

IMPACT BRIEF

APRIL 2019

Virginie O'Shea
voshea@aitegroup.com

NRI: Securities Processing Technology

NRI's I-Star Suite is an international securities back-office processing platform featuring a component-based architecture. It is focused on offering support for global banks and brokers to conduct trade management, settlement management, and position and balance management, and to process corporate action data. It features real-time processing capabilities and a web-based interface for ease of access by operational users. As the vendor extends its ambitions further into other markets across the globe, Aite Group examines its prospects in key markets alongside its partnership with Refinitiv.

VENDOR OVERVIEW

Nomura Research Institute (NRI) Financial Solutions is a subdivision of Nomura Research Institute, which offers a suite of solutions and services to the investment and asset servicing industry. The vendor targets both buy-side and sell-side firms within the retail and institutional securities space, and has a long track record in its home market of Japan.

- **Headquarters:** Tokyo
- **Founded in:** 1965
- **Number of employees:** 12,000
- **Ownership:** Public company
- **Consolidated sales:** Approximately US\$5 billion
- **Partnership:** Refinitiv

MARKET POSITIONING

NRI Financial Solutions' flagship solution, NRI I-Star Suite, has been the international securities back-office system for the largest Japanese securities firms for over a decade, and the vendor has built a strong reputation for post-trade expertise in the Japanese market (Table A). Last year, it announced a partnership with Refinitiv, which has significant presence in the U.S. domestic securities processing market, to provide the backbone to its retail brokerage-focused Beta platform.

The global market for securities processing solutions is mature, though there have been new vendor entrants in recent years and many sell-side firms are currently re-evaluating their in-house, legacy platforms. There is certainly room for competition in the market as waves of consolidation over the years have left the securities processing space very concentrated within a handful of large players.

Table A: NRI Financial Solutions

Market segment	Market focus	Target client base	Market maturity	Growth potential
Post-trade processing for the sell-side and buy-side	Back-office securities processing	Banks, brokers (retail and institutional), and custodians	High	Medium

Source: Aite Group

MARKET NEED AND DEMAND

Traditionally the view of the C-suite has been that operating a core system that performs its basic requirements and runs reasonably well is preferable to system replacement, especially in an area that does not generate revenue or face clients. In an environment in which there is

heightened focus on reducing operational risk, the “safety first” option is to make minor patches and changes to existing processes rather than opt for a “big bang.” These firms can only postpone these system replacements for so long, however. A number of drivers within the market are forcing firms to re-evaluate their post-trade processing environments:

- The increasing cost of capital, combined with the austere financial environment, has led many firms to focus on rationalizing their operating costs, including consolidating technology platforms and licenses, and cutting headcounts across the business. Labor arbitrage can only go so far, however, and the costs of labor are increasing offshore as well as onshore.
- Large firms that offshored or nearshored a decade or so ago are now facing rising costs of labor in these locations. The next logical stage of cost saving is to automate and replace manual processes—though this means an increase in short-term spending for long-term savings.
- Though operational risk management has traditionally been less of a focus for capital markets firm investment than areas such as credit or market risk management, the industry focus on cybersecurity and outages has increased its profile. Reputational risk can be incurred by operational problems, and this can cause share prices to drop—an outcome no board is keen to see.
- Post-trade-focused regulation is raising industry awareness of the cost of post-trade processes, which means increased pressure on firms to address inefficiencies in order to avoid increasingly onerous financial penalties or the triggering of settlement buy-in mechanisms.
- Changing investment dynamics related to thin margins and compliance requirements have altered the asset-class mix that middle- and back-office teams are required to support. Adding more bodies is not sustainable in the long term, so finding technology that can support a broad range of asset classes is important to sustain business growth.
- Key person risk is exceptionally high in certain firms because technology assets that were built by in-house IT teams cannot easily be maintained by internal and external parties. Once these individuals retire, support for these technology assets may be expensive or impossible to maintain.

MARKET MATURITY

The securities processing solution and services vendor community reflects the conservative nature of the function it serves—the names may have changed as consolidation has occurred, but few new entrants and startups are in the space (Table B). The new entrants tend to emerge from the spin-off of large bank technology operations, such as Torstone Technology’s genesis from Dutch bank KBC’s post-trade processing environment. Operational heads’ hesitation to work with untested software or services has been a real problem for startups that have attempted to penetrate the market in the past, and this is likely to continue to be an issue, even if the industry is caught up in a hype cycle about the potential of next-generation technology.

The key for any vendor to succeed is a strong track record and reference clients, though cost will always be a defining factor in breaking into new regional markets.

Table B: Securities Processing Solution Vendors

Vendor	Solution name(s)
Broadridge	Global Post Trade Management (GPTM)
Calypso	Calypso Post-Trade
Finastra	Fusion Markets
FIS	Phase3
Fiserv	TradeFlow
GBST	Syn
IBM	IBM SIS
IHS Markit	Information Mosaic
Intellect Design Arena	Intellect OneMarkets
NRI Financial Solutions	I-Star
Shadow Financial	ShadowSuite
Tata Consultancy Services (TCS)	TCS BaNCS
Torstone Technology	Inferno

Source: Aite Group

TARGET CLIENT BASE

When selecting a new securities processing solution, operations team leads at banks and brokers are often keen to deploy a more intuitive and easier-to-use platform rather than something that requires extensive training and onboarding to use. The focus is often also on implementing a solution that has exception-based workflow support and as much automation of the simpler and more basic heavy-lifting tasks as possible to enable staff to focus on the more complex or high-risk processing tasks and tackle any potentially costly errors. NRI indicates that business users may require some training to be able to use its solution's exception monitoring and resolution screens.

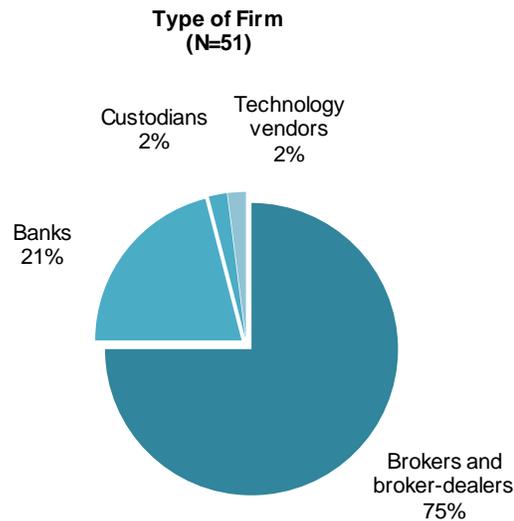
Cost is also a big factor in vendor selection in this area. Post-trade technology business cases tend to reflect the fact that the C-suite views these functions as cost centers rather than as revenue-generating functions. Softer metrics are also evaluated when it comes to selecting a vendor, such as the quality of the vendor's team and its track record in the capital markets space.

GROWTH POTENTIAL AND VENDOR ASPIRATIONS

NRI Financial Solutions is actively targeting the Japanese, broader Asia-Pacific, and North American markets, the majority of which are mature in their approach to securities processing, apart from some of the emerging Asian markets. The vendor has a strong footprint in its home market, but the U.S. market is dominated by large vendors and has traditionally been tough to penetrate by newer entrants, especially nondomestic players. The partnership with Refinitiv will be key in this dynamic and should give NRI a foothold in the wealth and U.S. domestic retail brokerage space, though the institutional realm may be a tougher nut to crack. In the Asia-Pacific, the Australian market also has a smaller number of competitors in the vendor arena, such as GBST, and a limited number of prospects for implementation. The Canadian market features similar dynamics to those of Australia, and prospects in both countries tend to follow the herd; hence, any vendor success is predicated on cracking one or two of the larger players, and the rest often follow suit.

PRODUCT INFORMATION

- **Key products and services:**
 - I-Star Suite for Global Settlement
 - I-Star Suite for Over-the-Counter Derivatives
 - I-Star Suite for Margins Processing
- **Implementation options:** On-site, hosted, Software-as-a-Service
- **Number of clients using solutions:** More than 50
- **Type of clients:** Brokers, banks, custodians, and global service providers active in the capital markets (Figure 1)

Figure 1: NRI Client Breakdown by Type

Source: NRI Financial Solutions

- **Existing client geographies:** Asia-Pacific, Europe, and North America
- **Sample clients:** Nomura Securities, MUFG Securities, UBS, Societe Generale, Credit Suisse
- **Pricing model:** Priced based on transaction volume and other options
- **Annual product/service revenue range:** Not disclosed

KEY FEATURES AND FUNCTIONALITY

- The I-Star suite provides a global back-office processing solution for firms operating in the Americas, Asia, and Europe. The solution is multitenant and multicurrency, and supports a range of asset classes focused on mitigating risk, increasing visibility of operational processes, and supporting reconciliation of the various data sets.
- NRI indicates that its research experience and technical expertise have been applied to its range of products and services. The vendor has also established dedicated follow-the-sun teams to ensure the integrity and security of the client's mission-critical data in a 24/7 global environment.
- The solution has global market connectivity and can be customized to meet the requirements of a client's target business model, without entailing program coding. Workflow and operational dashboards provide access to and visibility of the securities processing environment.
- NRI indicates that new implementation time frames, including user testing and training, average at around six months, though large, international brokers can take

around two years for full implementation. The firm also runs a monthly user committee to receive feedback from clients on desired updates or additional functionality.

ROADMAP OVER THE NEXT 12 TO 24 MONTHS

- Adding support for more corporate actions event types in North America
- Adding six North American clients
- Expanding the clientele for its derivatives and margins processing solutions in North America, Europe, and the Asia-Pacific region
- Extending its capabilities to comply with Financial Industry Regulatory Authority (FINRA) 4210 and rules on uncleared margining in the United States
- Development of an application programming interface (API) service for real-time access to the I-Star Suite in Japan

AITE GROUP'S TAKE

The functions in the middle and back office are generally not revenue-generating (unless the firm is an asset servicer or custodian), which means technology replacement tends to be less frequent than for functions that are deemed to be business priorities. These projects also tend to have longer sales cycles because the replacement of such a large and connected system requires so much groundwork. Extending its reach in the United States in particular will therefore be a long road for NRI, as it has been for its peers. The regulatory regime and market structure setup in the Australian and Canadian markets may be more conducive to shorter-term system-replacement sales, given there has been a lot of movement around legacy replacement at the central securities depository level in Australia and ongoing implementation of post-crisis reforms in both markets.

Much like any relationship, firms are keen to see their vendors taking responsibility for the promises made at the start of a partnership, from implementation to ongoing service. The track record NRI has built with its Japanese client base should stand it in good stead in this regard. Moreover, vendor track record has always been an important factor in the decision-making process, and vendor risk management has significantly matured as a process in capital markets. Solutions that have been tried and tested with peer firms are considered less of a risk than an entirely new market entrant's solution.

Getting as much out of the box as possible is great because it often means quicker rollouts and less disruption to a business. In Japan, NRI's platform is also offered as a hosted service, which entails a lower total cost of ownership for the end client because the service provider incurs the direct costs of platform upkeep, including regulatory change as well as software and hardware costs. The sales cycle for these services is, however, usually longer than that of straight in-house installs.

Given the manner in which securities processing platforms sit at the heart of a firm's back office, these solutions must integrate with many other systems across the firm. Accordingly, the more out-of-the-box connectors to data feeds and downstream and upstream systems a solution has, the quicker and simpler the rollout. This is why APIs are of great interest to operations teams evaluating the vendor community. NRI's Enterprise Integration Gateway has been designed to connect to different parties across the market and will need to be further adapted to the requirements of each particular market participant and its selected service providers. To this end, the vendor has already begun to adapt to the Depository Trust & Clearing Corporation's (DTCC's) ISO 20022 messaging changes and has completed the Australian Clearing House Electronic Subregister System (CHES) changes.

Firms want to retain control of their operations, even when they outsource or opt for a hosted or managed service. A key part of getting comfortable with this type of arrangement is agreeing to the fundamentals of the service-level agreement. These will likely need to be punitive and strong if NRI is to convince firms to move onto a managed service. Aite Group expects progress over the next two to three years to indicate whether NRI can realize its ambitions in international market targets past its client successes thus far.

ABOUT AITE GROUP

Aite Group is a global research and advisory firm delivering comprehensive, actionable advice on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, insurance, wealth management, and the capital markets, we guide financial institutions, technology providers, and consulting firms worldwide. We partner with our clients, revealing their blind spots and delivering insights to make their businesses smarter and stronger. Visit us on the [web](#) and connect with us on [Twitter](#) and [LinkedIn](#).

CONTACT

For more information on research and consulting services, please contact:

Aite Group Sales
+1.617.338.6050
sales@aitegroup.com

For all press and conference inquiries, please contact:

Aite Group PR
+1.617.398.5048
pr@aitegroup.com

For all other inquiries, please contact:

info@aitegroup.com

RELATED AITE GROUP RESEARCH

Securities Processing Technology: A New Era for Labor Arbitrage?, October 2018.