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## RESERVE BANK OF VANUATU

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INSURANCE COMPANIES AND INTERMEDIARIES

PRUDENTIAL GUIDELINE NO. 3

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### GUIDANCE NOTES ON FIT AND PROPER

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#### **Statement of Objectives**

The guideline sets out the criteria that the RBV will take to assess the fitness and propriety of persons who have applied to occupy or are occupying key positions within the licensed entity. Key positions includes directors, senior managers, promoters, insurance managers, or shareholders of licensed entities (directors and senior officers), to ensure that licensed institutions are well managed and persons occupying key positions must have the degree of competence and probity adequate to perform their responsibilities.

#### **Introduction**

It is of the utmost importance when considering an application for a new licence to take into account past performance.

The RBV will not look for evidence that the person meets at least a minimum standard but rather looks for evidence that the person meets a high standard.

In the provision of insurance services the person concerned will invariably occupy a position of trust for the money, financial interests and other assets of policyholders which must imply higher standards of conduct than in many other areas of business.

With regard to institutions applying for licences, RBV will look for more positive evidence in favour of the applicant than the simple fact that it has operated in business for a number of years without giving cause for complaint.

The concept embraces not only honesty and integrity, but also competence and solvency. It is for this reason that the concept of "fit and proper" extends to conduct not only in dealings with the public but in the control of the institutions internal management.

With regard to institutions, RBV will consider their business record, other business interests, financial standing, the nature and scope of their business and their internal systems and controls.

For the individual who is an executive director or manager of the institution the RBV will include amongst relevant considerations, knowledge, experience, application and sufficient skills to properly undertake his particular duties and responsibilities in addition to reputation and character.

Whilst the process of assessment will be applied mostly to individual persons, certain principles can be expected of corporate identities as well.

#### **A. Individual Persons**

1. In determining whether a person is "Fit and Proper" to hold a position of, director, chief executive officer or general manager, RBV will consider the following:-
  - (a) whether the individual has sufficient skill, knowledge and soundness of judgement to undertake and fulfil the particular duties and responsibilities in that position;
  - (b) the relevant competence and diligence, previous experience qualifications and training of the individual.
  - (c) whether the interests of policy owners, insurance claimants, customers and creditors of the licensee, as the case may be, are threatened in any way by his holding that position.
  - (d) the reputation and character of the person,

- (e) In respect of soundness of judgement, the degree of maturity and rationality demonstrated in conduct and decision taking in previous business experience.
2. The particular person should not have a record or any evidence in this previous business conduct and activities that he/she:-
- (a) has been convicted of any offence under any insurance law or related legislation;
  - (b) has engaged in any business practice that appears to the supervisor to have been deceitful, improper, whether unlawful or not, or which would reflect discredit on his method of conducting business;
3. A person who is to be a director of an applicant company:-
- (a) shall have the appropriate qualification or working experience in business, preferably in the insurance industry, to enable him to perform his duties effectively;
  - (c) has engaged in , or has been associated with, any other business practices, or otherwise conducted himself in such a way that would cast doubt upon his competence or soundness of judgement;
  - (b) shall not have acted in a manner which may cast doubt on his fitness or ability to hold the position of a director;
  - (c) shall not have been a party to any action which would be detrimental to the interests of the applicant company, or in the case of a licenced insurer the policy owners.
4. A person who is to be chief executive officer or general manager of an applicant company:-
- (a) shall have the appropriate qualification and working experience in the insurance industry or in finance, to enable him to perform his duties effectively;
  - (b) shall not have held a position of responsibility in the management of any company that has been charged with or convicted of any offence under any law during his term of office unless he is able to prove to your satisfaction that such offence was committed without his knowledge or consent and he was not in a position to prevent the occurrence which led to the conviction

- (c) shall be in full time employment with the company and have no conflict of interest with the company through other interests either by himself or other immediate family interests
  - (d) shall not have acted in a manner which may cause doubt on his fitness to hold the position of chief executive officer or manager, or acted in disregard for proper professional conduct, especially in dealings with policyholders, or claimants.
5. The individual person must also have received satisfactory results from security and financial checks:
- (a) with the help of the Financial Investigation Units and private financial services databases both here and overseas;
  - (b) if previously working with a foreign company, the RBV will run check with the home supervisor in that country;
  - (c) Financial checking with the financial supervisory authorities may indicate if there is any financial misconduct, improper conduct with financial institutions or record of poor business practice, activities or fraud.
6. It is important that the applicant attends at a meeting with the applicant company.

**B. Corporate Entity**

- 1. The test and evaluation of fit and proper principles will also be applied to applicants who are corporations to assess their performance.
- 2. In the test for board members of existing corporations, the RBV will look for evidence that the corporation meets a high standard by reviewing:-
  - their financial soundness and strengths;

Having adequate capital is essential to insurance operations. It provides a permanent source of funding, a cushion to absorb losses and a base for further growth of the company. A minimum level of paid up capital is required before licence approval and insurers must comply with specified solvency margins. When assessing the strength of an insurer consideration is paid to the exposure arising following risks underwritten and the ability and intention to increase capital when required.

- the nature and scope of their business;
- their business records and other business interests.

The RBV should be made aware of the extent of the insurance company's current business, including classes of insurance written and should analyse any proposed business interests of the company to ensure that it is not at present or is likely to be connected or involved with any activities that are incompatible with the status or standards of a well managed insurance company. All inter-company dealings should be at arms length.

3. Whilst the shareholders of an insurance company may propose the appointments of directors, chief executive officers or general manager the final approval lies with the RBV. This is an important responsibility and reference to guidelines and principles will enable the RBV to take a balanced view when making a decision on approval.

The results of all deliberations and results of enquiries will be documented and remain on file.