2012

GOVERNANCE, ORGANISATIONAL DEVELOPMENT AND COMMUNICATIONS

The Bank continued to place significant emphasis on its governance, organisational development and communications in delivering its mandates. As the global and domestic environment changes and new challenges emerge, the Bank has constantly aimed to elevate its performance. This includes its ability to address these more complex policy issues and the effective formulation and implementation of its policies. Having robust governance, combined with a high level of leadership and other important competencies would enable the Bank to deal effectively with the evolving challenges.

GOVERNANCE

The Bank's activities in the fulfillment of its functions and objectives are overseen by the Board of Directors (Board) and the three Board Committees. The ongoing strengthening of the oversight functions of the Board and enhancements to the Bank's internal governance framework and practices have continued to contribute towards ensuring a high level of corporate accountability and transparency. In addition, it promotes effective management and robust informed decision-making in the Bank.

The Board provides general oversight of the management and operations of the Bank. This includes its strategic planning and risk management practices, human capital management and its financial operations. The Board has a key role in providing oversight in ensuring that the Bank achieves its mandates of promoting monetary and financial stability in an environment that is conducive to the sustainable growth of the Malaysian economy. The Board comprises the Governor, two Deputy Governors and the Secretary-General of the Treasury as an ex-officio member of the Board and five independent directors who are non-executive members.

In 2012, the Board met monthly to deliberate on the various aspects of the Bank's operations. Among the key issues discussed were the developments in the global and domestic economic and financial environments, implications on the operations of the Bank and policy measures being considered to address emerging issues. Other key issues discussed regularly during the year included policy developments and the risk outlook in the conventional and Islamic financial systems, payment systems and the consequences for financial stability. Matters pertaining to the Bank's financial condition, reserves management, currency management and the Bank's management of its staff were also discussed.

During the year, several organisational development policy measures were discussed and approved by the Board. These included strengthening the performance of the Bank through the adoption of a new job family framework and a more differentiated reward structure. Another important initiative was the review of the Bank's operating plan that contributed to the implementation of a more rigorous budgetary process. This was part of the Bank's ongoing initiatives to foster greater financial discipline and ensure that its operating expenditures commensurate with the resources being allocated to achieve the Bank's mandates and desired outcomes. The Bank also continued to strengthen the various oversight functions and policy forums to draw on different perspectives to deal with the complex issues facing the Bank. This included the appointment of a new external member to the Financial Stability Executive Committee, and the adoption of a new framework governing the appointment of external candidates as members of the Monetary Policy Committee.

In performing its oversight function, the Board is supported by three Board Committees. These include the Board Governance Committee (BGC), the Board Audit Committee (BAC) and the Board Risk Committee (BRC). The members of the Board Committees consist solely of non-executive directors to strengthen independent oversight of the Bank's operations. The BGC is responsible for reviewing and recommending the principles and practices of governance for the Bank. In 2012, the BGC met four times and reviewed a number of key matters including the Code of Ethics for the staff of the Bank and Conflicts of Interest for members of the Board and other Committees, and the revision to the terms of reference for the Board Committees. The Committee also reviewed, for approval of the Board, the budget and operating plan of the Bank for 2013.

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. During 2012, the BAC convened four meetings to approve the audit plan, review the audit activities and performance of the internal audit function, and to deliberate on the audit findings and actions taken to ensure that the internal control system remains effective in addressing the key risks faced by the Bank.

The Board Risk Committee assists the Board in providing oversight over the Bank's management of risks that could lead to financial loss, disruption to operations, failure to meet its mandates or damage to the Bank's reputation. In 2012, the BRC met four times to monitor the Bank's management of enterprise-wide risks. Specifically, 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's risk management culture and practices continued to evolve in response to current and emerging risks in the environment. A notable development in 2012 was the merger of the risk and strategic management functions into one department in order to ensure that the understanding of risk factors contributes to more effective strategic planning processes. The Strategic and Risk Management Department (SRMD) serves as the secretariat for the Risk Management Committee and the forums for business planning and performance review. This enables the Bank's senior management to have a more holistic and integrated view of business strategies and risks. This in turn serves to strengthen the overall risk management at the Bank.

Risk Management Framework

The Bank's Enterprise Risk Management (ERM) framework outlines risk governance, policy and practices for effective management and supervision of risk in the Bank. The ERM encompasses the Operational Risk Management Framework (ORMF), Financial Risk Management Framework (FRMF) and Business Continuity Management Framework (BCMF), with the aim of nurturing a strong risk management culture within the Bank. The ORMF addresses specific risk event categories such as fraud, third-party relationships, technology, legal, employment and culture, process management and execution, safety and security, and guides the implementation of risk-mitigating measures in accordance with the Bank's risk appetite. The FRMF addresses all aspects of financial risk management including the sustainability of income and expenditure and the financial exposures facing the Bank. The Bank's BCMF outlines the main principles of business continuity management to protect the Bank's staff and assets and ensure continuity of operations in any crisis situation.

The Bank maintains the three lines of defence approach in its risk management practices. The first line of defence is the line departments, which address the risks on the ground, and are responsible for identifying, mitigating and managing risks within their area of operations. The second line of defence comprises of the Risk Policy Owners (RPO) and SRMD. RPO functions are designed to assist line departments in managing transversal risks which cut across the organisation, namely people, information technology, legal, business disruption, physical and information security. In 2012, the taxonomies for risk events and their root causes were revised to improve the assessment of risk factors at all levels. The third line of defence resides within the function of Internal Audit, which provides an independent assurance and verification of the effectiveness of the risk management policies and measures.

Risk Management Governance Structure

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 such 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 headed by a designated Deputy Governor. The key risks deliberated at RMC in 2012 were on the management of organisational risks which included transversal risks (specifically, people, legal and IT risks) and other emerging operational risks facing the Bank. The RMC also deliberated and approved the stakeholder engagement framework which identifies principles to be adopted in ensuring the Bank is effective in engaging and interacting with all of its stakeholders which is one of the key elements in ensuring policy outcomes are achieved.

The Operational Risk Management Committee (ORMC) ensures that Bank-wide operational risks are recognised and adequate controls are in place. The ORMC also performs the oversight function of monitoring information security and procurement management. In 2012, the ORMC extensively deliberated the management of transversal risks and provided pre-emptive mitigation plans to ensure that the identified risks were managed appropriately. The assessment of people risk highlighted the potential risks on staff capabilities in the more complex environment while risk assessment on IT addressed the plausible issues relating to information security concerns and areas that could disrupt the Bank's business operations. The ORMC also deliberated on the effectiveness of internal controls pertaining to the physical facilities and information security to ensure a safe and secure working environment in the Bank. For legal risk, an assessment was conducted on risks relating to potential non-compliance with relevant laws or contractual obligations that could expose the Bank to potential legal liability, financial loss or loss of reputation.

The Financial Risk Management Committee (FRMC) identifies Bank-wide financial risks and ensures that financial risks are adequately managed. FRMC also deliberates on policies, management strategies and positions relating to the Bank's balance sheet risks. The Reserves Management Committee (ReMC), chaired by the Governor, oversees risks and strategies related specifically to the management of the nation's international reserves. It provides a platform for discussions on the global economic and financial market outlook, investment themes and strategies, and a centralised and holistic review of the risks in reserves management and the impact on the Bank's financial position. The ReMC discusses the market, credit and operational risks of all investment exposures. Through this forum, the senior management of the Bank formulates or adjusts investment strategies as necessary. In 2012, the ReMC met four times and discussed various issues relating to reserves management, among others, the ongoing sovereign debt crisis in Europe and its impact on the international reserves investments of the Bank. All risks were within approved limits and were actively managed.

Key Initiatives in 2012

The Bank's capability to assess risk levels continued to improve with better reporting and appreciation of risks across the departments. For the year 2012, a consolidated Risk Control Self Assessment (RCSA) report was published. The main objective of the report is to facilitate the identification and management of common risks across the Bank, based on the operational risks declared by line departments.

Staff awareness and compliance to the Bank's risk policies were strengthened with the introduction of a web-based system named IComply which functions as a central repository and broadcast channel for all internal policies and guidelines in the Bank. In addition, the Incident Reporting (IR) process was re-engineered to better facilitate Bank-wide reporting of any operational incidents. The Bank also took the opportunity to share and learn new practices and approaches in risk management with central banks across the region, particularly with members of the South-East Asian Central Banks (SEACEN) Research and Training Centre. The Bank continued to have an active role in the International Operational Risk Working Group (IORWG) Committee as it provides an avenue to leverage on the international best practices of different central banks.

Strengthening of Business Continuity Management Practices

The Bank's Business Continuity Management (BCM) capabilities and methodologies were improved with enhancements to the recovery strategies for all critical business functions. The Bank has also put in place a clear escalation and communication mechanism to cooperate seamlessly with the National Security Council (*Majlis Keselamatan Negara)* should the need arise. In addition, the Bank's BCM infrastructure and standards were improved with the upgrading of the Bank's Recovery Centre into a 'mini central bank'. The upgraded facility can accommodate up to five hundred staff and house all the critical systems of the Bank. This allows the Bank to minimise potential risks of operational disruptions as well as any systemic impact on the financial system in the event of a disruption or during periods of crisis.

Internal Controls and Assurance

The Internal Audit Department (IAD) facilitates the work of the Board Audit Committee (BAC) by providing an independent and objective assessment of the adequacy and effectiveness of the risk management measures, internal controls and governance processes with respect to key functions and activities of the Bank and its related entities. The IAD adopts a Relationship Manager approach, where IAD staff are designated to specific departments and related third-party entities to ensure that its audit plan remains focused on the Bank's priority areas and key risks.

In 2012, the IAD continued its risk-based audit programme through an end-to-end review of the core functions and processes, and thematic reviews of common activities. The specific business functions reviewed during the year included regulatory functions, reserves management and back-office functions, currency operations, human resource management, risk management and thematic reviews of common processes such as procurement and expenditure management, information-security management and the safeguarding of assets.

The department conducted a review of the IT security measures, business continuity arrangements, maintenance and performance of the IT systems, and the risk mitigation measures needed to address specific key risks to the Bank's critical systems. IAD also assessed the operations of the Bank's related entities which undertake the operations of the systemically-important payment systems and functions which impact the monetary and financial stability mandates of the Bank. The IAD also reviewed the reliability of the Bank's financial records and reporting.

The appropriate recommendations by IAD to further improve the risk management and control functions of the Bank and its related entities were accepted and implemented. Additionally, the IAD in 2012 also undertook investigation work relating to disciplinary proceedings under the Bank's Code of Ethics and provided input to various working committees, line departments and related entities to improve the control and compliance environment.

ORGANISATIONAL DEVELOPMENT

Making the Quantum Leap

The Bank continued its transformation journey as a strategically-focused and performance-based organisation with the implementation of the second cycle of the three-year Business Plan. The Business Plan 2012-2014 provides enterprise-wide focus and clarity on the Bank's objectives. Strategies and action plans are aligned to seven focus areas, namely ensuring monetary stability, preserving financial system stability, ensuring effective financial intermediation, developing a more inclusive financial system, ensuring smooth migration to e-payments, promoting greater financial integration of Malaysia at the regional and global level and sustaining the high standards of performance of the Bank. In terms of improving the planning process, initiatives include strengthening the integrated corporate planning framework that encompasses the elements of business strategy, risk, financial resources and human capital management for sustainable organisation performance management. This enabled the Bank to better prioritise its financial and human capital resources for areas of importance.

In order to optimise the use of resources, strategies focused on strengthening the efficiency and effectiveness of the Bank's operations. In 2012, to enhance organisational effectiveness, the common support services were re-organised and consolidated with the establishment of an autonomous functional structure known as Centralised Shared Services (CSS). This new structure enables the Bank to enhance the level of professionalism in the delivery of common services (see white-box titled 'Establishment of the Centralised Shared Services Division'). In addition, the Bank restructured a number of departments to further increase synergies between complementary functions and roles, improving operating models and enabling more effective pooling of information and cross-functional efforts towards the achievement of common goals. This would also contribute towards the sustainability of financial and manpower resources. This included the merging of the Strategic Management Department and the Risk Management Department (now known as Strategic and Risk Management Department); the Financial Intelligence Unit with the Special Investigation Unit (now known as the Financial Intelligence and Enforcement Department); and the consolidation of the Central Banking Services function with the Human Capital Development Centre.

Governance and financial discipline were strengthened through revisions to the Bank's Procurement Management Policy and Procedures and the Outsourcing Framework, both of which serve to augment the Bank's cost-conscious culture and improve operational efficiency.

In view of the significant developments in global financial markets and major economies, the 15th Senior Management Conference 2012 was themed 'Re-thinking Central Banking in Evolving Times'. The theme was chosen to increase awareness of how the landscape for central banks continues to change and the need for the Bank to always be in a state of readiness to address the new emerging challenges. The Conference comprised panel discussions facilitated by members of the senior management of the Bank on areas related to central bank independence, clarity of mandates in light of global regulatory reforms, the need for effective stakeholder engagement for the achievement of the Bank's desired outcomes and the importance of developing organisational flexibility to continually elevate the Bank's performance.

Human Capital Management and Development

Human capital management and development remained a major area of focus in 2012, with significant changes instituted to modernise the Bank's human capital policies. The thrust of the transformation in 2012 was the introduction of a new Job Family framework, designed to modernise the human capital management practices in the Bank. The principles epitomised by the framework would form the basis for initiatives to attract, assess, develop, reward and retain talent in the Bank.

The Job Family Framework

The Job Family framework which was introduced in 2011 for graduate recruits was fully implemented in 2012, involving a holistic review of jobs and rewards to streamline and differentiate various aspects of talent management, including progression, development and rewards strategies. Jobs are now categorised into seven job families, namely Economic Policy, Regulatory Policy, Investment, Supervisory, Specialist, Corporate Strategy and Corporate Resources, based on the similarity of job functions and knowledge, experience and training requirements. Job titles were also reviewed to ensure alignment with the job family classification and new titles were introduced where appropriate.

Accordingly, the Bank implemented differentiated salary structures based on the seven job families, benchmarked against relevant market comparators. In line with the implementation of the Job Family framework, the Bank further refined the technical competencies framework and the learning roadmaps through the development of baseline and specific technical competencies for each job family. A key milestone in 2012 was the roll out of the revised Supervision job family's technical competencies, learning roadmap and structured curriculum for Bank supervisors.

In the efforts to strengthen talent management, the Bank reviewed and enhanced the assessment and evaluation of talent at different levels through the Leadership Profiling Centre, Middle Management Profiling Centre and Sourcing Profiling Centre. The enhanced framework is aimed at having in place robust assessment of talent, primarily to ensure that the right talent is identified for the various roles in the Bank. The profiling initiatives are aligned with the principle of differentiation by job families and optimal manpower planning and sourcing to ensure a healthy talent pipeline.

Developing the Bank's Workforce: Learning and Knowledge Management

In 2012, a key talent development initiative was the introduction of a leadership development framework which comprises the Leadership Development Programme (LDP) and the Corporate Talent Development Programme (CTD). The objective of this initiative is to ensure a healthy talent pipeline with the required leadership bench strength.

The LDP is a set of customised classroom and on-the-job programmes that aims to equip staff with the Bank's leadership competencies, build a common leadership language and to provide the appropriate framework and tools to facilitate behavioural change. The LDP has been customised to incorporate the Bank's strategic objectives, leadership competencies and core shared values. The LDP is complemented by the CTD Programme, a leadership development programme for high potential staff, designed to accelerate and provide additional targeted development opportunities.

The Bank also introduced the Individual Development Plan (IDP) initiative in 2012 to guide the staff in planning and managing self-development in a more effective and structured manner. The focus of the IDP is to enhance the staff's strengths and close development gaps through a continuous engagement process between the supervisors and direct reports, which include coaching conversations and feedback sessions. To ensure staff are properly guided in planning self-development, the Development Advisor (DA) programme offering multiple

**Establishment of the Centralised Shared Services Division –
Towards Enhancing Services Delivery in the Bank**

Introduction
The Centralised Shared Services division (CSS) was established in 2012 as part of the Bank's continued efforts to enhance the effectiveness of the operations of its support services. This effort rationalised and consolidated a large number of common support services into one business division. By centralising these services under the CSS, significant improvements in organisational performance have been achieved with better decision-making processes, economies of scale and enhanced efficiency in the delivery of services. In addition, the establishment of CSS also provides for an autonomous operational structure, which focuses solely on the provision of support services and enables rapid assimilation of best practices, establishes more integrated business systems and allows for better talent management.

The CSS workforce comprises 615 personnel, who are organised into five functional departments, namely the CSS Management Office, Facilities Management Services, Hospitality Services, Security Services, and Museum, Art Gallery and Knowledge Management Centre Services. These departments provide 14 common services under the CSS, including facilities and events management, human resource administration services, security management and the operation of the Bank's Museum and Art Gallery. CSS provides a single point of contact for the delivery of these services, which promises more effective user relationship management and efficient utilisation of resources.

CSS Governance
The oversight of the operations of the CSS is performed by the Operations Management Committee (OMC), which is chaired by a Deputy Governor and comprises senior officials of the Bank. To further enhance its effectiveness, the OMC includes external members who are professionals in the areas of finance, shared services and facilities management. While the OMC remains accountable to the Management Committee of the Bank, the governance structure provides significant autonomy to the OMC and the management of the CSS. The operations of the CSS is headed by a General Manager.

A Business Plan to Operationalise the CSS Division
The CSS division has developed a three-year Business Plan, supported by Key Performance Indicators (KPIs) that focus on three objectives, namely, service excellence and effective stakeholder engagement; financial and operational efficiency and people management. The Business Plan also places emphasis on streamlining processes, increasing standardisation and introducing more automation, which is important in improving turnaround time and operational efficiency, as well as reducing the operating costs of the CSS. By implementing the strategic initiatives in the Business Plan, the CSS aspires to deliver the common services with a high level of professionalism that is supported by a dynamic work culture.

As the CSS is a new operating model for the Bank, its Business Plan and KPIs were communicated to both the staff of CSS and the rest of the Bank through a series of workshops and town-hall sessions. The increased awareness would facilitate staff of the Bank at large to adapt to this new operating model.

Performance-Oriented Culture
As a provider of professional shared services, it is critical for the CSS management to develop a high-performance workforce with a user-centric mindset. On that basis, a comprehensive Service Level Agreement (SLA) is being introduced to articulate the expectations between CSS and its user departments, in terms of the specific services and performance standards. As a tool to monitor the

operations of the CSS and to develop more professional relationships with its users, the benefits of implementing the SLA for both the end user and the CSS include:

- Clarity in the roles and responsibilities of both parties, i.e. the CSS as the service provider and the departments as the users of its services;
- Basis for continuous improvements in the delivery of services to achieve a higher level of operational effectiveness and efficiency;
- Promote a culture of service orientation and meeting the needs of the user departments; and
- Basis for reviewing business priorities of the Bank and optimising the allocation of resources accordingly.

The first version of the SLA addressed a total of 32 sub-services based on 14 common services provided by the CSS. In conjunction with a common budgetary framework for the CSS, the SLA is expected to drive greater financial discipline in the acquisition of assets and the monitoring of expenditures.

Two key frameworks were also introduced to govern the operations of the CSS in the areas of financial management and governance for the procurement of assets by the CSS. The financial management framework aligns the CSS Operating Plan with the Bank's overall Business Plan to facilitate effective monitoring of financial resources. The governance framework aims to further strengthen the process with respect to the acquisition of assets by the CSS. This framework provides a dedicated structure of approving authority with well-defined roles and accountabilities for the CSS staff involved in asset procurement.

Change Management in Sustaining the Desired Change

A change management programme was implemented concurrently to ensure that the transition was undertaken in an effective and timely manner with a supportive environment for a sustainable change in the roles, expectations and accountabilities in the CSS. The change management efforts included engagement sessions with different stakeholders, including personal interviews and group dialogues. A post-implementation review was also conducted nine months after the inception of the CSS to provide a better understanding of the motivation, values and challenges faced by the staff in CSS and to identify further interventions that may be required. The change management programme will continue to be an important part of the transformation, with continuous two-way communications to clarify expectations and accountabilities as part of the process.

Moving Forward

As an autonomous division, the CSS has the potential to improve the level of professionalism in delivering support services and adopting new technologies and processes in a more seamless and cost-effective manner, as the services are delivered from common shared platforms. The end result expected is higher-quality services, increased productivity, more rewarding career progression opportunities, as well as more optimal use of resources in the Bank.

learning options and resources was developed. Apart from serving as a guide, the DA is aimed at cultivating self-directed learning among the staff. The DA complements the IDP by providing staff and supervisors with a range of options in planning the IDP.

Revision of the Code of Ethics

Over the years, there have been significant changes to employment laws and practices pertaining to managing staff conduct. Towards this end, the Bank introduced a new Code of Ethics (CoE) in 2012, to replace the Code of Conduct 1998. The CoE outlines the Bank's expectations with respect to the conduct of the staff, and aims to promote a positive, conducive and harmonious working environment. In particular, the staff of the Bank must at all times uphold the highest level of integrity and professionalism in carrying out responsibilities and act in the interest of the Bank and the nation.

Managing the Talent Pool

The Bank continues to award scholarships to outstanding Malaysian students to build its talent pool and also as the Bank's contribution to nation building. In 2012, 53 scholarships were awarded to excellent students, to pursue pre-university, first degree and post-graduate programmes in selected universities. Bank staff were also given the opportunity to pursue higher education in relevant fields through staff scholarship awards. The coveted *Kijang Emas* scholarship award for the nation's best and brightest was awarded to five students with outstanding results in *Sijil Pelajaran Malaysia* in 2012. With this, the Bank has endowed 40 *Kijang Emas* scholarships since its inception in 2004. Recipients of this scholarship are free to choose their own fields of study in selected top universities in the world, without any service bond with the Bank. However, recipients are required to return and work in Malaysia upon completion of studies.

Staff Strength

In 2012, the staff strength decreased by 0.6% to 2,820 from 2,838 in 2011. Attrition remained stable at 4.8% (2011: 4.7%). The ratio of executive to non-executive staff increased to 3.5:2 (2011: 3:2) as more new hires were recruited at the executive level.

International Technical Cooperation Programmes

In 2012, the Bank continued to provide a broad range of technical programmes to enhance cooperation among central banks and regulatory authorities. The technical cooperation programmes provide an opportunity to share Malaysia's experience in central banking as well as to learn from our counterparts. During the year, 836 officials from 84 countries participated in the Bank's technical cooperation programmes, in the areas of monetary policy and macroeconomic management, financial stability and supervision, organisational development, Islamic finance, payment and settlement systems and consumer protection and market conduct. These programmes, drawing on the expertise from within the Bank and international and domestic partners, allowed for knowledge sharing and deepening of the understanding of policy dimensions of different countries from Asia, Middle-East and Africa.

Efforts were also directed at establishing and strengthening alliances with various international partners to improve the outreach, breadth and depth of the technical cooperation programmes. International partners included the SEACEN Centre, the Islamic Financial Services Board (IFSB), the Alliance for Financial Inclusion (AFI), the World Bank, the International Finance Corporation (IFC), the Japan International Cooperation Agency (JICA), the Consultative Group to Assist the Poor (CGAP), the Organisation for Economic Cooperation and Development (OECD), the Islamic Development Bank (IDB) and the Toronto Centre.

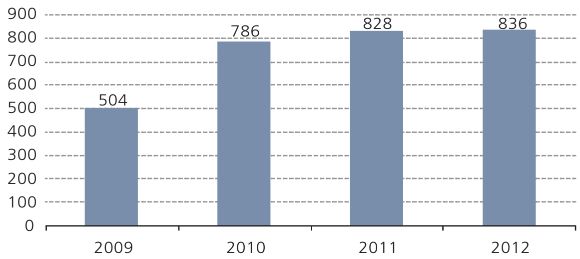
Capacity building programmes in the development, prudential regulation and supervision of Islamic finance remained one of the focus areas, given the strong interest and prospects for growth in the industry. An Executive Masterclass entitled 'Role of Islamic Finance and Global Financial Stability' was organised in conjunction with the Global Islamic Finance Forum (GIFF) held in Kuala Lumpur. The Masterclass was a joint collaboration with the International Centre for Education in Islamic Finance (INCEIF) and the World Bank. These programmes contribute towards the building blocks for an effective and well regulated Islamic financial system, thereby supporting financial stability in the Islamic financial system.

The Bank actively supported international efforts to develop more inclusive financial systems. Highlights of the year included the Financial Inclusion Advisers Programme and the Seminar on Islamic Microfinance, jointly organised with IFSB and in collaboration with CGAP, AFI and the Asian Institute of Finance (AIF); Business Conduct and Consumer Protection programme with OECD and AFI; the Supervision of Deposit-Taking Microfinance Institutions Course in collaboration with SEACEN, CGAP and Toronto Centre; and the 4th Global Credit Reporting and Risk Management Training in collaboration with the IFC. These international dialogues focused on topical issues such as microfinance, financial education, consumer protection, key institutional mechanisms, credit registries and the global trends and challenges in financial inclusion.

The Bank also participated in the sharing of experiences with other policymakers in various areas of institutional capacity building, including risk-based supervision, Basel II implementation, financial sector development, payment and settlement systems and talent management. The technical cooperation programmes will continue to provide an avenue for cross-border collaboration, knowledge sharing of best practices and capacity building and thus foster regional and international ties.

Chart 5.1

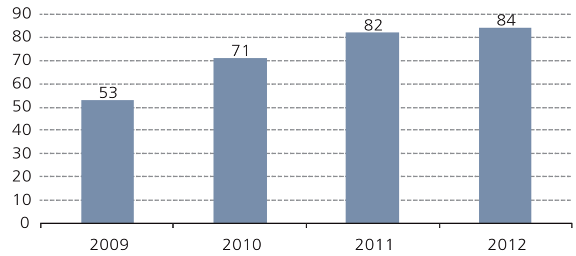
Technical Cooperation Programmes: No. of Participants



Source: Bank Negara Malaysia

Chart 5.2

Technical Cooperation Programmes: No. of Participating Countries



Source: Bank Negara Malaysia

Leveraging on ICT for a High-Performance Organisation

The focus of the ICT services in 2012 was on enhancing organisational effectiveness and productivity through greater work mobility, expanded and secured accessibility to information, and enhanced system resiliency.

Greater mobility and better accessibility of information

A suite of mobile applications was deployed in May 2012 for efficient management of information required for high-level meetings in the Bank. New workflows were introduced to enable electronic distribution, storage and access of documents, contributing to ease of information retrieval and updates while remaining physically mobile. This also reduced paper-based or manual processes, thus supporting the overall objective of improving the organisation's efficiency and effectiveness. The use of these mobile applications leveraged on a custom design-and-build 'private cloud' infrastructure, with the initial phase of the implementation focusing on information connectivity anywhere, anytime, in a secured manner.

Modernisation and extension of Bank's ICT applications and infrastructure

In 2012, the ICT strategies were geared towards the delivery and support of applications for global accessibility, with 24-by-7 service uptime, and continuous improvements to enable further business operations efficiency.

The Bank had implemented infrastructure enhancements with pro-active system capacity planning and monitoring in the Bank's critical systems such as Real-Time Electronic Transfer of Funds and Securities (RENTAS) to ensure no degradation in system performance even on a high business volume day. The Bank had also extended its Data Centre operating hours to include additional shifts in order to operate 24-by-7. Additionally, the network infrastructure in the Bank's Recovery Centre (RC) underwent an upgrading exercise, implemented in phases to ensure that the infrastructure remained resilient and agile.

Close collaboration and partnership within the Bank and with external entities enabled the delivery of ICT solutions that met with the operational needs of the Bank. This was exemplified by the Bank's initiative to extend straight-through processing (STP) in RENTAS beyond funds transfer to encompass securities settlement transactions. The STP solution could be adopted by the industry to allow for more efficient operations in treasury processes, from deal capture to treasury settlement.

In further advancing global and regional financial integration, the Bank implemented an infrastructure of settlement linkages and connections between RENTAS and International Centralised Securities Depositories (ICSDs) such as Euroclear to enhance cross-border debt securities settlement efficiency in the Asian region. The settlement platform also provides investors and market intermediaries with efficient and cost-effective cross-border access to bond markets in Malaysia.

COMMUNICATIONS

Amid the heightened uncertainties in the global economic and financial environment in 2012, the Bank's communications function assumed a greater role in assuring the key stakeholders on the stability of the Malaysian economy and financial system. The Bank shared its assessments of the global, regional and domestic economic and financial developments, and its policy responses, objectives and rationales. Communication efforts were also undertaken to create awareness on the Bank's key initiatives such as the internationalisation of Islamic finance, the wider usage of Renminbi and the financial inclusion agenda. Awareness campaigns on financial scams were initiated to highlight to investors and the public on the dangers of investing in such schemes.

Reinforcing the resilience of the Malaysian economy and its financial system

Communication strategies were aimed at providing a greater understanding of the resilience of the domestic economy and the strength of Malaysia's financial system. On the economy, the sustainability of growth amid a weak global economy, led by robust domestic demand in a low inflation environment was the key focus of communications. On the financial sector, it was its increased strength and resilience and the growing business dimension of Islamic finance and its role as a viable form of financial intermediation for economic activity.

Assessments of the Malaysian economy and financial system were highlighted during engagement sessions in conjunction with the release of the Annual Report and Financial Stability and Payment Systems Report and press conferences for the release of quarterly GDP growth figures. During the year, the Bank engaged with international and local media, and fund managers, analysts and economists and held dialogue sessions with specific industry groups and consumer associations. These sessions also gathered feedback and additional perspectives for the Bank's analysis and understanding.

A high-level roundtable meeting chaired by the Governor and attended by leading regional and local analysts and economists was held during the year. The key topics discussed were the developments in the global, regional and domestic economies and financial sectors, the effectiveness of policy responses and the economic prospects for Malaysia. The Bank in collaboration with the Department of Statistics Malaysia organised a seminar on the re-basing of Malaysian economic data to the year 2005 which provided the rationale and its impact. A media workshop was held during 2012 to facilitate the media community's understanding of the economy and the financial system and the policies of the Bank.

Monetary policy communications

Monetary policy communications are conveyed through the regular Monetary Policy Statements (MPS) issued by the Monetary Policy Committee (MPC) of the Bank following each Committee meeting. The MPS announces the decision of the MPC on the Overnight Policy Rate and provides assessments by the MPC of the global and regional economic and financial developments and their impact on the domestic economy and financial system. It also summarises the current outlook on inflation. The scheduled dates of MPC meetings and release of the MPS for the year is issued to the market well in advance to avoid uncertainty and promote orderly market conditions.

The resilience of the financial sector

A major advancement during the year was the Financial Services Act 2013 and Islamic Financial Services Act 2013 that were passed by Parliament in December 2012. Extensive consultations were conducted with the relevant stakeholders, including the Government, financial industry and other regulatory agencies, in developing the Acts. The Acts are designed to provide a modernised and cohesive regulatory framework for the financial sector.

Communication efforts were also centred on explaining the rationale for the introduction of macro-prudential measures, particularly the Responsible Financing Guidelines. At the macro level, the measures aimed to ensure that household debt remains at a healthy level, thus contributing to financial stability and sustainability of domestic consumption and economic growth. Consumers that had the capacity to borrow would however continue to have access to financing. While the Guidelines attracted some initial criticism, it was subsequently considered to be a prudent decision and in the best interests of the economy and the public. Prudent lending practices in the relatively low interest rate and highly competitive environment were particularly important.

Extensive communications on illegal investment schemes

During the year, the Bank continued its efforts to generate greater awareness amongst the public on illegal financial schemes through various channels. A financial consumer alert list was published on the Bank's website to enable the public to identify financial schemes offered by businesses that are not authorised or regulated by the Bank. On 1 October 2012, the Bank and other law enforcement agencies carried out raids on companies suspected of operating illegal gold-based investment schemes. Following the raids, the Bank provided regular public updates to keep all stakeholders abreast of key developments. This included the status of investigations and frequently asked questions on such schemes.

Awareness on the usage of renminbi for trade settlement

The Bank hosted a series of seminars, in collaboration with the Chinese authorities, to enhance public awareness on the use of renminbi (RMB) for trade settlement and investment. The seminars were held in Kuala Lumpur, Penang and Kuching. The seminars highlighted its value proposition and the experience in the use of the RMB by the business community.

Driving financial inclusion and financial literacy

The Bank continued its outreach programmes for SMEs on the availability of financing, on the awareness of redress avenues and on promoting good financial management. This was undertaken through participation in roadshows, dialogues and fairs for SMEs organised by various Ministries and agencies, and the dissemination of SME information materials in collaboration with the private sector and Government agencies. Agent banking, a new initiative arising from the Bank's financial inclusion agenda, was introduced with the official launch of the national agent banking logo. The national agent banking logo identifies and authenticates bona fide retail outlets as the appointed agents of relevant banks to provide basic banking services in rural areas.

The Bank's Regional Offices (ROs) in Penang and Johor Bahru have further enhanced the Bank's outreach and presence in the Northern and Southern regions respectively. In 2012, efforts were focused on educating the public on the modus operandi of financial scams such as 'get-rich-quick' schemes, credit card scams, illegal deposit-taking and gold schemes. Besides direct engagements, the ROs also leveraged on the state radio stations to reach out to the public. Meanwhile, financial consumers continued to benefit from the access to financial information and consumer redress mechanisms provided by the Bank through its one-stop contact centre known as Laman Informasi Nasihat dan Khidmat (LINK) that received 25% more enquiries of 400,971 from individuals and businesses in 2012 (2011: 320,028). These efforts have complemented the Bank's MobileLINK services during its nation-wide outreach activities. Since its launch in December 2011, the MobileLINK has served about 15,500 individuals from the underserved rural communities in 45 sub-districts nationwide.

The Bank's subsidiary, Credit Counselling and Debt Management Agency (AKPK) continued rolling out its POWER! Programme which targeted primarily young individuals and new borrowers. This has resulted in promoting good money management skills. A total of 115,000 participants enrolled in the programme during 2012 (2011: 23,000). In addition, AKPK provided financial counselling to 35,825 individuals (2011: 31,710) with 16,137 (2011: 16,910) being further assisted under its Debt Management Programme. These are part of its continuous efforts at promoting consumers' financial wellness. To encourage borrowers to take charge of their own financial positions, AKPK published the 'Self-Help Guide: Debt Relief Plan' (SHG) to provide borrowers with a guide to negotiate directly with their credit providers on loan restructuring/rescheduling. AKPK extended its public outreach by conducting financial counselling from additional offices at various financial institutions' premises apart from its own headquarters and ten branches. AKPK has also leveraged on new media tools to extend outreach to the Internet-savvy consumers and the digital community through Facebook, Twitter, YouTube, blogs and text messages.

The Financial Mediation Bureau (FMB), in close collaboration with other agencies such as the Malaysia Deposit Insurance Corporation, AKPK and the Federation of Malaysian Consumers Associations, has created greater awareness on the provision of its services, including hosting publicity events and roadshows. On complaints handling, the number of banking sector and insurance sector cases registered during the year declined to 1,919 (2011: 2,224 cases), due mainly to a decrease in internet banking cases following enhanced internet security. The total number of cases resolved was 2,718 (2011: 2,834 cases). The establishment of a separate Complaint Management Unit in the FMB has also provided dedicated resources for more effective handling of complaints. The efforts of the mediation team in resolving cases received by FMB have resulted in a reduction in the number of cases pending for resolution to 1,741 cases as at 31 December 2012 (2011: 2,540).

Growing online presence

The Bank's efforts at widening its outreach through the internet and social media have also shown positive results with the increased visits and interaction at its website and through social media. The Bank's website received about 5.6 million visits in 2012, and was once again awarded a 5-star rating in the Malaysian Government Portals and Websites annual rating exercise jointly conducted by the Malaysian Administrative Modernisation and Management Planning Unit and the Multimedia Development Corporation. In addition, the Bank's social media accounts have also seen a strong increase with Facebook fans of 18,839 (2011: 8,822), and Twitter followers of 14,603 (2011: 4,011).

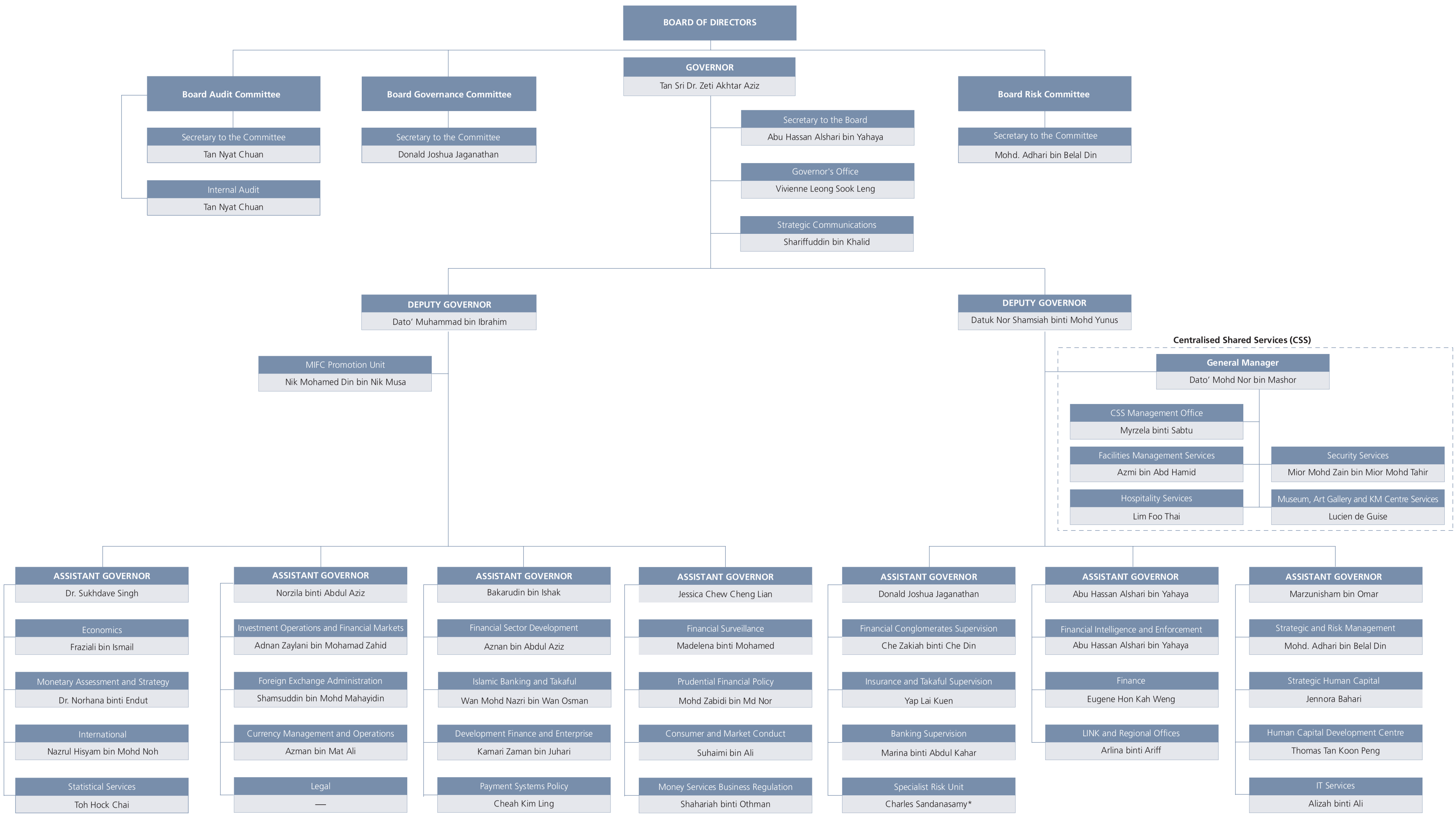
Circulation of new currency series

Following the launch of Malaysia's new currency series in 2011, the Bank embarked on an awareness campaign to highlight to the public about the co-circulation of the new and existing currency series and the security features and design of the new series. Themed 'Distinctively Malaysia', the latest banknotes series draws its inspiration from Malaysia's diverse culture, heritage and nature, and comprises all denominations. It incorporates enhanced security features in line with the latest advancements in banknote technology to ensure the integrity and quality of the currency. The new security features and design elements were featured in various communication materials, including videos, media interviews and advertisements. Prior to the issuance of the new series, the Bank engaged with vending machine and car park operators to ensure the efficient calibration of machines to accept the new series for the convenience of the public. The new currency series were well received by the public when it came into circulation in 2012.

Greater staff engagement and productivity

Collaboration and teamwork among departments are now firmly entrenched in the Bank. Engagements between the Management and staff took an added dimension as more sessions such as Tea-Talks, Townhall Meetings and other social activities were held in 2012. This provided opportunities for sharing of insights, and to forge stronger working relationship and trust. Greater staff engagement, a more robust business planning process that provides line of sight to the objectives of the Bank, and effective talent management and development practices have contributed towards increased productivity in the Bank.

BANK NEGARA MALAYSIA
Organisation Structure



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