

Third-Party Comments on Sumitomo Trust's 2008 Corporate Social Responsibility Report

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What kind of CSR (Corporate Social Responsibility) should financial institutions fulfill? As they are profit-pursuing institutions, should they fulfill the same kind of CSR as ordinary companies? Or should financial institutions have a different perspective on CSR compared with ordinary companies?

For some years, I have been advocating "financial CSR" based on the recognition that financial institutions should have a different perspective on CSR. CSR has a higher level of importance for financial institutions than for ordinary companies. Financial institutions' primary business task is not merely meeting the fund needs of individual client companies and persons. They are responsible for maintaining and securing efficient flows of funds throughout the entire economy through the financial networks and markets. If financial institutions conduct their business from the perspective of CSR, financial business will promote CSR-oriented behavior throughout the entire economy.

In short, financial institutions intrinsically have the function of promoting the practice of CSR by other companies and the socio-economy as a whole, as well as themselves. However, there is only a handful of Japanese financial institutions that have engaged in CSR based on their awareness of this function and made actual achievements; Sumitomo Trust is among this handful.

Sumitomo Trust's CSR report describes a number of achievements attained on the basis of its expertise in the trust business. In Social Responsible Investment (SRI), Sumitomo Trust has become the first trust bank to undertake the entrusted management of an SRI fund for a public pension fund. Meanwhile, regarding the fight against global warming, it not only introduced a scheme for small-lot sales of emission rights, but also developed products that give due consideration to the actual state of transactions, such as a trust for settlement funds for emission rights. Furthermore, Sumitomo Trust has developed a series of new products and services that take into consideration ESG (Environmental, Social and Governance) factors of client companies, such as CSR-conscious receivables collective trusts, a revival fund for contaminated properties, and a scheme for promoting energy conservation in tenant buildings.

The effectiveness of Sumitomo Trust's "financial CSR" is shown not only by the large number of CSR-related services and products that it has developed. In recent years, Sumitomo Trust has identified ways of enhancing the corporate value and classified them into the "Five Paths." The important thing is that in the first of the Five Paths, "Business Innovation," we have positioned solving ESG-related problems through our own financial and trust functions as the central policy of our CSR activities.

The establishment of a central policy like this enables Sumitomo Trust to develop CSR-related products and services one after another. It also contributes to the "Enhancement of Corporate Brand," the second path. A haphazard attempt to take advantage of the growing interest in CSR or keep abreast of competitors in the field of CSR would not produce constant results.

Of course, some of Sumitomo Trust's CSR-related financial products and services may have so far failed to generate sufficient profits. If financial CSR is to become a sustainable initiative, it must contribute to profits in various ways. In order

to make CSR-oriented financial solutions a profitable business, it is essential that Sumitomo Trust further strengthens the link between these two paths and other paths, including "Human Resources Management" and "Reinforced Risk Management." In this sense, the Five Paths are not separate routes to the

enhancement of the corporate value. They interact with and complement each other to produce synergy effects.

Another notable feature of the 2008 CSR Report is its inclusion of a declaration of Sumitomo Trust's resolve to tackle head-on worldwide issues, such as global warming and biodiversity, and basic policies on these two issues. Compared with global warming, which is related to financial businesses in a visible way through emission rights trading, biodiversity may appear to have little relevance for financial institutions. However, as explained above, financial institutions' initiatives regarding these issues would promote and support efforts by client companies, customers and the socio-economy as a whole. I have high expectations for biodiversity-related CSR financial products to be developed by Sumitomo Trust based on its basic policy on biodiversity.

Why has Sumitomo Trust started to engage in CSR activities in a systematic way? Of course, a decision by the top management must have been a major factor, and rank-and-file employees must have had a strong resolve to commit themselves to CSR. As for employees' commitment to CSR, examples of their activities are provided in "With You (report on social contribution activities for fiscal year 2008)," which is a supplement to the CSR report. For me, as a person who has watched the behavior of financial institutions, including during the financial crisis of the late 1990s, Sumitomo Trust's commitment to CSR activities is also understandable from another viewpoint.

During the turbulent years of the financial crisis and the ensuing rehabilitation, Sumitomo Trust stood firm, without being influenced by the behavior of others. I suppose that its corporate culture, as shown by this steadfastness, has enabled Sumitomo Trust to recognize that thoroughly exploring its own fundamental value is the most effective way of enhancing its corporate value and taking swift action compared with other banks.

In this sense, for financial institutions, financial CSR is nothing less than a management strategy. As financial institutions encourage client companies, customers and the socio-economy as a whole to shift toward CSR, they are also subjected to the scrutiny of these stakeholders for their CSR performance and to the rigor of selection.

Financial institutions cannot afford to drag their feet over CSR. I am looking forward to a strengthening of Sumitomo Trust's commitment to CSR.

