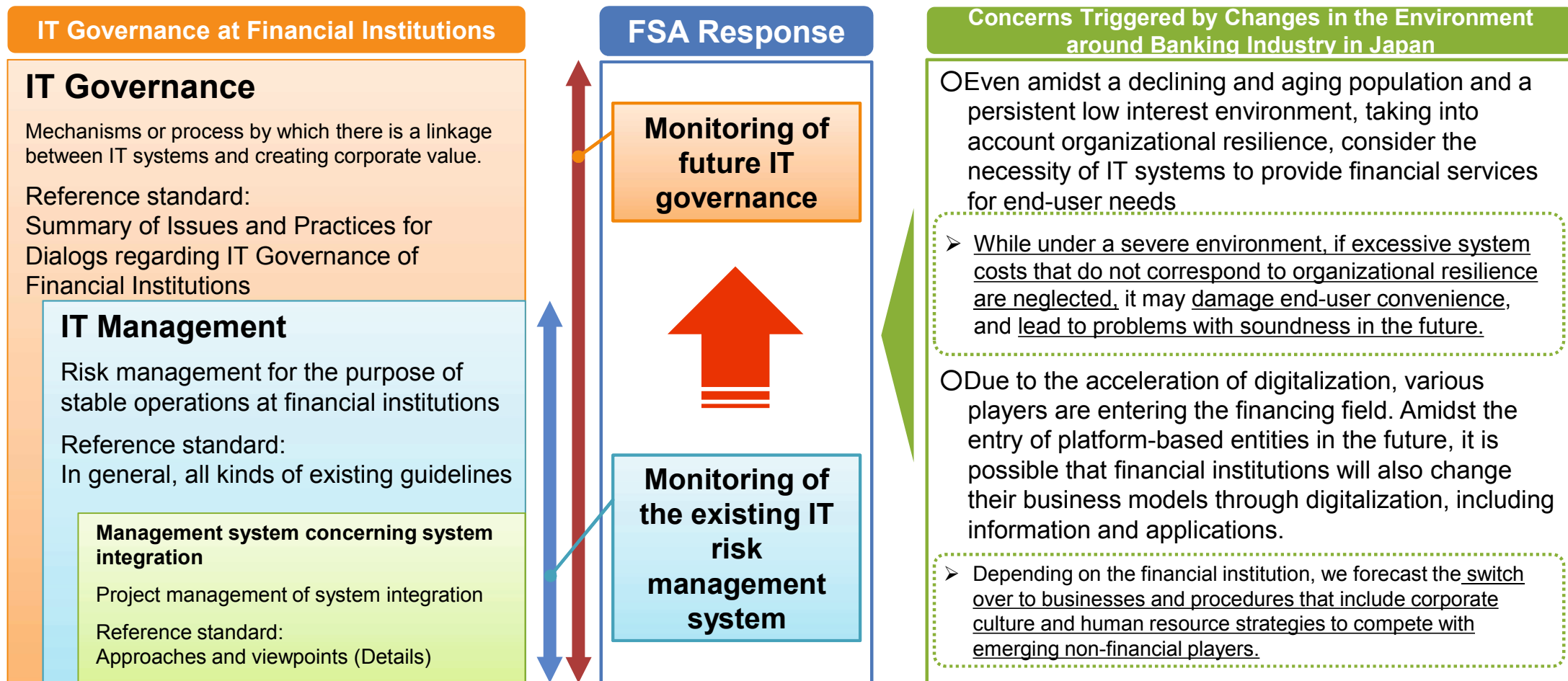# Summary of Issues and Practices for Dialogs Regarding IT Governance of Financial Institutions

○ The FSA revised how inspections/oversight should be conducted, and released the Basic Policy for Inspection/Oversight (June 29, 2018). "Concepts and Procedures" of the Policy were separated by field based on the results of an opinion survey (June 21, 2019), and were released the latest version.

➢ Taking into account the environmental changes surrounding finance in recent years, the FSA's responses regarding the IT systems field have been revised as indicated below. This revision was conducted in order to link IT and management strategies as well as to launch dialogs with financial institutions about IT governance with mechanisms or processes that make it possible to create corporate value.

➢ In monitoring the existing risk management system, after voiding the inspection manual, the FSA applied general standards to the risk management system and continued approaches and viewpoints that replace the check list for the risk management system concerning system integration.
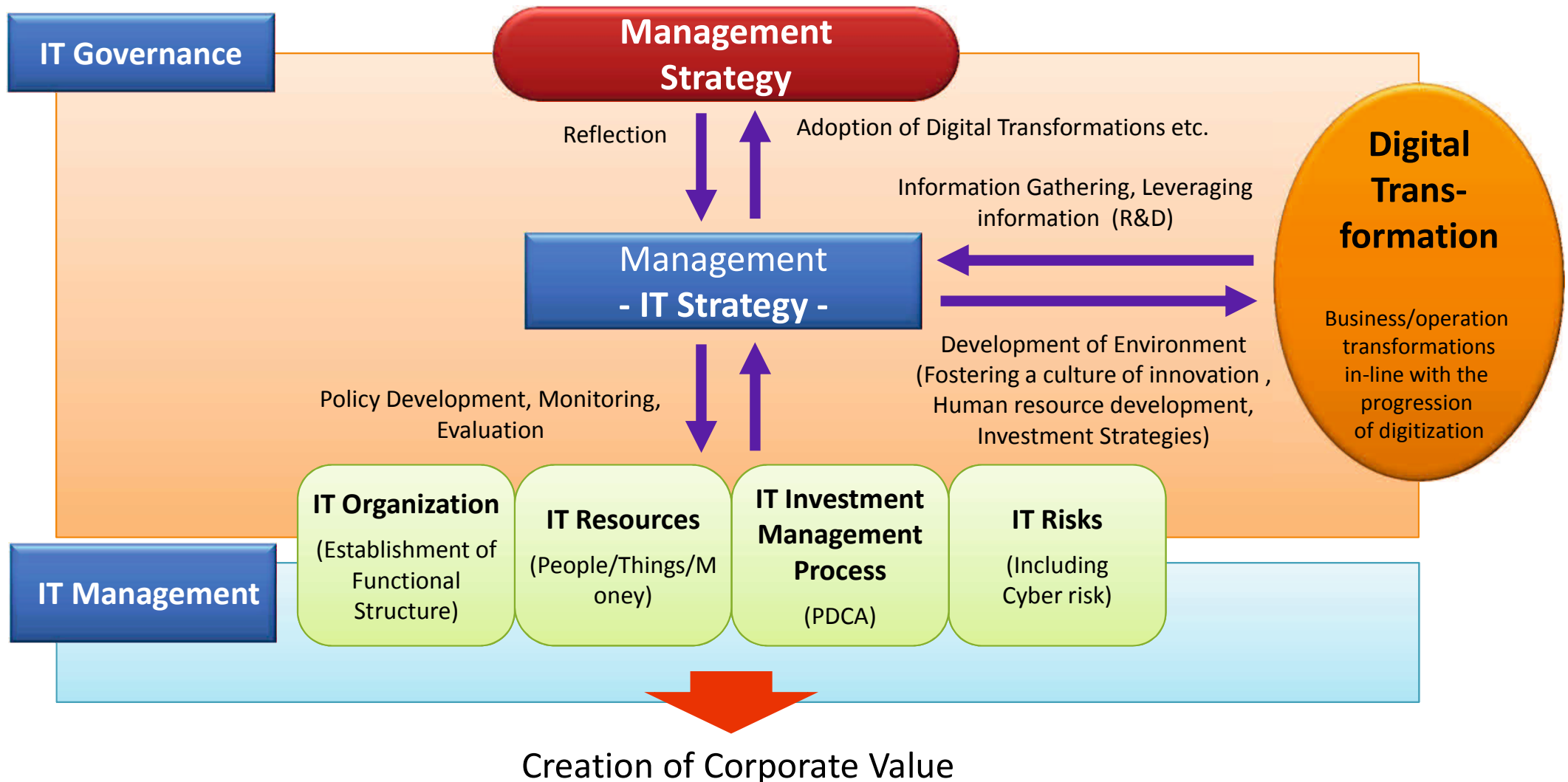
Importance to Monitoring IT Governance at Financial Institutions

IT Governance at Financial Institutions

IT Governance

Mechanisms or process by which there is a linkage between IT systems and creating corporate value.

Reference standard:
Summary of Issues and Practices for Dialogs regarding IT Governance of Financial Institutions

IT Management

Risk management for the purpose of stable operations at financial institutions

Reference standard:
In general, all kinds of existing guidelines

Management system concerning system integration

Project management of system integration

Reference standard:
Approaches and viewpoints (Details)

FSA Response

Monitoring of future IT governance

Monitoring of the existing IT risk management system

Concerns Triggered by Changes in the Environment around Banking Industry in Japan

○ Even amidst a declining and aging population and a persistent low interest environment, taking into account organizational resilience, consider the necessity of IT systems to provide financial services for end-user needs

➢ While under a severe environment, if excessive system costs that do not correspond to organizational resilience are neglected, it may damage end-user convenience, and lead to problems with soundness in the future.

○ Due to the acceleration of digitalization, various players are entering the financing field. Amidst the entry of platform-based entities in the future, it is possible that financial institutions will also change their business models through digitalization, including information and applications.

➢ Depending on the financial institution, we forecast the switch over to businesses and procedures that include corporate culture and human resource strategies to compete with emerging non-financial players.

IT Governance means that mechanisms or process by which management, providing leadership, makes linkage between IT and management strategy to create corporate value.

[IT Governance Conceptual Diagram]

IT Governance

Management Strategy

Reflection

Adoption of Digital Transformations etc.

Digital Trans-formation

Information Gathering, Leveraging information (R&D)

Management - IT Strategy -

Business/operation transformations in-line with the progression of digitization

Policy Development, Monitoring, Evaluation

Development of Environment (Fostering a culture of innovation , Human resource development, Investment Strategies)

IT Organization
(Establishment of Functional Structure)

IT Resources
(People/Things/Money)

IT Investment Management Process
(PDCA)

IT Risks
(Including Cyber risk)

IT Management

Creation of Corporate Value

◆ IT Governance that Creates Corporate Value

Is IT governance mechanism developed that not only allows for the secure and stable operation of information systems through IT management, but also links IT and management/business strategies, allowing for the creation of corporate value?

① Leadership of Management

When developing IT governance mechanism, dose management provide leadership and work proactively?

② IT Strategy that Matches Management Strategy

Is IT strategy linked to management and business strategy? In addition, how are digital transformations considered?

③ IT Organization that consistently Implements the IT Strategy

Are functions that support IT strategy and digital transformations appropriately deployed? Isn't IT Strategy left up to systems divisions and outsourcing contractors? In addition, are the roles and responsibilities of the organization, such as IT division and business divisions etc., are clarified?

④ Optimized IT Resources (Resource Management)

Are IT resources (people, things, money) distributed and optimized based upon the IT strategy?

⑤ IT Investment Management Processes that results in the Creation of Corporate Value

Is strategic IT investment made that ensure the creation of company value? Is there a functioning PDCA cycle that contains benefit evaluations for IT investments?

⑥ Properly Managed IT Risks

Are IT risks considered, taking into account of opportunity loss by refusal of new technologies?

Digital Transformation that brings about business model innovation

- Are measures for digital transformations evaluated from the perspective of how each business operation should be performed within the company.
- What attitudes are taken toward fosterage of a "trial and error" culture, human resources diversity, R&D etc.?
- In addition to innovations to develop new services etc., is restructuring of business operations performed to reduce costs and improve productivity?

Effective IT Management

Is an appropriate IT management system developed to support IT governance?

Conventional Viewpoints

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