



Organisation and Personnel

- 204-206 Organisational Development and Human Resource Management
- 206-208 Risk Management in Bank Negara Malaysia

Organisation and Personnel

ORGANISATIONAL DEVELOPMENT & HUMAN RESOURCE MANAGEMENT

The year 2001 witnessed significant advancement in the efforts to develop the capacity and capabilities of the Bank as an organisation to be in a position to respond effectively to a changing environment. A key development is the process of institutionalising knowledge management (KM) concepts and practices that will ensure the Bank's decision-making capabilities are more than able to meet new challenges. As part of this development, the Bank's human resource management policies and practices were revamped to reflect the changing needs of a forward-looking knowledge based organisation (KBO). Significant investments were also made in upgrading the information and communication technology (ICT) infrastructure and processes to promote operational efficiency as well as to support the Bank's growing need for information and knowledge. Finally, changes were also made to the reporting structure to promote greater operational effectiveness and efficiency in executing the Bank's role and functions.

In line with these initiatives, three new departments were created to discharge the Bank's new responsibilities. These departments were the Development Financial Institution Regulation Department, the Financial Intelligence Unit (FIU) and the Corporate Communications Department (CCD). The Development Financial Institution Regulation Department will serve as a one-stop centre to formulate policies, process applications and handle strategic operational issues for development financial institutions (DFI) and ensure the orderly development of the DFI sector in Malaysia particularly in promoting the efficiency and soundness of the sector. The FIU will be responsible for facilitating the implementation and enforcement of the Anti-Money Laundering Act (AMLA) 2001 nationwide and co-operation with other countries in the global fight against money laundering and serious financial crimes. The CCD on the other hand, will be responsible for managing the communications and dissemination of information on important areas of the Central Bank and financial developments and policies.

As part of the Bank's continuous efforts to maintain a cadre of talented officers and managers, the human resource practices are periodically benchmarked against other leading world class organisations. The year 2001 saw the introduction of several bold and highly innovative policies. These policies reflected the changes in both staff composition as well as expectations within the Bank. The Bank now has a rapidly growing pool of young, highly skilled and dynamic officers. It is reflected in the BNM Flex Plan, which forms the new compensation scheme effective 1 March 2002. The BNM Flex Plan is a benefits plan that provides staff the choice and flexibility to customise selected benefits that takes into account the changing and diverse individual needs throughout the different stages of their career path in the Bank.

To develop the next generation of managers and leaders, a comprehensive Mentoring Programme was also introduced during the year. The programme was launched on 10 January 2002. Mentoring aims to nurture future leaders in the Bank and enhance staff personal development. The relationships that are built through mentoring will also help in preserving many of the time honoured values and beliefs that have been the foundations of this organisation.

Organisational development efforts have also been geared towards further improving performance. In line with the changes taking place in the Bank, the **Performance Management System** (a.k.a. PRIME - Performance Review in Managing Excellence) was refined to further improve its implementation and effectiveness.

Changes were made to the PRIME system, the performance appraisal system, designed to reflect the importance of individual competencies for upward movements along a career path. Equally, the system recognises that performance is measured through the achievement of corporate goals. While short-term rewards are linked directly to achievement of goals, long term rewards are linked to development of necessary competencies. The Bank has introduced the **Staff Assistance Programme (ASSIST)** to complement the performance management system to ensure minimum expected performance targets are being achieved.

The Bank also recognises talent through a formal **Recognition Award**. During the annual dinner held on 8 September 2001, **6 winners** received the bank wide **Recognition Award** for Excellent Performance, Teamwork, Quality Service, Leadership, Sports/Social and Academic Achievement. The recognition programme has also been extended down the organisation to further nurture the culture of excellence at the departmental level in line with the spirit of empowerment.

The Bank has also enhanced its succession-planning programme to ensure continuity and availability of experienced and competent staff for key positions. The pool of possible successors has been enlarged, and a more comprehensive development programme created to equip the Bank's future leaders with the necessary skills and knowledge. The Bank is also improving its **Recruitment, Assessment and Selection process** to meet its staffing requirements for the future.

The Board of Directors extends its deepest appreciation to all Bank staff for their continuous hard work, dedication and commitment in the year 2001.

Awards

The Board congratulates the Governor, Tan Sri Dato' Dr. Zeti Akhtar Aziz on being conferred the **Pingat Panglima Setia Mahkota** (P.S.M) on the occasion of the birthday of His Majesty, the Yang di-Pertuan Agong on 2 June 2001.

The Board extends its congratulations to Datuk Latifah Merican Cheong on being conferred the **Darjah Mulia Seri Melaka** (D.M.S.M.) on the occasion of the birthday of His Excellency, the Yang di-Pertua Negeri Melaka on 13 October 2001.

The Board also congratulates Encik Hamzah bin Abu Bakar on being conferred the **Pingat Pekerti Terpilih** (P.P.T.), Encik Nasaruddin bin Sulaiman, Puan V. Vijayaledchumy, Puan Azmah binti Abd Karim and Puan Alizah binti Ali on being conferred the **Pingat Jasa Kebaktian** (P.J.K.) on the occasion of the birthday of His Royal Highness, the Sultan of Selangor Darul Ehsan on 10 March 2001, Encik Che Sab bin Ahmad on being conferred the **Kesatria Mangku Negara** (K.M.N.) on the occasion of the birthday of His Majesty, the Yang di-Pertuan Agong on 2 June 2001 and **Pingat Kelakuan Terpuji** (P.K.T.) on the occasion of the birthday of His Excellency, the Yang di-Pertua Negeri Pulau Pinang on 14 July

2001, Puan Khalijah binti Hashim on being conferred the **Ahli Mangku Negara** (A.M.N.) on the occasion of the birthday of His Majesty, the Yang di-Pertuan Agong on 2 June 2001, Puan Goh Hooi Choo on being conferred the **Pingat Bakti Setia** (P.B.S.) on the occasion of the birthday of His Excellency, the Yang di-Pertua Negeri Pulau Pinang on 14 July 2001, Encik John Teo and Encik Mukhtar bin Yusof on being conferred the **Pingat Jasa Kebaktian** (P.J.K.) on the occasion of the birthday of His Royal Highness, the Sultan of Terengganu Darul Iman on 20 July 2001 and Encik Aziz @ Abdul Aziz bin Abdul Manaf on being conferred the **Darjah Seri Melaka** (D.S.M.) on the occasion of the birthday of His Excellency, the Yang di-Pertua Negeri Melaka on 13 October 2001.

Retirement

The Board wishes to place on record its appreciation and gratitude to the **28 retirees** who have rendered loyal and dedicated service to the Bank. The staff who retired from the services of the Bank in 2001 are listed in Table 6.1.

Manpower

The Bank's staff strength as at 31 December 2001 was **2049**. This staff strength represents staff in the Head Office, six branches in Pulau Pinang, Johor Bahru, Kota Kinabalu, Kuching, Kuala Terengganu and Shah Alam, the representative offices in London and New York and the Human Resource Development Centre (HRDC) in Petaling Jaya.

Staff Training

The main objective of the staff training programs in 2001 was to close the performance gaps of staff. Training and learning interventions therefore focused on building upon existing skills to enhance capacity for sound diagnostic and implementation skills in order to fulfill the functions of the Bank with greater effectiveness. In this regard, the HRDC implemented several new initiatives aimed at ensuring that the training programs lead to higher levels of performance. These initiatives include:

- The development of a comprehensive Structured Modular Program for the Bank's core competencies. The Bank identified these competencies as the minimum management skills required for all staff in order for them to function effectively in a K-driven economy. These competencies are part of the Bank's performance assessment criteria, Performance Review in Managing Excellence (PRIME).

Table 6.1
List of Retirees

No	Name	Department/Branch
1	Datuk Dr. Awang Adek bin Hussin	Governor's Office
2	Puan Zaini binti Osman	Governor's Office
3	Puan Azizah binti Haji Talib	Corporate Services Department
4	Encik Juraimi bin Slamet	Currency Management and Operation Department
5	Encik Maraiyah a/l Maradiah	Currency Management and Operation Department
6	Encik Shaari bin Mohd Shah	Currency Management and Operation Department
7	Encik Wan Ibrahim bin Embong	Currency Management and Operation Department
8	Encik Thangathurai a/l Kumaravelu	Finance Department
9	Cik Vijiah Ranjini Rethna Boi d/o E V Joseph	Human Resource Development Centre
10	Encik Chang Kum Weng	IT Services Department
11	Encik Sheikh Ismail bin S.M.Omar	IT Services Department
12	Puan Yim Siew Yean	IT Services Department
13	Encik Md Ghazali bin Kalam	Payment Systems Department
14	Encik Jamaludin bin Usoh	PPPM Shah Alam
15	Encik Maksom bin Kasan Widi	Property and Services Department
16	Encik Abdullah bin Ahmad	Pulau Pinang Branch
17	Encik Mohd. Zafarula Khan bin Mohd. Shariff	Pulau Pinang Branch
18	Encik Sabaruddin bin Said	Pulau Pinang Branch
19	Encik Abdul Halik bin Sarbini	Security Department
20	Encik Aladin bin Mohd Tahir	Security Department
21	Encik Baharom bin Yusof	Security Department
22	Encik Kasim bin Ahmad	Security Department
23	Encik Shahrudin bin Ahmad	Security Department
24	Encik Mohd. Kamar bin Mohd. Salleh	Kota Kinabalu Branch
25	Encik Abu Samah bin Abu Bakar	Kuala Terengganu Branch
26	Encik Ismail bin Abdullah	Kuala Terengganu Branch
27	Encik Mamat @ Ariffin bin Hj Mahmmud	Kuala Terengganu Branch
28	Encik Abas Anak Rebi	Kuching Branch

The skills included in this program address the various levels of competency requirements that are suitable for staff of various job ranks.

- The creation of a centralised Training and Development Committee. This Committee provides the guidance and focus for the overall goals and direction of training and learning taking place within the Bank.
- The carrying out of a comprehensive and systematic exercise in Training Needs Analysis (TNA) to more accurately gauge current and future staff training needs for technical skills. This, together with support from the Training and Development Committee, provided the basis to adjust training programmes to encompass specific requirements of line departments.

In closing the performance gaps of staff, efforts were made to ensure that training and learning interventions contributed towards expanding the technical and non-technical skills of staff to reinforce the mission, objectives and shared values of the Bank.

In this environment, the bankwide training programmes organised by the HRDC in 2001 catered

to the development of core functional and management skills. A total of 77 programs was conducted by HRDC at a total training cost of RM1.4 million. The focus of the training programs was centred on upgrading functional skills and learning of new skills necessary to support the Bank's policy formulation and supervisory role as well as strategic projects of the Bank. Several of the projects were undertaken to formulate strategies for the Bank to implement its new mandates, including the supervision and regulation of development financial institutions and the implementation of the Anti-Money Laundering Act. The HRDC also assisted in implementing decentralised training, managed by line departments. Such training focused on building specific technical skills to support each department's functions and business goals. Total investments in training managed by HRDC and the line departments amounted to RM5.2 million in 2001.

RISK MANAGEMENT IN BANK NEGARA MALAYSIA

In 2001, the Bank continued its efforts to enhance its risk management structure and practices, in line with its risk management policy issued in the previous year. The objective of the policy is to have in place sound policies and operations through the maintenance of

safe, relevant and efficient work processes and procedures; protection of its assets, including people; and the efficient use of resources. Information and its effective communication are also key to the attainment of the policy objective.

Risk Management Structure

During the year, the Bank set up the Risk Management Committee (RMC) as the apex of the risk management governance structure. The RMC, comprising the executive management, addresses strategic risk issues, oversees the management of risk that has been delegated to the line departments and drives the risk management work in the Bank. The RMC assists the Board in discharging its governance responsibilities with respect to risk management.

The RMC, which meets at least once every quarter, provides a high level platform for a focused consideration and deliberation of all relevant issues on risk management practices in the Bank. The RMC ensures that there is regular upward reporting of risk issues and risk and control positions of the departments, as well as the downward communication to departments to address existing or potential risks.

Risk Management Practices

As a measure to maintain the relevance and safety of work processes, departments are required to report annually to Management a review of their processes and assessment of the state of their risks and controls. In the report, they are required to also propose action plans for the improvement of existing controls or the implementation of new ones. In addition, the requirement for reporting formalises the process for escalating potential risk issues to Management.

From the line departments' reports the RMU reports its assessment on the state of risk and controls. The objective of the assessment is to ensure that the risk management practices at the department level are not only in place but are functioning. In 2001, to improve the efficiency in monitoring of operational risk position of the Bank, the RMU also identified key risk indicators (KRIs) for monitoring. The purpose of the KRIs is to alert departments and Management on directional changes to operational safety and efficiency.

Financial Risks

Undertaking its responsibilities in reserve management operation, the Bank is exposed to a

number of financial risks, which are credit, market and operational risks. These risks are managed daily by the Bank's Middle Office, a unit that is separate from the dealing function, to ensure that the risk exposures remain within acceptable levels. In ensuring that the Bank's risk management effort in its reserve management operations remain relevant and effective, the Middle Office carries out periodic review of the existing operational procedures, investment guidelines and policies in relation to market developments to account for changes in risk factors.

a. Credit Risks

The Bank's exposure to credit risk is kept to a minimum by stringent policies on high credit standards required for the admission of counterparties, as well as, permissible investments, which are mainly limited to highly-rated government securities. Credit exposures are continuously monitored against limits approved in accordance with the Bank's credit policies. The Middle Office periodically reviews the adequacy of the counterparties' credit limits and its usage pattern to proactively manage counterparty exposures. Continuous effort is put in to achieve optimum diversification and avoid concentration of risk in the Bank's exposure to counterparty credit risk through the rationalisation of limits and admission of new qualified counterparties, whilst taking into account the needs of the reserve management operations.

b. Market Risks

In managing its reserves, the Bank is guided by its Benchmark policies, which incorporates the Bank's objectives of holding reserves and its risk tolerance. The benchmark allocations in terms of asset classes, currency mix and duration are periodically reviewed to ensure that they continue to represent the optimal risk/return trade-off whilst meeting the Bank's reserve management objectives. A relative Value-At-Risk measure is used to quantify the excess market risk for deviations from the Benchmark allocations to take advantage of expected changes in market conditions. Such deviations are made within the limits set by the Bank's Board. To enhance the Middle Office's risk management and performance measurement capabilities, the Bank had in 2001 commenced the implementation process of its new treasury system. With the enhanced system, the Bank's benchmark would be maintained on-line in the treasury system to allow the dealers to conduct their analysis, stress testing and track their current market risk exposure.



c. Operational Risks

The Middle Office works with the Back Office (which handles the settlement of trades and performs the accounting function) to address the operational risks arising from the Bank's dealing activities in a more comprehensive manner. Outstanding trades are tracked and irregularities in the settlement of trades are studied in detail to uncover weaknesses that may be attributed to the operational procedures within the dealing operations. As operational risks may arise directly or indirectly through inadequate controls, human errors and system malfunctions, it is vital that the source of the operational risk is uncovered so that appropriate action is taken to effectively eliminate minimise the recurrence of operational lapses. Operational lapses are formally tracked by the Middle Office with detailed explanation on the causes and recommendations for improvements in the operational controls and procedures. In addition, statistics are maintained to track the different type of operational errors to gauge whether the new improved controls introduced are effective. Statistics on errant counterparties that have contributed to trade settlement problems are also maintained to provide an input into the yearly counterparty review exercise. With the implementation of the Bank's enhanced treasury system, existing controls and operational procedures would be automated to further strengthen the management of operational risks in the Bank's reserve management operations. To ensure that adequate internal controls are in place, periodic review of the existing workflow is undertaken.

Policy Risks

In improving the management of policy risks, the Bank rationalised the composition of the various policy working groups and their terms of reference. To address more effectively the management of policy risks, active formal and informal cross-functional consultations have been incorporated in the process of policy formulation. This process extends from policy design to post-implementation stage to enhance the prospect for policy objectives to be achieved.

Disaster Recovery Measures

The backup facilities of the systems for trading, settlement and cheque clearing at the remote recovery centre undergo regular and frequent testing. For the most critical systems, live runs are conducted to ensure people and system preparedness and data availability. The RMU continued to assess and report to Management on the performance of the test and live runs conducted at the remote Recovery Centre.

Inculcating a risk management culture

The Bank continued to enhance the staff's knowledge on risk and risk management concepts and practices, to be well-informed on the developments in the area. Seminars and courses, and sessions on risk management is a regular feature in the Induction Programme for new recruits to inform them of the risk management approach and requirements in the Bank and their role and responsibilities in managing risks at work. The current risk management structure and practices in the Bank have evolved to the present formalised and systematic approach of managing risks.

BANK NEGARA MALAYSIA Organisation Structure

