

Risk and Compliance Case Study
ADAPTIV

Sumitomo Mitsui Trust Bank Adapts its Risk Processes for Regulators and Clients

Japan's banks face not only a slew of new global regulations such as Basel III, Dodd-Frank and EMIR, but the additional complexity of the Japanese government's aggressive expansionary economic policies, which are known as "Abenomics". While to date Abenomics has had a positive impact on Japanese equity market returns, it has also introduced more uncertainty. Small changes in optimism or pessimism view regarding the global economy have led to rapid and often outsized "risk on, risk off" market movements.

Japanese financial institutions are quickly realizing that this new era of regulation and uncertainty requires more sophisticated risk management practices. Existing processes may not be able to manage the potential risks associated with significant catastrophic market events, meet new regulation requirements and the increasing demands of clients, or incorporate evolving market best practices and standards.

Adaptiv continues to be enhanced to meet significant new regulatory requirements and market best practices.

NORIYUKI YAMAGUCHI,
 SENIOR MANAGER OF
 THE RISK MANAGEMENT
 DEPARTMENT, SUMITOMO
 MITSUI TRUST BANK.



Business challenge

Sumitomo Mitsui Trust Bank's (SMTB's) management recognized that market best practice would evolve quickly due to regulatory changes such as Basel III. "SMTB is actively engaged in initiatives to ensure that it continues to meet all applicable regulations. After financial crises in 2008, we aimed to manage the best practice, and since then we have increased our focus on non-linear tail risk as well as market liquidity risk in order to be prepared for any possible future major market movements," said Noriyuki Yamaguchi, senior manager of the risk management department, SMTB.

It was imperative that the bank be able to quickly adapt its risk management procedures and systems to meet the demands of regulators, such as JFSA, and clients' needs for greater transparency and accuracy. Yet the bank also faced more competition than ever, so these changes had to be achieved in a cost effective manner.

Our solution

SMTB has been able to achieve these goals because it uses FIS' Adaptiv solution as its core risk management platform. A customer since 1997, SMTB relies on Adaptiv to manage its global, enterprise-wide market risk exposure and generate regulatory risk reports for local authorities at each of the bank's global locations in Tokyo, Singapore, London and New York. SMTB's Tokyo based risk management team uses Adaptiv to consolidate and report its global book risk to Japanese regulators.

Adaptiv provides a flexible platform that can be customized for the specific requirements of each jurisdiction and quickly implemented, in many cases by local business and IT teams. It also helps the bank to maintain a common core technology platform across all entities in order to keep running costs low.

As market movements become more volatile and the windows for reporting and feedback narrow, SMTB needs to provide more extensive, detailed and frequent updates on its exposures to front-office businesses, senior management, regulators and clients.

With Adaptiv, SMTB can address new business requirements within a short time-frame and still be confident of fully capturing its risk exposures. "Adaptiv allows us to conduct a wide range of real-time, ad-hoc analysis in addition to the standard end-of-day reporting runs. This not only allows us to identify our hot spots but to take corrective actions within the same day so that we can confidently report final consolidated global results to SMTB management and external regulators," said Mr Yamaguchi.

SMTB

Sumitomo Mitsui Trust Bank, Limited (SMTB) was established in 2011 by the merger of Sumitomo Trust and Banking Co., Ltd. (STB), Chuo Mitsui Trust Banking Company, Ltd. (CMTB) and Chuo Mitsui Asset Trust and Banking Company, Ltd. (CMATB) and is one of the leading banks in Japan. Through its global network of offices located in Tokyo, Singapore, Shanghai, Hong Kong, London and New York, SMTB provides a broad range of financial services to retail and wholesale customers. The bank also provides asset management, administration, real estate management, consulting and other services.

TAMOTSU YOSHIDA,
GENERAL MANAGER OF
FINANCIAL BUSINESS
DIVISION, MKI.



High quality service

FIS' commitment to high quality service has been a critical component of its value to customers such as SMTB. In the case of SMTB, FIS works closely with Mitsui Knowledge Industry Co., Ltd. (MKI), a Japanese system integration company, to deliver flexible value-added services around Adaptiv.

The benefits for SMTB are two-fold. First, the bank can make optimal use of Adaptiv's functionality as well as its flexibility to help it meet constantly evolving business and regulatory requirements.

Second, FIS and MKI are helping SMTB to manage ongoing consolidation projects following the merger of Sumitomo Trust and Banking Co., Ltd., Chuo Mitsui Trust Banking Company, Ltd. and Chuo Mitsui Asset Trust and Banking Company, Ltd. in 2011. SMTB can utilize FIS' and MKI's onsite service teams and therefore focus its limited IT resources on strategic business activities rather than on system maintenance and operations.

Flexible and scalable

FIS provides customers with up to two upgrade releases per year, delivering support for new products, new regulatory requirements and new risk calculation models, as well as performance improvements, enhanced reporting, workflow and other functions.

During one recent upgrade, a global project team from FIS, SMTB and MKI followed FIS' proven project methodology to build a tailored release schedule and complete the upgrade within budget and within SMTB's tight project cycle.

"With the latest upgrade, FIS has been able to address our need for additional operational support and improved analytical approaches, as well as providing significant performance and efficiency optimizations to help us meet regulatory requirements and business needs," said Mr Yamaguchi.

SMTB has also benefited from FIS' customer relationship programs. For example, FIS runs annual user meetings where Adaptiv users get together to test new features and discuss development roadmaps that align the solution with industry best practice.

"We see a lot of value in being able to participate in FIS' global user community and leverage FIS' global customer experience, especially to learn about how Adaptiv customers have been able to effectively streamline and simplify market risk, credit risk, liquidity risk and collateral management processes, which are becoming increasingly interdependent," said Mr Yamaguchi.

Advanced technology

Mr Yamaguchi's department is responsible for reporting enterprise-wide risk analysis to all internal stakeholders. His team conducts real-time analyses of risk profiles, simulations and scenario analyses. They use Adaptiv's transparent and flexible analysis tools to drill into any areas of concern. Adaptiv's extensibility framework provides a rich library of development tools that allows users to build customized reports, customize workflows and link proprietary pricing models to the solution.

Adaptiv supports the latest Windows operating system and other widely adopted technologies such as Microsoft SQL, .NET framework and C#. This approach helps SMTB to keep its total cost of ownership (TCO) low.

"Adaptiv has an open architecture, allowing us a large degree of flexibility to customize workflows, pricing and risk models and, where desired, integrate components from other systems quickly and cost effectively," said Mr Yamaguchi. "We view this flexibility, together with the close cooperation of FIS and MKI, as being the key factor that allows us to adapt quickly to new business requirements and market practices while significantly reducing our total cost of ownership compared to alternative operating models."

Tamotsu Yoshida, general manager of MKI's financial business division, agrees that Adaptiv's advanced technology is one of its key strengths. "FIS has a proven history in the development of capital markets solutions and the ability to deliver them to customers across the globe. FIS has also continuously invested in Adaptiv to provide sophisticated risk calculations, advanced workflow abilities and robust technology. The combination of FIS' solutions and MKI's system integration knowledge allows us to provide very flexible and cost effective solutions to our clients."

We continue to look at FIS for their proactive approach in extending and enhancing the Adaptiv solution capabilities to meet evolving business and market requirements.

NORIYUKI YAMAGUCHI,
SENIOR MANAGER OF
THE RISK MANAGEMENT
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About FIS' Adaptiv

FIS' Adaptiv provides enterprise-wide credit and market risk management and operations solutions for financial services institutions. Adaptiv assists institutions of varying size and complexity to deploy technology to meet both internal and regulatory requirements for risk management and operational control. Adaptiv helps financial services institutions from the banking, hedge fund, asset management, insurance and corporate sectors with its deep understanding of risk management and operational processes. For more information, please visit www.fisglobal.com/enterpriserisk

About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit www.fisglobal.com

