

LAW
ON INSURANCE

10 July 1996 No I - 1456

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Chapter I

GENERAL PROVISIONS

Article 1. Objective of the Law

1. The objective of this Law is to regulate the activities of insurance companies and insurance brokers in order to ensure the stability, reliability, effectiveness and safety of the insurance system.

2. The Law shall establish the conditions and procedure for the establishment and licensing of insurance companies, the specific features of their reorganisation and liquidation, as well as the procedure for the issue of licences to insurance brokers.

3. The Law shall regulate the development of relations between insurance companies, insurance brokers, legal and natural persons, as well as relations between insurance companies themselves. It shall also define the main principles for the state regulation of insurance.

4. Insurance companies and insurance brokers shall be bound by the Law on Public Companies, by other legal acts, as well as by their own Articles, unless otherwise provided by this Law.

5. Other laws of the Republic of Lithuania shall be applicable to insurance relations insofar as they do not contradict this Law.

6. This Law shall not regulate relations that come under the regulation of the Law on the Basic Principles of State Social Security System.

Article 2. Definitions

As used in this Law:

1) **insurance activity** is the financial activity aimed at protecting the property interests of legal and natural persons when events defined in this Law or in a contract of insurance arise (insurance events), by using reserves and insurance technical provisions consisting of the contributions by the above persons (insurance contributions) and funds accruing when these are invested in accordance with procedures set out in this Law;

2) **the insured** is a person who has concluded a contract of insurance with an insurance company, or who is insured under the terms of this Law, and who is required to pay insurance contributions (premiums) and is entitled to an insurance payment after the happening of an insurance event;

3) **the insurance company (the insurer)** is a company that carries out insurance as well as activities associated with insurance, that obligates itself in the situations of insurance events provided for in contracts of insurance or, such as are listed in this Law, to pay insurance benefits to the insured;

4) **the covered person** is a natural person indicated and named by the insured in a contract of insurance to whom, in the situation of an insurance event during his/her lifetime, the insurance company must make an insurance payment;

5) **the beneficiary** is a person specified in a contract of insurance at the wish of the insured or the person named by the covered person, who shall acquire the right to receive an insurance benefit under the conditions established in the contract of insurance;

6) **a third person** is a person not specified by the insured in a contract of insurance but who, given the conditions specified in the insurance type regulations, acquires the right to receive an insurance benefit;

7) **insurance type regulations** are regulations of an individual type of insurance established by an insurance company under which an insurance company in possession of a State Insurance Supervisory Authority licence shall undertake voluntary insurance;

8) **an insurance event** is an occurrence specified in a contract of insurance or by this Law the happening of which entitles the insured, the covered person, the beneficiary and a third person to receive an insurance benefit;

9) **the sum insured** is the sum specified in a contract of insurance or by this Law by which economic interests are insured;

10) **an insurance contribution (premium)** is a mandatory payment specified in a contract of insurance or by this Law made by the insured for insurance protection;

11) **an insurance benefit** is a payment specified in the insurance type regulations which the insurance company, on the basis of official documents confirming an event, is obliged to pay to the insured, the covered person, the beneficiary and third persons when an insurance event, as specified in the relevant contract of insurance or by this Law, has happened;

12) **an insurance certificate (policy)** is an official document certifying that a contract of insurance has been concluded;

13) **insurance risk** is the likelihood of occurrence of an insurance event;

14) **reinsurance** is the transfer of a part of the risk assumed by insurance company to another insurance or reinsurance company;

15) **the reinsured** is an insurance company that has transferred a part of the risk assumed by it to another insurance or reinsurance company;

16) **the reinsurer** is an insurance or reinsurance company that has assumed a certain share of risk from another insurance company;

17) **the insurance intermediary** is an insurance agent and/or an insurance broker whose services insurance companies and the insured have a right to use;

18) **the insurance agent** is a legal person or an enterprise without the rights of legal person acting in the name, at the expense of an insurance company under a contract of agency and within the scope of authority vested in them;

19) **the insurance broker** is a legal entity (a public or a private company) carrying out insurance brokering functions on behalf of an insurance company.

Article 3. Subject Matters of Insurance

Subject matters of insurance may be economic interests:

- 1) related to the length of a person's life, marriage, birth, and capital savings;
- 2) related to bodily injury as well as to accidents and illness;
- 3) related to the possession, use and disposal of property;
- 4) related to the damage caused by the insured to the property of a natural person or to that person, also to the damage caused to a legal entity.

Article 4. Forms of Insurance

1. Insurance may be compulsory and voluntary.
2. The types of compulsory insurance and its principle provisions shall be established by laws of the Republic of Lithuania.
3. Voluntary insurance shall be carried out by agreement between the insured and the insurance company and shall be confirmed by a contract of insurance.

Article 5. Categories and Groups of Insurance

1. The categories of insurance shall be life and non-life insurance.
2. Life insurance shall comprise the following groups:
 - 1) marriage and birth insurance;
 - 2) life insurance, where the investment risk falls on the insured;
 - 3) life insurance (not covered in paragraphs 1 and 2).
3. Non-life insurance shall comprise the following groups:
 - 1) accident insurance;
 - 2) insurance against illness;
 - 3) insurance of surface transport vehicles, excluding rail transport;
 - 4) insurance of rail vehicles;
 - 5) aircraft insurance;
 - 6) shipping (sea, lake, river and canal) insurance;
 - 7) cargo insurance;
 - 8) insurance of property against fire and natural disasters (except as provided in paragraphs 3, 4, 5, 6 and 7);
 - 9) insurance of property against other damage (except paragraph 8);
 - 10) surface transport vehicles third party insurance
 - 11) aircraft third party insurance;
 - 12) shipping (sea, lake, river and canal) third party insurance;
 - 13) general civil liability insurance;
 - 14) credit insurance;
 - 15) guarantee insurance;
 - 16) insurance of financial losses;
 - 17) insurance against legal expenses;
 - 18) assistance insurance.
4. A life insurance company may undertake non-life insurance referred to in subparagraphs 1 and 2 of paragraph 3, of this Article.
5. Risk of the non-life insurance group shall not be included into another group of this category, except when the risk:
 - 1) is related to the principal risk;
 - 2) is related to the subject matter covered by the principal risk.
6. Risk of the groups referred to in subparagraphs 14, 15 and 17 of paragraph 3 of this Article may not be included as additional in the other groups.

Chapter II

CONTRACT OF INSURANCE

Article 6. Contract of Insurance

1. A contract of insurance shall be drawn up on the basis of the rules regulating the type of insurance in question.

2. In a contract of insurance, the insured shall obligate himself to pay within the time allocated, insurance contributions (premiums), and the insurance company obligates itself in the event of the insurance event to pay the insurance benefit to the insured or to the person who acquires the right to receive the benefit under the contract of insurance.

Article 7. Parties to a Contract of Insurance

1. Parties to a contract of insurance shall be the insurance company and the insured.

2. In the situations and manner specified in a contract of insurance, the insured and the covered person shall have the right to appoint and replace persons entitled to receive the insurance benefit under a contract of insurance.

Article 8. Procedure for Drawing up a Contract of Insurance

1. A contract of insurance shall be drawn up in a written form.

2. Before concluding a contract of insurance the insured shall notify the insurance company in writing or otherwise of his desire to conclude a contract of insurance. The insured shall make this application in writing if so stipulated in the rules of the insurance type.

3. The form and content of any written application shall be established by the insurance company. The insured shall be responsible for the accuracy of any information submitted. After the conclusion of a contract of insurance the written application shall be held to be an integral part of a contract of insurance.

Article 9. Rules of Insurance Type

1. The State Insurance Supervisory Authority at the Ministry of Finance (hereinafter referred to as the Supervisory Authority) may establish general conditions for a class of insurance to which an insurance company when drawing up insurance type rules shall adhere. The rules of compulsory insurance shall be established by the laws of the Republic of Lithuania.

2. The following shall be established in the rules of a type of insurance:

- 1) the form and content of the application of the insured;
- 2) insurance events covered;
- 3) insurance events not covered where the insurance company shall not pay insurance benefits;
- 4) insurance subject matters;
- 5) the procedure for calculating the amount of the sums insured, the premiums, payment conditions, as well as liability and consequences for failure to adhere thereto;
- 6) the period of validity of the contract of insurance;
- 7) conditions for multiple insurance or over-insurance;

8) the rights and obligations of the insured and the insurance company prior to concluding a contract of insurance;

9) the rights and obligations of the insured and the insurance company during the period of the validity of the contract;

10) the procedure for ascertaining the loss;

11) the procedure and terms for calculating and paying the insurance benefit;

12) conditions for amending and cancelling the contract of insurance;

13) financial compensation for the cancellation of the contract of insurance in cases provided by this Law;

14) damages for breach of the insurance type rules;

15) the procedure for settlement of disputes between the insured and the insurance company;

16) other insurance conditions as defined by the Supervisory Authority.

3. By mutual agreement between the insured and the insurance company, separate (individual) contracts of insurance may be concluded on the basis of the insurance type rules to provide for additional conditions which are established during the drawing up of the contract of insurance.

4. In the event of these additional conditions being repeated more than three times the insurance company is obliged to amend the insurance type rules according to the procedure set out in this Law.

Article 10. Insurance Certificate (Policy)

1. A contract of insurance shall contain:

1) the policy number;

2) the name and address of the insurance company;

3) the first name, the family name or the company name of the insured, the covered person and the beneficiary;

4) the group of insurance and the name and number of the insurance type rules;

5) the subject matter of insurance;

6) the sum insured;

7) the premium and payment terms thereof;

8) the period of validity of the contract of insurance;

9) the signature of the insured with a note showing that the insured is acquainted with the insurance type rules;

10) the signature of the person authorised by the insurance company to conclude contracts and the official seal of the insurance company, or facsimiles thereof;

11) the signature of the insured, and the seal (if the insured is an enterprise, an institution or an organisation);

12) the date of issue of the insurance policy.

2. Registration and record keeping of insurance certificates (policies) shall be effected by each insurance company in accordance with the procedure established by the Supervisory Authority and approved by the Ministry of Finance.

3. Persons found to have stolen, destroyed, damaged or hidden an insurance policy, as well as those who have counterfeited or counterfeited and sold, or have used an insurance certificate (policy), shall be held accountable in a manner established by law.

Article 11. The Rights and Obligations of the Parties to a Contract of Insurance

1. An insurance company shall have a right to demand from a person who has concluded, or intends to conclude a contract of insurance to submit all information necessary about the person or the subject matter which is being insured or is to be insured insofar as this information is connected with the contract of insurance.

2. The insurance company must:

1) acquaint the insured with the insurance type rules and issue the insured with an insurance certificate (policy) as well as, at the request of the insured, with the insurance type rules;

2) after the occurrence of the insurance event, pay insurance benefits under the terms of the contract of insurance or this Law;

3) upon receipt of a request and a payment from the insured, to issue a duplicate insurance certificate (policy) or other documents confirming the existence of a contract of insurance;

4) not disclose any information about the insured or any other person, or about their financial position, where the information was received as a result of the execution of the contract of insurance, except in cases provided by law.

3. The insured shall:

1) make timely payment of insurance contributions;

2) supply the insurance company when the concluding the contract of insurance and during the period of its validity with the information required by it concerning the person or the subject matter which is to be insured or has been insured, as well as information on contracts of insurance concluded or intended in respect of the same subject matter;

3) supply the insurance company with all the documentation connected with the insurance event.

4. Any other rights and obligations of insurance companies and the insured are specified in the contract of insurance as well as in legal acts regulating insurance.

Article 12. Liability for Breach of Contracts of Insurance

1. Parties to a contract of insurance who are in breach of its conditions shall be held liable in accordance with the manner established by law.

2. The insured or the insurance company shall be held in breach of a contract of insurance only subject to the establishment of their fault.

3. The insured shall also be held responsible for breach of a contract of insurance in those instances when obligations arising from the implementation of a contract of insurance are violated by persons in employment by the insured or acting as representatives of the insured, as well as by persons residing with the insured.

Article 13. Change in the Contract of the Parties to a Contract of Insurance

1. An insurance company, on receiving the consent of an insured (the insured) and the authorisation of the Supervisory Authority, shall have a right to assign all or a part of its contracts of insurance (reinsurance) to one or several other insurance companies on a contractual basis. The acquisition of contracts of insurance by an insurance company shall entail its succession to the rights and obligations arising from a contract of insurance. The insurance company shall notify the insured about its intention to assign a contract of insurance (reinsurance) two months in advance. The insured who does not agree with the intention of the insurance company to assign contracts of insurance (reinsurance) shall have a right to cancel the contract under the terms of paragraph 1 of Article 22.

2. With the change of the owner of the insured property, all the rights and obligations arising from a contract of insurance shall pass to the new owner. The insured or the new owner shall notify in writing the insurance company about the conveyance of the insured property within one month of the date of the signing of the conveyance.

3. If the insurance company is not notified in writing about the change of the insured property owner within one month, it shall be released from execution of its obligations under the terms of the contract of insurance.

Article 14. Insurance Contributions (Premiums)

1. An insurance contribution shall be paid to an insurance company in cash, or through the facilities offered by banks and post offices.

2. Terms for the payment of insurance contributions shall be specified in a contract of insurance. If an insurance event happens after an insurance contract has been signed, but before the insurance contribution has been paid, the insurance company shall not be obliged to pay an insurance benefit unless otherwise provided in a contract of insurance.

3. In the event of the disappearance of the insured subject matter the insured shall be exempted from the duty to pay insurance contributions. If the insurance risk decreases the insured shall have the right to demand a reduction of the insurance contribution.

4. If the insurance risk increases the insured shall duly inform in writing the insurance company, whereupon the latter, in consultation with the insured and taking account of the new situation, shall set a higher insurance contribution. The insurance company shall have the right to decline a claim for an insurance benefit, or to reduce it if it had not been duly informed about the increase in the insurance risk.

5. The insurance company entering into a contract with the insured shall inform him about the cases of increase in the insurance risk.

Article 15. Insurance Benefit

1. On the happening of an insurance event and on ascertaining that the insured has concluded insurance contracts with more than one insurance company to cover the same risks, each insurance company shall pay a benefit proportionally, without exceeding the total extent of the loss.

2. An insurance company, having paid an insurance benefit equal to the value of the property insured, shall acquire the right of ownership of that property.

3. An insurance company upon indemnifying the insured for the loss occasioned by another person, shall have the right of recourse, without exceeding the insurance benefit to the person responsible for the loss.

4. Provisions may be made in a contract of insurance for situations when an insurance company indemnifies to the insured the expenses directly incurred as a result of an insurance event.

5. Insurance benefits payable upon the death of the covered person shall not be included in the estate of the deceased and the norms of inheritance law shall not be applicable to them if the insured has named the beneficiary. The above payments shall be made irrespective of the sums set by Law on the Fundamentals of the State Social Security System unless otherwise provided in a contract of insurance.

6. Unpaid compulsory insurance contributions and penalties shall be recovered from the insured.

7. The non-life insurance payment shall not exceed the sum insured in the contract of insurance.

Article 16. Over-Insurance

1. Over-insurance shall be possible only when seeking to avoid devaluation of currency or when an increase in the value of the subject matter is envisaged, if so provided for in the contract of insurance.

2. After establishing that the sum insured stated in the contract of insurance exceeds the value of the subject matter, parties to the contract of insurance shall have the right to demand a reduction of the sum insured. In such cases the insurance contribution shall be reduced accordingly.

3. A contract of insurance shall be held void if the insured, when entering into it, has fraudulently misled the insurance company by specifying a sum in excess of the actual value of the subject matter, thereby increasing unreasonably the sum insured.

Article 17. Reduction of the Insurance Benefit and Grounds for Refusing to Pay It

1. The insurance company has the right to reduce or refuse the payment of the insurance benefit:

1) if the insurance event happened through the fault (intentional act) of the insured, the covered person, except in cases of the discharging of civic duties or the protection of life, health, honour and dignity;

2) if upon entering into a contract of insurance the insured presents to the insurance company knowingly false particulars about the subject matter necessary for calculating the premiums and payment of insurance benefits or conceals them;

3) if the insured has been fully or partially indemnified for the loss from a third person responsible for the damage to the property covered by insurance;

4) if the insurance event happened as a result of hostilities, war or a state of emergency, civil unrest or the effect of nuclear energy, and unless provided otherwise in the insurance type rules;

5) in other cases specified in the contract of insurance or in this Law.

2. A contract of insurance that contravenes provisions of this Law, concluded under false pretences, may be declared invalid also after the insurance event by a court of law. In such a case the insurance company has the right to refuse payment of insurance benefits, or, in the event of payment having already been made, to recover the insurance benefits, where false pretences have affected the contract of insurance or the insurance event, or has conditioned the amount of the insurance benefit.

3. Any decision on the refusal to pay or reduction of the insurance benefit shall be made by the insurance company by providing a motivated explanation of the reasons and notifying thereof in writing the persons who, under the insurance contract, are entitled to insurance benefits.

4. Persons who, under the insurance contract, are entitled to insurance benefits and who do not agree with the decision of the insurance company on the refusal to pay or reduction of the insurance benefits, have the right to appeal any such decision in court.

Article 18. An Insurance Event

1. The insured is obliged to inform the insurance company about any insurance event and to provide complete and true information and documents.

2. After the occurrence of an insurance event, the insured is obliged to comply with the instructions of the insurance company and to seek to reduce the damage or to avoid it. If the insured fails to fulfil this obligation the insurance company has the right to refuse payment for the part of the loss arising through such failure to fulfil the obligation. The insurance company shall indemnify the losses in the amount of the sum insured arising by reason of the efforts of the insured to reduce the damage or to avoid it.

3. At the request of the insured, the insurance company must make an advance insurance payment not exceeding 30 percent of the sum insured in those cases where the establishment of the exact value of the loss sustained through the insurance event takes longer than three months.

4. The insured must substantiate the insurance event by providing documents confirming it: the acts of the insurance event drawn up by the insurance company or its authorised representatives, the documents of the law enforcement authority, expert opinions (if this is provided by the insurance contract), and other documents having legal force.

5. After the occurrence of the insurance event, the insurance company has the right to approach foreign independent experts to ascertain the reasons of the insurance event and the extent of the loss, as well as to follow their conclusions in establishing the amount of the insurance benefit.

6. State authorities, law enforcement bodies, enterprises and organisations must, upon the request of the insurance company, provide any information connected with insurance events. Insurance companies have the right to investigate independently the circumstances of the insurance events or to approach law enforcement agencies for assistance.

Article 19. Coinsurance

1. After reaching a mutual understanding between insurance companies, a contract may be concluded for coinsurance of the same subject matter from the same risks. In this case each of the insurance companies assumes a corresponding share of the liability in accordance with the single contract of insurance. By agreement of the insurance companies an insurance company is appointed which is authorised to act on behalf of the other insurance companies. The coinsurance certificate (policy) must indicate:

- 1) the insurance certificate (policy) number;
- 2) the name and office address of the principal insurance company;
- 3) the names and office addresses of the insurance companies taking part in the coinsurance;
- 4) the first name, the family name or the company name of the insured, the covered person and the beneficiary;
- 5) the insurance group and the name and number of the insurance type rules;
- 6) the subject matter of insurance;
- 7) the sum insured;
- 8) the percentage of the share of joint liability of the insurance companies;
- 9) the insurance contribution and term of its payment;
- 10) the period of validity of the contract of insurance;

11) the signature of the insured with a note showing that the insured is acquainted with the insurance type rules;

12) the signatures of persons delegated by the insurance companies to conclude the contract of insurance and the official seals of the insurance companies or facsimiles thereof;

13) the signature of the insured, the seal (if the insured is an enterprise, an institution or an organisation);

14) the date of issue of the certificate of insurance (policy).

2. The insurance benefit shall be paid to the insured by the insurance companies participating in coinsurance in proportion to their share of liability, with the total payment not exceeding the extent of the loss.

3. The type of liabilities of insurance companies participating in coinsurance shall be established in the contract of insurance.

Article 20. Reinsurance

1. A licence to carry on insurance activity shall grant insurance companies the right to carry out reinsurance.

2. Insurance companies registered in the Republic of Lithuania may reinsure risk of the insurance group in which they themselves are active in the manner prescribed by this Law.

3. Insurance companies registered in the Republic of Lithuania may transfer a portion of the risk assumed to insurance and reinsurance companies of foreign countries which are recognised as financially credible on the international insurance market.

4. A list of financially credible insurance and reinsurance companies of other countries shall be established by the Supervisory Authority.

Article 21. Duration of the Contract of Insurance

1. A contract of insurance enters into force from the moment when the insured pays the insurance contribution (premium) in full or its first instalment. The contract of insurance may stipulate that the contract enters into force after a certain period of time following the payment of the premium in full or of the first instalment.

2. A contract of life insurance shall be concluded for a period not shorter than one year, while a contract of life insurance which provides for a payment of the sum insured after the expiry of the contract of insurance shall be concluded for a period not shorter than three years.

Article 22. Time Period of Cancellation and Termination of the Contract of Insurance

1. A party to the contract of insurance, by advising the other party in writing with no less notice than one month before the intended date of cancellation of the contract of insurance, shall have a right to cancel the contract of insurance.

2. When the contract of insurance is cancelled at the option of the insurance company, the insured shall be returned:

1) in the case of non-life insurance - premiums for the remaining period of duration of the insurance contract;

2) in the case of life insurance - all the insurance benefits under the terms of the contract of insurance and a financial compensation.

3. When the contract of insurance is cancelled at the option of the insurer, the insured shall be returned:

1) in the case of non-life insurance - the premiums for the remaining period of duration of the contract of insurance, less the costs of drawing up and operating the contract of insurance and the sums paid under that contract of insurance;

2) in the case of life insurance - the premiums paid by the insured, other benefits if so provided in the contract of insurance, less the costs of drawing up and operating the contract of insurance.

4. Parties to the contract of insurance, following a violation of the contract of insurance coming to their knowledge, shall have the right to cancel the contract of insurance within a period of one month.

5. When the insurance contract is cancelled at the option of the insured following a breach of terms of the contract of insurance by the insurance company (after establishing its fault), the insured shall be returned:

1) in the case of non-life insurance - the paid insurance contributions;

2) in the case of life insurance - the premiums paid by the insured, the insurance benefits stipulated by the insurance contract and a financial compensation.

6. When the contract of insurance is cancelled at the request of the insurance company following a breach of terms of the insurance contract by the insured (after establishing his fault), the insured:

1) in the case of non-life insurance - shall not be returned the premiums;

2) in the case of life insurance - shall be returned all the premiums paid, less the costs of drawing up and operating the insurance contract.

7. The insured who is a natural person shall have the right to terminate the contract of life insurance having notified the insurance company thereof in writing within 30 days after the conclusion of the contract of insurance. In this case the insured shall be repaid the insurance contribution without deductions of the expenses related to the conclusion and execution of the insurance contract.

8. The contract of insurance shall be terminated:

1) if the insured fails within the time scale stipulated by the contract of insurance or this Law to pay the premiums to the insurance company (unless otherwise provided by the contract of insurance);

2) if the insured fails within the time scale stipulated by the contract of insurance to pay to the insurance company the additional premiums to which the insurance company has acquired the right owing to the increase in the insurance cover after the signing of the contract of insurance (except as otherwise provided by the insurance contract);

3) if the insurance company pays all the insurance benefits provided by the contract of insurance;

4) if the insured - a legal entity, or the insured - an enterprise having no status of a legal entity, are placed in liquidation and there are no successors to their rights and obligations;

5) if the covered person dies, unless otherwise established in the insurance contract;

6) if the period of validity of the insurance contract, as specified therein, expires;

7) if there are any other grounds for termination of the obligations under the Civil Code.

9. When the insurance company pays part of the insurance benefit, its obligation under the same contract of insurance remains in force for the remaining part of the sum insured.

Article 23. Invalid Contract of Insurance

The contract of insurance shall be invalid if:

- 1) it is concluded after the insurance event;
- 2) it is concluded with an insurance company in another country or an economic entity registered in the Republic of Lithuania that is not in possession of a licence enabling it to engage in insurance activity in the Republic of Lithuania, with the exception of the provisions of paragraph 1 of Article 25 of this Law;
- 3) when there are other grounds for invalidity of contracts specified in the Civil Code.

Chapter III

ESTABLISHMENT, ACTIVITIES, REORGANISATION AND LIQUIDATION OF INSURANCE COMPANIES

Article 24. The Activities of Insurance Companies

1. In the Republic of Lithuania the right to engage in insurance activities belongs to the insurance companies established in the manner prescribed by the laws of the Republic of Lithuania: public companies and private companies.

2. Insurance companies may not engage in any other commercial economic activity, except insurance and activities connected therewith. Activities directly related to insurance are reinsurance, removal and management of insurance events, acting as intermediary during the drawing up of contracts of insurance, consulting on questions relating to insurance and reinsurance, training insurance and reinsurance specialists, in-service training, as well as leasing of immovable property and valuation of property to be insured.

3. An insurance company engaged in non-life insurance may not engage in life insurance.

4. An insurance company engaged in life insurance may not engage in non-life insurance, except for the insurance groups referred to in subparagraphs 1 and 2 of Article 5 (3).

5. An insurance company carrying out credit insurance may not engage in other groups of insurance belonging to life or non-life insurance categories referred to in Article 5 of this Law.

6. Insurance companies must adhere to statutes and resolutions of the Supervisory Authority.

Article 25. The Activities of Foreign Insurance Companies in the Republic of Lithuania

1. Foreign insurance companies that are not registered in the Republic of Lithuania shall be prohibited from concluding, either directly or through intermediaries, insurance contracts with natural and legal persons of the Republic of Lithuania, except in cases where insurance companies of the Republic of Lithuania lack analogous or similar insurance type rules or where their financial position does

not allow them to enter into the requested contracts. The insurance companies shall be selected by tender.

2. In the above-mentioned cases foreign insurance companies must receive a permit from the Supervisory Authority Board authorising them to conclude insurance contracts either directly or through intermediaries.

Article 26. Insurance Intermediaries

1. Public and private companies may engage in insurance brokering provided that they have a permit for the business issued by the Supervisory Authority Board. The procedure for the issue of such permits shall be laid down by the Supervisory Authority Board.

2. Insurance brokers must be governed by the statutes regulating insurance business and resolutions of the Supervisory Authority Board.

3. Foreign insurance intermediaries who are not registered in the Republic of Lithuania shall be prohibited from engaging in insurance brokering business in the Republic of Lithuania.

Article 27. Insurance Company Founders

1. The insurance company founders, with the exception of a foreign insurance company subsidiary or branch, shall be natural and legal persons and companies of the Republic of Lithuania without the rights of legal person, which conclude a founding agreement in accordance with the procedure laid down in Article 3 of the Company Law. The agreement shall establish the rights and obligations of the founders in setting up an insurance company as well as liability for non-fulfilment of the obligations. Each founder of the insurance company must be its shareholder. If, prior to the receipt of the licence to engage in insurance business, one or several insurance company founders refuse to acquire shares of the insurance company or transfer these to other persons, the Board of the Supervisory Authority may refuse to issue a licence for insurance business.

2. A foreign insurance company may be the founder of an insurance company or a branch of an insurance company in the Republic of Lithuania if:

1) it possesses a licence for insurance business issued by the foreign state within whose jurisdiction it is;

2) has obtained an authorisation of the insurance companies supervisory authority of the country within whose jurisdiction it lies to set up an insurance company or a branch in the Republic of Lithuania;

3) submits a certificate issued by the insurance companies supervisory authority of the foreign country within whose jurisdiction it lies, attesting that the insurance companies of the Republic of Lithuania may engage in insurance business in the country in which the foreign insurance company has its headquarters, provided the foreign country is not a member of the World Trade Organisation.

3. A person with an unexpired conviction for misdemeanours against property, business procedure and finances may not be a founder of an insurance company.

4. The founders of an insurance company must submit to the Supervisory Authority Board documents concerning the origin of the funds used to form the authorised capital and the organising fund, as well as those concerning the founders' financial position.

Article 28. The Organising Fund

1. The purpose of the organising fund is to cover the insurance company founding expenses and expenses incurred during the initial stage of its functioning (from founding to registration).
2. The organising fund shall be formed from the company founders' contributions in cash.
3. The organising fund must be not less than LTL 1,000,000.
4. Upon the registration of the insurance company, the balance of the organising fund must be assigned to the insurance company's statutory reserve.

Article 29. The Founding of Insurance Companies

1. Insurance companies shall be founded in accordance with the Company Law, unless this Law provides otherwise.
2. Having received from the Board of the Supervisory Authority a licence to engage in insurance business, the founders of the insurance company shall register the insurance company according to the procedure laid down in the Law on the Register of Enterprises.
3. Paragraphs 1, 6 - 10 and 12 of Article 10 of the Company Law as well as provisions of Paragraphs 1, 3 and 4 of Article 28 of this Law shall apply to a functioning company whose general shareholders' meeting has passed a resolution to reorganise it into an insurance company, whereupon it may apply to the Board of Supervisory Authority for the issue of a licence to engage in insurance business.
4. Having been issued, in accordance with the procedure laid down in this Law, a licence to transact insurance, an insurance company shall acquire the right to engage in insurance business as well as in insurance-related activity.

Article 30. Setting up Insurance Company Branches

Branches of insurance companies registered in the Republic of Lithuania shall be set up upon obtaining a permit from the Board of Supervisory Authority and shall be registered in accordance with the procedure established by the laws of the Republic of Lithuania. Permits to set up branches of insurance companies shall be issued and withdrawn according to the procedure laid down by the Supervisory Authority. Other insurance company divisions shall be set up in accordance with the procedure specified in the insurance company's Articles. Branches of insurance companies shall function within the limits of powers granted to them by the insurance company and shall be governed by the insurance company's Articles.

Article 31. Application for the Issue of a Licence to Engage in Insurance Business

1. The founders of an insurance company or a functioning company whose general meeting has adopted a resolution to reorganise into an insurance company shall submit to the Board of the Supervisory Authority an application for the issue of a licence to engage in insurance business.
2. The application for the issue of a licence to engage in insurance business must contain an outline of activities and the registered address of an insurance company being established or of the functioning company whose general shareholders' meeting has adopted a resolution to reorganise into an insurance company.
3. The following documents and information must be submitted together with the application:

- 1) a draft of the Articles of Association;
 - 2) the founding documents (founding agreement, share subscription agreement, minutes of the statutory meeting, resolution concerning the founding of the insurance company, resolution of the general shareholders' meeting of a functioning company concerning its reorganisation into an insurance company);
 - 3) name of the insurance company;
 - 4) a feasibility study of the economic activity (business plan) of the insurance company being established of the content and in the form prescribed by the Board of the Supervisory Authority. Also submitted shall be a description of the projected structure of the insurance company and services to be offered by it;
 - 5) rules of the insurance types specified in the feasibility study of economic activity (business plan), rates of insurance contributions and model forms of insurance policy;
 - 6) permit to set up an insurance company in the Republic of Lithuania issued by the institution exercising supervision over the insurance companies in the foreign country within whose jurisdiction the foreign insurance company comes;
 - 7) certificate, issued by the institution exercising supervision over the insurance companies in the foreign country within whose jurisdiction the foreign insurance company lies, authorising insurance companies of the Republic of Lithuania to engage in insurance business in the country where the foreign insurance company has its headquarters, provided the foreign country is not a member of the WTO;
 - 8) list of insurance company founders in the form prescribed by the Supervisory Authority Board;
 - 9) information about the chairman of the insurance company board, the board members, the head of the administration and chief accountant (financier) and, if life insurance operations are planned, about the actuaries;
 - 10) documents confirming that the organising fund of the insurance company has been formed.
4. If the founder is a legal person, the following should be submitted in addition to the document listed above:
- 1) a copy of the founding company registration certificate;
 - 2) the founding company's financial statements for the last and current years accompanied by the auditors' findings.
5. A functioning company, upon adopting a decision to reorganise itself into an insurance company, must also submit the following:
- 1) the project of company reorganisation;
 - 2) a description of previous activity, financial statements for the last and current years accompanied by the auditors' findings, information on the composition of the authorised capital and owners of shareholdings;
 - 3) documents confirming that it possesses the organising fund necessary for the business of an insurance company;
 - 4) information concerning the payment of taxes and debts to creditors;
6. The Board of the Supervisory Authority shall have the right to demand additional documents and information be submitted within 30 calendar days from the receipt of an application for the issue of an insurance licence and documents.
7. The founders shall be responsible for the accuracy of information presented in the application and submitted documents.

Article 32. Decision on the Issue of a Licence to Engage in Insurance Business

1. Within four months of submission of application for the issue of a licence to engage in insurance business the Board of the Supervisory Authority shall take a decision concerning the issue of a licence to engage in insurance business and inform the applicant thereof in writing.

2. In the event of the Board of the Supervisory Authority requesting the presentation of additional documents in accordance with the procedure established by this Law, the four-month period shall be held to commence from the date of receipt of all the documents and information necessary for taking a decision.

3. The Board of the Supervisory Authority shall issue an insurance licence only in the event that the submitted documents and available information confirm that the insurance company being set up :

- 1) possesses fully paid-up authorised capital;
- 2) has a board comprised of members of excellent repute, a qualified administration manager with experience of work in insurance companies, a chief accountant (financier) and, in case of a life insurance company, an actuary;
- 3) is in possession of premises;
- 4) has paid a stamp duty;
- 5) has submitted information on the application of the organisational fund moneys and its balance.

4. A licence for insurance business shall be issued for an unlimited period of time and shall not be transferable.

5. Stamp duty prescribed by law shall be payable for the issue of a licence to engage in insurance business.

6. The Board of the Supervisory Authority, when notifying the applicant of the decision to refuse the issuance of a licence to engage in insurance business, shall submit in writing the reasons for the refusal, informing at the same time the Companies' Registrar.

7. Any decision to refuse granting a licence to engage in insurance business may be appealed against in court in accordance with the procedure established by law.

Article 33. Insurance Licence Requisites

An insurance licence must possess the following requisites:

- 1) the name and registered address of the insurance company;
- 2) type of activity;
- 3) territory where this activity may be carried out;
- 4) licence issue date and number;
- 5) category of insurance;
- 6) signature of the head of the Supervisory Authority (of his deputy) and the official stamp.

Article 34. Permit for Insurance Type

1. A permit for the insurance type, the type rules, rates of insurance contributions and a model form of insurance policy whereof have been submitted together with the application for the issue of insurance licence, shall be issued to a newly-registered insurance company together with the licence to carry on insurance business.

2. If a functioning insurance company wishes to engage in the type of insurance for which it has not received a permit of the Supervisory Authority Board, it shall present the following documents:

1) insurance type rules, rates of insurance contributions and a model form of the insurance policy;

2) feasibility study of business activity (business plan of the type of insurance) in the form established by the Supervisory Authority Board;

3) a contract of agency in the event that the company wishes to sell foreign insurance company policies.

3. The Supervisory Authority Board shall have the right to demand the filing of additional documents and information within 30 calendar days from the receipt of documents for the issuance of permit for insurance type.

4. The Supervisory Authority Board shall, within one month from the filing of documents, take a decision concerning the issue of a permit for the type of insurance and shall notify the applicant thereof in writing.

5. Should the Supervisory Authority Board demand additional documents according to the procedure laid down in this Law, the month-long period set for decision making shall commence as of the day of receipt of all documents and information required for the purpose.

6. A permit for an insurance type shall be issued for an unlimited period and shall not be transferable.

7. When informing the applicant of its decision to refuse the issuance of a permit for an insurance type, the Supervisory Authority Board shall present a written substantiation of the decision.

8. The decision to refuse the issuance of a permit for a type of insurance may be appealed against in court in accordance with the procedure established by law.

9. Authorisation to change the insurance type rules, rates of insurance contributions or the insurance policy shall be granted in accordance with the procedure laid down by the Supervisory Authority Board.

Article 35. Altering the Articles of Association of Insurance Companies

Any alterations to the Articles of functioning insurance companies must be agreed with the Supervisory Authority Board prior to their registration.

Article 36. The Reorganisation of Insurance Companies

1. Insurance companies shall be reorganised in accordance with the procedure established by law.

2. Insurance companies shall be reorganised only with the permission granted by the Supervisory Authority Board.

Article 37. Liquidation of Insurance Companies

1. Insurance companies shall be liquidated in accordance with the procedure set out in this Law and in the Company Law.

2. Liquidation of an insurance company may be voluntary or compulsory.

3. Upon transferring the insurance (reinsurance) contracts to another insurance company and having been granted authorisation by the Supervisory Authority Board, an insurance company may commence its voluntary liquidation only in accordance with the procedure laid down in this Law.

4 An insurance company may terminate its activity in accordance with the procedure laid down in its Articles after its supreme managerial body votes in favour thereof by a two-thirds majority.

5. Any decision of an insurance company to enter into voluntary liquidation, as well as information on the appointed liquidator must be presented in writing to the Supervisory Authority Board and the Companies' Registrar within three working days. The Supervisory Authority Board shall have the right to change the liquidator.

6. Compulsory liquidation of an insurance company shall be effected on the decision of the Supervisory Authority Board upon revoking the insurance licence in accordance with the procedure laid down in this Law. Upon taking a decision to liquidate an insurance company, the Supervisory Authority Board shall appoint its liquidator.

7. When compulsory liquidation of an insurance company is effected under the provisions of other laws, the body which takes the decision to liquidate the insurance company must within 3 working days notify the Supervisory Authority Board and the liquidator thereof in writing.

8. The liquidator shall notify, in accordance with the procedure prescribed by the Law on the Register of Enterprises, the Registrar who registered the insurance company of the decision taken to liquidate the company, as well as presenting information on the liquidator. When an insurance company acquires the status of a company in liquidation the term "*likviduojama*" (in liquidation - transl.) shall be added before its name.

9. The liquidator shall accept payments, transfer valid insurance (reinsurance) contracts to other insurance companies, fulfil obligations and sell off the assets.

10. Should it transpire that the insurance company is insolvent, the liquidator must promptly notify the Supervisory Authority Board thereof in writing.

11. In the course of liquidation of an insurance company, the funds of insurance technical provisions, reserves and other amounts shall be used in the first instance for satisfying the claims of the insured, the covered persons, beneficiaries, third persons, to be followed by the claims of other creditors. Priority claims shall be claims in respect of injury or any other damage to health as well as deprivation of life.

12. The liquidator shall present to the Supervisory Authority Board the liquidation report examined by an independent auditor.

13. The insurance company shall be removed from the Register in the manner specified in the Law on the Register of Enterprises.

Article 38. Bankruptcy of an Insurance Company

1. The bankruptcy case of an insurance company shall be investigated in accordance with the procedure laid down by the Law on Enterprise Bankruptcy unless this Law provides otherwise.

2. The bankruptcy case of an insurance company shall only be investigated according to the judicial procedure. An action for bankruptcy of an insurance company shall be brought by the court following the petition for insolvency of the company filed by the Supervisory Authority Board.

3. The Supervisory Authority Board shall nominate to the court the candidate for the post of the administrator.

4. The administrator shall report to the Supervisory Authority Board on the progress and results of the administration in accordance with the procedure laid down by the latter.

5. No meetings of the insured and other creditors shall be called during the investigation of the insurance company bankruptcy case. The interests of said persons shall be represented by a committee formed by the Supervisory Authority Board. The Committee shall comprise no more than 15 persons drawn from the insured (the covered persons), other creditors and representatives of the Supervisory Authority Board.

6. Where there is no possibility of transferring insurance (reinsurance) contracts to other insurance companies, the Committee shall inform the court thereof, whereupon the court may declare the contracts revoked from the date of adoption of a decision to liquidate the bankrupt insurance company.

7. The financial claims of the insured whose contracts are not assigned to other insurance companies, as well as those of other creditors shall only begin to be satisfied after the court passes a decision to liquidate the bankrupt insurance company.

8. The first claims to be satisfied shall be those of secured creditors, claims of the company employees related to employment relations, as well as claims for compensation of damages related to injury or any other damage to health as well as deprivation of life. The insured who are in possession of life insurance policies shall, in the first instance, be paid amounts approved by the court from the reserves of the insurance company, its insurance technical provisions and other funds.

9. Thereafter court and administrative expenses shall be covered and financial claims such as might have been advanced after the day of institution of bankruptcy proceedings shall be satisfied.

10. Claims of other creditors shall be satisfied only after the claims of the first two categories have been met.

Chapter IV

THE FINANCES OF INSURANCE COMPANIES

Article 39. Own Capital

The own capital of an insurance company shall be formed from the share issue price, the company's profit and the balance of the organising fund. The composition of the own capital of insurance companies shall be determined by the Company Law.

Article 40. Authorised Capital

1. The authorised capital of an insurance company shall comprise the capital specified in the Articles of the company, which is fully paid up and registered in accordance with the procedure established by law.

2. The authorised capital of an insurance company must not be less than:

1) LTL 4,000,000 for companies transacting life insurance;

2) LTL 2,000,000 for companies engaged in non-life insurance, except for credit insurance;

3) LTL 7,000,000 for companies providing credit insurance.

3. The authorised capital shall be registered only after it is fully paid up.

4. The authorised capital must be paid up in cash.

5. The authorised capital may not be paid up with borrowed funds.

Article 41. Borrowed Capital

Borrowed capital shall comprise:

- 1) insurance technical provisions;
- 2) deposits of reinsurers;
- 3) other liabilities;
- 4) accrued expenditures and deferred income.

Article 42. Insurance Technical Provisions

1. Insurance companies shall build up insurance technical provisions characteristic only of them and designated for the timely discharge of liabilities. During the creation of insurance deferred premiums provisions the income of the insurance company for the accounting period shall be reduced in order to effect a proportionate distribution of the insurance premium during the period of duration of insurance risk, whereas the creation of other insurance technical provisions shall increase the costs of an insurance company (with the exception of the technical provision for refunding insurance contributions), which reduce the amount of the taxable profit.

2. Insurance companies shall build up the following insurance technical provisions:

- 1) deferred premiums provision;
- 2) provision for covering the losses (mathematical);
- 3) claims provision;
- 4) provision for refunding insurance contributions;
- 5) provision for loss adjustment;
- 6) life insurance provision when the investment risk falls on the insured;
- 7) other insurance technical provisions.

3. The methods for building up insurance technical provisions and the amounts thereof shall be determined by the Supervisory Authority Board.

Article 43. Deferred Premiums Technical Provision

The deferred premiums provision shall constitute the part of gross contributions which will be assigned to the income of the insurance company in later accounting periods.

Article 44. Technical Provision for Covering the Losses (Mathematical)

This technical provision shall embrace a mathematically computed amount of the insurance company's liabilities which comprises possible payments on insurance claims.

Article 45. Claims Technical Provision

Claims technical provision shall be formed in order to pay insurance benefits unpaid for the insurance events which occurred during the current and previous accounting periods and to cover the expenses related to the liquidation and administration of insurance events in the subsequent periods, as well as to pay insurance benefits for the unreported insurance events which have occurred and to cover the expenses related to the liquidation and administration of insurance events in the later accounting periods.

Article 46. Technical Provision for Refunding Insurance Contributions

Technical provision for refunding insurance contributions shall embrace amounts made up from the profit of the company or separate areas of activity, to be paid out under the contracts of insurance providing for the refunding of part of the insurance contribution, also for those contracts of insurance under the conditions whereof insurance contributions will be reduced when extending the contract of insurance.

Article 47. Technical Provision for Loss Adjustment

The technical provision for loss adjustment shall comprise amounts to be used for loss adjustment.

Article 48. Life Insurance Technical Provision when the Investment Risk Falls on the Insured

This technical provision shall cover the liabilities of the life insurance company when the object of investment is specified by the insured. In such cases the investment risk falls upon the insured himself.

Article 49. Other Insurance Technical Provisions

Other insurance technical provisions (probable loss provision, etc.) and the purpose for building these shall be determined by the Supervisory Authority Board.

Article 50. Reinsurers' Deposits

Reinsurers' deposits shall constitute the funds that are retained by the reinsured in his company as a guarantee or that are left to him by the reinsurer.

Article 51. Other Liabilities

Other liabilities shall comprise the insurance company's debts connected with the following:

- 1) insurance operations;
- 2) reinsurance operations;
- 3) loans received;
- 4) liabilities to credit institutions;
- 5) other liabilities - to the State Budget, social security, employees, etc.

Article 52. Accrued Expenditure and Deferred Income

Accrued expenditure and deferred income shall comprise evenly increasing income received within the accounting period but attributable to the results of future accounting periods, as well as evenly increasing expenditure that affects the results of the accounting period but will be met, however, during the future accounting periods.

Article 53. Solvency

1. Insurance companies must ensure continuous fulfilment of their financial obligations and make up adequate insurance technical provision funds and reserves necessary for performing their insurance (reinsurance) obligations.

2. In order to ensure solvency, every insurance company must create a sufficient solvency reserve which may not be less than the amount prescribed by the Supervisory Authority Board.

3. The upper and lower limits of the solvency reserve as well as the method of computation thereof shall be established by the Supervisory Authority Board.

Article 54. Investment of the Authorised Capital Funds

1. An insurance company shall be permitted to invest the total amount of the authorised capital funds only in the following objects:

- 1) Government and municipal institutions bonds;
- 2) real property;
- 3) bank term deposits.

2. Upon the authorisation of the Supervisory Authority Board funds of the authorised capital may be invested abroad in the objects specified in paragraph 1 hereof.

3. The Supervisory Authority Board shall have the right to withhold authorisation or to restrict such investments which might adversely affect the financial stability of the insurance company.

4. Insurance companies shall have the right to invest authorised capital funds in the amounts determined by the Minister of Finance.

Article 55. Investment of Insurance Technical Provision Funds

1. Insurance companies must invest insurance technical provision funds reliably and safely.

2. An insurance company shall be permitted to invest the total amount of the insurance technical provision funds only in the following objects:

- 1) Government or municipal institutions bonds;
- 2) debentures of enterprises;
- 3) mortgage loans;
- 4) real property;
- 5) shares quoted on the Securities Exchange;
- 6) shares not quoted on the securities Exchange with the authorisation of the Supervisory Authority Board;
- 7) bank term deposits.

3. With the authorisation of the Supervisory Authority Board, insurance technical provision funds may be invested abroad in the objects specified in paragraph 2 hereof.

4. The Supervisory Authority Board shall have the right to withhold authorisation or restrict the investments which might adversely affect the financial stability of the insurance company, including cases where a member of the insurance company board or the head of the Administration is at the same time member of the board of any of the enterprises specified in sub-paragraph 2 of paragraph 2 hereof, as well as when such an investment might have a detrimental effect upon the activity of the insurance company.

5. Insurance companies shall have the right to invest insurance technical provision funds the amounts whereof shall be determined by the Minister of Finance.

Article 56. Accounting, Accounts and Audit

1. Insurance companies, their branches and insurance brokers shall manage the accounting and accounts pursuant to the Law on the Principles of Accounting as well as Government decrees.

2. Financial accounts of an insurance company must be examined by an independent auditor and, within 3 months of the close of the financial year, approved by the general shareholders' meeting and presented to the Supervisory Authority Board.

3. Insurance companies must publish by the first day of May the financial statement in accordance with the procedure laid down by the Supervisory Authority Board.

4. An insurance company shall be liable under law for the accuracy of information presented in the annual statement.

5. The auditors must submit to the Supervisory Authority Board explanations of the financial statements.

Article 57. Net and Gross Contributions (Premiums)

1. A net contribution (premium) is the simple average of the potential loss to an insurance company connected with a specific insurance contract.

2. A gross contribution (premium) is the sum total of the amount of the net premium and the costs incurred in the drawing up, administration and execution of a relevant insurance contract.

Article 58. Taxation of Insurance Contributions (Premiums)

1. Life, accident and health insurance contributions (premiums) paid by a natural person shall reduce accordingly the person's taxable income connected with labour relations provided that the amount of the annual insurance contributions (premiums) for each employee does not exceed the fourfold amount of the minimum monthly wage set by the Government which was effective at the beginning of the accounting quarter and the duration of life insurance contract is not less than 10 years.

2. Life, accident and health insurance contributions (premiums) paid by enterprises that insure personnel employed by them under the contract of employment shall accordingly reduce the amount of the enterprise's taxable profit or income, provided that the amount of the annual insurance contribution (premium) for each employee does not exceed the fourfold amount of the minimum monthly wage set by the Government effective at the beginning of the accounting quarter, and the duration of the life insurance contract is not less than 10 years.

3. If insurance contributions are paid for a period in excess of one year, upon taking into account the period for which the contributions (premiums) are paid, the same tax reliefs shall apply thereto.

4. Any portion of an insurance contribution exceeding the amount specified in paragraphs 1 and 2 hereof shall be subject to taxation in accordance with the procedure established by laws.

5. Non-life insurance contributions (premiums) paid by an enterprise, with the exception of accident and health insurance, shall accordingly reduce the enterprise's taxable profit or income.

6. In the event of cancellation of a non-life insurance contract, except for the cases of accident insurance and health insurance contracts, the enterprise shall be liable to pay the taxes prescribed by law for the portion of the insurance contribution (premium) refundable to the enterprise as specified in Article 22 of this Law.

7. In the event of cancellation of an accident insurance or health insurance contract or in the event cancellation of a life insurance contract in the course of the initial 10 years of its validity, the portion of the insurance contribution (premium) refundable to a natural person or an enterprise as specified in Article 22 of this Law shall be subject to taxation in accordance with law.

8. In such cases taxes shall be deducted proportionately from the portion of insurance contributions in respect whereof tax reliefs applied.

9. Insurance benefits received shall not be subject to tax.

Chapter V

STATE SUPERVISION OF INSURANCE BUSINESS

Article 59. Insurance Supervisory Institution and its Purpose

1. Supervision of insurance business in the Republic of Lithuania is carried out by the State Insurance Supervisory Authority at the Ministry of Finance. The Regulations of the Supervisory Authority shall be approved by the Government.

2. The purpose of the Supervisory Authority is to ensure the protection of the interests and rights of the insured, covered persons, beneficiaries and third persons in the course of transaction of insurance business, as well as ensuring the supervision of insurance companies engaged in the insurance-related business, including that of insurance brokers.

Article 60. Structure of the Supervisory Authority

1. The Supervisory Authority shall consist of:

- 1) a Director;
- 2) a Board;
- 3) staff.

2. The Director of the Supervisory Authority shall be appointed and dismissed by the Minister of Finance. Only a capable citizen of the Republic of Lithuania with a higher education qualification and experience of work in the sphere of insurance may be appointed to the post. The Supervisory Authority Board shall be headed by the Director of the Supervisory Authority.

3. The Board of the Supervisory Authority shall be appointed and dismissed on the proposal of the Director of the Supervisory Authority and shall be approved by the Minister of Finance. The Supervisory Authority Board shall consist of no less than 5 persons. The Board of the Supervisory Authority shall be headed by the Director of the Supervisory Authority.

4. The Director of the Supervisory Authority, the Board members and the staff of the Supervisory Authority may not be employed in any other job, except in cases when they perform scientific, teaching or creative work. On the decision of the Supervisory Authority Board, a staff member of the Supervisory Authority Board may be appointed as the temporary administrator or liquidator of the insurance company.

5. The Director of the Supervisory Authority, the Board and the staff members may not be insurance company's or insurance broker's council or board members or shareholders.

Article 61. Keeping the Secrets of the Supervisory Authority Confidential

1. The list of information which constitutes an official secret of the Supervisory Authority shall be drawn by the Supervisory Authority Board.

2. The Director, the Board and the staff of the Supervisory Authority must keep confidential all information connected with the supervision of insurance companies and insurance brokers.

3. Information which is treated as confidential by the Supervisory Authority shall be furnished only by the institutions and according to the procedure specified by law. The secrets of the Supervisory Authority may be disclosed to the appropriate supervisory institutions of foreign states only when the laws of these states guarantee the confidentiality of such information.

4. The Director of the Supervisory Authority, its Board and staff shall be held liable under law for the disclosure of information which is official secret of the Supervisory Authority.

Article 62. Means of Support of the Supervisory Authority

The Supervisory Authority of insurance companies shall be supported with the gross contributions received by insurance companies according to the procedure and in the amounts prescribed by the Government.

Article 63. Functions of the Supervisory Authority Board

The Supervisory Authority Board, while implementing the provisions of this Law, shall perform the following functions:

- 1) examine documents required for setting up insurance companies;
- 2) examine documents required in order to issue the licences of insurance companies and brokers' permits;
- 3) issue licences to engage in insurance business;
- 4) issue permits for insurance types;
- 5) issue permits to engage in the activities of insurance brokers;
- 6) issue permits to set up insurance company branch offices;
- 7) issue permits to insurance companies to sell the insurance policies of foreign state insurance companies;
- 8) grant permission to insurance companies for amending the insurance type rules, changing the rates of insurance contributions or the insurance policy;
- 9) grant permission for amending the Article of insurance companies and insurance brokers;
- 10) give authorisation for the investment abroad of the authorised capital funds and insurance technical provision funds as well as for investments in the shares that are not quoted on the Securities Exchange;
- 11) give authorisation for the insurance companies to be reorganised and to get liquidated;
- 12) grant permission to insurance companies to transfer all or a certain portion of insurance (reinsurance) contracts to other insurance companies;
- 13) exercise control over the adherence of insurance companies and insurance agents to laws and other legislative acts;
- 14) exercise control over the compliance by insurance companies with insurance type rules and rates of insurance contributions in drawing up insurance contracts;
- 15) examine the financial position of insurance companies;
- 16) lay down the procedure for the registration and record-keeping of insurance policies;

17) exercise control over the building up of insurance technical provisions in insurance companies;

18) apply to court for the institution of bankruptcy proceedings against insolvent insurance companies or insurance brokers;

19) issue legislative acts in accordance with the powers granted under this Law.

Article 64. Rights of the Supervisory Authority Board

The Supervisory Authority Board, while carrying out the functions entrusted to it, shall have the right to:

1) receive information necessary for it to carry out its supervisory functions;

2) inspect insurance companies, their branches and insurance brokers, examine their financial activities, reinsurance contracts, rates of insurance contributions and adherence to the insurance type rules;

3) determine the forms and rules of periodical statistical accounting for insurance activity;

4) define the general terms and conditions of an insurance type;

5) apply sanctions established in this and other laws to insurance companies and insurance brokers found to have contravened the laws or legislative acts issued by the Supervisory Authority Board and (or) in cases when the risks taken by them may be detrimental to the interests of the insured, covered persons, third parties or beneficiaries;

6) examine accounts, accounting and other documents of any economic entity which, according to the information available to the Supervisory Authority, is engaged in insurance business without a licence of the Supervisory Authority;

7) participate in international institutions for the supervision of insurance companies and other financial institutions;

8) conclude co-operation agreements with the institutions in foreign countries engaged in the supervision of insurance companies or other institutions and exchange information upon ascertaining the confidentiality of such information.

Article 65. Sanctions

1. The Director of the Supervisory Authority, based on the resolution of the Authority, shall have the right to apply the following sanctions to insurance companies, insurance brokers or their directors:

1) to warn insurance companies or insurance brokers of the shortcomings in their work or infringements that have taken place, and fix the deadline for the elimination of these;

2) to impose administrative penalties on the heads of the administration of insurance companies or insurance brokers;

3) to suspend or revoke permits to engage in one, several or all insurance types carried out by an insurance company or in any other form of insurance activity;

4) to suspend or terminate the activities of insurance company branches;

5) to suspend or revoke permits to engage in insurance broker activities;

6) to demand dismissal of members of insurance company's or insurance broker's board or heads of administration;

7) to demand the suspension of powers of board members of insurance companies or insurance brokers;

8) to suspend the powers of the boards of insurance companies or insurance brokers, to dismiss the board members, the administration head, and to appoint a temporary administrator of an insurance company or insurance broker;

9) to restrict the disposal of the bank accounts and other assets;

10) to suspend the insurance companies' licences to engage in insurance business;

11) to revoke the insurance companies' licences to engage in insurance business.

2. The Supervisory Authority Board shall choose a sanction having taken regard of the nature of the infringement for which it is to be applied, the consequences the infringement and the sanction to be applied will have on the insurance company or insurance broker and on the security, stability and reliability of the insurance system.

3. The resolution regarding the application of a sanction to the insurance company, insurance broker or their directors may be appealed against in accordance with the established procedure within a month from the adoption of the resolution. The appeal shall not suspend the enforcement of the resolution.

Article 66. Grounds for Applying Sanctions

1 The Supervisory Authority Board shall apply sanctions specified in Article 65 of this Law on any of the following grounds:

1) submission of incorrect information to the Supervisory Authority;

2) failure to furnish the Supervisory Authority with the information and documents necessary for exercising supervision of insurance companies or insurance brokers;

3) failure to comply with the standards laid down by the Supervisory Authority Board;

4) infringement of the laws or other legislative acts of the Republic of Lithuania;

5) failure to use the licence to transact insurance or the authorisation for the activities of the insurance broker for a period in excess of 12 months;

6) suspension by an insurance company of insurance activities for a period in excess of 6 months;

7) failure to comply with the requirements in effect at the moment of founding of the insurance company or insurance broker.

2. The issue concerning the application of a sanction to an insurance company, insurance broker or their directors shall be considered in the presence of representatives of the insurance company or insurance broker.

3. If representatives of the insurance company or insurance broker fail to appear at the consideration of the issue or fail to present explanations, the decision concerning the application of sanctions shall be taken in their absence.

4. Any resolution concerning the application of a sanction, other than that specified in sub-paragraph 2, Article 65 (1) of this Law, must be taken within 3 months of the date of identification of an infringement. No sanctions may be applied for infringements after the making whereof more than 2 months have lapsed.

Article 67. Temporary Administrator

1. A temporary administrator is a manager appointed to an insurance company or insurance broker by the Supervisory Authority Board for the period of suspension of powers of the insurance company's or insurance broker's supervisory board and

dismissal of the board and head of the administration of an insurance company or insurance broker.

2. From the date of appointment of a temporary administrator all the powers of the supervisory board, the board and the head of the administration of an insurance company or insurance broker shall be taken over by the temporary administrator after which all decisions taken by the former shall be unlawful and unenforceable.

3. The temporary administrator shall have the right to terminate employment contracts with the members of the board of the insurance company or insurance broker and the head of the administration of the insurance company or insurance broker.

4. The resolutions of the general shareholders' meeting shall not be binding to the temporary administrator where said resolutions run counter to the purpose for which the temporary administrator has been appointed or when resolutions are adopted on the issues which under this Law are beyond the competence of the supervisory board or the board of the insurance company or insurance broker.

5. Without the authorisation or consent of the general shareholders' meeting the temporary administrator shall not be entitled to sell or otherwise transfer mortgage the insurance company's or insurance broker's real property, to reorganise or liquidate the insurance company or insurance broker, to address other issues within the competence of the general shareholders' meeting.

6. The temporary administrator must inform the Supervisory Authority and the general shareholders' meeting of the progress and results of administration within the time period and in the manner specified by them.

7. The temporary administrator must institute a detailed audit of the insurance company or insurance broker to be carried out within 3 months of his appointment. Candidates for the auditors must be approved by the Supervisory Authority Board. The audit report must specify the actual state of assets and liabilities of the insurance company or insurance broker.

8. If it is established in the course of the audit that the insurance company or insurance broker is insolvent and is not in the position to avoid bankruptcy, the temporary administrator shall apply to the Supervisory Authority Board for the institution of bankruptcy proceedings.

9. If the temporary administrator resigns from his post, the Supervisory Authority Board shall take a decision on the appointment of another temporary administrator or on the institution of bankruptcy proceedings against the insurance company or insurance broker. Expenses incurred by the temporary administrator and auditor shall be covered by the insurance company or insurance broker.

Article 68. Removal of the Temporary Administrator

The temporary administrator shall be removed from his post prior to the expiry of his term in the following cases:

- 1) if the Supervisory Authority Board ascertains that the insurance company or the insurance broker are in the position to function reliably and in a stable manner;
- 2) upon the institution of proceedings in bankruptcy against the insurance company or insurance broker in accordance with the legal procedure;
- 3) if he discharges his functions unsatisfactorily.

Chapter VI

FINAL PROVISIONS

Article 69. Final Provisions

1. Functioning insurance companies transacting insurance of person and property, must, within one year of the coming into effect of this Law, restructure their business in accordance with the provisions of this Law, save for the provisions of paragraph 2, Article 40, as well as amending their Articles and registering them in the manner specified by the Law on the Register of Enterprises.

2. Insurance companies must register, in compliance with the procedure laid down in this Law, the minimum amount of the authorised capital:

1) companies transacting non-life insurance - LTL 2,000,000 no later than one and a half years after the coming into effect of this Law;

2) companies transacting life insurance - LTL 4,000,000 no later than within 2 years after the coming into effect of this Law;

3) companies transacting credit insurance - LTL 7,000,000 no later than within 3 years after the coming into effect of this Law.

3. Mutual insurance societies must adopt a decision within 6 months of the coming into effect of this Law on their reorganisation under this Law by setting up new insurance companies. In cases where mutual insurance societies fail to adopt a decision of the kind, they shall be liquidated in the manner specified in Article 37 of this Law.

4. Insurance companies which had received appropriate permits from the Insurance Affairs Council at the Ministry of Finance of the Republic of Lithuania prior to the coming into effect of this Law shall have the right to transact life and non-life insurance, conclude new insurance contracts until the day of reregistering of the insurance company's Articles pursuant to this Law.

5. Insurance companies shall fulfil their obligations and implement their rights under the insurance contracts concluded by them until the expiry of the term of such contracts.

6. The State Board of Insurance Supervisory Authority shall apply sanctions provided for by this Law against the insurance companies which fail to comply with the requirements laid down in paragraphs 1 and 2 hereof.

7. To establish that the balance of the preventive measures fund shall be allotted to setting up State Insurance Supervisory Authority.

8. The following shall be repealed, as from the day of coming into effect of this Law:

1) Law on Insurance enacted by the Supreme Council of the Republic of Lithuania on 20 September 1990 (Pin., 1990, No. 28-674);

2) Resolution "Concerning the Coming into Effect of the Law of the Republic of Lithuania on Insurance" (Pin., 1990, No. 28-675).

9. To propose to the Government:

1) to approve, by 1 October 1996, the Regulations of the State Insurance Supervisory Authority;

2) to revise the legislative acts regulating insurance.

I promulgate this Law passed by the Seimas of the Republic of Lithuania.

PRESIDENT OF THE REPUBLIC

ALGIRDAS BRAZAUSKAS