

External Director Interview



Mikio Araki

External Director
Chairperson of Risk Committee

In addition to the requirement under the Companies Act for the establishment of three statutory committees, SuMi TRUST Holdings, as a “company with Three Committees,” also has in place a Risk Committee that functions as an advisory body to the Board of Directors. We asked External Director Mikio Araki, chairperson of the Risk Committee since its inception, about the status of the Group’s corporate governance, the activities of the Risk Committee undertaken thus far, and his vision for the future.

Question

How would you rate the measures adopted thus far that aim to enhance corporate governance at SuMi TRUST Holdings?

Under the banner of a “second foundation” in the previous Medium-Term Management Plan that kicked off in April 2017, the SuMi TRUST Group pushed ahead with reforms comprising three main parts: business model transformation, promotion of fiduciary duties, and corporate governance transformation.

In June 2017, SuMi TRUST Holdings switched to a “company with Three Committees” and in addition to the requirement under the Companies Act for the establishment of three statutory committees, it also set up a Risk Committee and a Conflicts of Interest Committee, both of which function as advisory bodies to the Board of Directors. The majority of members that sit on these committees are external directors, while the chairman of the Board of Directors and the chairperson of each committee also hail from outside of the company.

Then, over the period from 2018 through 2019, the major Group companies SuMi TRUST Bank, Sumitomo Mitsui Trust Asset Management, and Nikko Asset Management were reorganized into companies with an Audit and Supervisory Committee. So considering all of these developments, I do feel that the governance structure across the entire Group has been steadily strengthened.

That said, upgrading one’s governance framework should not be the end goal. Uncovering issues that require improvement from day-to-day practices and continually enhancing the

proficiency and maturity of the corporate governance structure is vitally important, in my opinion.

For example, I think the supervising and checking roles in a governance structure only really prove functional when they are paired with an external director who is expected to check things from an external point of view.

Rather than recognizing that oversight is strengthened solely because of the presence of external directors, I think it is important that corporate governance continues to be matured in terms of operational aspects, such as how functions and roles are separated from the executive side of the business, or what kind of information channels are set up with the executive side.

Question

What are the roles of the Risk Committee?

The Risk Committee has been active for a period of three years now since its establishment at the time of SuMi TRUST Holdings’ transition to a “company with Three Committees.” The Board of Directors consults with us on a plethora of subjects—for example, the Group’s risk appetite framework (RAF), materiality, and top risks. And because our discussions are quite broad-ranging, you could say that we enjoy a high degree of freedom regarding the activities we undertake. With regard to the recently formulated Medium-Term Management Plan, we engage in free discussions about the issues the plan rests its assumptions on, such as the awareness of the Group’s business environment and the forward-looking review of materiality.

However, owing to the fact that the committee is made up of mostly external committee members, there are limitations on how often we can meet, which means we are unable to discuss matters on a daily basis. For these reasons, we have not been given a strong mandate to supervise and monitor the day-to-day execution of the Group's business. Instead, our main role is to freely engage in sophisticated and wide-ranging discussions about risk-related topics and raise various issues for the executive side of the business to address.

What works in our favor is that in addition to two external directors and one internal director of SuMi TRUST Holdings, the other committee members or advisors that attend meetings include external experts well-versed in such topics as the macro economy, global finance, and trends at regulatory authorities and financial institutions in Japan and overseas. Accordingly, lively discussions are the norm at every meeting.

Moreover, directors that also sit on the Audit Committee and many executive officers of corporate management departments also participate in committee discussions and the details and opinions from such discussions are reflected in the day-to-day execution of business where necessary.

Up ahead, as an advisory body to the Board of Directors, we hope to build an even stronger system by further expanding on the recommendations of the Board of Directors and offering suggestions based on our findings.

Question

How do you feel when looking back on the activities of the Risk Committee carried out thus far?

Prior to the establishment of the Risk Committee, SuMi TRUST Holdings had already constructed a RAF for the Group in line with international standards and from FY2017 it stepped up efforts to have risk appetite limits adopted in each banking business and at all Group companies. Numerous interrelated issues come into play when building a RAF. For example, forward-looking environmental assumptions and scenario analyses of the macro economy and industrial and social trends, the setting and monitoring of risk appetite indicators, the sophistication of prediction management functions, and the identification of various risk and materiality issues. So considering that the primary objective of a RAF is to set a risk tolerance amount and compare the risk-return costs to improve risk management, revenue management, and by extension, business management, it is no surprise that the discussions of the Risk Committee revolve around the RAF to a varying degree.

Over the past three years, I can see that we have made steady progress on improving methods of setting and monitoring risk appetite indicators, enhancing prediction management methods, developing and improving risk appetite statements, and rolling out all of these initiatives to Group companies.

That said, many challenges await us up ahead. As a financial group specialized in trust banking, the SuMi TRUST Group is engaged in a multitude of businesses, which certainly gives it an edge over its competitors, but for that very reason of diversity, all of its risk appetite indicators must be set with a high degree of accuracy. Given these many technical challenges, I think ongoing improvements are absolutely essential. Progress has also been made on using the common language of the RAF as a tool for communication between corporate management departments, but initiatives aimed at instilling a risk culture at the front line and even among each and every employee are still a work in progress, so a great deal of ingenuity and effort will be crucial going forward. The creation and penetration of risk culture and corporate culture driven by the Group's top leadership, and even the establishment of an assessment and compensation structure consistent with these developments, must be accomplished in a climate of mutual respect and understanding.

Question

How do you view the impacts of the COVID-19 pandemic?

Economic activity is being significantly and adversely impacted by the global spread of COVID-19 and the various restrictions imposed on people's movements as a result. As a consequence, society is expecting all financial institutions to lend large sums of money to their clients. Naturally, financial institutions must firmly uphold their social duty to supply capital, but they are also required to strictly address and deal with sudden increases in credit risk and problems associated with securing liquidity.

Under these circumstances, the following opinion voiced during a recent Risk Committee meeting left a particular impression on me: "...exhaustive discussions about environmental assumptions and the appropriateness of a scenario portfolio during this time are meaningless. We must concentrate on deciding what kind of countermeasures we require in anticipation of the biggest risk that could potentially occur and checking whether such measures will work."

The SuMi TRUST Group too has implemented various initiatives and measures for preventing the spread of infections and ensuring business continuity, including restrictions on coming to work and the adoption of telecommuting. However, considering that all of this is a new experience for each and every employee, I am certain that we have all learnt something new, such as what we can put to use in the future and what to prevent from happening again. More than anything, I think it is vital that we not only use this awareness to overcome the immediate crisis, but after we get through this period, we take it all in and digest it thoroughly as an organization so that we can build a better system for sustainable business continuity.