

# A Conversation with an Outside Director



## Helping Strengthen the Focus of the Board of Directors by Leveraging Group “Chemistry” to Enable Deliberations on What Is Truly Essential

**Fumihiko Ike**  
Chairman of the Board

**Q** Please share your impression of the outside director duties you have engaged in over the course of the past year since your appointment.

**A** After I retired from a chairman position at a manufacturer four years ago, I took a break from corporate management. Then, in 2020, I was appointed as an outside director at other company. And, just as my corporate manager intuition started coming back to me, Resona Holdings similarly offered me an outside director post.

In Japan, everybody by and large has a relationship with a bank as a consumer or a business operator. In this sense, banks are pretty familiar to all of us. I, myself, had been the CFO of a corporation and engaged with bankers through business. Because of this, I had thought I had a certain degree of knowledge about banking operations. However, once I stepped into the world of banking as a director, I found a number of things to be unfamiliar to me.

Banks fulfill extremely important functions supporting the social infrastructure. This is why the banking industry is heavily regulated by the Banking Act and other laws, which I began to study from the basics. As an outsider to the financial industry, I often find it difficult to comprehend the jargon used by bankers as I lack the knowledge of and literacy in these highly specialized terminologies. This was my first impression.

**Q** Please share your assessment of the features of the Resona Group’s governance systems.

**A** The most notable feature of the Group’s governance systems is the company with a nominating committee system, which it adopted

ahead of other companies. I believe this makes the Group a forerunner among Japan’s listed companies in terms of corporate governance.

Notably, the Board of Directors includes seven independent outside directors, who together account for more than two thirds of the 10 directors. The revised Corporate Governance Code, announced in June 2021, sets forth a basic requirement for companies listed on the Prime Market, stipulating that independent outside directors must constitute at least one third of board members. As far as I know, companies whose outside directors make up the majority of the board account for less than 8% of the overall number of listed businesses. I therefore consider the representation of the Group’s outside directors to be quite remarkable.

**Q** Could you describe the benefits arising from that feature in terms of the Board of Directors’ operations?

**A** At the Resona Group, outside directors are appointed from among former corporate managers, ex-government officials, academic specialists and other individuals with diverse backgrounds. This composition makes it possible for the Board of Directors to engage in multifaceted discussions that avoid skewing too far into the banker perspective.

Of course, all outside directors have to take on, prior to each meeting, the tough task of studying a large volume of material in a short period of time. However, the executives always provide us with detailed explanations through prior briefings. I usually pose a variety of questions at these briefings to enhance my understanding of each topic. Although executives are asked to start with securing the understanding of outsiders like me, I feel that this briefing process also helps them refresh their recognition of the matter being discussed through the “chemistry” arising from exchanges of ideas.

**Q** How do you bring to bear your experience and skills as a corporate manager?

**A** Although, as I stated earlier, the Group’s Board of Directors is equipped with a diverse membership, I believe that corporate management experience constitutes an especially important element among the diverse competencies directors can employ. While I in no way possess in-depth academic expertise, as a former corporate manager I can reach judgments based on empirical rules backed by experience in business management. Some people may prefer to call it “intuition.”

No business evolves like a textbook example. Rather, just like living creatures, businesses are constantly confronting an ever-evolving environment and required to respond to a variety of risks, including some that are unexpected. Of course, no set of empirical rules can ever serve as a one-size-fits-all solution. However, I believe that instincts cultivated over many years and intuition developed in the course of handling varied circumstances will not go waste. Whenever I sense something suggested at a Board meeting to be jarring, I always say so to the other Board members. A number of times, someone in the Board room has been able to furnish a convincing explanation of the matter that I’d had a problem with and not understood because of a lack of knowledge in a particular area. However, when I remain unconvinced even after hearing an explanation, I always try to figure out what it is that is striking me as wrong. In this way, I strive to contribute to in-depth discussions focused on truly essential factors.

**Q** Could you name the differences between corporate management at a business company and a financial institution?

**A** Our economic and social activities are supported by the flow of money. In sum, finance serves as the fundamental infrastructure underpinning a diverse range of businesses operating in different formats. I believe that, considering this structure, there are fundamental differences between financial and non-financial business institutions.

For example, when banks extend financing to corporations, they tend to view the business operations undertaken by their clients purely from the standpoint of financiers. On the other hand, individual corporations operate using widely different models. The Resona Group maintains transactions with hundreds of thousands of corporate customers and, through them, engages with diverse sectors. This puts the Group in a position to obtain an extensive range of business insights. At the same time, I also have to say that Resona’s insights are largely grounded in a financier’s perspective. I would recommend the Group’s management to remain conscious of possible biases arising from that perspective.

When it comes to exercising “intuition,” mine largely springs from my experience in the manufacturing sector. Accordingly, I would like to engage with representatives from diverse business sectors while working with Resona Group executives equipped with intuitive judgment capabilities in differing areas of banking operations so that we can inspire each other.

**Q** The Resona Group has positioned sustainability transformation (SX) and digital transformation (DX) as two pillars of sustainability management. Please share your opinions about this positioning.

**A** Today, amid the so-called fourth industrial revolution, we are seeing radical changes affecting not only industrial structure but also social structure. These changes are impacting any and all sectors, both financial and non-financial. Also, businesses are facing a growing public pressure around the globe for initiatives to address sustainability, ESG and other social issues. Simultaneously, they need to align their operations with evolving value systems and modes of behavior among consumers. In a time of sweeping change like this moment, the Resona Group is a forerunner as it steps forward to promote SX and DX. On this point I rate the Group highly.

No matter their size, nearly every business corporation is now being called upon to promote SX and DX. On the other hand, I suspect that it is difficult for many businesses to develop a tangible vision regarding what it is exactly that they should be doing.

Given these circumstances, the Resona Group has started by helping corporate customers, including SMEs, gain a robust understanding of SX and DX. The Group’s SX- and DX-related efforts have only just begun, but right now I suspect that nobody in the business community is positioned to suggest a universally agreed-upon definition of good sustainability initiatives. The Group itself is undergoing a process of trial-and-error. On the other hand, our Cross Functional Teams are currently implementing a variety of initiatives that break free of the bank model, while the Regional Design Laboratory of Saitama is engaged in community building assistance. These activities suggest that the Group’s efforts to develop new business models are gradually yielding positive outcomes. That being said, it is still early days for the Group. Taking the first step forward is a commendable decision, but it is important for the Group to determine how to gain a greater presence as an advocate for SX and DX through its future initiatives.

I believe that discussions regarding these subjects at the Board of Directors should focus first on building a shared recognition of the current situation. Many of the Resona Group’s outside directors have experience as directors at diverse companies, with some individuals concurrently holding director posts at non-Group companies. If the Board of Directors were to share and leverage these individuals’ experience and insights gained in the course of their engagement in differing business sectors, it would be better positioned to engage in-depth discussions regarding SX and DX. That said, I think that the Group is ready to develop its own model for genuinely effective SX and DX by employing these and other inputs.



**Q** Could you share your thoughts regarding what must be done to make SX and DX genuinely effective?

**A** I believe that the Group should not blindly follow the latest trends; rather, it should clearly redefine these trends in its own terms and share such definitions across the workforce. It can be stated that Japanese corporations have always followed trends originating in Europe, be it corporate governance, SDGs or ESG. The same applies to the stewardship code. Businesses in Japan developed their stewardship model based on the European model just as they did when incorporating the corporate governance code.

When I was serving as chairman at a manufacturer six or seven years ago, domestic discussions regarding stewardship and corporate governance largely focused on establishing the forms it would take. Back then, I rarely saw anyone who could envision how to make these systems genuinely effective. However, these trends have changed lately. We are now seeing a growing shift toward developing truly effective corporate governance systems backed by a stronger sense of ownership among businesses.

Similarly, the Resona Group is equipped with a widespread culture oriented toward enhancing the effectiveness of corporate governance. For example, executive officers who attend its Board of Directors meetings are urged to proactively participate in discussions. Above all, no Board member is inclined to prioritize maintaining a comfortable position over engaging in meaningful deliberations.

**Q** Please also share your opinions regarding what must be done to upgrade the Group's corporate governance systems.

**A** The Resona Group's governance structure differs slightly from that of a pure holding company system. While each Group bank appoints outside directors on its own, executive officers at Resona Holdings concurrently serve as presidents or executive officers at the former. I think the Group's governance structure has evolved into the current format in the course of Resona Holdings' pursuit of an optimal governance approach since the 2003 "Resona Shock" and major reforms undertaken subsequently.

Based on the aforementioned structure, Resona Holdings and Group banks under its umbrella engage in integrated business management. I think this structure is also intended to prevent management from becoming ill-informed about operations on the front lines, where employees come into direct contact with customers. This enables top management to closely align their perspectives with actual customer circumstances. Thus, the Group's governance structure can be considered effective and functional in terms of supervising business management.

However, we have also seen a drastic shift in the business models preferred by general consumers. With recent legislation making it possible for banks to handle non-financial businesses, the barriers that have protected the financial industry against newcomers have also lowered. As a result, we are seeing digital platform operators and other non-financial players making entries into the industry one

after another. This tendency is particularly profound in the field of payment. Since the breakout of the COVID-19 pandemic, the mainstay consumer mode of behavior has radically shifted from face-to-face to non face-to-face purchasing, leading to the widespread popularity of cashless settlement and other payment methods. This trend seems to have progressed to the point where settlement is possible without the intervention of a bank. So, we must be aware that one day people might possibly start asking "Do we really need banks?"

The Resona Group is, of course, aware of this possibility and, in response, intends to take on the challenge of breaking free of the bank model and developing a new mode of operations that transcends the conventional scope of financial businesses. However, in my opinion, Resona Holdings executives who concurrently serve at Group banks could be inclined to focus too much on existing businesses when participating in discussions regarding the expansion of Group operations to encompass new businesses outside the scope of conventional banking operations. Concerns related to their concurrent positions could possibly distract them from their engagement in endeavors requiring "out-of-the-box" concept building. I would like them to be always conscious of this possibility. However, should the Group adopt a governance structure that completely separates the holding company from the banks, the latter of which maintain direct contact points with customers, the holding company would be deprived of management capabilities informed by input gleaned at frontlines. With this in mind, I personally believe that aligning management's mindset toward the creation of new businesses and services will be a matter of importance.

Lately I've been seeing a lot of diagrams offering up various businesses' visions for digital platforms connecting a range of differing sectors in the face of a growing business model shift transcending industrial boundaries. If the Resona Group were to create a major platform of this kind—creating connections among widely differing players irrespective of their sectors—and to introduce such platform for use by the general public, it would need to further advance collaboration with external partners.

Meanwhile, digital platform operators are currently expanding their fields of operation by taking full advantage of data they have accumulated, and their services are helping to connect diverse sectors. However, as some major platforms are now considered to have grown too big to be left unregulated, there has been an emerging trend in such regions as Europe toward restricting the use of data accumulated by these operators on the back of looming concerns about privacy protection. We must pay attention to this trend, too.

In this light, traditional financial institutions have an advantage over newcomers in terms of public trust. This hard-earned trust is backed by their tireless efforts to maintain and deliver safe and secure services. As long as finance is the mainstay of the Resona Group's operations, it should never compromise about maintaining that trust. The Group should therefore develop a digital platform via the use of external partnerships and play its part in introducing such platform to society even as it steadfastly maintains its inherent strength backed by customer trust in its mainstay business. Thus, the Group's breaking free of the bank model will be a quite challenging task.

As a supervisory body, the Board of Directors is expected to exercise robust monitoring over the initiatives discussed above, paying close attention to such matters as the rationales supporting the Group's engagement in each partnership endeavor.

**Q** In June 2022, you assumed the position of Chairman of the Board. Please describe your vision regarding how to lead the Board of Directors' discussion.

**A** Today, public expectations regarding the effectiveness of boards of directors are remarkably high. News coverage of recent corporate mishaps has refreshed my awareness of the heavy burden of responsibility borne by boards of directors. These incidents also hit home for me that those in the position of chairman are particularly responsible for exercising robust governance.

I am the first outside director to become Chairman at the Resona Group. I think corporations whose boards of directors include chairpersons appointed from among outside directors currently account for only 3% of the companies listed on the Tokyo Stock Exchange's Prime Market. Although I, personally, am not sure about whether appointing an outside director as chairman could one day emerge as a mainstream method for securing an effective corporate governance system, my assuming this position can be, at present, deemed a quite progressive stance.

I have previously served as a corporate chairman. However, my previous position was at a company I had served at for many years and one where I was already well-versed in its operations. On the other hand, I have served at the Resona Group for only a year. I am currently pondering the various approaches I could take to handling my duties and fulfilling my responsibilities as Chairman of a financial institution. At the same time, I often invite other directors who have extensive experience to join me in contemplating what Resona Holdings' Board of Directors ideally should look like.

To date, the Resona Group has consistently aligned its governance structure with the prevailing environment and circumstances. For example, Resona Holdings, which supervises overall governance of the Group, has assumed a portion of frontline business operations, rather than simply acting as a holding company. In other words, the Resona Group has developed its consolidated governance framework based on a unique take on what a holding company is, assigning it a broader range of functions than is typically expected.

Since its inauguration around two decades ago, Resona Holdings has gone through a number of challenges and evolved into its current form. I am well aware of this.

However, should the traditional bank-focused mindset persist within its workforce, the Company will need to push ahead even harder with further reforms of employee awareness in order to navigate the current environment, which is demanding that it transition to a new model at an ever-faster pace.

To overcome the challenges arising from this environment, the Resona Group may also have to reexamine its current systems, which reflect the development of integrated business management encompassing both the holding company and Group banks.

I think that, as a Chairman appointed from among the outside directors, I am expected to facilitate some kind of "chemistry" among the Board members in the course of discussions on these matters. In this sense, I believe that my role here is to lead the Board of Directors in a way that encourages other Board members to incorporate fresh perspectives and helps them better focus on discussing what is truly essential. I will do my best to fulfill these duties until the end of my current term. After that, I will entrust the Nominating Committee to pass judgment on my performance.

**Q** Lastly, do you have any messages to share with readers?

**A** For the Board of Directors to enhance the effectiveness of its operations, it is important to step up engagement with all stakeholders.

In this light, outside directors, including myself, are being called upon to assume major responsibilities to provide executives with insights into what stakeholders have to say about the Resona Group. Accordingly, outside directors should not only contribute expertise in their areas of specialty but also deliver robust input regarding stakeholder expectations and concerns to executives at each Board of Directors meeting. Once these endeavors are successful, the Board of Directors will be empowered to engage in in-depth discussions.

With this in mind, I would also like to work in tandem with stakeholders to determine the roles the Resona Group is expected to fill and the most desirable future direction for its operations. Therefore, I invite readers to provide us with honest feedback, be it on matters of their interest, their expectations for the Group or concerns about what it is doing, by taking advantage of the various opportunities for dialogue that are available to them.

Through multifaceted engagement with stakeholders, we will gradually fill informational gaps on both sides in order to help navigate the Group in the right direction. I would ask stakeholders for their support of these endeavors.

