

2013

GOVERNANCE, ORGANISATIONAL
DEVELOPMENT AND COMMUNICATIONS

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In 2013, the Bank completed most of the targeted initiatives for the year and sustained the progress of its three year Business Plan amid increased challenges posed by the global economic and financial environment. The Bank's research, surveillance, policy and advisory functions were focused on managing the risks emanating from the external environment, volatile capital flows, rising asset prices, and high level of household debt. Several pre-emptive policy actions were undertaken to preserve macroeconomic and financial stability. The Bank continued to engage and advise the Government on relevant macroeconomic issues towards sustaining a conducive environment for the country's economic growth and development. In addition, the Bank made further progress in expanding opportunities for higher value activities within the Malaysian financial ecosystem, notably further solidifying Malaysia's position as the World's Islamic Finance Marketplace, the adoption of the Sasana Accord for financial inclusion and promoting green financing. In the area of insurance, initiatives included promoting efficiency of the motor insurance business and a more comprehensive life insurance and takaful framework to support a higher level of insurance and takaful penetration. Other areas included the liberalisation of the foreign exchange administration rules to further enhance the business environment, enhancing the platform to cater for multi-currency funds and securities settlement including issuance and raising Malaysia's profile as an international education hub in financial services. These achievements were facilitated by the Bank's continued emphasis on governance, organisational development and communications as strategic imperatives in delivering the Bank's mandates.

GOVERNANCE

The Board of Directors (Board) has responsibility for the general policy, administration and business of the Bank. The Board comprises the Governor, three Deputy Governors and the Secretary-General of the Treasury as ex-officio members of the Board and five independent directors who are non-executive members. The third Deputy Governor was appointed in April 2013. The Board exercises oversight of

the management and operations of the Bank and reviews the performance of the Bank in delivering its mandates of promoting monetary and financial stability in an environment that is conducive to the sustainable growth of the Malaysian economy. The Board reviews the Bank's strategic planning and risk management practices, human capital management, the Bank's financial position and also oversees other administrative matters that impact the efficiency and effectiveness of the Bank's operations.

In 2013, the Board met monthly during the year to deliberate on the Bank's operations and discussed new developments in the regional and global environment. The official opening of the Bank's Beijing Representative Office witnessed the first occasion where a Board meeting was conducted abroad, in Beijing, in conjunction with other activities to further strengthen bilateral ties with PR China.

At its meetings, the Board deliberated on key economic and financial conditions, and how domestic and external developments may impact the economy, the consequences for financial stability and the Bank's operations, along with the Bank's policy responses to these developments. The meetings also discussed the Bank's financial condition, reserves and currency management, and talent management issues.

During the year, the Board continued to focus its oversight role on governance and internal controls, particularly in relation to project management, information technology architecture and the enhancement of statistical systems, all of which aim to develop the Bank's capabilities to undertake its operations in a more complex and challenging environment. The Board was briefed monthly on the Bank's treasury operations and investment strategies given the uncertainties in the global financial markets. The Board also oversaw the Bank's adoption of accounting practices and reporting in compliance with generally accepted principles and practices of accounting standards, taking into consideration the Bank's unique position as a Central Bank. The Board approved a new framework to ensure the availability of

sufficient financial buffers to strengthen the financial and operational sustainability of the Bank. During 2013, the Board also approved a number of regional and international cooperation agreements with foreign regulators in the area of economic and financial sector development, and financial stability.

In performing its oversight function, the Board is supported by three Board Committees, namely the Board Governance Committee (BGC), the Board Audit Committee (BAC) and the Board Risk Committee (BRC). The members of these committees consist solely of non-executive directors and this is intended to strengthen independent oversight of the Bank's operations. The BGC is responsible for overseeing the principles and practices of governance for the Bank. The BGC convened four meetings in 2013, and made several recommendations to the Board on issues relating to the budget and operating plan and matters relating to the appointment and reappointment of Deputy Governors, members of the Shariah Advisory Committee and Financial Stability Executive Committee.

The function of the Board Audit Committee is to assist the Board in its oversight of the integrity of the Bank's accounts and financial statements, the effectiveness of the internal controls, the performance of the internal audit function, and compliance with legal and regulatory requirements. The BAC convened five meetings in 2013 to review and approve the audit plan, review audit activities and the performance of the Internal Audit function, review the accounts and financial statements, review the audit charter and deliberate on audit findings and the rectification actions taken to strengthen internal controls of the Bank.

The Board Risk Committee assists the Board in providing oversight on the management of risks that could lead to the Bank experiencing financial loss, disruption of operations, failure to meet its mandates or damage to the Bank's reputation. In 2013, the BRC met three times to deliberate on the Bank's management of enterprise-wide risks. The BRC discussed the Bank's transversal risks, namely people, physical security, information security and legal risks, and the associated risk mitigation strategies. In the area of Treasury Operations, the BRC deliberated on the Bank's processes and approaches to investing in new asset classes and markets to ensure that

adequate controls were in place to manage the associated risks.

Risk Management in the Bank

The Bank continued to strengthen its risk management framework to increase its agility in addressing new risks posed by the rapidly evolving landscape. The measures were focused on the Bank's ability to respond effectively in adverse situations, and included recovery facilities, roles and responsibilities, as well as business processes that reduce the time to response, improve the predictability of response and the range of possible response options. Robust risk management is a critical element that supports the sustainability of operations in the event of any adverse development in the environment.

Risk Management governance structure

The Bank's risk management governance provides clear accountabilities and responsibilities that ensure risk management strategies are effectively implemented and significant risks are adequately managed. The management of risks in the Bank is overseen by several risk committees, with roles that complement each other.

As noted earlier, the Board and the Board Risk Committee have the broad oversight function of the governance structure for the risk management framework. The Board, with the support of the BRC, provides strategic direction on risk management at the Bank to ensure that it has the necessary processes, systems and resources for effective risk management. The Risk Management Committee (RMC), chaired by the Governor, deliberates on organisational risks related to the achievement of the Bank's mandates and strategic objectives, and decides on appropriate policies to mitigate and manage those risks. Significant risk issues are escalated to the RMC by two sub-committees, namely the Operational Risk Management Committee and the Financial Risk Management Committee, each chaired by a designated Deputy Governor. The Reserves Management Committee (ReMC), chaired by the Governor, with members comprising the Deputy Governors and Assistant Governors, oversees strategies for the investment of the international reserves, the management of the associated risks and the monitoring of their impact on the Bank's financial position. The ReMC discusses global economic and financial market trends as well as the different types of risks, such as market risks, credit risks, and operational risks, that are likely to

arise in implementing the investment strategies. Financial returns are reviewed from a risk-adjusted basis and investment decisions seek to achieve a balance between returns and the risks undertaken.

Risk Management framework

The Bank has adopted Enterprise Risk Management (ERM) to have a holistic view of risks. The ERM incorporates elements from the Operational Risk Management (ORM) and Financial Risk Management (FRM) frameworks. The ORM framework promotes sound operational risk management processes and practices to manage events that may adversely affect the achievement of the Bank's mandates and objectives. The FRM framework addresses facets of financial risk management to ensure financial sustainability and places importance on the timely identification and effective management of financial risks.

The Bank adopted a three lines of defence approach that has proven to be an effective risk management tool. The first line of defence involves the line departments that are responsible for identifying, mitigating and managing risks at the operational level. The second line of defence comprises the Risk Policy Owners (RPO) and the Strategic and Risk Management Department. RPO functions were designed to assist line departments in managing transversal risks that cut across the organisation, namely legal, information security, physical security, business continuity, reputation, information technology and people risks. The third line of defence is the internal audit, which provides an independent assessment and verification of the effectiveness of the risk management policies and measures.

Key initiatives in 2013

In 2013, the ERM principles and framework were revised to establish greater integration between corporate planning and risk management by firstly, identifying the risk events that may obstruct the achievement of the desired outcomes identified in the Bank's Business Plan; and secondly, embedding the corresponding risk mitigation strategies within the Bank's Business and Operating Plan process.

The efforts in strengthening its risk management framework received international recognition when the Bank was selected to spearhead the working group on ERM Reporting at the 2013 International Operational Risk Working Group (IORWG) meeting of central banks in Rabat, Morocco. A new ERM report

was developed which captured the elements of top-down risk assessment, Risk Control Self-Assessment (RCSA) and transversal risks assessments.

Strengthening Risk Management framework, tools and practices

In terms of operational risk management practices, the three lines of defence and heightened risk awareness were strengthened by implementing an incident reporting mechanism as a tool to capture the occurrence of any risk events that could have led, or did lead, to an undesirable outcome. The policy requires incidences to be reported in order to mitigate losses, enhance monitoring of risk and ensure compliance with legislation and policies. An incident can be reported via the *IReport* application system and it will be automatically escalated to the responsible party for immediate remedial actions, where appropriate.

In addition, *IComply* serves as a repository for all internal policies and guidelines to enhance staff awareness and enhance the risk management culture within the Bank.

Heightening Risk Management awareness

Various socialisation and awareness programmes were conducted to strengthen the effectiveness of risk management practices and thus, improved the Bank's capacity to respond to business disruptions promptly. In addition to workshops conducted to enhance understanding on transversal risks and business continuity management, a Risk Awareness Day (RAD) was held to share knowledge on the latest policies, guidelines, systems and processes of risk management. The Bank stressed the roles and accountabilities of the RPO through periodic RPO forums and promoted prudent management of transversal risks with an RPO Guide.

Enhancing the Bank's readiness and resilience

The Bank revised its organisation level Business Continuity Plan (BCP) through an integrated assessment of the various business impact analysis and recovery strategies. The scope and objectives of Business Continuity Management (BCM) exercises such as Bank-wide combined live runs, call tree exercises and systems connectivity tests were further improved to test operational agility and stretch recovery capabilities. Business continuity awareness was instilled among line departments through mini desktop simulation exercises to rectify gaps in the department level BCP.

In 2013, the Bank enhanced its role as the lead for the financial industry with respect to business continuity management and participated in the annual national level cyber drill exercise. Majlis Keselamatan Negara (National Security Council) was engaged to ensure greater integration of the Bank's crisis management with the national level BCM infrastructure. Improvements to the BCM infrastructure included the development of a BCM Portal to facilitate internal and external communication and collaboration.

Internal Controls and Assurance

The Internal Audit Department (IAD) supports the BAC by providing an independent and objective assessment of the adequacy and effectiveness of the governance processes, risk management measures and internal controls of the Bank's key functions and significant activities. In addition, IAD also provides an assessment on the adequacy and effectiveness of internal controls in the identified significant activities of related entities that may affect the achievement of the Bank's mandates and objectives.

The year 2013 marked the completion of IAD's three-year audit plan which saw the department successfully complete its assessment on all core processes and major risks in the significant activities of line departments, branches and regional offices and the Bank's related entities. Annual audits were conducted on key risk areas such as reserves management, currency management (including branch operations), finance operations and procurement management to assess the adequacy of internal controls, risk management, policies and procedures, reliability and accuracy of data, and the integrity of the IT systems. IAD also evaluated the human resource function in terms of human capital planning and management and in the adherence to the Bank's code of ethics. Quality assurance was performed on the controls and governance processes of regulatory, supervisory and surveillance functions for the financial industry, including market conduct and payment system operations, to ensure the effectiveness of these roles and functions. During the three year audit cycle, an independent assessment was conducted to gauge the effectiveness of the overall policies, processes and risk methodologies adopted by the risk management function in the identification, control and monitoring of the credit, market, operational and reputational risks that may impact the Bank.

IAD had also engaged the senior management and the Boards of the related entities in assessing the adequacy of the risk control environments. Through the audit activities, IAD had increased the management's focus in strengthening the internal controls, enhancing policies and procedures and improving risk management at the Bank and its related entities. To ensure that the recommendations are implemented effectively by the departments and related entities, IAD closely monitored the remedial actions taken to resolve the audit issues raised by the auditors. This was reported quarterly to the BAC and monthly to the senior management.

IAD also continued to provide input to the various management committees and project committees as part of its advisory role to ensure the effectiveness of controls, governance processes and risk management measures within the Bank. IAD serves as an independent member in two of the Bank's large projects, at the working committee and the Project Steering Committee level, within clearly defined accountability structures to ensure the function remains independent from management, and any major concerns are to be reported to the BAC.

During the year, IAD had undertaken initiatives to further improve the effectiveness of the audit function. IAD intensified its engagements with other regulators to promote opportunities for peer learning on the latest developments in audit practices including the 2013 revised Committee of Sponsoring Organizations of the Treadway Commission (COSO) principles framework. Technical practice groups were established within the department to further deepen the collective knowledge base of the Bank's auditors in order to reflect the growing complexity and scope of the Bank's operations. IAD also continued its collaboration with the Strategic and Risk Management Department to effectively identify changes in the risk profiling of the significant activities to facilitate audit scoping and assess the adequacy and effectiveness of the controls highlighted in the respective department's Risk Control Self-Assessment.

A new three-year audit plan for 2014-2016 has been developed and approved by the BAC on 18 December 2013. The plan will be reviewed annually to reflect changes in the Bank's activities, risk profiles and operating environment. The plan continues to ensure that all departments and

related entities are audited within the three-year period. Greater focus and scope will be given to risk management and governance for the purpose of identifying and assessing the risk profile of activities undertaken by the departments and related entities, and integrating the 2013 COSO principles within the audit framework. Departments and related entities with higher risk profiles will be prioritised and audited more frequently to ensure adequate internal controls and strong risk management practices were established to mitigate the risks associated with their respective operations. The rapid changes in information technology risks will also necessitate periodic reviews of the Bank's IT systems' security controls and IT project management.

ORGANISATIONAL DEVELOPMENT

Organisational Sustainability and Preparedness

The Bank emphasised organisational development strategies aimed at sustainability and preparedness as it continues to deliver its core mandates amid the challenging global financial and economic environment. This was achieved through organisation-wide clarity and focus on key outcomes and deliverables anchored to a robust three-year Business Plan, which sets the medium term strategic direction and aligns the required resources towards achieving the Bank's objectives. Strategies and action plans are aligned to seven focus areas, namely ensuring monetary stability, preserving financial system stability, developing a more inclusive financial system, ensuring effective financial intermediation, ensuring smooth migration to e-payments, promoting greater integration of Malaysia into the regional and global economic and financial systems, as well as sustaining the high performance of the Bank.

The Business Plan 2012-14 helps different functions within the Bank to build a common understanding of outcomes and to plan on how to effectively collaborate on cross-functional initiatives or activities. The business planning process also identifies the resources required in the medium term to implement new policies. The different perspectives from various functions contribute towards more effective resource planning, clarity of inter-dependent roles and better risk management.

During the year, steps were taken to further integrate elements of business strategy, risk, human capital and financial resources for a more holistic view of organisation performance

management and more informed decision-making. Firstly, organisational and individual performance data was streamlined to ensure that performance is more rigorously measured against targets aligned with the Bank's outcomes and mandates. Secondly, new risk indicators were developed to assess risks to the achievement of desired outcomes, and highlight business strategies that require review. Thirdly, the Bank's financial discipline was strengthened with controls that require the alignment of new project budgets against the Bank's business priorities, resulting in better cost management and prioritisation of Bank-wide projects. This was augmented with revisions to internal policies to facilitate pooling of financial resources that enable more cost effective and flexible allocation and utilisation of financial resources to achieve the Bank's mandates. In addition, a project management guide is being developed to address project management risk, and ensure timely delivery and completion of projects.

In terms of continuous enhancements to the organisation's roles and functions, the Consumer and Market Conduct (CMC) Department and the Strategic Communications Department were among the functions that underwent a restructuring exercise in 2013. In the case of CMC, the exercise strengthens the surveillance and supervisory functions to more effectively address issues relating to financial scams, inappropriate selling of financial products and services and inculcate greater financial awareness amongst the public through financial education. The changes at the communications function anticipate the increased complexity of communications in terms of specialised knowledge and the importance of managing public expectations and enabling key stakeholders, including the public, to better understand the Bank's policies and actions.

Human Capital Management and Development

During the year, the Bank continued to build on the Job Family framework introduced in 2012, with emphasis on the longer term assessment, development, progression and retention of staff. Greater focus was given towards strengthening initiatives to build a healthy talent pipeline, especially for the mission critical positions that have a greater impact on the performance of the Bank. Interventions towards talent development and organisational effectiveness were also intensified through implementation of various aspects of human capital management while

addressing time to competence for staff in important functions.

The integrated profiling framework continued to be strengthened to ensure the efficiency and robustness of the assessment process for all levels of staff from the point of recruitment to mission critical talent within the Bank. The work included the up-skilling of internal assessors to enable the profiling and feedback processes to be conducted internally. The succession planning framework was implemented to support a healthy talent pipeline in the mid to long term, where talent for all mission critical positions were methodically assessed, monitored and developed for more challenging roles. The roll out of this strategic initiative will chart future plans for more rigorous leadership development interventions tailored to individual successors. Accordingly, the new career progression framework for the respective job families and refinements of the Bank's Leadership Competencies were introduced to better determine the role expectations and facilitate individual career growth and development. This approach will allow staff adequate time and resources to acquire and equip themselves with the required technical and leadership competencies to progressively grow into more demanding roles.

Developing the Bank's Workforce: Learning and Knowledge Management

In line with the Bank's strategic objectives, human capital development efforts continued to focus on the learning priorities for staff to improve competency, productivity and performance by working closely with subject matter experts to co-create a variety of structured and unstructured learning interventions.

Growing the required leadership capabilities for mission critical functions was done through structured leadership development programmes and more intensive engagements between staff selected for leadership roles and the line departments. These efforts included personalised coaching and feedback sessions to address specific leadership development gaps. The approach also enabled line departments to progressively take greater ownership for talent development, thus creating a more conducive environment for staff to demonstrate leadership potential.

Technical competency development was also intensified in 2013 through the implementation

of structured curriculum oriented around the core competencies of the different job families. Through the co-creation model, the learning interventions were not only more relevant to business needs; they were also timelier in terms of developing competencies to address emerging issues and challenges. In 2013, the Bank inaugurated a series of structured curriculum, namely the Supervision Leadership Essential Series and Advanced Supervision Series for the Supervision job family. Both programmes were aimed at providing Bank supervisors with the knowledge and skills required to perform their role effectively.

The Bank also focused on improving staff productivity through personal development and effectiveness programmes in the areas of integrated and creative thinking, problem solving, communication, coaching, time management, office management, speech and report writing and impactful presentation. These programmes were targeted to the middle management level as well as non-executives across all job families.

In addition to structured programmes, staff undertook learning through multiple informal channels in the form of leadership series, e-learning, case studies, toastmasters club and the annual book sale event. Sharing of knowledge in the form of multimedia content was also made pervasive through an intranet platform. The Bank's Knowledge Management Centre continued to expand the collection of physical and online resources for the staff in the areas of central banking, Islamic finance and financial services.

Managing the talent pool

The Bank has for many years invested in building its talent pool and in contributing to nation building. In 2013, the inaugural Kijang Academy was launched which featured an enhanced profiling methodology and feedback sessions for scholars' personal development. A total of 54 scholarships were awarded to exceptional students to pursue pre-university, first degree and post-graduate programmes in selected universities. The Bank also invested in staff to pursue relevant fields of study as part of the overall talent management strategy. A structured engagement and intervention programme was introduced for scholars aimed at enhancing English language proficiency and building self-confidence. As a result, in 2013, 39% (2012: 9%) of the Bank scholars were accepted into top universities,

while continuous engagements heightened their level of readiness for future entry into the Bank. In 2013, 76 returning scholars were successfully placed in various departments based on their specialisation, interest and best fit.

The prestigious Kijang Emas Scholarship, established in 2005 to support nation building, was awarded to three top students in the *Sijil Pelajaran Malaysia* examinations in 2012 to pursue their preferred fields of study supported by full scholarships at selected top universities in the world. As this scholarship is for nation building, recipients are required to return and serve the country upon graduation. To-date, a total of 43 Kijang Emas scholarships have been awarded.

The Bank also put in place measures to address the occasional instances of staff misconduct to ensure overall integrity and discipline as well as to maintain public confidence and reputation. Towards this end, the Bank Negara Malaysia Code of Ethics (CoE) is continuously reviewed to enable staff to fully comprehend and adhere to the expected behaviours required. The CoE was expanded and tightened to ensure that appropriate disciplinary action would be taken where necessary.

Staff strength

In 2013, the staff strength increased by 0.5% to 2,834 from 2,820 in 2012. This includes staff who are seconded or attached to extend technical assistance to or acquire knowledge from other organisations. Attrition declined marginally to 4.6% (2012: 4.8%). The ratio of executive to non-executive staff remained constant at 3.5:2. This manpower continues to be at the relevant level in order for the Bank to deliver its current mandates.

International Technical Cooperation Programmes

The Bank continues to play a role in capacity building for the global central banking community. Through its international technical cooperation programmes, the Bank also strengthened its regional and international linkages. In 2013, the programmes covered areas such as Islamic finance, financial inclusion, financial stability and organisational development, benefiting 841 officials of central banking institutions from 78 countries representing Asia, Africa, Middle East and Latin-America.

Focus was also directed towards strengthening alliances with both international and domestic

partners to improve the delivery and effectiveness of the technical cooperation programmes and to facilitate the sharing of experiences and pooling of technical expertise. International partners during the year included the Alliance for Financial Inclusion (AFI), the World Bank and the Consultative Group to Assist the Poor, SEACEN Centre, Asian Development Bank (ADB), Islamic Development Bank (IDB) and Islamic Research and Training Institute (IRTI).

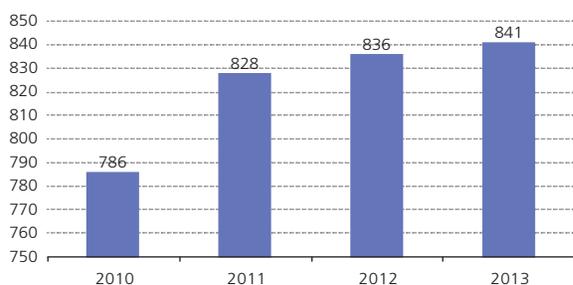
To enhance the knowledge and skills of policymakers and regulators globally in their pursuit of greater financial inclusion, the Bank and AFI signed a Letter of Cooperation for capacity building in August 2013. This collaborative framework with AFI is an important milestone towards establishing the Bank as a capacity building centre for the AFI network. In 2013, the Bank jointly organised with AFI three capacity building programmes which benefited 124 officials from 40 countries, and will be organising six capacity building programmes on relevant financial inclusion policy areas with AFI over the next two years.

The Bank also intensified its capacity building efforts to support the Association of South-East Asian Nations (ASEAN) financial integration agenda through the conduct of technical cooperation programmes, participated by 319 officials from ASEAN member countries. Of the total, 93 officials were from four of the newer ASEAN countries, namely Cambodia, Laos, Myanmar and Vietnam, participating in programmes that were supported by ADB. On a bilateral level, a Memorandum of Understanding (MoU) was signed with the Central Bank of Myanmar to establish a framework of cooperation for capacity building and human capital development with the support of the Malaysian Technical Cooperation Programme of the Malaysian Government.

Capacity building programmes in the development of an effective and well-regulated Islamic financial system continued to be a major focus area in 2013, as evidenced by the 179 participants from 28 countries in the various Islamic finance programmes organised during the year, including an Islamic Finance Workshop held in Muscat, Oman, co-organised by the Bank and IDB; and the inaugural Islamic Liquidity Management Workshop in collaboration with IRTI.

Chart 5.1

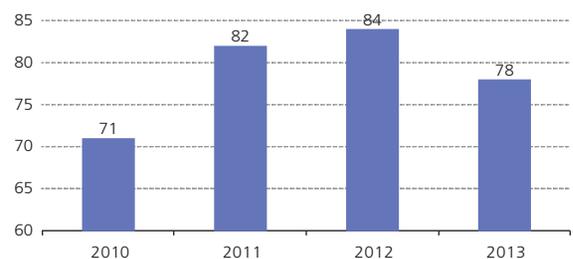
Technical Cooperation Programmes: No. of Participants



Source: Bank Negara Malaysia

Chart 5.2

Technical Cooperation Programmes: No. of Participating Countries



Source: Bank Negara Malaysia

Moving forward, the Bank is committed in its efforts to provide international technical cooperation particularly in the areas of financial inclusion, financial stability and Islamic finance to support the ASEAN financial integration agenda and foster greater regional and international ties.

Driving Service Excellence

The Bank's Centralised Shared Services (CSS) division comprises the CSS Management Office and five service units, namely Facility Management, Security, Hospitality Services, Museum, Art Gallery and KMC Services, and Human Resource and General Services.

Refinements to the CSS operating structure as a one-stop multi-service provider in April 2013 represent the management's continued effort to strengthen the value chain and create greater synergy from the rationalisation of professional support functions. The refined structure now provides the management with an improved oversight in the areas of governance, performance management, risk management, compliance,

financial management and stakeholder engagement with respect to common support functions and resources.

In 2013, CSS had developed a set of strategies aimed at developing a more integrated service delivery system, with greater standardisation to increase efficiency and value creation. Some of the early signs of improvements in the delivery of services include fast decision-making afforded by its operational autonomy and synergies created through greater alignment of internal business processes.

CSS' professional services provide an efficient support system which is vital for the success of the Bank's objectives in terms of being a center of excellence for learning in central banking and financial services, and in increasing the level of financial awareness amongst the public, the business community and school children. In 2013, CSS successfully managed an increase of 32% and 41% respectively in the number of corporate events and in the number of external events organised at Sasana Kijang and Lanai Kijang compared to 2012. The Museum and Art Gallery's exhibitions contributed to increasing awareness of the Bank's mandate and activities with a higher number of visitors totaling 40,000 in 2013 (2012: 27,701). The exhibits included the new Economics Gallery, which is the sixth gallery in operation, the organisation of creative and interesting exhibitions, as well as various educational programmes for different segments of society. In addition, the more integrated end-to-end process of facility management and more proactive preventive maintenance resulted in a reduction of 7% in facility management cost.

In developing a high-performing workforce with a user-centric mindset, CSS introduced a comprehensive Service Level Agreement (SLA) in April 2013. The clarification of the scope for service standards ensured that proper controls and commitments are in place for the service providers to consistently deliver a reliable and professional level of service to the stakeholders. The measures included the implementation of a new financial management framework in 2013 to enable more effective use of financial resources and for more robust monitoring of expenditures, hence enforcing better financial discipline amongst the service units.

CSS implemented the Third Party Administration (TPA) of the Bank's medical services with effect

1 January 2013, which resulted in substantial cost savings and improved the Bank's capability to more rigorously monitor its medical spending and the health profile of its employees. Another value-added service introduced in 2013 was the launch of the CSS Service Portal. The Portal will be developed in phases, and will serve as the single point of reference for stakeholders, and eventually serve as a common work-bench and business analytics platform to enable more informed decisions pertaining to the Bank's operations.

Sustaining Information and Communications Technology (ICT) Operations Effectiveness and Resilience

The focal point for the delivery of technology services in 2013 was operations effectiveness and efficiency through business process automation and process enhancements. These facilitated the achievement of the Bank's strategic outcomes.

Financial market infrastructure improvement and innovation

Improvements were made to the ICT infrastructure to cater for increased foreign participation in the financial system and to encourage investments by foreign players. This included system enhancements for the Fully Automated System for Tendering (FAST) to facilitate the inaugural issuance of the International Islamic Liquidity Management Corporation (IILM) USD Sukuk. In addition, a secured RENTAS Information Link (iLINK) infrastructure was made available over the Internet, thus providing local participants with an additional secured channel for access and also cater to the increased participation of foreign investors in the near future. Internally, end-to-end process flow and automation for the Bank's Financial Management System and Special Funds Integrated System via RENTAS Straight-Through Processing had ensured greater certainty of transaction integrity and better information management.

ICT facilities for a high performance workplace

The coverage of Wi-Fi Internet was further expanded, aimed towards providing 'on-premise' work mobility. An on-demand-bandwidth Wi-Fi Internet infrastructure was made available to guests attending key events hosted in the Bank, enabling the efficient provision of higher bandwidth, when required, in a cost-effective manner.

A private-cloud web conferencing service for regional communications and collaboration

between staff based at the Bank's Headquarters and at the Branches and Regional Offices was also piloted in 2013. These services-enabled capabilities such as virtual meeting and real-time online discussions empowered greater collaboration and quicker decision-making, while reducing traveling time and cost.

Continuing the thrust towards the mobile space, an iPad application leveraging on private-cloud was introduced for an international meeting participated by delegates from 11 central banks from the East-Asia Pacific region. The application was made accessible to delegates prior to the event thus allowing real-time online access to information and presentation materials.

Infrastructure with enhanced resiliency, scalability and security

The continued expansion and vibrancy of the Malaysian financial system requires a periodic technology refresh in order to ensure the performance, resiliency and robustness of the critical ICT infrastructure supporting the financial market and payment operations. Notable initiatives included the replacement of the server platform for FAST with a higher capacity and scalable infrastructure to cater for expanded business requirements. In line with such infrastructure improvements, the Bank's Enterprise Backup, Recovery and Archival platform was also revamped with more efficient, scalable and expandable infrastructure to support enhanced business continuity objectives and response time requirements.

The increased cyber security threat has led to a global trend towards the adoption of stronger encryption methodology. Given the more pervasive use of e-payments in Malaysia, the Bank has acted to improve its Enterprise Public Key Infrastructure to support the use of longer cryptographic keys in line with international standards for financial market systems such as RENTAS and Sistem Penjelasan Informasi Cek Kebangsaan secara Elektronik (eSPICK). The full deployment for adoption in the financial market systems is scheduled in first quarter 2014.

COMMUNICATIONS

The Bank's communications role was intensified in 2013 in view of heightened challenges and uncertainties, especially in the global environment. More intensive engagements were carried

out with various stakeholders, explaining the soundness of the Malaysian economy and the financial sector's resilience amidst the global and domestic headwinds which included market concerns over quantitative easing (QE) tapering and rising household indebtedness. Communication efforts were also focused in driving the Bank's strategic initiatives, including financial inclusion, expanding regional ties and extending the public outreach.

Enhancing confidence in the Malaysian economy and financial system

Throughout 2013, the Bank communicated on the resiliency of the domestic economy and financial sector using various platforms, such as the Bank's annual report and financial stability report briefings, quarterly GDP press conferences, roundtable discussions with analysts and economists, meetings with large fund managers, and senior management interviews with local and international media. The key messages conveyed were sustainable economic growth driven by domestic demand amidst a low and stable inflation environment, supported by a strong financial sector. The Bank also highlighted the increasing role of Islamic finance as an alternative to conventional financial services.

In fostering financial stability, the Bank communicated the rationale for the series of pre-emptive macro-prudential policies to address elevated household indebtedness and rising property prices. The exercise included engagements with different stakeholders, including non-banking financial intermediaries, to ensure clarity around the Bank's objectives and to facilitate more effective implementation of the measures.

During the year, various meetings and workshops were held to explain the new Financial Services Act 2013 and the Islamic Financial Services Act 2013 and its significance in placing the financial industry in a state of readiness to respond to future challenges. Similarly, to further develop the life insurance and family takaful industry in Malaysia, there were extensive engagements with industry and consumer associations on the concept paper of the revised Life Insurance and Family Takaful Framework.

In its continued efforts to enhance data resources for economic analysis, the Bank collaborated with the Department of Statistics Malaysia (DOSM)

in introducing the seasonally adjusted data for the Malaysian economy to the economics community. This was supplemented by other statistics workshops and conferences highlighting the importance of good statistics for proper analysis, better surveillance and making informed policy decisions.

Monetary policy communications

Monetary policy communications are undertaken through the Monetary Policy Statements (MPS) issued by the Monetary Policy Committee (MPC) of the Bank after each MPC meeting. These are supplemented by commentary on the monetary policy stance by senior officials at media interviews, conferences and workshops. Each MPS includes the rationale for decisions on the Overnight Policy Rate, taking into account the global and regional economic and financial developments and their impact on the domestic economy and inflation. The advance release of the scheduled dates of MPC meetings for the subsequent year provides certainty on policy making and promotes orderly market conditions.

Regional and International communication initiatives

Communications on regional and international matters covered a broader spectrum of issues, ranging from the strengthening of Malaysia's economic ties with regional economies, the launch of the new iconic brand identity 'Malaysia: World's Islamic Finance Marketplace' and the hosting of the Alliance for Financial Inclusion Global Policy Forum by the Bank. The Global Policy Forum was graced by Her Majesty Queen Maxima of the Netherlands, and culminated with the announcement of the Sasana Accord which aims to drive financial inclusion policies across the world.

As Malaysia's trade and investment with PR China continues to grow rapidly, there were increased efforts to enhance public awareness on the usage of Renminbi (RMB) for trade settlement. This resulted in greater RMB trade transactions for 2013 and increased interest amongst companies on using RMB. In anticipation of much greater financial linkages between the two countries, the Bank officially opened its Representative Office in Beijing, the third such office after London and New York.

Expediting migration to e-payments

In expediting the e-payments agenda, a nationwide campaign, 'Experience IBG', or

Interbank GIRO, was launched in collaboration with the industry to encourage businesses and the general public to switch from cheques to IBG services. The campaign covered roadshows, TV interviews, media editorials and advertisements and collaborating with participating financial institutions to engage with the public in promoting IBG services across the country. The promotions extended to the Northern and Southern regions, targeting heavy cheque users to use e-payments such as through mobile Point-of-Sale and online transactions via the Financial Processing Exchange (FPX).

Financial inclusion and empowerment

The Bank continued its outreach activities to the public to facilitate greater financial inclusion and awareness and management of financial matters. The Bank leveraged on its MobileLINK coach, counter services and strategic collaboration with various consumer associations to educate and enable rural communities to understand and use financial services, especially on the availability of agent banking services. During the year, a total of 91 sub-districts were covered with more than 15,000 people from rural communities benefiting from the engagements.

Taking cognizance of the increasing role of small and medium enterprises (SMEs) in the economy, the Bank worked together with other bodies, including the SME Bank, in engaging with the SMEs nation-wide on the availability of various financing schemes. More than 95% of the participating bankers and SMEs were satisfied with the communication programmes and more than 85% were of the view that the programmes should be continued.

A more inclusive and empowered financial system will result in a more discerning consumer with higher expectations. An important mechanism in managing these expectations is the Bank's BNMLINK services that assist the public on financial matters by providing information and resolving issues with financial institutions. The cumulative number of financial consumer enquiries from individuals and businesses increased by 7.7% to 441,712 (2012: 410,163), with 88% of the cases being resolved.

While BNMLINK addresses concerns raised by consumers at the individual level, another more structured programme launched by the Bank is the Financial Management Awareness and

Education Campaign. This programme is being implemented in collaboration with the Bank's subsidiary, the Credit Counselling and Debt Management Agency (AKPK), via prime-time radio segments, media articles and social media competitions. The areas of focus included living within means and seeking help early when experiencing signs of financial distress.

As a means to assist young and new borrowers to better manage their financial affairs, AKPK's POWER! Programme had attracted 171,485 participants since the launch of the Programme in 2011. In addition, AKPK had handled a total of 248,491 counselling cases as at end-2013 with 41% of the participants requesting further assistance under its Debt Management Programme. It had also promoted public financial literacy through participation in PEMANDU's 1 AZAM (Akhiri Zaman Misikin) programme. Through these initiatives, AKPK succeeded in reaching out to a total of 1.4 million consumers in 2013.

In terms of dispute resolution services, the Financial Mediation Bureau (FMB) continued to highlight its services through various events, exhibitions and briefings jointly with other agencies, including PIDM and AKPK. The total number of complaints received by FMB in 2013 declined to 1,881 (2012: 1,919). FMB's intervention to resolve disputes were more effective, with 2,592 complaints closed in 2013, reducing the number of outstanding cases to 1,030 (2012: 1,741). The improved performance was due to better collaboration between FMB and the Financial Service Providers and more streamlined processes in complaint management.

Enhancing public awareness on financial scams

During the year, the Bank stepped up its public awareness initiatives on financial scams. These included media advertisements and updating the Financial Consumer Alerts by an additional 52 entities to a total of 143 entities (2012: total of 91 entities) that were neither authorised nor approved under the Bank's laws and regulations. These were reinforced by continuous surveillance and intelligence sharing Bank-wide and with other law enforcement agencies. Financial scams cases reported to BNMLINK have declined by 2,511 cases (23%) to 8,402 (2012: 10,913).

Supporting national agenda of 'Going Green'

In support of the national agenda of 'Going Green', the Bank engaged with the public on the need to use recycled-fit banknotes during festive seasons to help in conserving the environment. This joint initiative with the Ministry of Energy, Green Technology and Water included the active participation of the financial industry associations.

Growing importance of online communications

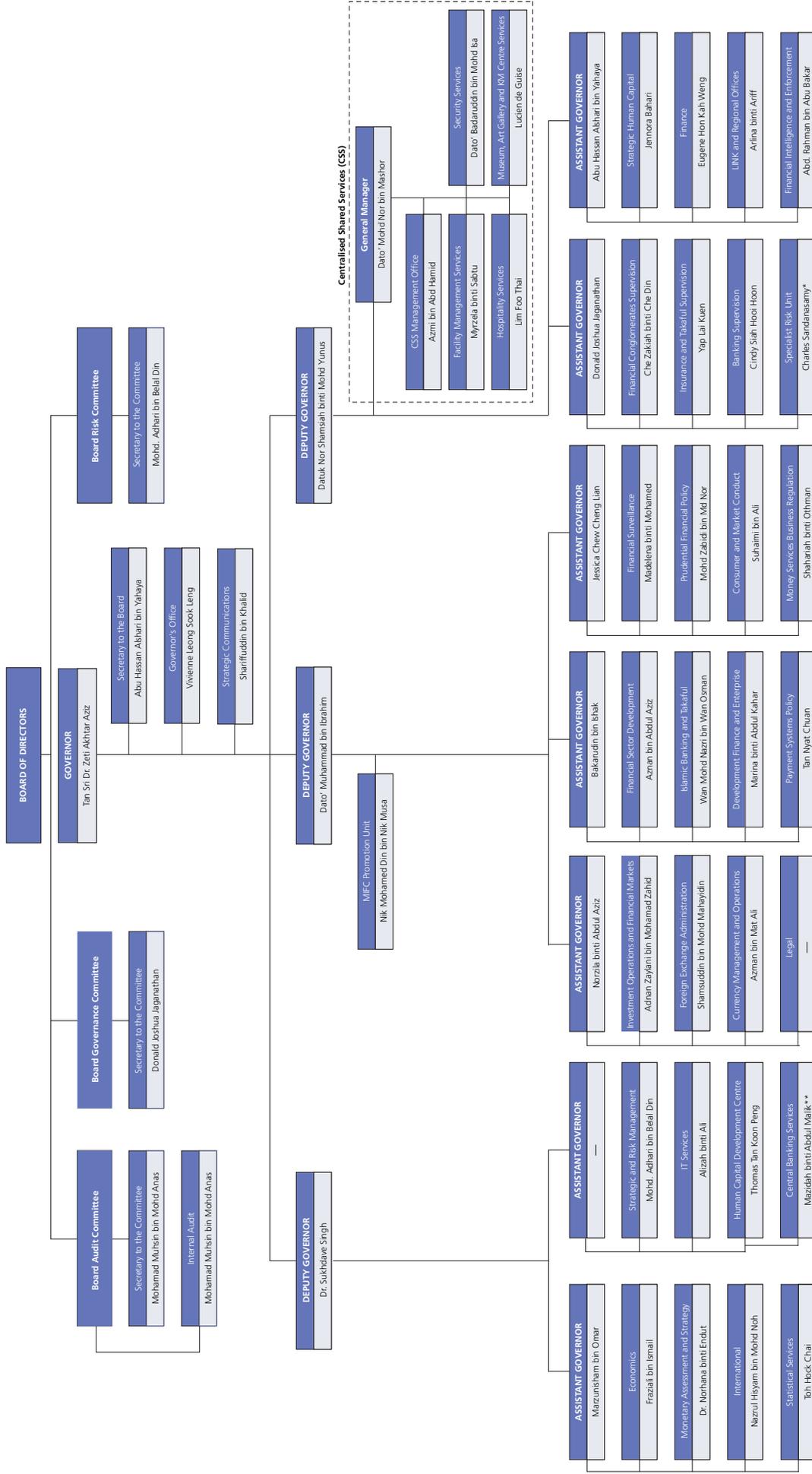
The Bank's website continued to play a major role as a communication and engagement medium. Apart from explaining the Bank's mandate and roles, and providing a wide range of economic and financial data and analysis, as well as regulatory developments and policies, the website also informs consumers on financial matters, such as banking and insurance needs, and alerting them on illegal financial schemes. The website received six million visits for 2013 and was awarded the 5-star rating in the Malaysian Government Portals and Websites' annual rating exercise for the third consecutive year.

In view of the popularity of social media, the Bank has undertaken communication initiatives to engage stakeholders through this medium. These efforts saw an increase in the Bank's Facebook fans to 28,965 (2012: 18,839) and in its Twitter followers to 34,936 (2012: 14,603). To engage with the younger community, the Bank is now actively using videos in educating them on financial matters. In collaboration with the Royal Malaysian Police, the Bank is leveraging on channels such as YouTube to disseminate information on financial crimes.

Greater knowledge sharing to improve staff productivity

The Bank continues to support knowledge sharing and collaboration amongst staff with a wide range of online content, ranging from highly technical briefs to purely social events. This is complemented by various social and formal face-to-face interactions in the Bank, often with the participation of industry and international members of the financial community. All these efforts have contributed towards creating a more conducive and enriching work environment.

BANK NEGARA MALAYSIA Organisation Structure



* Administrative Head
** Deputy Director

Effective from 13 February 2014