us.

CEOCFO: *What is your business model?*

Mr. Bharghavan: We sell to banks and card processors and we charge by active user per month. Therefore, it is a pay for performance model, pay as you go for the banks and card processors. Our perspective is that today you have lock on the door, so likewise, if you have a payment card, you have a lock on the card. Therefore, we are really hoping that this will drive market adoption. That is what is going to drive our business.

CEOCFO: *What is the geographic reach for you today?*

Mr. Bharghavan: From a technology perspective, by design we have integrated into the universal payment standard ISO 8583, so that this applies for credit, debit and prepaid in the US and internationally, globally. As a company we first focused on the US market through our processor partners, who collectively serve over ten thousand financial institutions. We will be looking to expand our reach globally. However, we focus in the US market initially.

CEOCFO: *That is certainly a large enough market. What was the response at Finovate?*

Mr. Bharghavan: The response was very positive, again for all the reasons you also said. It is easy to understand and it seems like something that makes sense. The important thing for us was to make sure that it makes sense to the consumer. However, it also has to make economic sense for the banks. Otherwise, a solution like this is not going to become mainstream. The response at Finovate was very positive. As you saw, we were fortunate to be one of the Best of Show winners. This was by audience vote, so clearly the audience liked it.

“Consumers want increased confidence in the security of their payment cards. Card Issuers seek increased card-driven revenue, lower fraud costs, and differentiation of their payment card offerings. Ondot delivers on both goals.” - Vaduvur Bharghavan

CEOCFO: *What are the next steps for Ondot?*

Mr. Bharghavan: In order to talk about that, just allow me two minutes of context. We have been in business for over three years. We only launched the company publicly now. That is because just given our past experience building companies, we wanted to make sure that we do not just come up with a technology and a concept, but we have the proof points to back it up and we have that now. We have been in production in our first customer, which is back in Southern Texas, Lone Star National Bank, for over a year now. Therefore, when we went out and launched the company we were able to present the case study where they were able to reduce their fraud 60 percent and increase their card usage 54 percent. We also established partnerships with four processor partners that collectively serve over ten thousand banks in the US. Therefore, right now the next steps for us, as we are now launching nationally, is to make sure that we execute and support our-processor partners as well as pursue direct sales to banks that are not served by our processor partners, just make sure that the solution is available to as many banks as possible. We think that this is a mainstream solution. That is the main focus of the company.

CEOCFO: *Development and commercialization is always expensive. Are you funded for the steps you would like to take?*

Mr. Bharghavan: We announced eighteen million in funding. Based on the current business plan, particularly via the processor partnership to reach the mid market segment, we think that this gives us the capitalization needed right now. However, of course, as with any company, if the response is phenomenal and we need growth capital, we'll raise the funds we need to succeed.

CEOCFO: *You mentioned some of the things you that learned from earlier experiences. What else do you bring to the table from past projects?*

Mr. Bharghavan: Let me just give you a quick background of some of the principals in the company to help set the context. We have brought together executives from a couple of key technology areas. One is mobile and security and the second is the payment card process, in order to attack some of the challenges as well as opportunities that arise from the confluence of these two technologies. From my own background, prior to founding Ondot I had founded a company called Meru Networks, which is an enterprise WiFi company. I founded it in 2002 and took it public in 2010. Prior to that, I founded a company called Bytemobile, which serves about one hundred and twenty telecom carriers worldwide, in terms of data optimization and video optimization. Bytemobile was sold to Citrix for about four hundred and forty million dollars a couple of years back. Therefore, what we have really brought to the table is the ability to create a solution like this at scale and that works reliably. That is because, as you can imagine, in a carrier model scale is paramount, as indeed it is in the payment card processing model. Therefore, from a technology and engineering perspective and a delivery perspective,

we bring the relevant experience. We have augmented that experience with a great deal of core payment card industry experts in order to deliver these solutions.

CEOCFO: *What have you changed or tweaked since the solution has been available and people are using it? What have you learned in the past few months or so that caused change?*

Mr. Bharghavan: Actually, several! We worked closely with our first lighthouse customer to simplify the user interface. That is because it is one thing to give all of these knobs and capabilities to consumers, and if it is not immediately apparent and intuitive, people are not going to use it. Therefore, that was certainly a critical experience that was learned. That was one big one! The second big thing, which I think is core to our business, is the business model itself, which is not trying to bypass the bank, but actually co-op them and have them promote the solution.

CEOCFO: *Why should people pay attention to Ondot Systems?*

Mr. Bharghavan: From the financial industry, banks are under tremendous pressure from multiple areas right now, just given all of the recent regulations, particularly in debit cards. The debit card margins have really suffered. Fraud and data breaches have caused a significant increase in operational costs for credit, debit, and prepaid. Smartphones are basically changing the way that people interact with pretty much every aspect of their lives and certainly with their card issuers. Therefore, I would hope that bank and credit union execs look at a solution like this because I believe it gives the consumers what they want, but at the same time, enables the banks to achieve the differentiation, lowers fraud and increases revenue.



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