



# Background to the Discussion Paper on IT Governance at Financial Institutions

- In June 2018, the FSA abolished the Inspection Manual and released the Basic Policy for Inspection and Supervision after it reviewed its approach to on-site inspection and off-site monitoring activities. The FSA subsequently published the first version of the "[Issues for Dialogues on Practices related to IT Governance at Financial Institutions \(Discussion Paper\)](#)" in June 2019. The FSA revised [the Discussion Paper](#) in June 2023 taking into account the recent developments.
- IT governance is a concept and mechanism in which financial institutions incorporate their IT strategies into their business strategies to increase their corporate value. The FSA will have dialogues with financial institutions on the state of IT governance on a continuous basis as the environment surrounding financial institutions develops.
- With respect to IT management at financial institutions, the FSA applies generally accepted standards, such as FISC's standards. With respect to risk management for system integration at financial institutions more specifically, the FSA published the "[Supervisory Approaches and Viewpoints](#)" as an appendix to the Discussion Paper, which refers to the checklist for risk management for system integration that was published in December 2002.

## The focus of supervision shifted from system integration to IT governance

### IT Governance at Financial Institutions

#### IT Governance

A concept or mechanism to incorporate IT strategies into corporate business strategies to increase corporate value

Reference:  
"[Discussion Paper on IT Governance](#)"

#### IT Management

Risk management to ensure stable IT operations at financial institutions

Reference:  
Widely used standards, such as FISC Security Guidelines

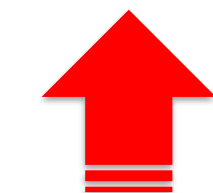
#### Risk Management of System Integration

Project management of system integration

Reference:  
Approaches and Viewpoints ([Detailed Edition](#))

### FSA's focus

Monitoring of IT governance



Monitoring of system risk management posture

### Concerns emerged from recent developments

#### Environmental changes:

- The decreasing and aging population and the low-interest rate environment pose challenges to the financial sector. Under these circumstances, financial institutions need to consider their capability to develop and maintain their IT systems to provide services that can meet customers' needs.

#### Challenges and concerns for financial institutions:

- If a financial institution faces excessive IT costs and is unable to address the costs, it may undermine the financial soundness of that financial institution at some future time. In addition, the avoidance of adopting new technologies may pose a risk of losing opportunities for gaining future earnings or for reducing cost.
- Where a financial institution makes an attempt to develop a business strategy that tries to benefit from the use of technology to compete with new entrants from non-financial sectors, such a financial institution may struggle with establishing a corporate culture and human resource strategy in a new attempt, and as a result, disruptions may occur in its business operations.



## IT Governance that can increase corporate value:

- Whether an IT governance framework only covers an IT risk management framework that aims to maintain safe and stable IT operations or it also incorporates IT strategies into business strategies to increase corporate value

### **(i) Leadership of the Board and senior management**

Whether or not the Board and senior management take leadership to have good IT governance in place

### **(ii) IT strategy and DX strategy that are aligned with corporate and business strategies**

Whether or not the IT strategy and DX strategy are well aligned with corporate and business strategies, whether or not a financial institution works not only on innovations including developments of new services, but also on operational reforms, such as cost reduction and productivity enhancement

### **(iii) IT organization and DX promotion organization that implement IT strategy**

Whether or not functions in charge of IT strategy and DX strategy are deployed appropriately, instead of leaving everything to the IT department or outsourcees, whether or not roles and responsibilities are clarified among different departments, such as the IT department, DX promotion department, and the sales department, whether or not conditions, such as a corporate culture that fosters a trial-and-error spirit and human resources with expertise in IT and digital technology, are right to implement IT strategies

### **(iv) Optimized allocation of IT resources and resource management**

Whether or not the allocation of IT resources (i.e., people, things, and money) is optimized in accordance with IT strategy and DX strategy

### **(v) IT investment strategy and management that promote corporate value**

Whether or not strategic IT investment (including investment on DX related projects) is made to increase corporate value, whether or not IT investment follows a PDCA cycle (including whether or not return on IT investment is properly evaluated)

### **(vi) Proper IT risk management**

Whether or not IT risks, including risks associated with missing opportunities to apply new technologies and risks related to DX, are properly managed

## **Effective IT Management**

Whether or not IT systems are appropriately managed to support IT governance

This is an area that the FSA covered even before it published the Discussion Paper



## Purpose of the revision

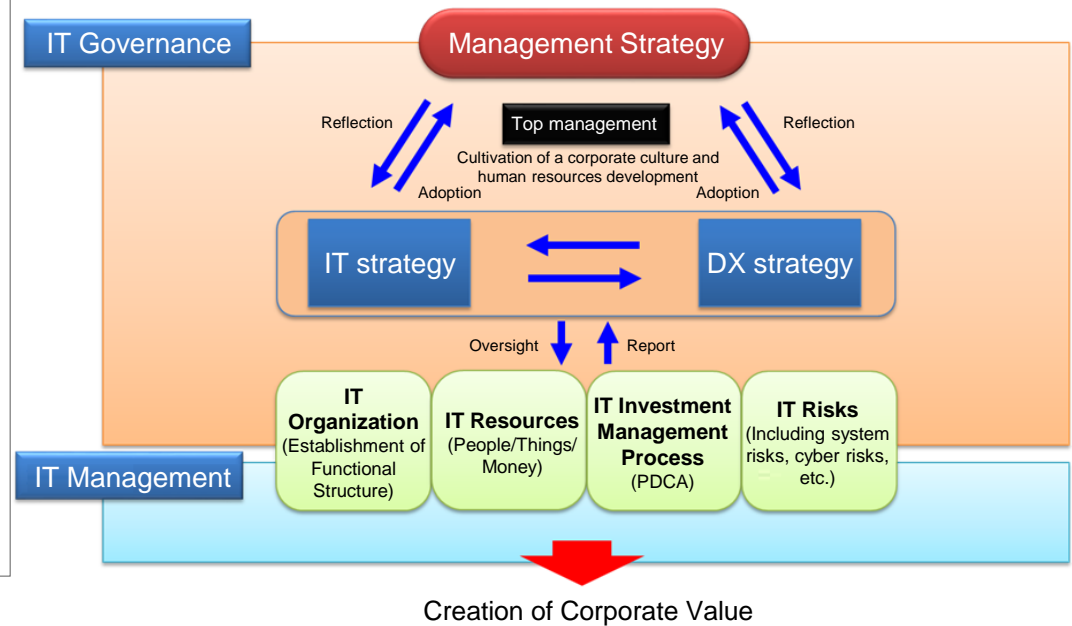
- Since **the release of the first version of the Discussion Paper in June 2019**, the FSA developed and published the three research papers on IT governance at financial institutions with the collection of useful case studies from 2020-2022.
- The purpose of the revision of the Discussion Paper is to reflect the latest developments, such as leading cases and best practices on IT governance at the financial institutions that the FSA observed through dialogues with the industry, and to **incorporate supervisory approaches to and viewpoints on DX**.

## Industry's response to changes in their business environment

- The business environment surrounding the financial industry has changed significantly in recent years. The industry needs to provide services that can help its corporate customers, including small- and medium-sized companies, address the labor force shortage (due to the aging population). In addition, services provided by financial institutions are expected to be more convenient and increase customers' experience. As a result, the scope of services that the financial industry provides has expanded to cover non-conventional services, such as services that help their corporate customers promote DX.
  - In this context, financial institutions are **accelerating their efforts to provide new types of digital services and transform their business models**.
  - These efforts tend to be centered on business areas where financial institutions can **effectively use data provided by their customers based on the trust in the financial sector and for access to payment services, which is an advantage for the financial industry**.



- **IT governance** stands for governance where the Board and senior management incorporate an IT strategy and DX strategy into their business/management strategies to effectively increase corporate value. The concept of IT governance **contains not only internal control but also the achievement of a growth strategy that aims to increase business earnings.**
- **IT organization/DX promotion organization, IT resources, IT investment management process, and IT risks** are key to the implementation of an IT strategy and DX strategy.



## ➤ Supervisory Expectations and Viewpoints on IT Governance

- **Top management needs to take leadership and enhance morale and motivation toward the achievement of strategies.** At the same time, they need to have trust and support from stakeholders. Close communication with stakeholders is the key to achieving this.
- Top management needs creativity and, at the same time, needs to achieve an appropriate balance with **security, which is a prerequisite condition** for benefitting from the use of digital technology. In addition, they need to **manage IT risks (including cyber risks)** and have a clear vision of the future. They need to sufficiently discuss these points with internal/external stakeholders.
- In DX strategy, top management needs to **determine which business areas are strategically important and develop a roadmap, from a medium- to long-term perspective, for operational innovation, expansion of customer contact points, and creation of new businesses** to improve profitability and transform their business models.