

## X. ORGANISATION AND PERSONNEL POLICY OF EESTI PANK

### GENERAL MANAGEMENT AND AREAS OF RESPONSIBILITY IN 2003

**Amendments to the Eesti Pank Act drafted in 2002 and passed by the Riigikogu in January 2003 secured compatibility of the legislation for the central bank to join the European structures.** With these amendments several adjustments were made in the legal framework regulating the activities of the central bank, which took effect already in 2003, but there were also a number of substantial amendments – especially in the area of responsibility of the governing bodies – which are to enter into force in 2004 when Estonia becomes a member of the European Union.

In 2003, the members of the highest governing body of Eesti Pank, the **Board**, were **Mart Sörg** (Chairman; member of the Board of Eesti Pank since 1990), **Ants Järvesaar**, **Kalev Kukk**, **Mati Meos**, **Hindrek Meri**, **Mihkel Pärnoja**, **Jüri Sepp**, **Erik Terk**, and *ex officio* also the Governor of Eesti Pank, **Vahur Kraft**.

When the powers of the Chairman of the Board expired in spring 2003 the Riigikogu appointed Mart Sörg for the second term of office on 12 June, and on 17 February 2004 the Riigikogu approved members of the new Board as proposed by the Chairman. The members of the Board are **Raul Eamets**, **Andres Lipstok**, **Enn Listra**, **Mart Opmann**, **Tõnis Palts**, **Jüri Sepp**, and **Liina Tõnisson**. **Vahur Kraft** is a member of the Board *ex officio*.

In May the Board of Eesti Pank summoned a meeting extending invitations to all those who had belonged to different memberships of the Board since 1990 and to the current Executive Management of the central bank. The meeting discussed the bank's main objectives and role as a central bank of a European Union Member State as well as the tasks and operating principles of different memberships of the Board. The working periods to date and the changes that had occurred in banking were analysed by former Chairmen of the Board, **Ants Veetõusme** and **Uno Mereste**, and by **Mart Sörg**, who is currently leading his second membership.

In 2003, the **Executive Management of Eesti Pank** comprised Governor **Vahur Kraft**, Deputy Governors **Rein Minka**, **Märten Ross**, and **Andres Sutt**.

Besides the members of the bank's Executive Management the **Monetary Policy Committee of Eesti Pank** comprised in 2003 also **Janno Luurmees**, Head of the Financial Markets Department, **Sven Meimer**, Head of the Financial Stability Department, **Ilmar Lepik**, Head of the Central Bank Policy Department, **Tanel Ross**, Head of the International and External Relations Department (as of September Martin Pöder), and **Rait Roosve**, Head of the Cash and Security Department.



*The former and the new Board and the Executive Management of Eesti Pank.*

*Standing (left to right): Mihkel Pärnoja; Rein Minka, Deputy Governor; Mati Meos; Kalev Kukk; Jüri Sepp; Enn Listra; Vahur Kraft, Governor; Hindrek Meri; Ants Järvesaar; Raul Eamets; Raimund Hagelberg, Adviser to the Board; Andres Sutt, Deputy Governor; and Erik Terk.*

*Front row: Ülle Rohtla, Assistant to the Chairman of the Board; Mart Sörg, Chairman of the Board; Ivi Proos, Adviser to the Board; and Liina Tõnisson.*

*Missing from the picture:*

*Andres Lipstok; Mart Opmann; Tõnis Palts; and Märten Ross, Deputy Governor.*

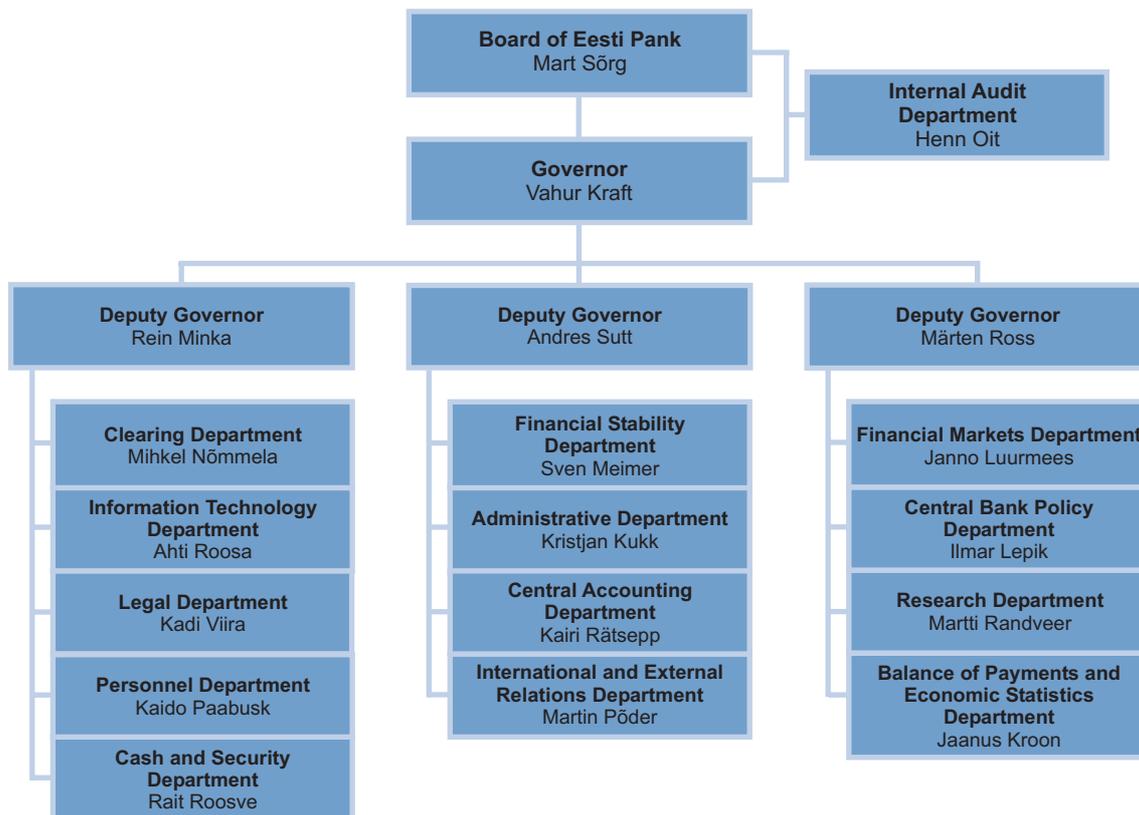
**Governor Vahur Kraft** governs the activities of Eesti Pank. His sole competence involves organising the work of the banking sector proceeding from the general principles of monetary and banking policy as determined by the Board, supervision over enforcement of the decisions passed by the Board, and application of measures needed for that purpose. Vahur Kraft controls the work of Deputy Governors and is responsible for supervising management mechanisms.

**Deputy Governor Rein Minka** is responsible for coordinating the activities related to cash circulation, safety of the working environment, reliable, cost-efficient and integrated development of the settlement system of Eesti Pank, development of the information technology working environment and legal environment, as well as personnel management.

**Deputy Governor Andres Sutt** is responsible for international and public relations of Eesti Pank, development and implementation of financial sector policies, coordination of collection, handling, and disclosure of financial sector information, supervision of payment and settlement systems, as well as for financial accounting and reporting, internal administrative services, and operational working environment at Eesti Pank.

**Deputy Governor Märten Ross** is responsible for the preparation and implementation of monetary policy decisions, management of the financial assets of Eesti Pank, coordination of collection, compilation, and disclosure of national statistics, as well as for coordinating economic research and activities related to in-service economic training.

**Organisational Chart of Eesti Pank at 1 April 2004**



## COOPERATION WITH THE FINANCIAL SUPERVISION AUTHORITY

The main aim of the **Financial Supervision Authority** operating at Eesti Pank is to **protect the interests of the clients and investors of the financial institutions subject to supervision, and contribute to preservation of their resources, thus supporting the stability of Estonia's financial system.** A five-member Management Board, chaired by **Andres Trink**, governs the Financial Supervision Authority. The work of the Authority is planned by the six-member Council with the Minister of Finance of the Republic of Estonia as Chairman *ex officio*. At the end of 2003 the position was held by **Taavi Veskimägi**. The members of the Council are also the Governor of Eesti Pank, **Vahur Kraft**, and Deputy Governor **Andres Sutt**, as well as **Ruut Mägi**, **Veiko Tali**, and **Matti Klaar**.

## DEVELOPMENT OF THE MANAGEMENT SYSTEM AND WORK ORGANISATION AT EESTI PANK IN 2003

### Strategic Management

Eesti Pank followed its 2001 decision in strategic management development to **establish development priorities and tasks and their precise cost calculations for a three-year period.** Implementation of the three-year view enables a more detailed planning of the resources needed for performing the tasks of the bank.

**Management accounting was developed further.** In 2003, the focus was on the form, details, and volume of data presentation. A new type of reports was established that provide cost administrators with a better overview of the prepayments made during the reporting period. In addition, accounting for the costs of assignments related to integration with the European Union and training with other institutions was introduced.

Eesti Pank has set itself the aim of restricting growth in costs down to half of the nominal GDP growth. Besides, annual growth in costs should not be more than 4–5% of the budget size. Continued implementation of process management and process-centred budgeting of support services helps to keep budget growth under control in the bank.

**Performance appraisals**, which have been carried out since the mid-1990s, are a relevant part of the bank's management system. Since 2002 these have been mandatory in the bank. **Performance appraisal is an annual private interview between a manager and a subordinate in the course of which the main work results of the employee and achievement of the goals set in his or her area of responsibility during the past working period are evaluated, and mutual agreements regarding the priorities for the following working period and personal development plan are concluded.** In addition, opinions and proposals from the staff regarding strategic development and organisation of work are collected.

## Process Management

In 2001, Eesti Pank started **reviewing and developing the bank's management system** on the initiative of the Executive Management of Eesti Pank. This has been based on the principles of quality management while applying process and risk management. The overall objective is to manage the bank's key processes more efficiently, make productive use of and develop the skills and knowledge of the staff, and improve the management system based on the common values of the bank. Working processes are specified and streamlined if needed, time management is mapped, work-related knowledge and skills are systematically defined, and the organisation of management and reporting is improved.

**In the first half of 2003 the management system was reorganised according to quality management principles in the Central Accounting Department and the Financial Markets Department.** In the second half of the year preparations were made for reorganising the system throughout the bank. Process management has enabled to use a common method throughout the bank to get a more detailed definition and description of the products and services the bank offers to the public, as well as of those needed internally for performing the bank's tasks. Process management has contributed to improved definition of the responsibilities of the staff, their rights and obligations, description of the critical stages of processes, and management of related risks.

During the 2003 audit Bureau Veritas Eesti OÜ validated the ISO 9001:2000 Quality Certificate that had been issued to the Cash and Security Department a year before. The certificate serves as a proof that cash handling and security processes at Eesti Pank are compliant with standard requirements.

## Risk Management

**In 2003 Eesti Pank embarked on creating an environment for the operational risk management.** An integrated and general risk management environment is necessary for the bank to pay more attention to its internal and external risks, the values of the bank itself and of its interest groups, as well as to make optimum use of the risk management related resources. So far risk management in the bank has been department and function based. In the future the new integrated and uniform environment will enable to manage risks on the level of the bank as an integral unit. During the year **some 80% of the bank's operational risks were mapped, risk classification was created, and the principles of risk measurement were defined.** Besides, plans were made for further development of the overall risk management environment for the near future, including the structure of necessary regulative documents and a draft timetable for their completion.

The solution chosen for Eesti Pank's new operational risk management environment follows a process of eight stages:

**creating the environment > setting objectives > risk identification > risk evaluation > analysis of risk reduction options > application of control > reporting > supervision<sup>1</sup>.**

These stages are passed regularly, either concurrently with the strategic planning cycle (environment and objectives), with some other regularity (identification, evaluation, application, reporting, supervision), or in case of changes in the environment (identification, evaluation, application).

**Eesti Pank embarked on creating the bank-wide risk management system by identifying the existing risks.** Beforehand, discussions had been held and an agreement had been reached as to which risks the bank would undertake to monitor. Such risks are (in alphabetical order) accounting, business management/control, credit, force majeure, information, legal, market, operational, personnel, reputation, strategy, and system risks. The list includes only the risks that are important for the bank and they have been divided into 48 subgroups. The bank considered also the experience of other central banks in drawing up the list.

**The risk identification stage**, which is closely related to arranging organisational processes and very important from the viewpoint of further development of the system, was essentially completed in 2003, and an estimated 80% of the risks were described, analysed, and registered. The next stage will be **risk evaluation** to be carried out in 2004. In order to reduce the subjective element, the bank has set up a committee comprising risk specialists from different areas. The committee's joint evaluation is to secure balanced handling of the risks that are difficult to compare. The implementation of the risk evaluation system should be completed in 2005; risk management principles and data can be partly used as soon as in the second half of 2004.

In place of the current function based risk management system the **Financial Markets Department** has developed a financial risk management system in which the bank has formulated the internal risk-handling environment (general principles governing the management of the foreign reserve), its objective, as well as the level of risk tolerance (benchmark portfolio and deviation limits). By today, the financial risk management system has been mostly automated and is based on the know-how that is top-level in the world. Risk measurement is carried out on a quantitative basis and in real time, accounting is regular and supervision is working. Risks are managed according to the same principles also in the **Clearing Department**, where securing functional operational consistency is very important. Additional standards for payment systems themselves and management of arising user risk are set by the European Central Bank in relation to the upcoming link-up with the trans-European payment and settlement system TARGET. Understandably, the **Cash and Security Department** has high-level management of operational risks. The quality certificate issued to the department serves as a proof that their risk management system is compliant with standard requirements. Since most of the functions arising from the law are realised through information technology tools at Eesti Pank, the **management of information technology risks** is very important for the central bank as well.

## PERSONNEL POLICY

The aim of Eesti Pank's personnel policy is to ensure recruitment of employees needed for accomplishing the main objectives of the bank, to develop and train the staff according to their duties, to motivate the staff, and provide fair remuneration.

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<sup>1</sup> See Enterprise Risk Management Framework. COSO document, forthcoming, 2003.

## Bank Employees

Internal competition is preferred **in recruitment**, which enables to promote movement within the bank with the main objective of motivating the staff by providing mainly horizontal but also vertical career opportunities. If a specialist is sought who is unlikely to be found within the bank or if the vacancy has to be filled in a very short time, internal and external competitions are launched simultaneously. Commonly, external competition is used only if an internal competition fails or if an employee with a clearly different experience than that of central banking is needed. A significant component of the selection process are the job interviews for which ad hoc panels are set up. While recruiting for managerial and other responsible positions a **competency model** for the position is used, which provides the best opportunity to evaluate the candidates' knowledge, skills, and personal characteristics.

**Staff remuneration** is based on the principle that the average amount of compensation would be competitive with that in the financial sector labour market in Tallinn. In order to compare the remuneration of the bank employees and that of Tallinn's financial sector, the bank participates in salary market research carried out by AS Fontes PMP. For years the bank has used the results of these studies for comparing its wage system with the external labour market. A good example of relating pay to performance is the performance bonus paid to the staff of the Financial Markets Department in order to give them extra motivation. The bonus is paid out once a year, if investment results are positive, and the rate depends on the size of extra return in excess of the benchmark portfolio<sup>2</sup> and indirectly also on the efficiency of investment operations.

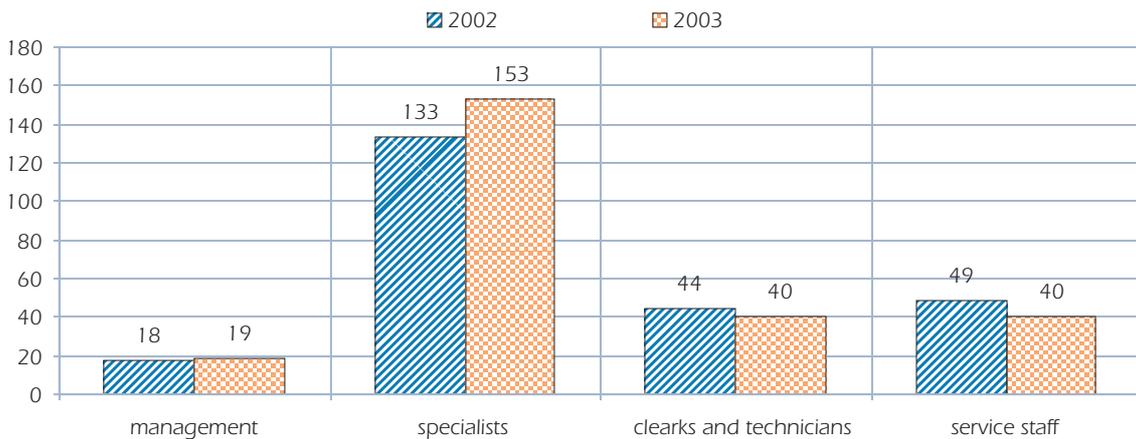


Figure 10.1. Distribution of employees by level of position

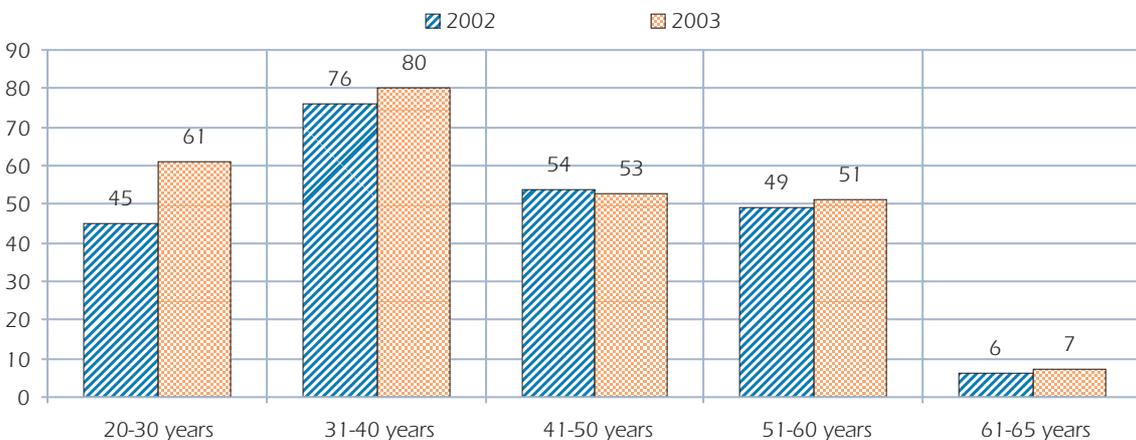
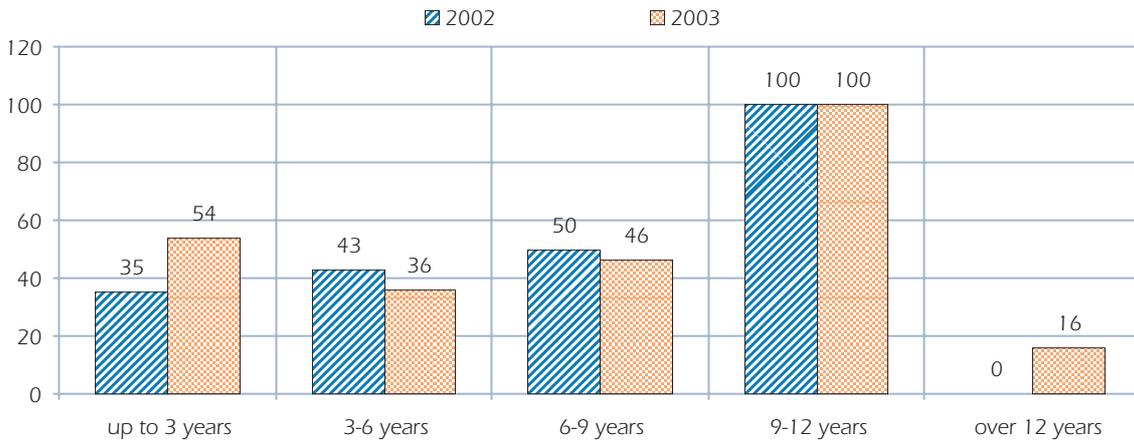
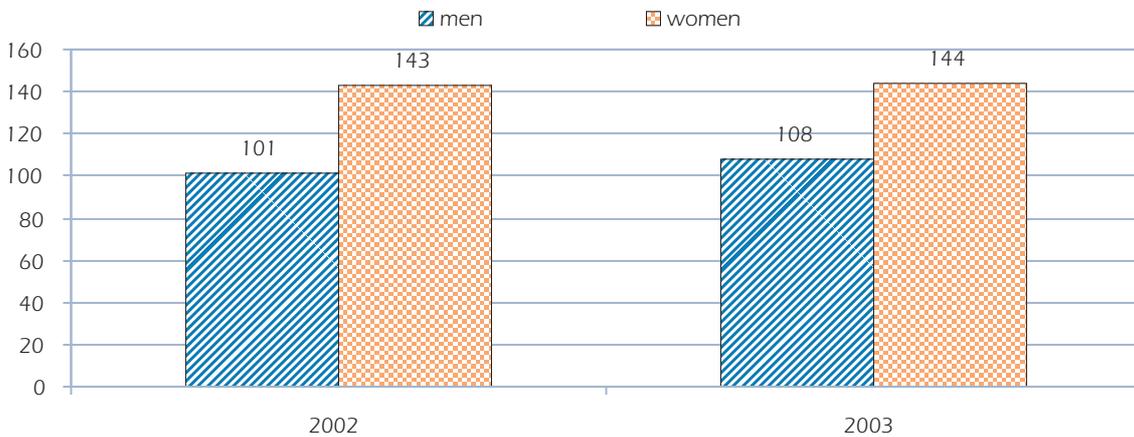


Figure 10.2. Distribution of employees by age

<sup>2</sup> Regarding the benchmark portfolio, see Foreign Exchange Reserve Structure, Chapter VIII.



**Figure 10.3. Distribution of employees by length of service in the bank**



**Figure 10.4. Distribution of employees by gender**

**At the end of 2003, the bank employed 252 employees;** contracts with 19 employees were suspended. Thus, actually 233 positions were filled while the plan foresaw filling 242 posts. Figures 10.1–10.4 characterise the staff of Eesti Pank.

## Development and Training

**Since May 2003 staff members of Eesti Pank started to actively participate as observers in the working structures of the European Central Bank.** Arising from that the primary training priorities in the core areas were **economic theory and policy** and in associated areas **foreign languages, development of negotiating skills, and public speaking.**

Besides training courses, **in-service training** is important to prepare for participation in the work of the ECB. In 2003, six members of the bank staff had the opportunity for short-term employment at the European Central Bank in the framework of a trainee programme. The average period of employment was three months. Two people went to work for the ECB for a longer period (up to three years).

**The resources planned for training** at Eesti Pank are comparable to similar funds in the central banks of the neighbouring countries as well as in commercial banks, **accounting for some 4% of the payroll.** Eesti

Pank's time resource is also similar to that of the other banks: **on average each employee attends training sessions one week per year. In 2003, 206 staff members**, i.e. 86.9% of the entire staff, **participated in training. Training costs per employee stood at an average of 11,920 kroons.**

In 2003, training topics were defined in the **bank's training plan**. All in all, 26 internal training courses were carried out, of these 22 in associated areas (information technology, law, management, and communication) and four in core areas (central banking, financial sector supervision, economic theory and policy). More than half of the course lecturers came from inside the bank, mostly in the field of informatics but also in law training.

In the internal core area training the focus in 2003 was on courses carried out by different external lecturers: regarding the topics of labour market, financial markets behaviour, and econometrics the bank staff were trained by professors from foreign universities.

**Close cooperation in the training area is pursued with the Financial Supervision Authority, Suomen Pankki, and Latvian and Lithuanian central banks.** Since all institutions in Estonia are comparatively small, it is feasible to set up **training groups across different institutions** in specific areas. Besides, it is easier to invite lecturers from afar if they can be offered work for at least a week. All this requires careful coordination, but already today Eesti Pank has been involved in exchange of information about internal training sessions in the central banks of the other EU Member States, and international training groups will probably soon become a standard. For example, the European System of Central Banks has set up special training courses for new staff and executives of central banks. One or two persons from each bank participate at a time. The central banks hold regular training courses on a rotational basis.

Besides internal training, the staff of Eesti Pank are offered courses organised by other central banks or international organisations. These are **mainly courses targeted specially at the central banks of transition countries**. There were 48 such courses in 2003, and **the International Monetary Fund, the Bank of England, and Banque de France** remained Estonia's biggest training partners.

## Staff Hobbies

At the end of 2003 **Eesti Pank Sports Club** had 174 members. Aerobics, basketball, shaping, and swimming were among the most popular fields of sport. A sporting event involving families was held at Kullimäe in summer and a skiing event at Jõulumäe in winter. Last year the bank's cyclists went to Gotland. Eesti Pank's cross-country ski team ranked second at a competition held between European central banks while **Andre Nõmm** won the first prize among men.

The **chamber choir** comprised of employees of Eesti Pank and the Financial Supervision Authority first gathered in 1998. Today the 30-member choir is led by conductor **Peeter Perens**. The highlight of its fifth singing year was the jubilee concert held at the Swedish St. Michael's Church in Tallinn. The choir also sang at the Dominican Monastery at a reception of a conference of the Central and Eastern European Basel Committee on Banking Supervision, and at a public meeting on EU-related issues organised by Eesti Pank in Tammsaare Park.