

Summary of “Research Report Regarding IT Governance of Financial Institutions”

June 2020





- The FSA published “Discussion Paper on Dialogues and Practices Regarding Financial Institutions’ IT Governance” in June 2019.
- The document specified the following three issues as those to be analyzed in the future:
 - (i) “Regional banks shard system centers and each bank’s IT strategy and governance”
 - (ii) “Global IT governance of globally operating financial institutions, including mega-banks and large life/nonlife insurers”
 - (iii) “Monitoring adapted to financial sector changes, including digitalization”
- This program year, the FSA conducted a fact-finding survey regarding the first two issues (regarding the second one, the survey first covered the insurance sector, which is expanding into overseas markets)

(i) “Regional banks’ shard system centers and each bank’s IT strategy and governance”

(ii) Global IT governance at globally operating financial institutions, including large life/nonlife insurers

Background

- ✓ The shard system center was launched for the initial purpose of contributing to cutting IT costs. More than 90% of regional banks have joined the center.
- ✓ While the use of the joint center has been prolonged, concerns have emerged about difficult responses to new services and costs, including shard system centers use fees.

- ✓ Large Japanese insurance groups have accelerated overseas expansion in pursuit of new markets. The need for IT strategies to beef up global group synergy has increased.
- ✓ At their overseas affiliates, system development delays, excess costs and other problems are sporadically seen.



Fact-finding survey

- From September through November 2019, the FSA conducted a questionnaire poll of all regional banks regarding IT costs and other matters.
- To back up the poll, the FSA interviewed some sample regional banks to find facts mainly about the shard system center.

- From November 2019 through January 2020, the FSA conducted a questionnaire poll of globally operating Japanese insurance groups and interviewed them regarding global IT governance.



- Given that core banking system costs at depositary financial institutions change depending on deposit changes, the FSA checked the ratio of system-related costs to deposits indicating IT costs’ efficiency and adequacy. As a result, it found (1) that the ratio for regional banks is higher than for credit associations/unions and (2) that regional banks with less earnings have more cost structure problems.
- Although the use of new IT and digital technologies has made due progress (as indicated by cloud computing service users accounting for about 86% of regional banks), regional banks are seemingly using new technologies introduced by outside services instead of introducing such technologies directly (indicating their failure to strategically use IT technologies).

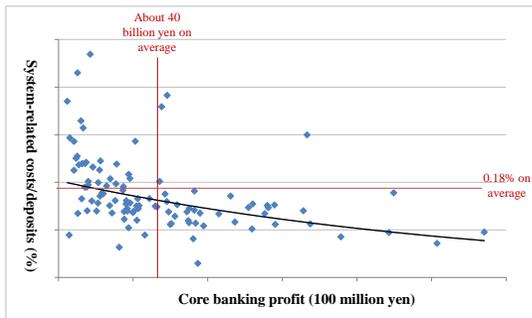
Major findings

[System-related costs/deposits by business type]

		Total for regional banks (104 banks)	Credit associations <Estimate>	Credit unions <Estimate>	Internet banks
BS	Deposits (average)	3.3 trillion yen	554 billion yen ^{※3}	141.9 billion yen ^{※2}	2.6 trillion yen
	System-related costs (average)	4.7 billion yen ^{※1}	660 million yen ^{※2}	150 million yen ^{※2}	5.8 billion yen ^{※1}
P/L	System-related costs/deposits	0.18%	0.12%	0.11%	0.32%
	Operating costs/core banking profit	71%	79%	71%	66%

※1 Source: Results of a questionnaire poll conducted by the FSA in September 2019
 ※2 Source: FY2018 system-related costs (estimates) by business type (208 credit associations and 43 credit unions) among the results of an FI poll made available by the Center for Financial Industry Information Systems (FISC) for its members
 ※3 Deposits are averages in the year to March 2019 for all credit associations (259) and all credit unions (146)

[Efficiency of system-related costs (regional banks as a whole)]



[Use of new IT/digital technologies]

	Using or not using	Use cases	Upper: General use of outside services Lower: Full-scale application to the main business	
Cloud services	86.5%	Email, Sales support, e-learning, etc.	Over 30%	
		Enterprise systems (including private cloud services)	Around 10%	
AI technology	51.9%	Robot advisers, marketing, etc.	Around 20%	
		Lending operations, Detection and investigation system, etc.	Less than 10%	
RPA	70.2%	Data inputting and other computerized routine operations	About 70%	
		Non-routine operations, including AI-supported analysis and decisions	—	
Data utilization	66.3%	Inhouse data utilization	Less than 60%	
		Utilization of data acquired from connection destinations, SNS, etc.	Less than 10%	

Outline of survey results

Efficiency/adequacy of IT costs

- The ratio of system-related costs to deposits for regional banks was higher than for credit associations/unions due apparently to the number of members in the shared system center (scale merit), a difference in the scope of operations subject to the shared center (degrees of individual customization), and other factors

New IT/digital technologies

- The lack of progress in the utilization of new technologies could be attributable to inflexible legacy systems

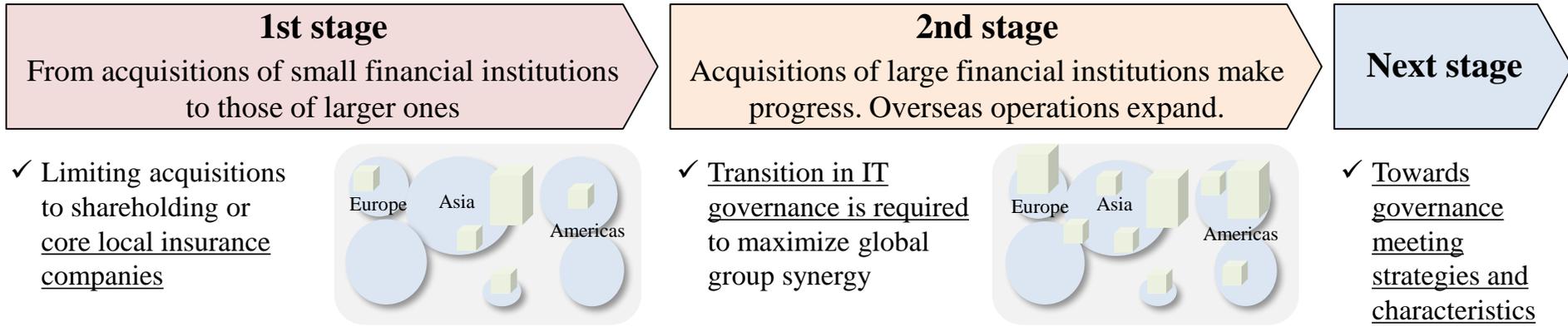
- ☞ Regional banks are to allow IT systems to flexibly work in line with business strategies covering earnings, while trying to correct IT costs. They are also required to secure and train IT human resources and improve contracts with system vendors.
- ☞ Given that costs at credit associations/unions are held down, regional banks may consider the standardization of connection and data specifications, as well as the joint use of systems with other financial institutions.

Analysis of “global IT governance at globally operating financial institutions”



- IT governance and management arrangements differ depending on gaps in overseas expansion.
- From the global viewpoint, precursory initiatives and problems were identified regarding IT organization, IT strategies and system risk management.
- Transition in IT governance is required to maximize IT-related group synergy according to progress in overseas operations.

Overseas expansion stages



Outline of survey results

- Global IT organization**
 - A company closely cooperates with core overseas companies to develop and promote global IT strategies [Tokio Marine]
 - A company has failed to make progress in considering how best to activate IT governance in changing a global organization.
 - ☞ Developing an IT organization that can take full advantage of resources and knowledge at domestic and overseas group companies
- Global IT strategy**
 - Some companies use overseas digital organizations to undertake research and verification based on group companies’ requests for the utilization of new technologies. [SOMPO, Tokio Marine]
 - A company has failed to effectively improve group synergy while its business plan calls for doing so.
 - ☞ Developing arrangements to formulate, promote and monitor an effective global IT strategy in line with overseas expansion
- Global system risk management**
 - A company has developed arrangements to accurately identify the maturity of IT control and management systems and provide adequate support [Tokio Marine]
 - A company’s verification or assessment of IT control and management arrangements at overseas affiliates has deviated from realities
 - ☞ Developing arrangements to verify affiliates’ IT control and management systems, and to provide necessary support timely and adequately



✓ Addressing issues to be analyzed in the future

To analyze the third issue -- “monitoring adapted to financial sector changes including digitalization” -- the FSA will accumulate discussions with each type of financial institutions and experts.

✓ Updating case studies

Regarding a collection of useful case studies compiled in line with approaches and viewpoints given in the “Discussion Paper on Dialogues and Practices Regarding Financial Institutions’ IT Governance,” the FSA will reflect new useful case studies through talks with financial institutions and experts and promote the wide utilization of the collection.

✓ Support through the “Enterprise System and Frontrunner Support-Hub”

The FSA will support enterprise system and other precursory initiatives at financial institutions from the viewpoints of legal interpretation functions and monitoring on IT governance and risk management systems.

✓ Study for “enterprise systems’ switching cost reduction and external expansion, including standardization of external connection and data specifications”

In a bid to allow financial institutions to combine functions of multiple shared system centers and switch from a shared center to another, the FSA will study the potential standardization of system-to-system connections and data configuration, the potential joint use of shared centers among different types of financial institutions, desirable contractual relations between financial institutions and their system vendors, and their desirable systems meeting the diversification of financial services under legislation encompassing a wide range of financial services.