



Governance, Communications and Organisational Development

117	Overview
118	Governance
119	Communications
121	Organisational Development
129	Organisation Structure

Governance, Communications and Organisational Development

OVERVIEW

The governance, communications and organisational development initiatives in 2008 continued to emphasise on transforming the Bank into a more strategy-focused and performance-based organisation. Operating in an increasingly uncertain and difficult financial and economic environment, the challenge is to ensure that the Bank continues to remain effective and efficient in delivering its mandate. During the year, continuous enhancements were made in the areas of strategic management, governance, communications, risk management and talent management to further strengthen the organisational capability and capacity of the Bank. There was also a reinforcement of the strong knowledge-based and performance-driven culture to enhance the agility of the Bank in responding to the new challenges that were emerging.

The communications function of the Bank has also assumed greater significance with heightened engagement with stakeholders that have resulted in the improved understanding of the economic and financial developments. Greater two-way flow of information and engagement between the Bank and its stakeholders has enabled better management of stakeholders' expectations, thus promoting confidence in the Bank's policy measures and actions.

The enhanced strategic management process implemented in 2008 which involved enterprise level mid-term business planning, had facilitated a more effective and robust process of setting, implementing and reviewing organisation-wide priorities, resource allocations, and accomplishments. The initiatives improved the management and tracking of the key business strategies and programmes in meeting the desired outcomes. The strategic focus and priorities of the Bank are now reflected in the Bank's Business Plan using a 3-year rolling period. The Plan serves to provide clarity in the Bank's objectives, enhances focus in the Bank's organisational development efforts, facilitates the evaluation of performance of the various initiatives, and enables a more

optimal utilisation and alignment of resources within the organisation.

The adoption of the revised Enterprise Risk Management (ERM) framework during 2008 has made risk management more entrenched in the Bank's decision-making process. This has allowed for better identification and management of key risks at the organisation level, while providing reasonable assurance to the Management and Board that ex-ante risk mitigation measures are in place in achieving the Bank's objectives. The enhancement in structures and processes within the existing ERM framework led to reinforcement of roles, accountability, focus through specialisation, and increase in effectiveness and efficiency of risk management process without corresponding increase in resources directed at managing risks.

In ensuring the Bank's talent needs are fulfilled on a sustainable basis, the focus of talent management was on developing a healthy talent pipeline for executive readiness and leadership succession. To complement this, efforts on talent sourcing and retention as well as aligning human capital development with business strategies were also strengthened during the year. In the area of learning and knowledge management, efforts were directed towards better alignment of the initiatives with the Bank's business needs, as evidenced by greater customisation of learning, made possible through closer collaboration with line departments. The Bank also continued to place emphasis on self-directed learning through the introduction of the core central banking curriculum to augment its training and learning strategies. In addition, the increased leverage on technology facilitated improvements in knowledge sharing and accessibility as well as learning efficiency, particularly through the Bank's enhanced intranet and the newly launched Learning & Knowledge Portal, provided wider outreach and easy access to information and learning services for staff.

Meanwhile, ICT management remained focused on providing leading-edge and on-demand technology solutions to support the

various business functions of the Bank. In line with the intensified regional integration and cooperation, the Bank's capacity to manage technical cooperation with external agencies was strengthened further, which resulted in more technical assistance programmes to a larger number of recipients.

GOVERNANCE

In 2008, the Bank continued to advance its governance framework and practices which are built upon three important pillars, namely, maintaining the Bank's **independence** based on the given roles and need for operational autonomy; instituting strong **accountability** based on the need for operational effectiveness and efficiency as well as monitoring performance and managing the associated risks; and the demonstration of **transparency** through clarity of its actions as they impact the Bank's multiple stakeholders. Independence also demands greater accountability and transparency in the conduct of the Bank's activities and mandates.

The accountability and independence of the Bank are accorded by the Central Bank of Malaysia Act 1958 (CBA). The Board of Directors which functions as an oversight board, comprises the Governor, three Deputy Governors, the Secretary General to the Treasury and four other professional members with diverse knowledge and corporate experience. Providing oversight to the operations, the Board is entrusted with the responsibility for the general policy, administration and business of the Bank. The Governor chairs the Board while the Board Audit Committee is chaired by an independent director.

The Management Committee, which is the highest executive body within the Bank and chaired by the Governor, meets weekly to deliberate on policy matters pertaining to the financial system, the economy and the general operations of the Bank. The Management Committee is supported by other policy committees, which are also chaired by the Governor. These committees include, the Reserve Management Committee, Monetary Policy Committee, Financial Sector Policy Committee and Risk Management Committee. These policy committees provide the forum for balanced deliberation, formulation and implementation of decisions on a wide range of issues. The collective skills, depth and breadth of

experience and knowledge of the Management Committee, the extensive use of cross-functional committees and combined with the legal framework under the CBA, have contributed significantly to the Bank's capacity for effective policy formulation and implementation.

Against the backdrop of significant changes in the domestic and global economic and financial landscape, and the evolving nature and role of central banking, a comprehensive review of the CBA was undertaken in 2008. The new CBA proposes to institutionalise many of the Bank's existing governance practices. Additional provisions will be incorporated with a clear orientation towards central bank modernisation as well as to equip the Bank with the necessary powers and policy instruments moving forward. In addition, efforts were initiated towards consolidating the various existing legislations concerning the Bank's multiple financial supervisory roles and functions into one omnibus law.

As a regulatory and supervisory authority operating in a interconnected financial system, the Bank also has in place Memorandum of Understanding with the various financial authorities such as the Securities Commission and the Malaysia Deposit Insurance Corporation for purposes of coordinating policy formulation and execution relating to the supervision and regulation of the financial system. At the regional and international levels, the Bank is actively involved in fora such as those under the umbrella of Executive Meeting of East Asia and Pacific Central Banks (EMEAP), International Monetary Fund, International Association of Insurance Supervisors, Bank for International Settlements, Asia Pacific Economic Cooperation Financial Regulatory and Advisory Groups, all of which are aimed at promoting international and regional financial stability through coordinated development initiatives, standard setting, financial surveillance and risk management.

In carrying out the Bank's broad mandate, some of the Bank's senior officers participate actively in various forums, such as committees, outside the Bank. However, in keeping with the Bank's strategic focus and priorities, a review of such involvement in external committees was conducted during 2008 to assess the need to continue such roles and engagements, and where appropriate, to

exit from these committees. The review was also undertaken to pre-empt possible conflict of interest situations which could be detrimental to the Bank's independence and accountability.

As part of on-going organisational development, the Bank's internal audit functions and processes were reviewed to strengthen the controls towards compliance with financial and non-financial requirements and to adopt a risk-based internal audit framework in 2009. In addition, the internal governance concerning financial controls continues to be strictly adhered to. Further enhancement was introduced during the year in the Bank's formal budgeting process. Initiatives to enforce the culture of cost consciousness were continued, and further progress was also recorded in the policies and practices to make the operational spending and procurement processes more effective and rigorous.

The Bank keeps the Minister of Finance informed of the monetary and banking policies and other policies that fall within the Bank's jurisdiction. In respect of transparency, the Bank has moved well beyond fulfilling the statutory disclosures.

COMMUNICATIONS

Communications an integral role in Bank Negara Malaysia

In recent years, the communications function of the Bank has assumed growing significance by playing an integral role in the Bank's operations. Greater engagement with stakeholders are undertaken with the ultimate objective of providing more clarity on the Bank's policies and measures. Amidst the more challenging external and domestic environment in 2008, the Bank has stepped up its communications efforts, through pro-active and timely communications with key stakeholders, including Government officials, industry groups, analysts, media and members of the public. These have elevated the understanding on the Bank's policies and initiatives, enhanced channels of receiving quality feedback, thereby contributing to an improved process for making informed decisions.

Greater and timely engagement with key external stakeholders

To promote greater understanding of monetary policy decisions among stakeholders

in the financial markets, monetary policy communications has been enhanced significantly. These include the continued advance release of the schedule of Monetary Policy Committee meetings, initiated in December 2005 and the same day release of Monetary Policy Statements. As the year progressed, the Bank's communications function was put to severe test, in view of the challenges faced. The Malaysian economy was facing rising inflationary pressures in the first half of the year, following the higher global food and commodity prices. When the market views turned out to be different from the Bank's stance on interest rates during this period, it was for monetary policy communications to explain the basis for the policy decisions. The Bank has clearly signalled in its communications that the weaker growth prospects in the subsequent months would have a moderating impact on inflationary pressures. Ultimately, the Bank's decision was accepted by the market, as the events unfolded. (For more details on monetary policy communications, please refer to Box Article of Chapter 3).

In this highly uncertain economic environment, greater interaction with stakeholders becomes even more essential. For 2008, in addition to scheduled official meetings, the Bank also continuously engaged with the financial institutions, analysts/economists, business leaders, specific industry groups, including Small Medium Enterprises (SMEs) and the public at large. These regular engagement sessions enabled the Bank to provide up-to-date assessments on the changing economic and financial conditions and the issues arising. These efforts, beside enabling the stakeholders to be better prepared in facing the challenges, also provided a channel for the Bank to address specific issues, including reinforcing the importance of responsible lending behavior on the part of financial institutions and to ensure that viable and well-run businesses, including SMEs, will continue to have access to financing. Financial institutions were also encouraged to be pro-active in dealing with customers, including in rescheduling and restructuring of credit facilities of borrowers facing difficulties due to the current economic downturn. These efforts provided the Bank with a critical source of information on the real issues faced by the stakeholders, which served as valuable inputs for policy formulation.

The Bank also continued with its annual series of communications sessions with various stakeholders during the release of the Bank's Annual Report and Financial Stability and Payment Systems Report. These sessions provide a platform for the Bank to communicate the assessment on key issues relating to economic and financial developments as well as the prospects going forward. The end-results were the improved understanding on various economic and financial policy issues and a two-way flow of information and engagement between the Bank and its stakeholders.

The Bank further reinforced its working relationship with the media as a key platform for mass information dissemination to members of the public. The Bank has established networks with the local, regional, print and electronic media by organising regular meetings, informal discussions and information-sharing sessions, scheduling exclusive interviews on key issues with senior officers of the Bank, and conducting background briefings on technical issues related to the Bank. This has resulted in more accurate and balanced reporting on the issues relating to the Bank's policies and initiatives to the public at large.

Strategic Communications on key initiatives

For 2008, the Bank had also implemented several strategic communications programmes to support a number of key initiatives. In 2008, Malaysia as an International Islamic Financial Centre (MIFC) global awareness campaign was launched. The communications campaign highlighted the opportunities and offerings in Malaysia for investors, issuers, industries in the economic sectors and for professionals and practitioners with interest in the Islamic financial services industry. It has also strengthened Malaysia's connectivity with the rest of the world. A dedicated MIFC Promotions Unit was established in 2008 to provide greater focus in the Bank's efforts to promote and market Malaysia as a hub for Islamic finance.

As one of the key drivers of SME development in Malaysia, the Bank has developed and implemented communication programmes which offer SMEs greater access to information on financing, business opportunities and the SME sector as well as SME financial advisory and mediation services provided by the Bank. This

was achieved through the multi-lingual SMEinfo Portal, the SME Annual Report and various other communication channels. There was also increased communication activities to promote micro financing, namely the display of the microfinance logo by microfinance providers and through the mass media. All these are part of efforts in enhancing the SME development agenda towards the formation of competitive and resilient SMEs as well as acting as a catalyst in unlocking the potential of micro entrepreneurs to participate in the mainstream economy.

Reaching out to the general public on financial matters

In taking the public understanding of financial matters to the next level, the Bank has adopted a one-stop centre for public interface, the Integrated Contact Centre (ICC). Under this set-up, all public queries and complaints on banking and insurance matters is put under one roof, thereby facilitating effective resolution of disputes. It also acts as a channel for feedback from public on the Bank's policies, guidelines and practices to the line departments. The Bank's walk-in service centre, 'Laman Informasi Nasihat dan Khidmat' (BNMLINK), serves as a platform for visitors' enquiries and complaints in matters under the purview of the Bank. This has been expanded to the Bank's branches in Johor Bahru and Pulau Pinang as BNM MINI LINK to cater for outstation customers. This was further complemented by BNMTELELINK which manages enquiries via telephone calls, facsimiles, letters and e-mails and the Complaint Management and Advisory (CMA). The CMA facilitates resolution of public, including SMEs, complaints against institutions under the purview of the Bank and also provides financial advisory services to SMEs.

Since its establishment in 2005 until end of 2008, the BNMLINK has seen an increase of about 71% in the number of monthly average customers who have sought its services (about 2,960 in 2005 to 5,070 for 2008). This shows the continuous increase in the Bank's interface with the public. BNMTELELINK also reported close to 80% increase in the monthly average queries to more than 6,320 in 2008 (2007 : 3,560). Meanwhile, the monthly average number of cases handled by CMA was sustained at about 690, despite the coming into operations of BNMTELELINK as an additional channel to handle public queries on financial matters.

Enhancing employee communications and knowledge sharing

The Bank is already in the path of transforming to a Knowledge Based Organisation with its consequent benefits of improved productivity and performance. The year 2008 saw the Bank's intranet, Kijang.net, evolving into becoming the Bank's Enterprise Portal (EP) to accelerate this transformation. Among the EP's enhanced features were improved and timely information access across the organisation and delivery of the right content and services through an electronic collaborative work environment. This in turn has fostered innovation and business process transformation. The EP has enabled the effective alignment of the entire organisation to deliver the Bank's desired outcomes through the sharing of its business objectives, strategies, views and vision with staff. It has also facilitated the bottom-up process through the provision of an avenue for staff to share their opinions and discuss on the developments in the Bank.

In summary, with the added features and innovation, the employees have become more informed and connected. The Kijang.net has become the knowledge and communications hub for staff, driving employee engagement across the Bank to higher levels and promoting the Bank's values and work culture.

Moving forward, there will also be more opportunities for communications in an informal environment between staff and management on key issues and developments. These will ultimately contribute towards improving the Bank's productivity and capacity to deal with challenges through instilling a culture that keeps staff learning, thinking and acting positively.

ORGANISATIONAL DEVELOPMENT

Strategic and Performance Management

In 2008, the Bank continued its focus on becoming a performance-driven organisation. The Bank made deliberate attempts and managerial interventions to make the organisation highly strategy-focused, which translated into greater organisation-wide clarity and understanding of the Bank's objectives and goals, and alignment of resources, processes, structure, people and leadership towards the achievement of those objectives and goals. The focus on performance

also means that the Bank as an entity is progressing to become more results-oriented, while its people and leaders are more role-based in their orientation, in order to improve collective organisational performance.

The year 2008 saw the Bank put in place a more robust strategic management structure and processes. In line with this, the Bank developed the Medium Term Business Plan (2009-2011) that documents the key priorities and desired strategic results, business strategies as well as action plans to guide the organisation in achieving its objectives. During the year, the alignment and linkages between strategic management and financial or operational planning were further reinforced through better management of process flows, sequencing of tasks and activities, and vigorous assessment of requests from line departments for financial allocations, based on a decision matrix which is strategy-linked and outcome-driven.

The new, more structured strategic management process was designed to facilitate cross-functional conversations on business issues and strategies, thus fostering greater collaboration across sectors and departments, leading towards better appreciation of the critical inter-linkages and dependencies among functional units. It served to provide a feedback loop and platform for the management and business units to deliberate and review the effectiveness of strategies, as well as performance issues that could have implications on the Bank's efforts in achieving its objectives. The processes would allow the Bank to assess the adequacy of talents, learning, knowledge, technology, infrastructure and leadership, and whether or not these elements are appropriately aligned to support the Bank's strategic focus.

Talent Management

One of the most important objectives of talent management in the Bank is to ensure that the talent needs of the Bank are met in the most effective and efficient manner, towards the achievement of the Bank's goals and objectives. The Integrated Human Capital Management (IHCM) provides a holistic approach in institutionalising critical orientations and policies in talent management, and in integrating processes relating to talent demand, talent supply,

performance management, staff development as well as rewards management. The IHCM blueprint requires a greater collaboration and effective inclusion of stakeholders in managing talent issues. This would ensure alignment of talent management policies and practices with business needs, and that talent management directly contributes towards the achievement of desired strategic results.

Implementation of the IHCM had seen the introduction of performance differentiated rewards, broad banded job and salary structure, and a new competency model. In addition, the processes include constant assessment of performance of talents in the Bank, to correspond with the dynamics of the Bank's operating environment, stakeholders' expectation, role realignment, rising performance benchmark, and overall aspirations of the Bank.

The focus of talent management in 2008 was on developing a healthy talent pipeline for leadership succession for the next five years. The process involved the assessment of potential talents for executive readiness and job fit, supplemented with formal and informal development interventions. The Leadership Profiling Centre in the Human Resource Management Department provides a consistent, robust and transparent platform to enable the identification and assessment of talents for mission critical positions in the Bank.

As the strength of the succession pool is dependent on the quality of the overall talent pool, efforts had also been focused on attracting top talents into the Bank, retaining, developing and motivating them. The Bank had been more innovative in sourcing for talents through multi-pronged efforts, including collaboration with local and foreign higher learning institutions with good track records in producing high quality talents, early identification and engagement with prospective talents, and hiring of experienced specialists and professionals to meet immediate needs in mission critical positions.

The Bank's scholarship programme continued to be an important source of the Bank's long term talent pool. In 2008, a total of 81 selected high potential students were awarded scholarships to pursue pre-university programmes at local colleges and first degree programmes at local and foreign

universities, in disciplines relevant to central banking. In a continuous effort to develop and enhance capabilities of staff within the Bank, 42 staff at various levels were awarded scholarships to pursue first degree and post-graduate education at local and foreign institutions.

As part of its nation-building initiatives, the Bank awarded 10 scholarships under the Kijang Emas Scholarship Award to students with outstanding results in the 2007 Sijil Pelajaran Malaysia examination. Recipients of this special award were free to enroll in any field of studies of their choice and upon completion of studies are required to return to Malaysia, in line with the Bank's aspiration of developing top talents in the country. In addition, the Bank introduced the Scholarship Award for Secondary Schools, awarded to 20 students with excellent performance in the Penilaian Menengah Rendah examinations. This programme is aimed at the early identification of potentials for the Bank's talent pool and to provide financial assistance to students from lower income families.

In a continuous effort to promote greater clarity on roles and alignment with the strategic objectives of the Bank, several departments in the Bank reassessed their structure, talent and capability needs, and manpower numbers, guided by a more role-based approach in managing processes and delivering their strategic results. The exercise led to constructive changes in departmental structures, new profiling of talents, knowledge and learning requirements, realignment of roles, rationalisation of functions, greater reliance on technology to improve efficiency and effectiveness and greater horizontal and vertical collaboration within and across departments.

The total staff strength of the Bank increased by one percent to 2,616 as at end-2008, as compared to end of 2007, while the attrition rate due to retirement and resignations remained at four percent. The ratio of executive to non-executive staff remained at 3:2, with continued focus on strengthening of the professional and executive pool.

Learning and Knowledge Management

During 2008, the Human Capital Development Centre (HCDC – formerly referred to as Human Resource Development Centre, or HRDC)

adopted a new organisational structure to meet the new challenges in learning and talent development. The new structure transformed HCDC from a functional-based unit to a value-based and role-based learning and knowledge management centre. The structural changes facilitated further integration of learning and knowledge management processes, improvement of the competencies of HCDC staff in delivering learning solutions, as well as in leveraging on technology for greater effectiveness and operational efficiency.

To meet the demands for learning solutions that meet the learning needs of knowledge workers and which focus on positive impact on performance of business units, efforts were directed towards increasing the availability of customised learning solutions. Learning and knowledge management solutions were designed specifically to meet the business needs of the specific stakeholders, incorporating blended learning architectures that integrate a variety of the delivery channels to achieve both individual and organisational learning goals. Greater emphasis was placed on the transfer of learning at the workplace, and the measurement of the impact of learning on performance. Overall, the average learning investment per employee for 2008 was RM8,200, which represented 11% of staff salary, with an average of 10 training man-days per employee.

To further promote the culture of self-managed, self-directed learning, the Bank developed a competency-based core central banking curriculum during the year. Through the integration of the new curriculum with the Bank's Learning Management System, and supplemented by the information on role profiling and career development options, employees would now be able to determine their own learning needs, the appropriate learning solutions that they could have access to, and the preferred learning progression paths that they wish to pursue based on their performance targets and career aspirations.

Staying focused on the objective of leveraging effectively on collective knowledge for performance, the Bank continued to enhance its knowledge infrastructure and nurture a knowledge-rich environment conducive for knowledge-sharing and knowledge re-use in achieving business objectives. In enhancing its knowledge

infrastructure, efforts were made to enhance learning and knowledge management systems and improve content delivery to stakeholders.

The Learning Management System provided online learning opportunities for employees and enhanced operational efficiency through online registration to learning solutions. E-learning courses ranging from the FSI Connect suite of central banking technical subjects, to those of management and ICT, provided employees with a broad selection of courses for on-demand learning, and facilitated blended learning in the design of customised learning solutions.

As a common gateway to knowledge repositories in the Bank, the Kijang.net has significantly improved knowledge visibility, accessibility, and ultimately, knowledge sharing. New capabilities were introduced in Kijang.net, such as the enterprise search, personalisation and collaborative tools, all of which enhance the prospects for further improvement in knowledge management practices in the Bank. The Kijang.net also facilitates collaborative work among users, Bank's ability to reach and interact with stakeholders, linkages to external knowledge repositories, and process flow management.

Following the rollout of the Kijang.net, the next stage of enterprise portal development would focus on content management, with the ultimate objective of putting in place a robust decision-making and learning support system. The Bank had adopted a comprehensive Content Management Policy that, among others, mandates departments to contribute contents to the Bank's Knowledge Hub. The policies and practices are aimed at developing systematic identification, capture, sharing and storage of Bank's knowledge assets, to allow greater degrees of knowledge re-use for decision-making, and collaborative learning. Archival policies and processes were revamped to effectively build up knowledge repositories and encourage re-use of the Bank's knowledge assets.

The Knowledge Management Centre (KMC) continued to provide comprehensive and relevant resources in the form of physical collections and online information resources. The KMC also offered value-added services such as information scanning, information alerting and repackaging of information to meet specific needs of

stakeholders, thus significantly reducing time-to-knowledge. Easy access to these information resources was made available via the Learning & Knowledge Portal within Kijang.net which was also launched in April 2008, as a one-stop access to information and learning services. The KMC also continued to enhance its product and service offerings in preparation to transform itself to a premier regional resource centre in central banking and Islamic finance.

To sustain performance in a dynamic and challenging environment, the Bank has long nurtured a culture of knowledge-sharing. Structurally, committee-based and team-based working groups in the Bank promotes knowledge sharing and collaborative learning. Specific effort is made to draw on the tacit knowledge of senior and experienced staff or subject matter experts from across the Bank by the establishment of a pool of resource persons in the Bank who actively participate in the Bank's learning programmes. By engaging leaders as teachers, promoting the use of collaborative or group-work technologies, and encouraging individuals' contribution to the Bank's Knowledge Hub, the knowledge sharing initiatives in the Bank demonstrated significant achievements during the year. To reinforce the learning and knowledge-sharing culture, the Bank also leveraged on new ideas and innovations in the design for physical space for learning and collaboration. High demand for innovative spaces at the KMC indicated a change of mindset towards informal learning, networking and collaboration in the Bank. Specially designed according to adult learning principles, these spaces function as places for group discussions, generation of ideas and personal research or reflection.

Experience Sharing and Collaboration Programmes with External Agencies

During 2008, the Bank expanded its efforts towards greater regional and international cooperation by establishing a new business unit known as Central Banking Services. The purpose is to more effectively manage and coordinate requests for experience sharing with other central banks. The Bank's initiatives in international technical cooperation aim to complement the on-going process of regional integration. The Bank received some 80 requests for technical assistance during the year, and had engagement

with central bankers from Asia, Central Asia, the African continent and the Middle-East who visited the Bank to discuss a broad range of topics such as different aspects of monetary and financial system stability, Islamic finance, currency management, talent management and central bank modernisation. In achieving the Bank's aspirations as a regional centre of excellence in learning and knowledge management in central banking and financial services, the Bank had offered a series of International Learning Programmes which drew participation from central banks and supervisory agencies of 15 participating countries under the auspices of the Malaysian Government-sponsored Malaysian Technical Cooperation Programme (MTCP).

Two major programmes conducted during 2008 were the Banking Supervision Foundation Course and the Intermediate Central Banking Course. Apart from programmes offered under the umbrella of the MTCP and the ad-hoc training courses, the Bank also ran two Islamic Finance courses in collaboration with the Islamic Development Bank. The courses provided opportunities for international participants to observe opportunities in business and training available in Malaysia as an International Islamic Financial Centre. In addition, it also provided a learning platform for central bankers, Ministry of Finance officials and Securities Commission regulators to enhance their knowledge and skills in Islamic finance operations, Shariah and regulatory framework for an effective implementation of a resilient Islamic financial system.

ICT Management

Information and Communications Technology (ICT) continued to function as a key enabler to achieve the Bank's strategic outcomes. During 2008, the Bank embarked on initiatives to implement reliable ICT infrastructure that has the capacity to cater for future expansion while ensuring continuous operational excellence. These initiatives strategically position the Bank higher up in the external value chain, paving the way for a standard platform that allows for nationwide data exchange between the Bank and its stakeholders in the financial sector and the related government agencies. An important milestone in the Bank's technology roadmap was the successful implementation of the New Wide Area Network Infrastructure (NWI). NWI is a secure, high-capacity

communication network between the Bank and its stakeholders. This network serves as the enabling infrastructure for many industry-wide ICT systems. The first business process to successfully leverage on this infrastructure is Sistem Penjelasan Imej Cek Kebangsaan Secara Elektronik (eSPICK), implemented in June 2008. eSPICK eliminates the handling of physical cheques, resulting in a fully automated, efficient and timely clearing process. Other key ICT systems that leverage on NWI include statistical submission systems, bond issuance system, securities custodian system, funds transfer system, depository system and regulatory services system.

In promoting the development of the capital market, the Bank, in collaboration with Bursa Malaysia, established a link between the Bank's bond issuance system (FAST) with Bursa's Electronic Trading Platform (ETP). This link allows for exchange of primary and secondary market information in real-time to facilitate primary bond issuance at the Bank and secondary bond market trading at Bursa. The Bank had also successfully implemented changes to the Electronic Scripless Securities Trading System (eSSTS) to facilitate the issuance of Bon Simpanan Merdeka (BSM) 2008. This implementation had enabled the first scripless BSM issuance, replacing the bond certificates used in previous issuance. In addition, a link to Jabatan Pendaftaran Negara's (JPN) identity card validation system was leveraged to ensure the correctness and integrity of bond applications from senior citizens. The Bank's public delivery system was enhanced with the deployment of the Integrated Contact Centre (ICC) system that improves the responsiveness to enquiries and complaints by members of the public. This system provides the Bank with a single view of all enquiries and complaints made by the individual, associations and private sector organisations, hence enabling end-to-end process of managing the enquiries and resolving complaints.

To ensure sustained excellence in providing ICT facilities and services, the construction work for a new Data Centre had begun in 2008. The operationalisation of the Data Centre will take place in the year 2009, with the objective of providing the Bank with a scaleable, resilient and secure ICT environment that supports a high-performance workplace.

Risk Management

Risk management remains one of the Bank's strategic priorities to support better decision-making by providing greater insight into the nature of risks that may impede the Bank's overall strategies and objectives. Sound risk management leads to the development of effective strategies to manage performance and results, reinforces transparency and accountability and provides reasonable assurance to Management and Board on the achievement of the Bank's objectives.

In 2008, the Bank introduced significant changes to its existing Enterprise Risk Management (ERM) system. The main objective of ERM is to embed risk management in all areas of strategic initiatives, policy-making and operations of the Bank. The implementation of ERM establishes more robust oversight, controls and disciplines to drive continuous improvement in the Bank's risk management capabilities.

The Risk Management function of the Bank is primarily driven by the Risk Management Committee (RMC) chaired by the Governor, which oversees and ensures the effective management of risks in the Bank. It is the leading forum for focused and regular deliberation of organisational risks. The RMC provides direction and value-added input to enable early identification of risks and prompt remedial actions as well as to ensure that appropriate risk management practices are embedded in the Bank's strategic initiatives, policy formulation and operations. The RMC is further supported by two sub-committees, namely the Financial Risk Management Committee (FRMC) and the Operational Risk Management Committee (ORMC) each headed by a designated Deputy Governor. The two sub-committees provided important platforms to assist the RMC in identifying and converging risk issues associated to financial and operational areas and in providing adequate support through in-depth analysis and forward-looking recommendations.

The Risk Management Unit (RMU) is responsible to manage and maintain the ERM framework which encapsulates the development of policies and processes, tools and methodologies as well as promoting risk management best practices. The RMU oversees the operationalisation of the framework and ensures all elements in the framework are functioning as intended. In

addition, RMU facilitates line departments in identifying, assessing, measuring and interpreting their risk exposures. It gives an independent view of high and significant risks from the Bank's perspective and provides reasonable assurance to the management that these risks are being managed accordingly.

The RMC in 2008 approved a revised ERM framework to enhance the governance structure, create more robust risk management processes and provide greater clarity in roles and responsibilities. The risk taxonomy was also further refined to ensure consistent usage of common risk language across the Bank and to facilitate better risk categorisation and treatment for Bank-wide risk consolidation. To inculcate good risk management culture, collaboration with line departments in dealing with risk management was further enhanced to create better awareness of best practices. Greater appreciation of risk management was achieved through the validation of the risk issues with line departments and regular communication with line departments on the decisions made by oversight committees on key risk issues. In addition to communication of critical information essential for effective decision-making, these collaboration efforts promoted sharing of lessons learnt across the Bank.

Reputation risk, as in all central banks, is an important risk that the Bank has to manage. It is defined as risk that is associated with real or perceived loss of stature, credibility and effectiveness as a result of negative publicity arising from failure to comply with applicable laws or in managing risk, lack of fulfillment of roles and objectives or other external events. Ensuring adequate oversight of the Bank's reputation risk would also ensure better management of organisational risks. In 2008, sector based discussions, with technical support and facilitations by RMU, were used to identify key sources of reputation risk which were used as input to permit dynamic discussions and monitoring at the highest level, the RMC. The discussions on reputation risk was a valuable tool for top-down assessments and with the greater commitment and cross consultations shown through the increased participation of senior management from relevant sectors, these sessions have become increasingly important to highlight, identify and effectively address key organisational risks.

Another vital component of Risk Management is the self-assessment process which not only establishes accountability but is a bottom-up assessment which enables a more detailed risk profile, integrating business area and process perspectives. To improve the self-assessment process further in the Bank, a bank-wide survey was conducted to gauge the level of effectiveness of the risk management tools, and in particular the Risk Control Self Assessment (RCSA). Taking into account the feedback received from the RCSA survey, the Bank strengthened its risk management process by conducting facilitated risk management workshops with line departments to ensure continuity and follow-through in the process. The risk assessment of what risks remain since the last declaration in 2007 was also used to ensure a more focused discussion on areas of concern and as a foundation to develop the 2008 Bank-wide risk profile. This was also done to alleviate undue administrative burden from the administering of the RCSA. Results of the bottom-up assessment will be used as another building block for a top-down assessment to seek senior management's perspectives in ascertaining the risk level as well as the inter-linkages across the Bank. In developing a periodic consolidated and robust corporate risk profile of the organisation, the risks identified from the top-down and bottom-up assessment will be aggregated, linked to the organisational objectives and performance and subsequently used to formulate an enterprise-wide risk strategy.

Throughout the years, one key observation reflecting positive and encouraging progress in relation to organisation risk awareness is the increased regularity of references made to risk management in strategic dialogues, decision-making forums across the Bank and better usage of self-assessment tools. In 2008, the increased level of commitment to risk management was apparent through the full cooperation and active participation of departments in the facilitated self-assessment workshops. The submission of departments' risk assessment were completed in a more comprehensive and timely manner. The requirement for upward reporting to respective Assistant Governors remained unchanged in providing direction for addressing risk issues as well as to enable continued intermediation in managing potential risks facing the Bank. In managing risks for various projects and initiatives throughout the Bank, regular consultations by

departments were held to seek independent views and technical assistance. Greater executive sponsorship in setting the right tone through continuous promotion of risk management culture and integration of risk management in the decision-making process had also contributed to the raised level of risk awareness in the Bank.

Another category of risks is strategic risks, which are risks associated with the formulation and execution of business plans and strategies and non-achievement of strategic aims and objectives of the Bank. The integration of risk management with the strategic planning framework remained an important priority to ensure that the Bank's strategic results are achieved. Thus, strategic risk was placed as one of the specific areas under the purview of the RMC. Other governance structures such as Management Committees, and Steering Committees chaired by Senior Management are also in place to encourage active management of strategic risks and initiatives undertaken by the Bank.

The core functions of the Bank are in formulating and implementing policies to promote monetary and financial stability in the country. The resources, processes and activities directed at achieving these objectives give rise to policy risks, which mostly relate to policy contents as well as policy execution. To ensure the robustness of the policy-making mechanism in the Bank, a policy risk and implementation framework was put in place. This framework covers the end-to-end process for discussion and deliberation of all issues related to policy development and implementation. The high level committees that preside over policy-making in the Bank are the Monetary Policy Committee, the Financial Stability Committee and Management Committee. Chaired by the Governor, the objectives of these committees are to provide a platform for high level cross functional deliberation to ensure sound and efficacious policies. In supporting the high level committees, the Policy Working Groups chaired by Assistant Governors represent the working level deliberations on policy issues which ensure that all information and expertise are tapped in the design and formulation of policies.

The management of financial risk in the Bank has been enhanced in the year with the establishment of the FRMC. The Committee focused on the monitoring and reporting of the sustainability of income to support the Bank's operations, the management of financial exposures and

commitments to external parties and provided an oversight function on key financial risk management processes.

An independent section (Treasury Risk Management) in the Investment Operations and Financial Market Department is responsible to assess the treasury risk of the Bank and to enforce the Bank's treasury risk management policy with direct reporting to the Deputy Governor. The treasury risk management policy defines the risk parameters for market risk exposures and provides effective risk control by quantifying the risk limits under which the Bank should conduct its investment activities. In line with market best practice and advancement in IT, the Bank continues to upgrade and update its risk methodology and framework to ensure robust risk coverage on all investment of the foreign reserves. During the course of 2008, a more efficient risk management system was implemented which enabled more up-to-date and comprehensive risk information to be escalated to the Management, thus enabling more responsive investment decisions in an increasingly challenging market environment. In addition, abilities to perform stress-testing and multiple scenario analyses with minimum effort, were developed.

The credit risk exposures from treasury operations of the Bank remained low throughout the year. These exposures are confined to risk on deposits with international financial institutions and counterparty exposure in execution of investment transactions. Stringent credit risk controls are in place and will continue to be implemented through rigorous credit assessment utilising credit scoring models and external ratings assessment, as well as a range of credit limits encompassing all aspects of potential and actual exposure.

In its day-to-day operations, robust management of the Bank's operational risk is imperative to manage losses arising from inadequate systems, lapses in internal controls and procedures, human errors and external events. In ensuring operational risks are well managed and amalgamated in the day-to-day operations, efforts were directed by departments towards developing detailed procedure manuals and ensuring amongst others, that dual control systems, clear roles and responsibilities and separation of incompatible duties, are in place and embedded in departmental processes. Key measures at an organisational

level to address operational risks include effective budgetary controls, a sound procurement framework and a robust internal audit function, which plays a crucial role in monitoring operational risk. In an effort to continuously enhance risk management and internal controls in the Bank, the ORMC was established to oversee the operational risk issues in the Bank. In 2008, ORMC deliberated on significant risk issues affecting controls, efficiency and effectiveness of the Bank's operations with specific focus on areas with high financial impact, high rate of incidence and new processes which may give rise to new risks. Operational risk management also remained an important focus for treasury operations given the reserve size and expanded asset classes as well as activities in a more complex financial market. A newly implemented online operational incident logging system was used to identify and monitor key risk indicators for treasury activities.

In 2008, the Bank continued to strengthen the readiness and response capabilities of departments to business disruptions. The Bank's business continuity management (BCM) framework is aimed at containing any threats of disruptions to monetary and financial system stability whether through physical disruptions (e.g. systems breakdown) or non-physical disruptions (e.g. financial crisis) and providing for safety of Bank's staff and protection of Bank's assets. The RMC which also governs the Bank's BCM activities, policies and practices, approved the formation of the Financial Stability Disruption Crisis Management Committee in addition to the existing Crisis Management Team. The Financial Stability Disruption Crisis Management Committee is responsible for the management of financial crisis with potential systemic implications while the existing Crisis Management Team is responsible for managing operational disruptions which have implications to the Bank's services and physical infrastructure comprising buildings, people and systems.

In the light of the crisis and disruptions arising in other parts of the globe throughout 2008, the urgent need for a heightened state of preparedness in dealing with and managing crisis, was recognised. To assess the readiness of departments to accordingly respond to and manage crisis, a desktop simulation exercise was conducted in

September 2008 for the Crisis Management Team members, all heads of departments and BCM coordinators. The objectives of the simulation exercise were to enhance awareness as well as identify gaps in the recovery plan. During the desktop simulation, several possible scenarios of major disruptions were identified to ensure that departments are well prepared in responding to and managing different crisis conditions. Pursuant to the exercise, departments reviewed their Business Continuity Plan to ensure comprehensiveness and relevancy of their plan.

As in previous years, periodic assessments on the Recovery Centre's capability were conducted through the quarterly live run exercises. Assessments were conducted to evaluate system readiness and ability of the staff involved to respond accordingly to crisis situations. Several initiatives were introduced to enhance the live run process including implementation of severity ranking in evaluating incidences during the exercise. In ensuring that the live run exercises achieved its objectives, pre-engagement with all critical departments were carried out and results of the exercises were communicated to the Crisis Management Team and departments.

Another significant development in the year was the upgrading of the Bank's Recovery Centre which is aimed at enhancing the existing infrastructure towards a full fledged Business Recovery Centre. A study was undertaken to upgrade the Bank's back-up facility which includes reviews of the space requirement in any crisis situation to accommodate all departments in the Recovery Centre. The business impact analysis, formed the basis for reviewing the existing recovery centre infrastructure to ensure adequate investment is made to upgrade the recovery centre in terms of logistics and technology arrangements.

In an effort to streamline the understanding of the departments on BCM methodology and principles, a generic guide for operational crisis was developed which summarised all the salient requirements and pertinent information from the Bank's BCM Plan. This generic guide serves to provide easy reference on BCM and promote greater cooperation for coordinated bank-wide arrangements in handling and managing future crisis.

BANK NEGARA MALAYSIA
Organisation Structure

