

Third-Party Comments on Sumitomo Trust's 2010 Corporate Social Responsibility Report

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As is very clear from its previous CSR reports, Sumitomo Trust has been a leader among Japanese financial institutions in environmental and CSR activities. Other banks, which up until recently had been slow to act, adopted environmental finance as an additional business line in rapid succession in 2009 and 2010, as if trying to catch up with Sumitomo Trust.

The catalyst for the sudden rush toward environmental finance was the introduction by the Ministry of the Environment of an interest subsidy scheme for environmental rating loans. The latest CSR report by Sumitomo Trust shows that even as government support is prompting an increasing number of banks to hastily adopt environmental finance, Sumitomo Trust's environmental financial activities steadily continue to evolve into various forms.

In addition to the existing preferential loan rates for houses equipped with solar power generation systems, environmental rating loans for condominium purchases, investment funds for the purchase and rehabilitation of contaminated land, and charitable trusts, in the past year Sumitomo Trust has introduced new environmental financial products and services, including environmental rating loans, a biodiversity SRI (socially responsible investment) fund, and a China Stock SRI fund. Sumitomo Trust has also established the Sustainable Property Promotion Section dedicated to the promotion of environmentally-friendly property.

The business management strategy through which Sumitomo Trust acquired Nikko Asset Management Co., Ltd. (Nikko AM) has also had a significant impact on Sumitomo Trust's environmental financial activities. I am saying this because Nikko AM developed Japan's first environmentally conscious investment fund in 1999 and it became the pioneer in the field of SRI. No sooner did Nikko AM, a well-established force in SRI, join the STB Group, which had launched its SRI initiative, than a new SRI fund, a balanced environmental fund called the "Green Balanced Fund" ("Green Green") was created, which combines the two companies' resourceful ideas, know-how, and commitment to SRI. Underlying Sumitomo Trust's claim in this CSR report that it is one of the most powerful SRI fund investment companies in Asia is its ability to take action and execute plans, as described above. The Sumitomo Trust top management's commitment to CSR, as shown by the statement "We have consistently regarded CSR as part of our business strategy," gives the company a significant advantage.

One challenge to overcome, as I pointed out in the previous year's CSR report, is how to enable environmental financial activities to lead to the sustainability of earnings, and how to evolve further. As a solution, an analysis of the environmental burden and economic efficiency resulting from the introduction of material flow cost accounting has been added to the latest CSR report. In the report, Mr. Jeremy Prepscious of BSR points out that "environmental finance should be conducted as a holistic approach, rather than as an assortment of various

activities." I believe that the analysis of the environmental burden and economic efficiency constitutes a step toward such an approach.

However, if Sumitomo Trust is to achieve a "holistic approach" to environmental financial activities, it will be necessary to introduce environmental accounting, which would comprehensively evaluate the variety of environmental financial products and services introduced by Sumitomo Trust from the perspectives of both revenue and expenditures. While some banks have already introduced environmental accounting, the economic impact of environmental finance would become significant if Sumitomo Trust, as a leader in environmental activities, were to introduce such a system.

Regarding social contribution activities, in addition to existing ones, such as the "Love Letters at Sixty Project," on which a movie has been based, "the Pink Ribbon Campaign," the assignment of care-fitters to branches, and financial literacy education programs, Sumitomo Trust has begun promoting activities to support living beings. It is obvious that these activities, known as "With You" activities, are underpinned by the motivation and personal character of individual employees. We can see that the "With You" activities, which are included in "Path 2" of this report, are closely related to the objective of "Path 3": better human resource management.

Of the "5 Paths" that are indicated for enhancing corporate value, the most critical one is probably "Path 3," which produces Sumitomo Trust employees who realize an appropriate work-life balance. Employees think hard about ways to attain the objective of "Path 1," business innovation, and foster customer trust in Sumitomo Trust as part of the activities of "Path 2." At the same time, employees rationally strike the balance between cost reduction and risk management as part of the activities of "Path 4" and "Path 5."

In order for Sumitomo Trust to go beyond the current approach of classifying its CSR activities into five categories and adopt a more holistic approach, Sumitomo Trust must not stop at the introduction of environmental accounting but rather may need to develop a full-fledged CSR accounting system. I hope that Sumitomo Trust, which regards CSR as part of its business strategy, will tackle this challenge.

The year 2011 will represent a springboard toward further prosperity for Sumitomo Trust, as it is scheduled to implement management integration with Chuo Mitsui Trust Holdings, Inc. The CSR report for the next fiscal year will describe a broader range of CSR activities and environmental financial activities conducted by the Sumitomo Mitsui Trust Group. CSR is a business concept of a higher order, shared by both parties, and is useful for making multiple organizations and various corporate cultures work together and contribute to their integration.

In this respect, CSR is strategic in nature. I hope that the new group will continue to be a leader in CSR activities.