

REPUBLIC OF LITHUANIA
LAW ON INSURANCE

18 September 2003 – No IX-1737

Vilnius

(As last amended on 17 November 2011 – No XI-1670)

CHAPTER I
GENERAL PROVISIONS

Article 1. Purpose of the Law

1. The purpose of this Law shall be to regulate insurance, reinsurance and insurance mediation activities with a view to making the insurance system credible, efficient, safe and stable.

2. This Law shall specify persons who have the right to engage in insurance and reinsurance activity as well as insurance and reinsurance mediation activities in the Republic of Lithuania, determine the main principles of state regulation of these activities, regulate these activities and their specific features which a public limited liability company, a private limited liability company or a European company (*Societas Europaea*) engaged in insurance, reinsurance or independent insurance mediation activities must conform to. This Law shall also regulate the specific features of pre-contractual relations between parties to the insurance contract, the terms and conditions of the insurance contract, the relations arising from the insurance contract and relating to it, as well as other relations set out in this Law.

3. The provisions of this Law shall not apply to:

- 1) state social insurance relations;
- 2) relations regulated by the Law on Insurance of Deposits and Liabilities to Investors;
- 3) reinsurance activity carried out or fully secured by the State which, in the public interest in extreme cases, acts as a reinsurer, including cases in which it has to assume such a role due to the existing situation in the market where it is impossible to get adequate protection afforded by commercial insurance.

4. Specific features of the establishment, licensing, activities, winding-up, bankruptcy and state supervision of entities having the right to engage in the activities of accumulation of a portion of the state social insurance contribution shall be established by other laws.

5. Specific features of insurance activity of certain insurance undertakings and reinsurance activity of reinsurance undertakings may be established by other laws.

6. The pension accumulation activities provided for in subparagraph 5 of paragraph 2 of Article 7 of this Law shall be regulated by other laws of the Republic of Lithuania.

7. The provisions of this Law applicable to reinsurance activity must also apply in cases where a reinsurer takes over the risks of entities which, pursuant to the Law on the Accumulation of Occupational Pensions, have the right to engage in the accumulation of occupational pensions.

8. The provisions of the Law on Companies shall apply to the relations regulated by this Law to the extent this Law does not provide otherwise.

9. The provisions of this Law shall implement the legal acts of the European Union listed in the Annex to this Law.

Article 2. Definitions

1. “**Actuary**” means an insurance mathematician.

2. “**Insured person**” means a natural person specified in a life and health insurance contract to whom, upon occurrence of an insured event in his life, the insurer must pay an insurance benefit; a person specified in a third party liability insurance contract whose property interests arising from civil liability are covered by insurance; a person specified in a property insurance contract whose property interests are covered by insurance.

3. “**Required solvency margin**” means the amount of solvency margin calculated according to the procedure prescribed by legal acts which must be commensurate with the scope and specific nature of the insurer’s activities.

4. “**Insurance against civil liability**” means the insurance of property interests of a person arising from possible civil liability for the damage caused to the injured third party and/or his property where the amount of the insurance benefit paid by the insurer depends on the amount of indemnity which the insured person must pay to the injured third party for the damage which, however, does not exceed the sum insured if it specified in the insurance contract.

5. “**Participating undertaking**” means:

1) a parent undertaking;

2) an undertaking participating in another undertaking in the manner specified in paragraph 6 of this Article;

3) an undertaking which, even though not affiliated to any other undertaking or undertakings in the manner specified in paragraphs 28 and 53 of this Article, is managed jointly under the agreements concluded with those undertakings or the provisions of the memorandum or articles of association;

4) an undertaking which, even though not affiliated to any other undertaking or undertakings in the manner specified in paragraphs 28 and 53 of this Article, but in which the majority of members of its administration, management or supervisory bodies during a financial year until the drawing up of consolidated financial accounts have been the same persons as in the other undertaking or undertakings.

6. **“Participation”** means a direct or indirect holding of 20% or more of all the voting rights at the meeting of the highest management body of an undertaking or 20% or more of the share (member share, etc.) capital of an undertaking, as well as any other real and long-term possibility to exercise influence over the decisions related to the activities of the undertaking both as a shareholder (participant) and a holder of any other rights related to the share (member share, etc.) capital.

7. **“Large insurance risk”** means insurance risk corresponding to the criteria set out in Article 10 of this Law.

8. **“Policyholder”** means a person who has either applied to the insurer in order to conclude an insurance contract or who has received an offer from the insurer to conclude an insurance contract or who has concluded an insurance contract with the insurer.

9. **“Insurer”** means a person authorised under law to engage in insurance activity.

10. **“Insurer’s (surplus share) bonus”** means the amount of the insurer’s earnings attributed to a policyholder and or a beneficiary in the cases provided for in a capital accumulation life assurance contract, calculated and paid according to the procedure established in the insurance contract.

11. **“Insurance cover”** means the commitment of the insurer to pay an insurance benefit upon occurrence of an insured event.

12. **“Insurance premium”** means the amount of money specified in the insurance contract which the policyholder pays under the insurance contract to the insurer for the insurance cover.

13. **“Insurance undertaking”** means an undertaking which, according to the procedure prescribed by this Law, has been granted a licence to engage in insurance activity.

14. **“Insurable interest”** means losses that the policyholder, the insured person or the beneficiary may incur upon occurrence of an insured event.

15. **“Insurance benefit”** means an amount of money which the insurer must pay to the policyholder or another person who is entitled to the insurance benefit upon occurrence of an insured event, or any other form of payment of the benefit provided for in the insurance contract.

16. **“Insurance holding company”** means a parent undertaking at least one of whose subsidiaries is an insurance or reinsurance undertaking, an insurance or reinsurance undertaking of another European Union Member State or a third country insurance or reinsurance undertaking, and the principle objective of whose activities is to participate in the management of those subsidiaries which are exclusively or mainly insurance or reinsurance undertakings, insurance or reinsurance undertakings of another European Union Member State or third country insurance or reinsurance undertakings, and which is not a mixed-activity financial holding company.

17. **“Insurance period”** means the period of time from the beginning until the end of insurance cover, which does not necessarily coincide with the period of validity of the insurance contract.

18. **“Insurance policy”** means the document issued by the insurer certifying the conclusion of the insurance contract.

19. **“Insurance object”** means property interests related to a person’s life, health, property or civil liability.

20. **“Insurance risk”** means a possible danger threatening the insurance object.

21. **“Sum insured”** means the sum of money specified in the insurance contract or calculated according to the method specified in the insurance contract which the insurance benefit may not exceed, except for the cases provided for in the insurance contract.

22. **“Insurance policy conditions”** means standard conditions of an insurance contract drawn up by the insurer.

23. **“Insurance intermediary”** means a person carrying out insurance mediation activities for remuneration.

24. **“Insurance mediation”** means economic and commercial activities whereby it is sought to introduce a possibility of concluding an insurance contract, it is proposed to conclude an insurance contract or other preparatory work is carried out for the purpose of conclusion of insurance contracts, as well as economic and commercial activities whereby it is sought to conclude an insurance contract, assistance in administering or performing the concluded insurance contracts or in administering insured events. These activities when undertaken by an insurer or an employee of an insurer regarding the insurance contracts of this insurer shall not be considered as insurance mediation. The provision of information regarding insurance on an incidental basis in the context of another professional activity, where the purpose of the

provision of information is not to assist the recipient of information in concluding or performing an insurance contract shall not be considered as insurance mediation. Moreover, the mere management of insured events on the basis of a contract with the insurer and loss adjusting and appraisal of claims shall not be considered as insurance mediation.

25. “**Technical provisions**” means the insurer’s obligations arising from insurance and/or reinsurance contracts or relating to them which are calculated in accordance with the procedure set out by legal acts.

26. “**Insurance activity**” means economic and commercial activities whereby the risk of other persons’ losses is assumed on the basis of an insurance contract or it is sought to protect property interests of these persons in any other way upon occurrence of insured events, by using, for the purpose of securing those interests, the insurer’s property and other assets covering technical provisions calculated by the insurer. Within the meaning of this Law, insurance activity shall also be the activities set out in subparagraph 5 of paragraph 2 of Article 7 of this Law. The concept of “insurance activity” used in this Law shall include reinsurance activity.

27. “**Insured event**” means an event specified in the insurance contract upon occurrence of which the insurer must pay the insurance benefit.

28. “**Subsidiary**” means an undertaking which meets at least one of the following criteria:

1) an undertaking in which another undertaking has a majority of voting rights of its shareholders or other participants;

2) an undertaking in which another undertaking, being a shareholder (participant) of the first undertaking, has the right to appoint and recall the majority of members of the administration, management or supervisory body of the first undertaking;

3) an undertaking over which, under the provisions of its memorandum or articles of association or agreements concluded with another undertaking, the other undertaking may exercise a significant influence;

4) an undertaking in which another undertaking, under the agreements concluded with its shareholders (participants), controls the majority of the former undertaking’s shareholders’ (participants’) voting rights;

5) an undertaking over which, in the opinion of the competent authority, another undertaking is exercising a significant influence;

6) an undertaking which, under the criteria of subparagraphs 1–5 of this paragraph, is a subsidiary of a subsidiary. In this case, it shall be considered a subsidiary of the parent undertaking whose subsidiary has a subsidiary.

29. **“European Union Member State”** means the Republic of Lithuania or any other state that is a member of the European Union and a state of the European Economic Area.

30. **“European Union Member State where the risk is situated”** means a Member State of the European Union where:

1) the property is located when an insurance contract relates to buildings or buildings together with property therein, if this property is insured under the same insurance contract;

2) a vehicle of any type related to an insurance contract is registered. In case of compulsory insurance against civil liability in respect of the use of motor vehicles, under this subparagraph, a European Union Member State into which a vehicle that is normally based in the territory of another Member State of the European Union is brought, for a period of 30 days from the buyer’s confirmation that the vehicle has been delivered, shall also be considered as the European Union Member State where the risk is situated;

3) the policyholder has concluded an insurance contract for a term not longer than four months for travel or holiday risk insurance, irrespective of the insurance class to which these risks might belong;

4) the policyholder’s domicile, his registered office, a branch or agency that are related to the insurance contract is located, however, in all other cases which have not been specified in subparagraphs 1, 2 and 3 of this paragraph.

31. **“European Union Member State of provision of insurance services”** means a Member State of the European Union where the risk is situated or a European Union Member State of commitment under a life assurance contract, if the insurance contract regarding that risk or commitment is concluded not by an insurance undertaking of this European Union Member State or a branch of an insurance undertaking established in this European Union Member State or a branch of an insurance undertaking of another European Union Member State.

32. **“Finite reinsurance”** means reinsurance activity where the direct maximum possible losses (understood as the maximum economic risk transferred, conditioned by both the significance of the risk insured and the time chosen for the transfer of risk) for the whole period of duration of the financial reinsurance contract, by a fixed amount, but significantly exceed the insurance premium. The typical features of this reinsurance activity are the provisions of a financial reinsurance contract aiming at consistent balancing of mutual economic experience of the parties in order to achieve the desired transfer of risk, or the fact that the change in the value of money, in the course of time, is significant.

33. **“Guarantee fund”** means the reserve of an association of insurers engaged in the activities of the insurance class specified in subparagraph 10 of paragraph 3 of Article 7 of this

Law (except for insurance against civil liability of carriers) in the Republic of Lithuania or any analogous formation provided for by legislation of another European Union Member State.

34. **“Life assurance”** means the insurance of property interests related to life and/or capital accumulation of a natural person where due to insured events, such as death of the insured person, maturity of the insurance term established in the insurance contract or other insured event, insurance benefits are paid in lump sum or in instalments.

35. **“Close link”** means a situation in which persons are linked by control or participation. If one person controls two or more persons, it shall be considered that there is a close link between these persons.

36. **“Group of undertakings”** means a group of undertakings which consists of a parent undertaking, its subsidiaries and undertakings in which the parent undertaking or its subsidiaries participate in the manner specified in paragraph 5 of this Article.

37. **“Intervention measures”** means measures applied by the court or the Bank of Lithuania the purpose of which is to preserve or restore the financial standing of an insurance undertaking or a subsidiary of a third country insurance undertaking, to protect the interests of policyholders, the insured persons, beneficiaries, the injured third parties and other creditors or to implement the objectives established in Article 2.124 of the Civil Code, and which due to their nature have an effect not only on the rights and duties of an insurance undertaking or a branch of a third country insurance undertaking but also of other persons.

38. **“European Union Member State of the commitment under a life assurance contract”** means a Member State of the European Union where the policyholder has his permanent place of residence or, where the policyholder is a legal person, a Member State of the European Union where his registered office, to which the life assurance contract is related, is situated.

39. **“Surrender value”** means the sum calculated by actuarial methods having regard to the share of paid insurance premiums intended for capital accumulation, the interest accrued during the period of validity of the contract, the share of the insurer’s profit due to the policyholder under the insurance contract and other circumstances specified in the insurance contract.

40. **“Persons acting in concert”** means two or more persons who, on the basis of a verbal or written agreement concluded explicitly between them, exercise or seek to exercise their rights granted by the proportion of the authorised capital and/or voting rights of the insurance undertaking specified in paragraph 52 of this Article.

41. **“Another European Union Member State”** means a Member State of the European Union other than the Republic of Lithuania.

42. **“Insurance undertaking of another European Union Member State”** means an undertaking that has a right to carry out insurance activity under the legal acts of another European Union Member State.

43. **“Reinsurance undertaking of another European Union Member State”** means an undertaking that has a right to carry out reinsurance activity under the legal acts of another European Union Member State.

44. **“Competent authority”** means the authority which supervises insurance, reinsurance and insurance or reinsurance mediation activities. The Bank of Lithuania (hereinafter referred to as the “supervisory authority”) shall be the competent authority of the Republic of Lithuania.

45. **“Control”** means the relationship between a parent undertaking and a subsidiary, corresponding to the criteria set out in paragraphs 28 and 53 of this Article, or a similar relationship between any natural or legal person and an undertaking. Control may be direct and indirect.

46. **“Mixed-activity insurance holding company”** means a parent undertaking at least one of whose subsidiaries is an insurance or reinsurance undertaking, insurance or reinsurance undertakings of another European Union Member State or a third country insurance or reinsurance undertaking, which itself is not an insurance or reinsurance undertaking, an insurance or reinsurance undertaking of another European Union Member State or a third country insurance or reinsurance undertaking, an insurance holding company or a mixed-activity financial holding company.

47. **“Solvency margin”** means the insurer’s assets which exceed obligations arising from insurance and/or reinsurance contracts.

48. **“National Insurers’ Bureau”** means an organisation established in accordance with Recommendation No 5 adopted on 25 January 1949 by the Road Transport Sub-committee of the Inland Transport Committee of the United Nations Economic Commission for Europe which unites insurance undertakings authorized to engage in the activities of compulsory insurance against civil liability in respect of the use of motor vehicles in that country. The Motor Insurers’ Bureau of the Republic of Lithuania shall be the National Insurers’ Bureau in Lithuania.

49. **“Beneficiary”** means the person specified in the insurance contract or the person appointed by the policyholder and, in the cases specified in the insurance contract, also the person appointed by the insured person who is entitled to the insurance benefit.

50. **“Irrevocable beneficiary”** means the beneficiary who may not be revoked and replaced unilaterally, at the discretion of the policyholder (or in the cases specified in the insurance contract – of the insured person), without prior consent of the beneficiary.

51. **“Injured third party”** means in case of insurance against civil liability – the person to whom damage or injury has been caused by the policyholder or the insured person.

52. **“Qualifying holding”** means a direct or indirect holding in an insurance or reinsurance undertaking which represents at least 1/10 of the authorised capital or of the voting rights at the general meeting of shareholders or which makes it possible to exercise a significant influence over the management of the insurance or reinsurance undertaking. When calculating a qualifying holding, account shall be taken of the votes held by a person in accordance with the procedure established by the supervisory authority.

53. **“Retrocession”** means reinsurance of assumed or transferred reinsurance.

54. **“Parent undertaking”** means an undertaking which meets at least one of the following criteria:

1) it has the majority of shareholders’ or other participants’ votes in another undertaking;
 2) as a shareholder (participant) of another undertaking, it has the right to appoint and recall the majority of members of administration, management and supervisory bodies of that undertaking;

3) it may exercise a significant influence over another undertaking because of the agreements concluded with that undertaking or because of the provisions of the memorandum or articles of association of that undertaking;

4) under the agreements concluded with the shareholders (participants) of another undertaking, it has control over the majority of votes of the shareholders (participants) of that undertaking;

5) an undertaking which, in the opinion of the competent authority, exercises a significant influence over another undertaking.

55. **“Reinsured”** means an insurance or reinsurance undertaking transferring a share of the risk assumed by it to another insurance or reinsurance undertaking.

56. **“Reinsurer”** means an insurance or reinsurance undertaking taking over a certain share of the risk assumed by another insurance or reinsurance undertaking.

57. **“Reinsurance undertaking”** means an undertaking which, according to the procedure prescribed by this Law, has been granted a licence to engage in reinsurance activity.

58. **“Reinsurance intermediary”** means a person carrying out reinsurance mediation activities for remuneration.

59. **“Reinsurance mediation”** means economic and commercial activities whereby it is sought to introduce a possibility of concluding a reinsurance contract, it is proposed to conclude a reinsurance contract or other preparatory work is carried out for the purpose of conclusion of reinsurance contracts, as well as economic and commercial activities related to conclusion of a

reinsurance contract, assistance in administering or performing the concluded reinsurance contracts or in administering reinsured events. These activities when undertaken by a reinsurer or an employee of a reinsurer regarding the reinsurance contracts of this reinsurer shall not be considered as reinsurance mediation. The provision of information regarding insurance on an incidental basis in the context of another professional activity, where the purpose of the provision of information is not to assist the recipient of information in concluding or performing a reinsurance contract shall not be considered as reinsurance mediation. Moreover, the mere management of reinsured events on the basis of a contract with the reinsurer and loss adjusting and appraisal of claims shall not be considered as reinsurance mediation.

60. **“Reinsurance activity”** means economic and commercial activities whereby risk transferred by an insurance or reinsurance undertaking is assumed. Activities whereby an insurance or reinsurance undertaking, except for Lloyd’s Association, assumes risk transferred by any member of Lloyd’s shall also be considered as reinsurance activity.

61. **“Tied insurance intermediary”** means a person who carries out insurance mediation activities on behalf of one or more insurers and in their interests. Any person who carries out insurance mediation activities on behalf of one or more insurers and in their interests in addition to his principal economic and commercial activities, while the insurance offered is complementary to the goods and services supplied by him shall also be considered as a tied insurance intermediary.

62. **“Right of establishment”** means the right to establish in another European Union Member State a subsidiary or a branch of an insurance or reinsurance undertaking, a subsidiary or a branch of an undertaking of insurance intermediaries, or the right to establish in the Republic of Lithuania a subsidiary or a branch of an insurance or reinsurance undertaking of another European Union Member State, a subsidiary or a branch of an undertaking of insurance intermediaries of another European Union Member State.

63. **“Harmonised collective investment undertakings”** shall be interpreted as defined in the Law on Collective Investment Undertakings.

64. **“Related undertaking”** means a subsidiary or an undertaking in which another undertaking participates in the manner specified in paragraph 5 of this Article.

65. **“Health insurance”** means insurance of property interests related to health of a natural person, covering accident insurance and sickness insurance.

66. **“Right to provide insurance, reinsurance or insurance mediation services”** means the right of an insurance or reinsurance undertaking to engage in insurance or reinsurance activity in another European Union Member State without establishing a subsidiary or a branch of an insurance or reinsurance undertaking, the right of insurance intermediaries to engage in

insurance mediation activity in another European Union Member State without establishing a subsidiary or a branch of an undertaking of insurance intermediaries, or the right of an insurance or reinsurance undertaking of another European Union Member State to engage in insurance or reinsurance activity in the Republic of Lithuania without establishing a subsidiary or a branch of an insurance or reinsurance undertaking, and the right of insurance intermediaries of another European Union Member State to engage in insurance mediation activity in the Republic of Lithuania without establishing a subsidiary or a branch of an undertaking of insurance intermediaries.

67. **“Available solvency margin”** means the amount of the insurer’s assets in excess of his obligations, arising from insurance and/or reinsurance contracts, calculated in accordance with the procedure set out in legal acts.

68. **“Property insurance”** means insurance of a person’s property interests where the amount of the insurance benefit depends, within the limits of the sum insured, on the amount of damage caused to or the loss and other expenses incurred by the person.

69. **“Third country”** means a state other than a Member State of the European Union or a state of the European Economic Area.

70. **“Third country insurance undertaking”** means an undertaking engaged in insurance activity, registered in a third country which, according to the nature of its activity, should have to obtain a licence to engage in insurance activity as set out in this Law or an equivalent authorisation if it were registered in the Republic of Lithuania or any other European Union Member State.

71. **“Third country reinsurance undertaking”** means an undertaking engaged in reinsurance activity, registered in a third country which, according to the nature of its activity, should have to obtain a licence to engage in reinsurance activity as set out in this Law or an equivalent authorisation if it were registered in the Republic of Lithuania or any other European Union Member State.

72. **“Management company”** shall be interpreted as defined in the Law on Collective Investment Undertakings.

Article 3. Insurance Activity

1. Only the following shall have the right to engage in insurance activity in the Republic of Lithuania:

1) insurance undertakings established in accordance with the laws of the Republic of Lithuania: public limited liability companies, private limited liability companies and European

companies (*Societas Europaea*) which have obtained a licence to engage in insurance activity according to the procedure set out in this Law;

2) insurance undertakings of other European Union Member States, exercising the right of establishment and/or the right to provide insurance, reinsurance or insurance mediation services (hereinafter referred to as “the right to provide services”);

3) branches of third country insurance undertakings established in the Republic of Lithuania which have obtained a licence to engage in insurance activity as branches according to the procedure set out in this Law.

2. The entities referred to in paragraph 1 of this Article may not engage in any economic and commercial activities in the Republic of Lithuania other than insurance, reinsurance and related activities: management of insured and reinsured events, insurance and reinsurance mediation, consulting on issues relating to insurance and reinsurance, mediation in concluding pension accumulation agreements (except for supplementary voluntary accumulation), training of insurance and reinsurance specialists, in-service training, as well as leasing of immovable property and valuation of property to be insured.

3. The entities referred to in paragraph 1 of this Article may engage in insurance-related insurance mediation activity only as tied insurance intermediaries.

4. All other persons not specified in this Law shall be prohibited from engaging in insurance activity in the Republic of Lithuania, except in the cases established by the supervisory authority, where the insurance cover of an insurance undertaking, a branch of a third country insurance undertaking established in the Republic of Lithuania or a branch of an insurance undertaking of another Member State of the European Union established in the Republic of Lithuania is not recognised due to compulsory insurance applicable in a third country.

Article 4. Reinsurance Activity

1. Only the entities referred to in paragraph 1 of Article 3 of this Law as well as those listed below shall have the right to engage in reinsurance activity in the Republic of Lithuania:

1) reinsurance undertakings established in accordance with the laws of the Republic of Lithuania: public limited liability companies, private limited liability companies and European companies (*Societas Europaea*) which have obtained a licence to engage in reinsurance activity according to the procedure set out in this Law;

2) reinsurance undertakings of other European Union Member States, both those which have established a branch in the Republic of Lithuania and those which have not;

3) third country reinsurance undertakings, both those which have established a branch in the Republic of Lithuania and those which have not.

2. The entities referred to in subparagraphs 1, 2 and 3 of paragraph 1 of this Article may not engage in any economic and commercial activities in the Republic of Lithuania other than reinsurance and related activities: management of reinsured events, reinsurance mediation, consulting on issues relating to reinsurance, training of reinsurance specialists, in-service training, as well as leasing of immovable property and valuation of property to be reinsured.

Article 5. Insurance and Reinsurance Mediation Activity

1. Only the following shall have the right to engage in insurance mediation activity in the Republic of Lithuania:

1) undertakings (insurance agents undertakings) of any legal form established according to the laws of the Republic of Lithuania and natural persons who are engaged in insurance mediation activity (insurance agents) in accordance with the procedure established by the laws of the Republic of Lithuania. Insurance agents undertakings and insurance agents shall be tied insurance intermediaries;

2) insurance broker undertakings established in accordance with the laws of the Republic of Lithuania: public limited liability companies, private limited liability companies and European companies (*Societas Europaea*) which have obtained a licence to engage in insurance brokerage activity according to the procedure set out in this Law. Insurance broker undertakings shall be independent insurance intermediaries;

3) insurance intermediaries of other European Union Member States which carry out insurance mediation activity in the Republic of Lithuania, exercising the right of establishment and/or the right to provide services;

4) branches of third country insurance intermediaries established in the Republic of Lithuania.

2. Only the entities referred to in paragraph 1 of Article 3 and Article 4 of this Law as well as those listed below shall have the right to engage in reinsurance mediation activity in the Republic of Lithuania:

1) insurance broker undertakings;

2) reinsurance intermediaries of other European Union Member States which are engaged in reinsurance mediation activity in the Republic of Lithuania, both those which have established a branch and those which have not;

3) third country reinsurance intermediaries which have not established a branch in the Republic of Lithuania or branches of independent insurance intermediaries and/or reinsurance intermediaries of third countries established in the Republic of Lithuania.

3. Insurance undertakings or branches of third country insurance undertakings, insurance undertakings of other European Union Member States exercising the right of establishment and/or the right to provide services shall be prohibited from using insurance or reinsurance mediation services offered by persons who do not have the right to engage in insurance or reinsurance mediation activity.

Article 6. Agencies

The regulations set out in this Law regarding the establishment of branches, their activity and supervision of the activity shall also apply to agencies or any other offices headed by the employees of the undertaking which established them or persons who have a permanent or long-term authorisation to operate on behalf of the undertaking they represent, where:

1) the agency or office is established in another European Union Member State by an insurance undertaking, reinsurance undertaking or an undertaking of insurance intermediaries of the Republic of Lithuania;

2) the agency or office in the Republic of Lithuania is established by an insurance undertaking, reinsurance undertaking or an undertaking of insurance intermediaries of another European Union Member State.

Article 7. Branches and Classes of Insurance

1. Insurance branches shall be life assurance and non-life insurance.

2. The life assurance branch shall comprise the following assurance classes:

1) life assurance other than provided for in subparagraphs 2, 3, 4 and 5 of this paragraph;

2) marriage and birth insurance;

3) life assurance related to investment funds (when the investment risk is borne by the policyholder);

4) tontines;

5) pension accumulation activity.

3. The non-life insurance branch shall comprise the following assurance classes:

1) accident insurance;

2) sickness insurance;

3) land motor vehicles, except for railway rolling stock, insurance;

4) railway rolling stock insurance;

5) aircraft insurance;

6) ships (sea and internal waters) insurance;

7) goods in transit insurance;

8) property (except for subparagraphs 3, 4, 5, 6 and 7) insurance against fire and natural forces;

9) property insurance against other risks (except for subparagraph 8 of this paragraph);

10) insurance against civil liability arising out of the use of land motor vehicles;

11) insurance against civil liability arising out of the use of aircraft;

12) insurance against civil liability arising out of the use of ships (sea and internal waters);

13) general civil liability insurance;

14) credit insurance;

15) suretyship insurance;

16) financial loss insurance;

17) legal expenses insurance;

18) assistance insurance.

4. Where the licence to engage in insurance activity or the authorisation for the activity of a branch of a third country insurance undertaking simultaneously covers:

1) the insurance classes specified in subparagraphs 1 and 2 of paragraph 3 of this Article, such activity shall be referred to as accident and sickness insurance (health insurance);

2) the insurance class specified in subparagraph 1 of paragraph 3 of this Article covering passenger injury risk insurance and insurance classes specified in subparagraphs 3, 7 and 10 of paragraph 3 of this Article, such activity shall be referred to as motor insurance;

3) the insurance class specified in subparagraph 1 of paragraph 3 of this Article covering passenger injury risk insurance and the insurance classes specified in subparagraphs 4, 6, 7 and 12 of paragraph 3 of this Article, such activity shall be referred to as marine and transport insurance;

4) the insurance class specified in subparagraph 1 of paragraph 3 of this Article covering passenger injury risk insurance and the insurance classes specified in subparagraphs 5, 7 and 11 of paragraph 3 of this Article, such activity shall be referred to as aviation insurance;

5) the insurance classes specified in subparagraphs 8 and 9 of paragraph 3 of this Article, such activity shall be referred to as fire and other damage to (destruction of) property insurance;

6) the insurance classes specified in subparagraphs 10, 11, 12 and 13 of paragraph 3 of this Article, such activity shall be referred to as civil liability insurance;

7) the insurance classes specified in subparagraphs 14 and 15 of paragraph 3 of this Article, such activity shall be referred to as credit and suretyship insurance;

8) all insurance classes specified in paragraph 3, such activity shall be referred to as risk insurance of the non-life insurance branch.

5. The supervisory authority shall approve the description of insurance classes of life assurance and non-life insurance branches which must be observed by insurance undertakings and branches of third country insurance undertakings.

Article 8. Separation of Life Assurance and Non-life Insurance Activity in the Republic of Lithuania

1. None of the entities specified in paragraph 1 of Article 3 of this Law shall have the right to engage in both life and non-life insurance activity, save for the exceptions and cases referred to in paragraph 2 of this Article and Article 223 of this Law, as well as cases where the legislation of another European Union Member State authorises an insurance undertaking of another European Union Member State to engage in both life and non-life insurance activity.

2. The entities referred to in paragraph 1 of Article 3 of this Law engaged in life assurance activity shall also have the right to engage only in activities of the insurance classes of the non-life insurance branch specified in subparagraphs 1 and 2 of paragraph 3 of Article 7 of this Law, following the procedure established by laws.

3. Insurance undertakings and branches of third country insurance undertakings must follow the rules of life assurance activity and the rules of separate administration of non-life insurance classes listed in subparagraphs 1 and 2 of paragraph 3 of Article 7 of this Law, approved by the supervisory authority.

Article 9. Ancillary Insurance Risks of Non-life Insurance Branch

1. An insurance undertaking which has a licence to engage in insurance activity or a branch of a third country insurance undertaking which has an authorisation for insurance activity of the branch granted for carrying out the insurance activity of the principal risk belonging to the non-life insurance class or several of them shall have the right, without changing the licence to engage in insurance activity or the authorisation for the insurance activity of the branch, to conclude insurance contracts for ancillary insurance risks belonging to other insurance classes of the non-life insurance branch, provided that all the following conditions are met:

- 1) ancillary insurance risk is connected with the principal insurance risk;
- 2) ancillary insurance risk is related to the same object that is covered against the principal insurance risk;
- 3) ancillary risk is covered by the same insurance contract insuring against the principal insurance risk.

2. The risks of insurance classes listed in subparagraphs 14, 15 and 17 of paragraph 3 of Article 7 of this Law may not be regarded as risks ancillary to other insurance classes, with the exception of cases indicated in paragraphs 3 and 4 of this Article.

3. Insurance risk belonging to the insurance class specified in subparagraph 17 of paragraph 3 of Article 7 of this Law may be considered as ancillary to the risks of the insurance class referred to in subparagraph 18 of paragraph 3 of Article 7 of this Law only when the conditions specified in paragraph 1 of this Article are fulfilled and when the principal risk is exclusively related to the provision of assistance to persons who encounter difficulties while travelling, while away from home or from their permanent place of residence.

4. Insurance risk belonging to the insurance class referred to in subparagraph 17 of paragraph 3 of Article 7 of this Law may also be considered as ancillary insurance risk only when the conditions specified in paragraph 1 of this Article are fulfilled and when it is related to disputes or risks arising out of the use of sea vessels or related thereto.

Article 10. Large Insurance Risk

1. Insurance risk shall be considered as large if it belongs to the following:

1) the insurance classes specified in subparagraphs 4, 5, 6, 7, 11 and 12 of paragraph 3 of Article 7 of this Law;

2) the insurance classes referred to in subparagraphs 14 and 15 of paragraph 3 of Article 7 of this Law, where the policyholder is engaged in economic and commercial activities or is a self-employed professional, and the insurance risks are related to these activities.

2. Insurance risk shall also be considered as large if it belongs to the insurance classes referred to in subparagraphs 3, 8, 9, 10, 13 and 16 of paragraph 3 of Article 7 of this Law, and the policyholder of the risk exceeds at least two of the following values:

1) the value of assets indicated in the balance sheet of the policyholder is not less than EUR 6 200 000;

2) the net income of the policyholder totals or exceeds EUR 12 800 000;

3) the average number of personnel employed by the policyholder is at least 250 during the reporting year.

3. If the policyholder belongs to a group of undertakings the sets of consolidated financial statements whereof are drawn up in compliance with the requirements set forth in the Law on Consolidated Accounts of Groups of Undertakings or an equivalent legal act of another European Union Member State, the values referred to in paragraph 2 of this Article shall be established on the basis of the values specified in the sets of consolidated financial statements.

Article 11. Evaluation of Good Repute, Professional Qualifications and Experience

1. A natural person shall not be considered to be of good repute if:

1) he has been convicted for any premeditated criminal acts, has previous convictions for administrative offences relating to property, commerce, finance, accounting and statistics;

2) a disciplinary penalty to dismiss this person from office or a service-related penalty to dismiss a civil servant from office is still effective;

3) the person abuses narcotic, toxic, psychotropic substances or alcohol;

4) there are other important reasons for which the natural person may not be considered to be of good repute.

2. A legal person shall not be considered to be of good repute if:

1) he has been subject to criminal or administrative liability;

2) members of the management bodies of this legal person and natural persons exercising control over this legal person are not of good repute, or the legal person exercising control over this legal person has been subject to criminal or administrative liability;

3) there are other important reasons for which the legal person may not be considered to be of good repute.

3. When evaluating professional qualifications and experience of a natural person, the entities provided for in this Law must take into consideration the person's educational background, the positions held, length of service and other factors which may have an influence on the professional qualifications and experience of the person.

4. When good repute, professional qualifications and experience is evaluated by the supervisory authority, the data about the person's good repute, professional qualifications or experience shall be submitted in special forms set by the supervisory authority. When verification of the data provided in the forms is needed, the supervisory authority shall have the right to request the person to provide additional documentation and information essential for the evaluation of good repute, professional qualifications and experience as well as the right to refer to the persons specified in Article 203 of this Law for the provision of information.

CHAPTER II**INSURANCE UNDERTAKINGS OF THE REPUBLIC OF LITHUANIA****SECTION ONE****LICENCE TO ENGAGE IN INSURANCE ACTIVITY****Article 12. Licence to Engage in Insurance Activity**

1. An insurance undertaking shall have the right to engage in insurance activity only subject to a licence to engage in insurance activity issued by the supervisory authority. The supervisory authority shall approve the rules for licensing of insurance activity.

2. A licence to engage in insurance activity shall be issued:

1) to a public limited liability company, a private limited liability company or a European company (*Societas Europaea*) which is being established;

2) to a new public limited liability company, a private limited liability company or a European company (*Societas Europaea*) which will operate upon the reorganisation of legal persons and is intending to engage in insurance activity;

3) to a public limited liability company, a private limited liability company or a European company (*Societas Europaea*) which is changing its type of activities into insurance activity.

3. A licence to engage in insurance activity shall be effective in all the other European Union Member States, granting the right to engage in insurance activity through exercising the right of establishment and/or the right to provide services under the conditions specified in Section V of this Chapter.

4. A licence to engage in insurance activity shall be issued to engage in insurance activity of the entire insurance class or several insurance classes belonging to branches of life assurance or non-life insurance, except for the cases when the applicant wishes to engage in insurance activity of only some of the risks belonging to the insurance class (classes).

5. A licence to engage in insurance activity shall be issued for an indefinite period of time.

6. A licence to engage in insurance activity shall be issued only for a particular insurance undertaking and may not be transferred to another person.

7. The form of a licence to engage in insurance activity shall be established by the supervisory authority.

8. An insurance undertaking being established may be registered in the Register of Legal Entities and where a licence to engage in insurance activity is issued not to the undertaking being established, appropriate changes in the Register of Legal Entities may be made only upon issuing the licence to engage in insurance activity.

9. The supervisory authority must inform the Register of Legal Entities about the issuance, suspension or withdrawal of a licence to engage in insurance activity according to the procedure set out in the regulations of the Register of Legal Entities.

10. The insurance undertaking must, within five working days, inform the supervisory authority about registration in the Register of Legal Entities.

11. The documents of incorporation of the insurance undertaking shall become invalid if they are not submitted to the Register of Legal Entities within nine months from the date of their execution.

12. The insurance classes specified in the licence to engage in insurance activity shall cover the risks of compulsory insurance only in the cases where this is indicated in the licence issued.

Article 13. Name of the Insurance Undertaking

The name of an insurance undertaking must contain the word “draudimas” (insurance). No other legal person shall have the right to use in its name this word and the combination “draudimo įmonė” (insurance undertaking) or a similar combination, save for the exceptions provided for by law.

Article 14. Documents Submitted for Obtaining a Licence to Engage in Insurance Activity

1. Applicants must submit an application to the supervisory authority for a licence to engage in insurance activity.

2. The application shall be accompanied by the following documents and information in writing:

- 1) the articles and memorandum of association of the insurance undertaking;
- 2) a business plan of the insurance undertaking of the contents and form prescribed by the supervisory authority;
- 3) information in the form prescribed by the supervisory authority about the controlling persons of the insurance undertaking, the participating undertakings and shareholders with a qualifying holding. Information shall also be submitted about the members of the controlling legal persons and of the supervisory and management bodies of the participating undertakings;
- 4) information in the form prescribed by the supervisory authority about the chairman and other members of the supervisory board, the chairman and other members of the board and the head of administration of the insurance undertaking;
- 5) information in the form prescribed by the supervisory authority about the chief accountant and chief actuary of the insurance undertaking;
- 6) documents certifying the accumulation in cash of the organisational fund of the insurance undertaking, its use and balance;
- 7) documents certifying the payment in cash for shares of the insurance undertaking being established;

8) information about the origin of the organisational fund and the financial resources used to pay for the shares of the insurance undertaking being established or to form its authorised capital;

9) contracts concluded on behalf of the insurance undertaking as specified in paragraph 1 of Article 27 of this Law;

10) documents attesting to payment of the state fees and charges for the issuance of the licence to engage in insurance activity;

11) where the insurance undertaking intends to engage in the insurance class listed in subparagraph 10 of paragraph 3 of Article 7 of this Law (except for insurance against civil liability of carriers), the documents certifying that the insurance undertaking has its representatives with adequate authorisations appointed in every other European Union Member State for settlement of claims.

3. Where the founder of an insurance undertaking is a legal person, the following must be submitted in addition:

1) a copy of the registration certificate or any other equivalent document of the founder who is a legal person;

2) a set of audited financial statements of the founder who is a legal person for the last year along with an auditor's opinion. This provision shall not apply where the founder is neither a controlling nor a participating undertaking of the insurance undertaking being established.

4. Where a legal person or legal persons are reorganised into a new legal person – an insurance undertaking or where a public limited liability company, a private limited liability company or a European company (*Societas Europaea*) change the type of their activity into insurance activity, the documents listed in subparagraph 7 of paragraph 2 of this Article need not be submitted, however, the following must be submitted in addition:

1) the terms and conditions of reorganisation, the decision on reorganisation or changing of the type of activity of the legal person;

2) a copy of the registration certificate or any other equivalent document of each legal person, a description of their previous activity, a set of audited financial statements for the last year along with an auditor's opinion, where the supervisory authority has no right to obtain the sets of financial statements from the Register of Legal Entities in accordance with the procedure prescribed by legal acts;

3) information in the form prescribed by the supervisory authority about the controlling persons of each legal person, the participating undertakings and shareholders with a qualifying holding;

4) documents certifying that the financial resources of the insurance undertaking are not less than the organisational fund and the authorised capital as provided for in this Law as well as the information about the origin of the financial resources;

5) proof of tax payment and debts to creditors of each legal person.

5. Where an insurance undertaking of a third country is the founder of a subsidiary, it must, in addition, submit:

1) a licence to engage in insurance activity or any other equivalent document issued by the competent authority of the third country;

2) an authorisation for the establishment of the insurance undertaking in the Republic of Lithuania issued by the competent authority of the third country or the information that the competent authority of the third country does not object to the establishment of a subsidiary in the Republic of Lithuania.

6. The minimum guarantee fund of an insurance undertaking seeking a licence to engage in insurance activity which, when calculating it, is to include the funds received after the payment of shares, or the funds earmarked for the authorised capital of the insurance undertaking as specified in subparagraph 4 of paragraph 4 of this Article must be in conformity with the amounts specified in subparagraph 3 of Article 39 of this Law, having regard to the insurance classes to be engaged in. The funds of the organisational fund shall not be included when calculating the minimum guarantee fund. The applicants must submit documents attesting to the formation of the guarantee fund in cash as well as the information about the origin of the financial resources.

Article 15. Issuance of a Licence to Engage in Insurance Activity

1. Within six months from the submission of the application and all the relevant documents for the issuance of a licence to engage in insurance activity, the supervisory authority shall adopt a decision concerning the issuance of a licence to engage in insurance activity and inform the applicant thereof in writing.

2. The supervisory authority shall refuse to issue a licence to engage in insurance activity where:

1) the documents provided for by this Law or the documents required according to the procedure established by this Law have not been submitted or the submitted documents do not meet the requirements set out in the legal acts of the Republic of Lithuania;

2) the founders of the insurance undertaking and/or the controlling persons, the participating undertakings and shareholders with a qualifying holding do not meet the criteria established in paragraph 3 of Article 20 of this Law and/or, in view of the results of their

activity, legislative provisions and other significant circumstances, their financial standing is not stable and sound;

3) the chairman and other members of the supervisory board, the chairman and other members of the management board, the head of the administration, the chief accountant and the chief actuary of the insurance undertaking do not meet the criteria set out in paragraph 4 of Article 20 of this Law;

4) it may be assumed from the submitted business plan that the interests of the policyholders, the insured persons, the beneficiaries, and the injured third parties will not be properly protected, or there is a reasonable ground to assume that the obligations of the insurance undertaking arising from insurance contracts will not be met on a continuous basis;

5) the authorised capital of the insurance undertaking has not been fully paid-up;

6) the organisational fund and the authorised capital of the insurance undertaking have been paid up in cash of illegal origin;

7) the structure of the insurance undertaking or a group of undertakings to which the insurance undertaking belongs or other close links with natural or legal persons make effective supervision impossible;

8) legal acts of a third country which are applicable to members of a group of undertakings to which the insurance undertaking belongs or to natural or legal persons having close links with the insurance undertaking, or difficulties in the implementation of these legal acts make effective supervision impossible;

9) the insurance undertaking is a successor to the rights and duties of a legal person or legal persons the implementation of which would violate the provisions of paragraph 2 of Article 3 of this Law and/or would endanger the interests of the policyholders, the insured persons, the beneficiaries and the injured third parties;

10) the chairman and other members of the supervisory board, the chairman and other members of the management board, the head of the administration, the chief accountant or the chief actuary of the insurance undertaking also hold positions which they are prohibited to hold according to this Law and other laws;

11) the requirement specified in paragraph 6 of Article 14 of this Law has not been complied with or the origin of the financial resources of the guarantee fund is illegal.

3. When there is a suspicion that the authorised capital, the organisational fund and/or the minimum guarantee fund may be paid up in cash of illegal origin, the supervisory authority must apply to the State Security Department seeking a conclusion about the origin of the financial resources. In this case, the time periods specified in paragraph 1 of this Article and paragraph 11

of Article 12 of this Law shall be suspended and shall be resumed upon receipt of the conclusion from the State Security Department.

Article 16. Consultation with Other Institutions

1. Prior to issuing the licence to engage in insurance activity, the supervisory authority must consult the competent authorities of another European Union Member State about the circumstances significant when adopting a decision on the issuance of the licence to engage in insurance activity, where the insurance undertaking is:

- 1) a subsidiary of an insurance undertaking of any other European Union Member State;
- 2) a subsidiary of the parent undertaking of an insurance or reinsurance undertaking of any other European Union Member State;
- 3) under the control of the same person who controls the insurance or reinsurance undertaking of any other European Union Member State.

2. Prior to issuing the licence to engage in insurance activity, the supervisory authority must consult the competent authority of another European Union Member State supervising the relevant financial sector, where the insurance undertaking is:

- 1) a subsidiary of a credit institution, a financial brokerage firm or a management company of a Member State of the European Union;
- 2) a subsidiary of the parent undertaking of a credit institution, a financial brokerage firm or a management company of a Member State of the European Union;
- 3) under the control of the same person who controls the credit institution, the financial brokerage firm or the management company of another European Union Member State.

3. In evaluating the good repute of the persons controlling the insurance undertaking as well as the good repute, professional qualifications and experience of the members of its supervisory and management bodies, the supervisory authority shall consult the institutions referred to in paragraphs 1 and 2 of this Article about the circumstances significant for the evaluation of good repute, professional qualifications and experience and must provide other institutions with the information about these persons significant for the performance of functions of the above-mentioned institutions.

Article 17. Information about Changes

The insurance undertaking must inform the supervisory authority, in accordance with the licensing procedure established by it, about changes in the information provided in the documentation submitted to the supervisory authority for issuance of the licence to engage in insurance activity.

Article 18. Change of a Licence to Engage in Insurance Activity

The insurance undertaking intending to engage in insurance activity of yet another insurance class or classes belonging to the same insurance branch or to expand the current insurance activity to insurance of all the risks of the same insurance class, or a life assurance undertaking intending to engage in activity of insurance classes belonging to the non-life insurance branch referred to in subparagraphs 1 and 2 of paragraph 3 of Article 7 of this Law must, in accordance with the licensing procedure established by the supervisory authority, apply to the supervisory authority seeking the change of the licence to engage in insurance activity. The supervisory authority shall make a decision concerning the change of the licence within one month of the submission of all the documentation specified in the licensing procedure.

Article 19. Suspension and Withdrawal of a Licence to Engage in Insurance Activity

1. Where there are grounds specified in paragraph 1 of Article 205 of this Law, the supervisory authority shall have the right to suspend a licence to engage in insurance activity until the grounds for the suspension of the licence to engage in insurance activity exist. When the grounds for suspension of the licence to engage in insurance activity cease to exist, the supervisory authority shall without delay, and not later than within five working days of satisfying itself about the cessation of the grounds, restore the validity of the licence to engage in insurance activity.

2. The supervisory authority shall have the right to withdraw the licence to engage in insurance activity where:

1) the insurance undertaking no longer meets the requirements under which the licence to engage in insurance activity was issued;

2) the insurance undertaking has committed a gross violation of legal acts;

3) the insurance undertaking has applied for revocation of the licence to engage in insurance activity;

4) the insurance undertaking does not commence carrying out of insurance activity or related activities within 12 months from the issuance of the licence to engage in insurance activity;

5) the insurance undertaking has not been engaged in insurance or related activity for more than six months;

6) the insurance undertaking has failed to implement the plans for the restoration of its financial standing set out in Article 40 of this Law;

7) in the case specified in paragraph 11 of Article 12 of this Law.

3. The supervisory authority shall notify the competent authorities of other European Union Member States about its decision to withdraw the licence to engage in insurance activity.

4. Having withdrawn the licence to engage in insurance activity, the supervisory authority must take all possible measures to protect the interests of the policyholders, the insured persons, beneficiaries and the third injured parties and, having notified the competent authorities of another European Union Member State where the insurance undertaking is carrying out its activities, shall have the right to seize the assets from which technical provisions of the insurance undertaking are covered. The supervisory authority shall have the right to request that the competent authorities of the other European Union Member State where the insurance undertaking is carrying out its activities, impose analogous restrictions on the insurance undertaking in that European Union Member State.

5. The decision to withdraw the licence to engage in insurance activity must be thoroughly substantiated. The supervisory institution must, without delay, inform the insurance undertaking about the adopted decision and the reasons for it in writing.

SECTION TWO

MANAGEMENT OF AN INSURANCE UNDERTAKING

Article 20. General Provisions

1. Shareholders as well as the supervisory and management bodies of an insurance undertaking must ensure a transparent, sound and prudent management of the insurance undertaking as well as the internal control of the activities of the insurance undertaking, while the head of the administration and, within the limits of their powers, the supervisory board and the board must ensure transparent, sound and prudent accounting procedures of the insurance undertaking.

2. An insurance undertaking must have a general shareholders' meeting, the board and the head of the administration.

3. Founders and persons controlling the insurance undertaking, the participating undertakings and persons directly or indirectly holding shares must be of good repute, while the members of the supervisory and management bodies as well as the head of administration of the insurance holding company must be of good repute, professionally qualified and experienced. Where one or several founders of the insurance undertaking decide to transfer shares to other persons prior to receipt of the licence to engage in insurance activity, such transfer of directly or indirectly held shares shall be subject to the provisions of Article 22 of this Law, and the time

limit set out in paragraph 1 of Article 15 of this Law shall be extended by the time limit specified in paragraph 5 of Article 22 of this Law.

4. Members and the chairman of the supervisory board, members and the chairman of the board, the head of the administration, the chief accountant, the chief actuary and other senior officers of the administration of the insurance undertaking as set out in the articles of association or internal regulations of the insurance undertaking must be of good repute, professionally qualified and experienced.

5. Members and the chairman of the supervisory board (if the supervisory board has been formed), members and the chairman of the board, the head of the administration must be elected, while the candidates who will hold the posts of the chief accountant and the chief actuary must be selected before the insurance undertaking is to be granted the licence to engage in insurance activity.

Article 21. Transparent, Sound and Prudent Management of an Insurance Undertaking

1. The organisational structure and the management system of an insurance undertaking must ensure a transparent, sound and prudent management of activities of the insurance undertaking.

2. In order to ensure a transparent, sound and prudent management, in its articles of association or other internal regulations, the insurance undertaking must:

1) establish in a clear and transparent manner its internal structure, procedures for selection of its employees, their functions, rights, duties and liability;

2) distinguish and define in a clear manner the functions, rights, duties, liability and accountability of the members of the supervisory board and the management board, the chairman of the board, the head of the administration, the chief actuary, the internal audit service (internal auditor) and senior officers of the administration, their decision making powers, relations, principles and rules of communication and cooperation;

3) clearly define the competence of the supervisory and management bodies and senior administrative staff so as to ensure the balance of functions, rights and duties in order to prevent unrestricted powers of any single person in the decision making process;

4) seek that the administration be prevented from exercising undue influence over the board of the insurance undertaking. Where the chairman of the board is also the head of the administration, the insurance undertaking must ensure that the administration is duly accountable to the board;

5) establish that the annual report of the insurance undertaking provides for a proper and comprehensive disclosure of a transparent, sound and prudent compliance with the principles of management and pursuit of the overall objectives of the insurance undertaking;

6) design, maintain, and use an efficient and comprehensive management information system so that relevant information is provided in due time to the board and the head of the administration and that prudent and sound management and control of the undertaking is ensured and assisted;

7) establish money laundering prevention measures as well as measures for recognition and prevention of other violations of laws.

3. The supervisory authority shall have the right to establish mandatory instructions and guidelines concerning the issues of a transparent, sound and prudent management of the insurance undertaking.

Article 22. Acquisition and Transfer of Directly or Indirectly Held Shares of the Insurance Undertaking

1. Any natural or legal person or persons acting in concert (hereinafter in this Article referred to as the “acquirer”) who have taken a decision either to acquire, directly or indirectly, a qualifying holding or to further increase such a qualifying holding to the size equal to 20%, 30% or 50% or more of the authorised capital of the insurance undertaking, or to increase the number of voting rights held at the general shareholders’ meeting to the proportion equal to 20%, 30% or 50% or more of all the voting rights, or where the insurance undertaking which has directly or indirectly acquired shares will become a subsidiary of the person who has acquired shares (hereinafter in this Article referred to as “proposed acquisition”), must obtain a decision from the supervisory institution not to oppose the proposed acquisition. The acquirer must notify the supervisory authority in writing about the proposed acquisition, indicating the size of the intended qualifying holding, and submit the documents and information specified in the list referred to in paragraph 3 of this Article.

2. Any natural or legal person who has taken a decision to dispose, directly or indirectly, of a qualifying holding or to reduce, directly or indirectly, the size of the qualifying holding so that after the disposal its size would be less than 20%, 30% or 50% of the authorised capital of the insurance undertaking or it would reduce the proportion of the voting rights held at the general shareholders’ meeting so that after the direct or indirect disposal of the qualifying holding it would be less than 20%, 30% or 50% of all the voting rights, or where following the disposal of directly or indirectly held shares, the insurance undertaking would cease to be a

subsidiary of the person disposing of the shares, must notify the supervisory authority thereof in writing, indicating the size of the intended qualifying holding.

3. The supervisory authority shall establish a list of documents and data to be submitted together with the notification of the proposed acquisition and required for the assessment of the acquirer and the proposed acquisition. The documents and data indicated in this list must be proportionate to and adjusted for the acquirer and the proposed acquisition. The list may not contain the documents and data which are not required for the assessment of the acquirer and the proposed acquisition according to the criteria established in paragraph 8 of this Article.

4. Having received the notification, documents and data required in accordance with paragraph 1 of this Article necessary for the assessment of the acquirer and the proposed acquisition, as well as additional documents and information referred to in paragraph 6 of this Article, required for the assessment, the supervisory authority shall, forthwith and not later than within two working days, confirm the receipt thereof and inform the acquirer in writing about the date of the expiry of the assessment period.

5. The supervisory authority shall have a maximum of 60 working days for the performance of an assessment of the acquirer and the proposed acquisition as from the date of the written acknowledgement of receipt of the notification of the proposed acquisition and all documents and data specified in paragraph 3 of this Article (hereinafter in this Article referred to as the “assessment period”).

6. The supervisory authority may, during the assessment period, if necessary, and no later than on the fiftieth working day of the assessment period, request any further documents and data necessary to complete the assessment. Such request shall be made in writing and shall specify the additional documents and data needed. For the period between the date of request to submit additional documents and data by the supervisory authority and the receipt of a response thereto by the acquirer, the assessment period shall be interrupted. The interruption of the assessment period may not exceed 20 working days. Moreover, the supervisory authority shall have the right to request further completion or clarification of the documents and data at its own discretion, but this may not result in an interruption of the assessment period.

7. The supervisory authority shall have the right to extend the interruption of the assessment period as indicated in paragraph 6 of this Article for a period not exceeding 30 working days where the acquirer is:

- 1) situated or regulated outside the Community;
- 2) a natural or legal person not subject to supervision under legal acts of the Republic of Lithuania or other European Union Member States regulating the activities of credit institutions,

insurance undertakings, reinsurance undertakings, financial brokerage firms or management companies of harmonised collective investment undertakings.

8. In assessing the submitted notification, referred to in paragraph 1 of this Article, of the proposed acquisition and the documents and data necessary for the assessment of the acquirer and the proposed acquisition as well as the submitted additional documents and data, the supervisory authority shall, in order to ensure the sound and prudential management of an insurance undertaking the qualifying holding whereof is intended to be acquired, and having regard to the likely influence of the acquirer on the insurance undertaking, appraise the suitability of the acquirer and the financial soundness of the proposed acquisition against all of the following criteria:

- 1) the good repute of the acquirer;
- 2) the good repute and experience of any person who will direct the business of the insurance undertaking as a result of the proposed acquisition;
- 3) the financial soundness of the acquirer, in particular in relation to the type of business pursued and envisaged by the insurance undertaking in respect of which the acquisition is proposed;
- 4) whether the insurance undertaking will be able to comply and continue to comply with the prudential requirements set forth in this Law and other legal acts, in particular, whether the group of which it will become a part has a structure that makes it possible to exercise effective supervision, effectively exchange information among the supervisory authority and supervisory authorities of other European Union Member States and determine the allocation of responsibilities among the supervisory authority and supervisory authorities of other European Union Member States;
- 5) whether there are grounds to suspect that, in connection with the proposed acquisition, the activities of money laundering or terrorist financing as defined by the Law on Prevention of Money Laundering and Terrorist Financing are being or have been carried out or attempted, or that the proposed acquisition could increase the risk thereof.

9. The supervisory authority shall have the right to oppose the proposed acquisition where:

- 1) the documents established by the supervisory authority or required in accordance with this Law and other legal acts of the Republic of Lithuania have not been submitted, or the documents submitted are not in compliance with the requirements provided for by the legal acts of the Republic of Lithuania;
- 2) the acquirer or proposed acquisition is assessed as unsuitable or financially unsound based on the criteria specified in paragraph 8 of this Article.

10. If, having completed the assessment of the acquirer and proposed acquisition, the supervisory authority decides to oppose the proposed acquisition, it shall, within two working days and not exceeding the assessment period, inform the acquirer thereof in writing, specifying the reasons for the decision. Moreover, the decision shall indicate all opinions or reservations received from the competent authorities of other European Union Member States supervising the relevant financial sector, following consultation according to paragraphs 14 and 15 of this Article. The supervisory authority shall have the right, at the request of the acquirer or on its own initiative, to publish information about the reasons for taking the decision to oppose the proposed acquisition and the actual decision on its website.

11. If the supervisory authority takes a decision not to oppose the proposed acquisition prior to expiry of the assessment period, it must notify the acquirer thereof in writing within two working days. Where the supervisory authority does not declare its opposition to the proposed acquisition during the assessment period, it shall be held that the supervisory authority does not oppose the proposed acquisition.

12. The supervisory institution may neither impose any prior conditions in respect of the size of the qualifying holding that must be acquired nor examine the proposed acquisition in terms of the economic needs of the market.

13. Where two or more proposed acquisitions have been notified to the supervisory authority regarding the same insurance undertaking, the latter shall consider all the notifications received in accordance with the same procedure treating the acquirers in a non-discriminatory manner.

14. In carrying out the assessment, the supervisory authority must work in full consultation with the competent authorities of other European Union Member States supervising the relevant financial sector and, when adopting a decision, take account of their opinions if the proposed acquirer is one of the following:

1) an insurance or reinsurance undertaking of another European Union Member State or a credit institution, a financial brokerage firm or management company of harmonised collective investment undertakings of another European Union Member State or the Republic of Lithuania;

2) a parent undertaking of an insurance or reinsurance undertaking of another European Union Member State or a credit institution, a financial brokerage firm or management company of harmonised collective investment undertakings of another European Union Member State or the Republic of Lithuania;

3) a natural or legal person controlling an insurance or reinsurance undertaking of another European Union Member State or a credit institution, a financial brokerage firm or management company of harmonised collective investment undertakings of another European Union Member

State or the Republic of Lithuania and where following the direct or indirect acquisition of a qualifying holding the insurance undertaking would become a subsidiary or an undertaking controlled by this person.

15. The supervisory authority shall, in consultation according to paragraph 14 of this Article, request the competent authorities of other European Union Member States supervising the relevant financial sector to provide all information which is relevant for the assessment of suitability of the acquirer and the financial soundness of the proposed acquisition and shall communicate without delay to these supervisory authorities, upon their request, the information relevant for the assessment carried out and shall communicate on its own initiative all information essential for the assessment carried out.

16. When taking a decision not to oppose the proposed acquisition, the supervisory authority shall have the right to fix a maximum period for concluding the proposed acquisition and to extend it where appropriate.

17. Transactions under which persons directly or indirectly acquire shares of an insurance undertaking failing to fulfil the obligation set out in paragraph 1 of this Article or ignoring the decision of the supervisory authority specified in paragraph 10 of this Article shall be null and void and the acquirers shall not acquire voting rights. All claims relating to the consequences of such transactions, including the claim relating to acquisition of voting rights, shall be heard in court of the Republic of Lithuania in accordance with the procedure laid down by laws of the Republic of Lithuania according to the location of the registered office of the insurance undertaking.

18. Insurance undertakings must notify the supervisory authority in accordance with the procedure established by the latter of any change of persons directly or indirectly holding shares of the insurance undertakings.

19. Where it is suspected that the directly or indirectly held shares of an insurance undertaking may have been paid up in cash of illegal origin, the supervisory authority must, in accordance with the procedure set forth by the Law on Prevention of Money Laundering and Terrorist Financing, apply to the State Security Department and/or Financial Crime Investigation Service under the Ministry of the Interior of the Republic of Lithuania seeking a conclusion about the origin of these financial resources. Upon the request of the supervisory authority, the State Security Department and Financial Crime Investigation Service under the Ministry of the Interior of the Republic of Lithuania, other state and municipal institutions also other persons must forthwith supply the available information on the acquirer, members and heads thereof, the financial standing, activities, discovered infringements of laws and other legal acts, conclusions

of conducted verifications and examinations as well as other information required by the supervisory authority to carry out an assessment of the acquirer and the proposed acquisition.

Article 23. Supervisory Board of an Insurance Undertaking

1. If a supervisory board is formed at an insurance undertaking, the insurance undertaking must, after the election of members and the chairman of the supervisory board, within 10 days furnish information about these persons to the supervisory authority in the form established by the latter.

2. The supervisory board of an insurance undertaking shall, in addition to the functions prescribed by other laws or articles of association, appoint and recall the head of the internal audit service or the internal auditor and establish methodological instructions for their activity. Where the supervisory board is not formed, these functions shall be performed by the board of the insurance undertaking.

Article 24. Board of an Insurance Undertaking

1. Before members and the chairman of the board of the insurance undertaking are elected, the insurance undertaking must submit information to the supervisory authority in the established form and obtain approval of the supervisory authority for the candidates applying for the said positions. The supervisory authority shall adopt the decision on the approval of the candidates within 30 working days.

2. In addition to other functions specified in laws or articles of associations, the board of the insurance undertaking shall perform the following functions:

1) establish the strategic objectives of the insurance undertaking, measures aimed at achieving these objectives and the procedure for monitoring of the measures and assessing the results;

2) establish an independent risk management strategy of the insurance undertaking related to the activity carried out by the insurance undertaking, in particular the identification, assessment, monitoring and control of the transactions referred to in Article 50 of this Law, and inspect the implementation thereof;

3) establish the procedure for the conclusion of insurance contracts which shall also be applicable to tied insurance intermediaries, paying particular attention to the disclosure of information essential in concluding an insurance contract to the policyholders, respect for and protection of interests of each policyholder, and ensure that insurance policy conditions are in line with the legislative provisions;

4) establish the procedure for reporting about insured events and events which could be recognised as insured events and the procedure for accounting of the results of investigation of these reports as well as the rules for investigating insured events and events which could be recognised as insured events;

5) establish the procedure for examination of complaints submitted by the policyholders, insured persons, beneficiaries and injured third parties as well as the procedure for providing responses to applicants; a description of this procedure must be published on the website of the insurance undertaking and provided upon request of any person concerned where the person concerned bears the costs of such provision;

6) having verified the good repute, professional qualifications and experience of the candidates, appoint and recall the head of the administration, the chief accountant and the chief actuary;

7) determine the procedure for remuneration of the head of the administration, the chief accountant and the chief actuary;

8) determine the procedure for verification of good repute, professional qualifications and experience of persons seeking senior positions in the administration of the insurance undertaking and ensure that persons who make decisions on investment and/or asset management are of good repute, have adequate professional qualifications and experience;

9) implement the recommendations of the supervisory authority on the issues relating to strengthening of management and transparent, sound and prudent management of the insurance undertaking.

3. Before the head of the administration of the insurance undertaking is elected, the board of the insurance undertaking must submit to the supervisory authority information in the form established by the latter and obtain approval of the supervisory authority for the candidate applying for the position of the head of the administration. The supervisory authority shall adopt the decision on the approval of the candidate within 30 working days.

4. Having appointed the chief accountant and/or the chief actuary, the board of the insurance undertaking must, within 10 days, submit information about these persons in the established form to the supervisory authority.

Article 25. Chief Actuary

1. An insurance undertaking must have a chief actuary. The chief actuary of an insurance undertaking must:

1) ensure that insurance premiums of the insurance undertaking are calculated and the technical provisions are made according to the principles and requirements established or recognised by legal acts;

2) inspect whether the insurance undertaking is able, at any time, to discharge its obligations arising from insurance contracts, and whether the insurance undertaking complies with the solvency margin requirements set forth in the legal acts, assess the effect of the transactions specified in Article 50 of this Law on the solvency of the insurance undertaking;

3) seek that the coverage of the technical provisions by assets is in compliance with the nature of activity of the insurance undertaking and the requirements set forth in legal acts; make proposals on this issue to the board of the insurance undertaking;

4) seek that the reinsurance strategy of the insurance undertaking is, at any time, adequate to the management of the assumed insurance and reinsurance risks and is in compliance with the requirements established by legal acts, make proposals on this issue to the board of the insurance undertaking;

5) make proposals to the board of the insurance undertaking on the profit distribution of the insurance undertaking to the policyholders who have concluded life assurance contracts under which they are entitled to a share of profit of the insurer;

6) submit, at least once every quarter, reports to the board of the insurance undertaking in the form prescribed by it on the coverage of technical provisions of the insurance undertaking and the status of solvency margin;

7) submit reports to the supervisory authority in the form prescribed by it;

8) act in accordance with the Code of Professional Ethics for Actuaries approved by a professional organisation of actuaries.

2. Having identified a threat that the insurance undertaking may, at any time, become unable to discharge its obligations arising from insurance or reinsurance contracts, the chief actuary must immediately inform thereof the board of the undertaking; and if the latter does not take measures forthwith to improve the situation, to inform the supervisory authority.

3. The chief actuary of the insurance undertaking shall have the right to obtain all the information necessary for the performance of his functions from the supervisory board, the board, the head of the administration, the chief accountant, the internal audit service or the internal auditor.

4. While performing his duties, the chief actuary of the insurance undertaking shall be accountable only to the board of the insurance undertaking. Other bodies of the insurance undertaking shall be prohibited from interfering with the activities of the chief actuary.

5. Other rights, duties and liability of the chief actuary of the insurance undertaking shall be established by the chief actuary's work regulations approved by the board of the insurance undertaking.

Article 26. Internal Control of the Insurance Undertaking

1. Internal control of the activities of an insurance undertaking must be ensured by a sound and adequate internal control system.

2. An insurance undertaking must have the internal audit service or an internal auditor. These functions may be performed not only by a unit of the insurance undertaking or an employee, but also by a person with whom the insurance undertaking has concluded a internal audit contract.

3. The internal control system of activities of an insurance undertaking shall be based on:

- 1) the organisational structure enabling to ensure vertical and horizontal relations;
- 2) the internal information system;
- 3) liability and competence of the personnel provided for in the internal regulations of the insurance undertaking;

4) sound control of operating procedures ensuring separation of duties and implementation of the duty to sign financial documentation by two persons provided for by legal acts;

5) the information system for shareholders, supervisory and management bodies;

6) risk management;

7) professional qualifications, experience, good repute of the internal audit service (internal auditor), and adequate funding allocated for the performance of direct functions of the internal audit service (internal auditor).

4. The internal audit service (internal auditor) shall perform the following functions:

1) assess whether the sets of financial statements of the insurance undertaking reflect the actual situation of the insurance undertaking and results of its activities;

2) verify compliance with legal acts, articles of association of the insurance undertaking, resolutions of the supervisory board and the board of the insurance undertaking, orders of the head of the administration and other internal regulations and their implementation;

3) inspect how contracts specified in Article 50 of this Law are identified, assessed, monitored and controlled;

4) verify and assess the adequacy and efficiency of the internal control system of the insurance undertaking;

5) assess the effectiveness of activities and strategic objectives of the insurance undertaking and of means aimed at achieving these objectives;

6) submit proposals to the supervisory board and the board concerning their resolutions, make recommendations to the board and the head of the administration on the issues of management and activities of the insurance undertaking, organisation of activities of its structural divisions and its efficiency, report to the supervisory board on the implementation of the said recommendations.

5. The internal audit service (internal auditor) must forthwith inform the supervisory board of the insurance undertaking and if the latter fails to take immediate measures to improve the situation, also the supervisory authority about the discovered violations of laws and other legal acts of the Republic of Lithuania which jeopardise the interests of the policyholders, the insured persons, beneficiaries and injured third parties as well as safe and sound activities of the insurance undertaking.

6. The internal audit service or the internal auditor shall have the right to obtain all the information necessary for the exercise of functions of internal audit from the supervisory and management bodies of the insurance undertaking, the head of the administration, the chief accountant, the chief actuary and other members of the administrative personnel of the insurance undertaking.

7. In carrying out their duties, the internal audit service or the internal auditor shall be accountable only to the supervisory board of the insurance undertaking. The internal audit service or the internal auditor must be independent of the audited entity and no pressure may be exerted on them when determining the scope of the internal audit, carrying out the internal audit and submitting its findings.

8. Other rights, duties and liability of the internal audit service or the internal auditor of the insurance undertaking shall be established by the rules of procedure of the internal audit service (internal auditor) approved by the supervisory board of the insurance undertaking. The supervisory authority shall have the right to give mandatory instructions and recommendations concerning establishment of the rights and duties of the internal audit service or the internal auditor of the insurance undertaking.

9. Where no supervisory board is formed in an insurance undertaking, the functions, rights and duties of such a board, as specified in this Article, shall be performed by the board of the insurance undertaking.

Article 27. Outsourcing Contracts of the Insurance Undertaking

1. When concluding outsourcing contracts on the valuation of property to be insured by the insurance undertaking, conclusion of insurance contracts, administration of insured events, investment and/or asset management, accounting, administration of databases, internal audit and other contracts provided for by the supervisory authority, the insurance undertaking must:

1) make sure that the other party to the contract is of good repute, has adequate professional qualifications and experience;

2) have a clause in the contract providing for the right to obtain from the other party to the contract all the necessary information relating to the activity carried out by that party under the contract;

3) have a clause in the contract providing for the right to give mandatory instructions to the other party to the contract relating to the activity carried out by that party under the contract.

2. The insurance undertaking must inform the supervisory authority about the contracts referred to in paragraph 1 of this Article in the manner established by the supervisory authority.

3. The insurance undertaking shall be liable for violations of the legal acts regulating insurance activity, irrespective of the concluded contracts specified in paragraph 1 of this Article.

4. Upon establishing that, as a result of the concluded contracts specified in paragraph 1 of this Article, an obstacle for an effective supervision of the insurance undertaking arises or legislative provisions or the interests of policyholders, the insured persons or beneficiaries have been violated, the supervisory authority shall have the right to obligate the insurance undertaking to rectify the situation or to require that the insurance undertaking itself performs the activities which under the contracts specified in paragraph 1 of this Article had to be performed by the other parties.

Article 28. Establishment of Branches of the Insurance Undertaking

Branches of the insurance undertaking shall be established in the Republic of Lithuania and in third countries following the procedure prescribed by the supervisory authority subject to an authorisation to establish a branch.

Article 29. Restrictions of the Conflict of Interests

1. The head of the administration of an insurance undertaking may not perform the functions of a member of the supervisory board, the chief accountant, the chief actuary and be a member of the supervisory board or the board of another insurance undertaking, or work in the administration of another insurance undertaking; however, the head of the administration of an

insurance undertaking shall have the right to be a member of the supervisory board and a member of the board of an insurance undertaking of the same group of insurance undertakings.

2. The internal auditor or an auditor of another insurance undertaking may not be a member of the supervisory board or a member of the board of the insurance undertaking. A member of the board of the parent undertaking may be a member of the supervisory board of the insurance undertaking.

3. An audit firm with which the insurance undertaking has concluded an audit contract may not be the internal auditor of the insurance undertaking.

4. The members of the bodies of an insurance undertaking shall also be subject to restrictions of the conflict of interests set out in other laws of the Republic of Lithuania **to the extent this Law does not provide otherwise.**

SECTION THREE

FINANCES OF INSURANCE UNDERTAKINGS

Article 30. Organisational Fund

1. The founders, a legal person (persons) which is being reorganised into an insurance undertaking or which is changing its activities into the activities of an insurance undertaking must form an organisational fund of financial resources intended for covering the expenses of founding, reorganisation into an insurance undertaking or changing of type of activities.

2. The organisational fund must amount to the minimum of EUR 300 000.

3. The organisational fund must be formed of financial resources only.

4. The organisational fund may not be formed of borrowed financial resources and financial resources of illegal origin.

Article 31. Authorised Capital

1. The authorised capital of an insurance undertaking may not be less than EUR 1 000 000.

2. The articles of association which are amended due to the increase or decrease of the authorised capital must be coordinated, following the procedure prescribed by the supervisory authority, with the supervisory authority before the insurance undertaking communicates information about the amendments to the Register of Legal Entities. The supervisory authority shall adopt a decision on the coordination of the amendments to the articles of association within 20 days of submission of all the duly executed documents. The increase of the authorised capital

may be registered, according to the procedure prescribed by law, only when the shares have been fully paid-up.

3. An insurance undertaking may have only registered shares. The shares of an insurance undertaking must be paid-up only in cash.

4. The shares of an insurance undertaking may not be paid-up in borrowed cash nor in cash of illegal origin.

Article 32. Equity and Loan Capital

1. The composition of equity capital of an insurance undertaking shall be regulated by the Law on Companies; however, upon registration of the insurance undertaking as well as amendments related to the change of the type of activity in the Register of Legal Entities, the balance of the organisational fund shall be attributed to the mandatory reserve.

2. The loan capital of an insurance undertaking shall be composed of:

- 1) technical provisions;
- 2) reinsurers' deposits;
- 3) other commitments;
- 4) accumulated expenses and receivables.

Article 33. Business Plan

1. The activities of an insurance undertaking must be based on a business plan. The insurance undertaking must notify the supervisory authority about the intended changes in the business plan and coordinate the amendments according to the procedure prescribed by the supervisory authority.

2. The contents and form of the business plan as well as the procedure for submitting it shall be established by the supervisory authority.

Article 34. Technical Provisions

1. An insurance undertaking must, following the procedure prescribed by the supervisory authority, form sufficient technical provisions and ensure that they are represented by matching assets intended for covering technical provisions.

2. Following the procedure set by the supervisory authority, insurance undertakings shall form the following technical provisions:

- 1) unearned premiums technical provision;
- 2) life assurance mathematical technical provision;
- 3) outstanding claims technical provision;

- 4) technical provision for bonuses and rebates;
- 5) equalisation technical provision;
- 6) other technical provisions.

Article 35. Coverage of Technical Provisions by Assets

1. By accumulation of assets covering technical provisions, insurance undertakings must take into consideration the type of activity carried out by the undertaking and aim to guarantee safety, liquidity, diversification, time matching and profitability of investment.

2. Technical provisions must be covered by assets expressed in the currency which determines the insurance undertaking's obligations provided for in the insurance and reinsurance contracts, following currency matching rules set by the supervisory authority.

3. Only the assets listed below may cover technical provisions:

- 1) securities of the Government, the central bank and municipality;
- 2) immovable property;
- 3) term deposits with banks;
- 4) loans guaranteed by immovable property;
- 5) mortgage bonds;
- 6) shares admitted to trading on regulated markets;
- 7) shares not admitted to trading on regulated markets, provided that there is an authorisation from the supervisory authority;
- 8) debentures of undertakings admitted to trading on regulated markets;
- 9) debentures of undertakings not admitted to trading on regulated markets, provided that there is an authorisation from the supervisory authority;
- 10) shares of variable capital investment companies and investment units of investment funds;
- 11) derivative financial instruments which are aimed at reducing investment risk;
- 12) other investments set by the supervisory authority, provided that an authorisation from the supervisory authority has been obtained in the cases set by the supervisory authority;
- 13) cash in the settlement account and on hand;
- 14) newly issued debentures if a description of conditions of the issue provides for an obligation to admit them to trading on regulated markets not later than within one year from the issue of these securities;
- 15) money market instruments admitted to trading on regulated markets;
- 16) money market instruments not admitted to trading on regulated markets, provided that there is an authorisation from the supervisory authority.

4. The portion of a premium that has not been required to be paid as well as the reinsurers' share of technical provisions may be covered by:

- 1) insurance and reinsurance premiums that have not been required to be paid;
- 2) reinsurers' debts;
- 3) other assets specified in paragraph 3 of this Article.

5. The supervisory authority shall have the right to limit, on a reasoned basis, the following investments covering technical provisions:

- 1) into shares and debentures of closely linked undertakings;
- 2) into shares and debentures of undertakings whose shares have been acquired by members of the supervisory board, the board and/or the head of the administration of an insurance undertaking or in whose supervisory or management bodies positions are held by members of the supervisory board and the board of the insurance undertaking;
- 3) which may undermine the financial stability of an insurance undertaking or have any other negative impact on the activity of the insurance undertaking, the interests of the policyholders, the insured persons, beneficiaries and/or the injured third parties.

6. The supervisory authority shall determine the procedure for covering technical provisions with assets, its conditions, limitations and currency matching rules.

7. An insurance undertaking must administer the list of assets covering technical provisions following the procedure set out by the supervisory authority. The court, applying interim protection measures, or other state institutions, applying sanctions related to the assets specified in this list, must obtain an opinion of the supervisory authority on the potential consequences of the interim protection measures or sanctions for the financial standing of the insurance undertaking as well the interests of the policyholders, the insured persons, beneficiaries and injured third parties. The supervisory authority must furnish its opinion to the court within 24 hours.

8. An insurance undertaking engaged in reinsurance activity must comply with the provisions of this Article if any of the conditions specified in paragraph 4 of Article 39 of this Law are met. In this case, all the assets used by the insurance undertaking to cover technical provisions, corresponding to reinsurance obligations assumed by it, must be granted, managed and administered separately from the direct insurance activity of the insurance undertaking, without leaving any possibility for their transfer. The supervisory institution shall carry out an inspection of these assets and segregation thereof.

Article 36. Failure to Comply with Requirements for Formation of Technical Provisions and their Coverage by Assets

1. If an undertaking fails to comply with the requirements for formation of technical provisions and their coverage by assets, the supervisory authority, after a prior notification of the competent authority of another European Union Member State within which the insurance risk is situated or the competent authority of another European Union Member State of the commitment under a life assurance contract, shall have the right to seize the assets of the insurance undertaking which cover technical provisions.

2. Exercise of the right referred to in paragraph 1 of this Article by the supervisory authority shall not preclude the supervisory authority from application of other sanctions provided for by this Law.

3. Where the assets of an insurance undertaking specified in Article 35 of this Law covering technical provisions account for less than 100% of the total amount of technical provisions, the insurance undertaking must, within one working day from emergence of the said circumstances, apply to the supervisory authority for the issuance of an authorisation to cover that portion of technical provisions with other assets of the insurance undertaking.

Article 37. Reinsurance

1. A licence to engage in insurance activity shall grant the right to an insurance undertaking to engage in reinsurance activity.

2. Insurance undertakings may engage in reinsurance activity only in those insurance classes in which they carry out insurance activity following the procedure set out in this Law.

3. Reinsurance activity carried out by an insurance undertaking shall be subject to the requirements analogous to those of formation of technical provisions, asset coverage and accounting as well as other requirements set for carrying out insurance activity in an insurance class.

Article 38. Ceded Reinsurance

1. Insurance undertakings shall have the right to cede (transfer a share of assumed risk) by concluding reinsurance contracts only with persons listed in Article 4 of this Law.

2. The aim of ceded reinsurance may be reduction of losses due to the assumed insurance risk, reduction of the required solvency margin, more efficient use of capital held or extension of possibilities to assume other insurance risks.

3. Having regard to the assumed insurance risks, an insurance undertaking must, at any time, have sufficient ceded reinsurance.

4. An insurance undertaking shall choose a reinsurer according to its own reinsurance strategy. The reinsurance strategy of the insurance undertaking, covering all assumed insurance

risks, shall be approved by the board of the insurance undertaking at least once a year, while that of life assurance undertakings – at least once every three years. A ceded reinsurance strategy must embrace:

1) types and scope of reinsurance contracts of the ceded reinsurance programme as well as the amounts of the insurance risk retained by the insurance undertaking;

2) criteria for the choice of the reinsurer and/or a certified list of reinsurers;

3) the principles of internal control of implementation of the reinsurance programme.

5. When choosing a reinsurer, an insurance undertaking must follow a principle of safety and must possess sufficient information about the reinsurer.

6. The supervisory authority shall have the right to set requirements for reinsurance and criteria for the choice of a reinsurer which shall be compulsory for insurance undertakings.

7. At the request of the supervisory authority, an insurance undertaking must submit its reinsurance strategy, draft reinsurance contracts or the contracts proper. The supervisory authority shall have the right to obligate the insurance undertaking to revise or terminate the concluded reinsurance contracts where the requirements for reinsurance and the criteria for the choice of a reinsurer set out by the supervisory authority have been breached.

Article 39. Solvency Margin

1. Throughout the whole period of its economic and commercial activities, each insurance undertaking must maintain an adequate solvency margin: the available solvency margin must not be less than the required solvency margin and the guarantee fund must not be less than the minimum guarantee fund. The solvency margin shall be calculated according to the procedure established by the supervisory authority.

2. A portion of the available solvency margin equal to the larger of the following amounts – the minimum guarantee fund or 1/3 of the required solvency margin, shall comprise the guarantee fund.

3. The minimum guarantee fund shall be equal to:

1) EUR 2 000 000 for an insurance undertaking engaged in non-life insurance activity;

2) EUR 3 000 000 for an insurance undertaking engaged in life assurance activity;

3) EUR 3 000 000 for an insurance undertaking engaged in at least one of the activity of insurance risks in the insurance classes specified in subparagraphs 10, 11, 12, 13, 14 and 15 of paragraph 3 of Article 7 of this Law.

4. An insurance undertaking engaged in reinsurance activity must form the minimum guarantee fund in accordance with the procedures established by this Law, to be applied in respect of the insurance undertaking if one of the following conditions is met:

1) the amount of written reinsurance premiums accounts for more than 10% of the total amount of written premiums;

2) the amount of written reinsurance premiums is in excess of EUR 50 000 000;

3) the amount of technical provisions for reinsurance activity accounts for more than 10% of the total amount of technical provisions.

5. The amount of the minimum guarantee fund shall be indexed according to the procedure established by the supervisory authority.

Article 40. Plans for Restoration of Financial Standing

1. An insurance undertaking which violates the requirements for solvency margin must forthwith inform the supervisory authority.

2. At the request of the supervisory institution, an insurance undertaking must increase, without delay, the available solvency margin or, following the procedure prescribed by the supervisory authority, submit to the supervisory authority a plan in the prescribed form for the restoration of financial standing of the insurance undertaking.

3. In special cases, where there is a threat that the financial standing of an insurance undertaking may deteriorate even further, the supervisory authority, upon a prior notification to the competent authority of another European Union Member State where the insurance undertaking is carrying out its activities, shall have the right to seize the assets of the insurance undertaking covering its technical provisions. The supervisory authority shall have the right to request that the competent authority of the other European Union Member State where the insurance undertaking is carrying out its activities impose analogous restrictions in that European Union Member State.

4. The supervisory authority shall have the right to set requirements for a short-term plan for the restoration of financial standing as well as the procedure for its presentation.

5. At the request of the supervisory authority, insurance undertakings must revise their plans for the restoration of financial standing. Plans for the restoration of financial standing approved by the supervisory authority shall be obligatory to insurance undertakings.

6. Where a plan for the restoration of financial standing is not submitted in good time or is not being implemented, the supervisory authority must take all necessary sanctions, including seizure of assets covering technical provisions and shall have the right to revoke the licence to engage in insurance activity.

7. If, due to the specific nature of activities of an insurance undertaking and/or insufficiency of application of standard solvency requirements provided for by legal acts, there is a threat that interests of the policyholders, insured persons, beneficiaries or injured third parties

will not be ensured, the supervisory authority shall have the right to require the insurance undertaking to have solvency margin larger than the minimum solvency margin prescribed by legal acts. To that end, requirements for the required solvency margin may be increased, in order that the insurance undertaking could satisfy solvency margin requirements in the nearest future.

8. Where, due to the deterioration of the financial standing of the insurance undertaking, ensuring the interests of policyholders, insured persons, beneficiaries and injured third parties is under a threat, the supervisory authority shall have the right to request the insurance undertaking to improve its financial standing or take measures in advance to ensure the minimum solvency margin in the future.

9. Provisions of this Article shall not preclude the supervisory authority from resorting to any other sanctions provided for in this Law.

Article 41. Transfer of Rights and Duties under Insurance Contracts

1. On the basis of a written agreement and upon obtaining an authorisation from the supervisory authority, an insurance undertaking shall have the right to transfer its rights and duties under insurance contracts to another insurance undertaking, an insurance undertaking of another European Union Member State or a branch of a third country insurance undertaking established in the Republic of Lithuania or another European Union Member State.

2. An insurance undertaking shall have the right to transfer its rights and duties under all insurance contracts or part of them which were concluded when exercising the right of establishment or the right to provide services to an insurance undertaking of another European Union Member State only where a competent authority of this state confirms that after the transfer of the rights and duties, the solvency margin required under the legal acts of this state will be preserved by the entity taking over the rights and duties.

3. If it is intended to transfer rights and duties under the insurance contracts of a branch of an insurance undertaking in the European Union Member State concluded when exercising the right of establishment or the right to provide services, the supervisory authority must obtain an opinion from a competent authority of the other European Union Member State in which the branch is located about the transfer of the rights and duties.

4. An authorisation to transfer rights and duties under insurance contracts may be issued provided that the competent authority of another European Union Member State within which the insurance risk is situated or the competent authority of another European Union Member State of the commitment under a life assurance contract does not object thereto.

5. If information specified in parts 2, 3 and 4 of this Article is not received within three months, it shall be considered that the competent authority of another European Union Member State does not object to the transfer of rights and duties under insurance contracts.

6. A written agreement on the transfer of rights and duties must have a clause that the transfer of rights and duties shall be deemed to have taken place from the moment of publication of the authorisation for the transfer rights and duties by the supervisory authority in the supplement *Informaciniai pranešimai* to the official gazette *Valstybės žinios*.

Article 42. Issuance of an Authorisation to Transfer Rights and Duties under Insurance Contracts

1. An insurance undertaking must announce about its intention to transfer rights and duties under insurance contracts in at least two daily newspapers circulated in the whole of the Republic of Lithuania and in another European Union Member State where the insurance undertaking carries out its activities. The announcement about the intention to transfer the rights and duties under insurance contracts must specify the time period, not shorter than two months, within which the policyholder shall have the right to express his objection in writing against the intention of the insurance undertaking to transfer rights and duties under insurance contracts.

2. Where the insurance undertaking has failed to properly fulfil the requirement specified in paragraph 1 of this Article, the supervisory authority shall have the right to request the insurance undertaking to announce about its intention to transfer rights and duties under insurance contracts once again or additionally inform each policyholder in writing.

3. Upon the expiry of the time limit set in paragraph 1 of this Article, the insurance undertaking which intends to transfer its rights and duties under insurance contracts must apply to the supervisory authority seeking an authorisation for the transfer of the rights and duties under insurance contracts. The authorisation to transfer the rights and duties under insurance contracts shall be issued following the procedure set by the supervisory authority within three months from the application if:

1) all the documents and information specified in the description of the procedure for issuing authorisations for the transfer of rights and duties under insurance contracts established by the supervisory authority have been submitted;

2) the entity taking over the rights and duties assumes all the rights and duties arising from insurance contracts;

3) after the transfer of the rights and duties under insurance contracts, the solvency margin of the entities taking over the rights and duties under insurance contracts is retained at the level required by legal acts;

4) the transfer of the rights and duties under insurance contracts does not have a negative impact on the property interests of the policyholders, insured persons, beneficiaries and injured third parties of the insurance undertaking which transfers its rights and duties under insurance contracts;

5) there is no objection from the competent authorities of other European Union Member State indicated in Article 41 of this Law to the transfer of the rights and duties under insurance contracts.

4. When issuing an authorisation for the transfer of rights and duties under insurance contracts, the supervisory authority must set a time limit within which the rights and duties have to be transferred. The authorisation for the transfer of the rights and duties under insurance contracts shall be published in the supplement *Informaciniai pranešimai* to the official gazette *Valstybės žinios*.

5. The supervisory authority must also announce about the transfer of the rights and duties under insurance contracts in another European Union Member State where the insurance risk is situated or another European Union Member State of the commitment under a life assurance contract following the requirements stipulated in the legal acts of that state.

6. If the policyholder objects to the transfer of the rights and duties under insurance contracts, he shall have the right to terminate the insurance contract following the procedure set out in the insurance contract within one month from the transfer of the rights and duties.

7. The rights and duties under insurance contracts shall be transferred together with the assets covering technical provisions. If it is intended to transfer the rights and duties under insurance contracts without all the assets or part of the assets covering technical provisions, an authorisation for the transfer of the rights and duties under insurance contracts may be issued only if the supervisory authority approves a plan for the restoration of the assets covering technical provisions submitted following the procedure determined by the supervisory authority.

Article 43. Accounting, Financial Statements and Audit

1. Insurance undertakings must keep financial accounting and draw up sets of financial statements pursuant to the laws, resolutions of the supervisory authority and other legal acts and in accordance with the accounting policy chosen by the insurance undertaking.

2. The accounting system of activities of an insurance undertaking must be organised in such way that:

1) financial statements would show the real financial standing of the insurance undertaking and its performance results;

2) it would provide conditions for safe and credible management and disposal of the assets of the insurance undertaking;

3) it would provide conditions for an audit firm of the insurance undertaking, the internal audit service (internal auditor) of the insurance undertaking or institutions authorised by law to inspect and evaluate the activities of the supervisory and management bodies of the insurance undertaking and its other employees having powers to make decisions from which obligations of the insurance undertaking to other persons arise, and the financial standing of the insurance undertaking.

3. The supervisory authority shall establish the forms of the set of financial statements, other financial and statistical reports of an insurance undertaking and the procedure for drawing up and submitting them.

4. The set of annual financial statements of an insurance undertaking must be verified by an audit company having experience in the field of audit of insurance undertakings or financial institutions. Within four months from the close of the financial year, the set of financial statements must be approved by the general shareholders' meeting and submitted to the supervisory authority.

5. Within ten days from choosing an audit firm, following the procedure determined by the supervisory authority, the insurance undertaking must inform the supervisory authority about the audit firm it has chosen. If auditors of the audit firm lack experience in auditing of insurance undertakings or financial institutions, at the request of the supervisory authority, the insurance undertaking must find another audit firm. The same auditor may perform an audit at the same insurance undertaking for not more than five years in succession. After the expiry of the above period, the auditor may not perform an audit of this insurance undertaking for two years.

6. An audit firm shall have the following duties when auditing sets of financial statements of an insurance undertaking:

1) an audit firm must inform the supervisory authority without delay about the major violations of this Law and other legal acts regulating financial activity of insurance undertakings that were identified during the inspection of sets of financial statements of the insurance undertaking, also the circumstances indicating that the insurance undertaking no longer meets the requirements necessary for the issuance of a licence to engage in insurance activity as well as the circumstances that cause or may cause a threat to solvency and financial stability of the insurance undertaking or the interests of the policyholders, insured persons, beneficiaries and injured third parties;

2) an audit firm must inform the supervisory authority in writing and without delay about any circumstances due to which it is refused to state the auditor's opinion in the audit report, the submitted auditor's opinion is negative or qualified.

7. At the request of the supervisory authority, an audit firm must present explanations regarding its opinions about financial statements and other information indicated in the auditor's opinion.

8. The audit firm which performs an audit of an insurance holding company or a company controlled by an insurance undertaking must forthwith inform the supervisory authority about any circumstances indicated in paragraph 6 of this Article that transpire during the audit.

9. Fair disclosure of information by an audit firm to the supervisory authority about any circumstances indicated in this Article shall not be and may not be a breach of the duty prescribed by legal acts or a contract of non-disclosure of information and shall not incur nor may incur any form of liability.

10. Insurance undertakings must publish their sets of annual financial statements and the auditor's opinion following the procedure established by the supervisory authority.

11. The supervisory authority shall also have the right to establish the procedure for the publication of other reports.

SECTION FOUR

SUPPLEMENTARY SUPERVISION OF INSURANCE AND REINSURANCE UNDERTAKINGS BELONGING TO A GROUP OF UNDERTAKINGS

Article 44. Application of Provisions of this Section

1. The provisions of this Section shall apply to insurance and reinsurance undertakings and other undertakings provided for in this Section.

2. Apart from the general supervision requirements provided for in this Law, supplementary supervision requirements set out in Articles 47, 48, 50 and 51 of this Law shall apply to the insurance undertaking which is a participating undertaking at least in one other insurance or reinsurance undertaking, an insurance or reinsurance undertaking of another European Union Member State, a third country insurance or reinsurance undertaking.

3. Supplementary supervision requirements set out in Articles 47, 48, 50 and 52 of this Law shall apply to each insurance or reinsurance undertaking whose parent undertaking is an insurance holding company or a third country insurance or reinsurance undertaking.

4. Supplementary supervision requirements set out in Articles 47, 48 and 50 of this Law shall apply to each insurance or reinsurance undertaking whose parent undertaking is a mixed-activity insurance holding company.

5. The rights and duties of insurance undertakings belonging to a group of undertakings, consisting of credit institutions, financial brokerage firms or other financial institutions as well as the rights and duties of the supervisory authority in supervising groups of such undertakings shall be regulated by the Law on Supplementary Supervision of Entities in a Financial Conglomerate. The provisions of this Section shall also apply to these insurance undertakings.

Article 45. Extent of Supplementary Supervision

1. When exercising supplementary supervision, the following shall be taken into account:

- 1) undertakings related to the insurance or reinsurance undertaking;
- 2) participating undertakings of the insurance or reinsurance undertaking;
- 3) undertakings related to the participating undertakings of the insurance or reinsurance undertaking;

2. Supplementary supervision shall not mean that the supervisory authority exercises supervision of the undertakings listed in paragraph 1 of this Article; however, the requirements specified in this Section shall apply to the said undertakings.

3. In exercising supplementary supervision, the supervisory authority may take no account of third country undertakings if there are legal obstacles to obtaining information. This shall be taken into consideration when calculating the adjusted solvency margin in accordance with the procedure established by the supervisory authority.

4. The supervisory authority shall have the right to decide in each individual case whether to apply supplementary supervision requirements where:

- 1) an undertaking which would be taken into consideration while exercising supplementary supervision is insignificant for the objectives of supplementary supervision of insurance or reinsurance undertakings;
- 2) application of supplementary supervision requirements would be unreasonable or misleading having regard to the objectives of supplementary supervision of insurance or reinsurance undertakings.

Article 46. Competent Authorities

1. Supplementary supervision shall be exercised by a competent authority which has issued a license to engage in insurance activity.

2. If a parent undertaking of an insurance or reinsurance undertaking and one other (or more) insurance or reinsurance undertakings of another European Union Member State is the same insurance holding company, a reinsurance undertaking, a third country insurance or reinsurance undertaking or a mixed-activity insurance holding company, a competent authority responsible for supplementary supervision shall be determined by agreement of the supervisory authority with the authorities of other European Union Member States exercising supervision of insurance and/or reinsurance undertakings. Under this agreement, the supervisory authority may be assigned to exercise supplementary supervision.

3. If supplementary supervision is the responsibility of a competent authority of another European Union Member State, it shall have the same rights to access information in respect of insurance or reinsurance undertakings and entities which are subject to supplementary supervision in the Republic of Lithuania as the supervisory authority.

Article 47. Internal Control and Right to Access Information

1. Each insurance or reinsurance undertaking which is subject to supplementary supervision requirements must have an adequate system of internal control to ensure gathering and provision of data and information necessary for supplementary supervision.

2. Entities listed in paragraph 1 of Article 45 of this Law having their registered office in the Republic of Lithuania, at the request of the insurance or reinsurance undertaking which is subject to supplementary supervision requirements, must provide this insurance or reinsurance undertaking with the information essential for supplementary supervision and shall have the right to request such information from the insurance or reinsurance undertaking itself which must furnish it.

Article 48. Right of the Supervisory authority to Information

1. The supervisory authority shall have the right to apply directly to the undertakings listed in paragraph 1 of Article 45 of this Law with a request to provide information essential for supplementary supervision of the insurance and reinsurance undertaking only where the insurance or reinsurance undertaking itself has failed to provide such information at the request the supervisory authority.

2. The supervisory authority shall have the right to verify the information indicated in paragraph 1 of this Article itself or with the assistance of persons invited for that purpose by carrying out inspections:

1) at the insurance or reinsurance undertaking which is subject to supplementary supervision requirements;

2) at the subsidiaries of the insurance or reinsurance undertaking specified in subparagraph 1 of this paragraph;

3) at the parent undertakings of the insurance or reinsurance undertaking specified in subparagraph 1 of this paragraph;

4) at the other subsidiaries of the parent undertaking of the insurance or reinsurance undertaking specified in subparagraph 1 of this paragraph.

Article 49. Cooperation

1. Where insurance or reinsurance undertakings and insurance or reinsurance undertakings of other European Union Member States are directly or indirectly closely related or have a common participating undertaking, the supervisory authority, at the request of a competent authority of another European Union Member State, must provide information essential for supplementary supervision, or shall have the right, on its own initiative, to provide information that could be essential for the competent authority of another European Union Member State.

2. When the insurance or reinsurance undertaking and credit institutions or financial brokerage firms or those credit institutions and financial brokerage firms are directly or indirectly related or have a common participating undertaking, the supervisory authority must cooperate with relevant authorities of the Republic of Lithuania or another European Union Member State or a third country and provide information that would facilitate the performance of the functions of all the said authorities.

Article 50. Transactions within a Group of Undertakings

1. The supervisory authority shall have the right to obtain information about the transactions listed in paragraph 3 of this Article between an insurance or reinsurance undertaking and:

- 1) an affiliated undertaking;
- 2) a participating undertaking;
- 3) undertakings affiliated to the participating undertaking.

2. The supervisory authority shall also have the right to obtain information about the transactions listed in paragraph 3 of this Article between an insurance or reinsurance undertaking and a natural person who participates in:

- 1) an insurance or reinsurance undertaking or an affiliated undertaking;
- 2) a participating undertaking;
- 3) an undertaking affiliated to the participating undertaking.

3. The supervisory authority shall have the right to obtain information about the following transactions:

- 1) loans;
- 2) guarantees, warranties and other off-balance sheet transactions;
- 3) transactions regarding elements included into the calculation of solvency margin;
- 4) investment;
- 5) reinsurance and retrocession;
- 6) transactions regarding distribution of costs;
- 7) other contracts essential for supplementary supervision.

4. An insurance and reinsurance undertaking, following the procedure set by the supervisory authority, must inform the supervisory authority about transactions listed in this Article. In exercising its right to obtain information about the transactions referred to in subparagraph 7 of paragraph 3 of this Article, the supervisory authority must specify to the insurance and reinsurance undertaking which transactions are essential for supplementary supervision.

5. If it is evident from the provided information that solvency of an insurance or reinsurance undertaking is or might be under threat, the supervisory authority must resort to sanctions provided for in this Law.

Article 51. Adjusted Solvency Margin of the Insurance and Reinsurance Undertaking Referred to in Paragraph 2 of Article 44 of this Law

1. Requirements for the calculation of adjusted solvency margin set by the supervisory authority shall apply to the insurance or reinsurance undertaking referred to paragraph 2 of Article 44 of this Law.

2. Any affiliated undertaking, participating undertaking or an undertaking affiliated to the participating undertaking shall be included when calculating the adjusted solvency margin of an insurance undertaking.

3. If the calculation shows inadequate solvency margin of an insurance or reinsurance undertaking specified in paragraph 2 of Article 44 of this Law, the supervisory authority must resort to sanctions provided for in this Law.

Article 52. Adjusted Solvency Margin of the Insurance and Reinsurance Undertaking Referred to in Paragraph 3 of Article 44 of this Law

1. Requirements for the calculation of adjusted solvency margin set by the supervisory authority shall apply to the insurance or reinsurance undertaking referred to paragraph 3 of Article 44 of this Law.

2. All undertakings affiliated to the insurance holding company as well as third country insurance or reinsurance undertakings shall be included when calculating the adjusted solvency margin of an insurance undertaking.

3. If the calculation shows that the solvency of the insurance and/or reinsurance undertaking is or may be under threat, the supervisory authority must resort to sanctions provided for by this Law.

SECTION FIVE

ACTIVITIES OF INSURANCE UNDERTAKINGS IN OTHER EUROPEAN UNION MEMBER STATES

Article 53. Right of Insurance Undertakings to Provide Services in Another European Union Member State

1. An insurance undertaking which intends to provide services in another European Union Member State must notify the supervisory authority, indicating the risks intended to be covered by insurance contracts and submit documents referred to in subparagraph 4 of paragraph 2 of this Article. Information and documents must be submitted in Lithuanian and English and the state language or one of the state languages of another European Union Member State, where under the legal acts of another European Union Member State all documents submitted to the competent authority of that Member State must be in the state language or one of the state languages of that Member State.

2. Within one month after receiving information specified in paragraph 1 of this Article, provided that the conditions referred to in paragraph 3 of this Article are not present, the supervisory authority must forward to the competent authority of the European Union Member State in which the insurance undertaking intends to provide services, notifying the insurance undertaking of it on the same day, the following information:

1) proof that the insurance undertaking meets the solvency margin requirements set out in the legal acts of the Republic of Lithuania;

2) a list of insurance classes in which the insurance undertaking has the right to engage in;

3) information on insurance risks submitted by the insurance undertaking which are intended to be covered by insurance contracts;

4) where the insurance undertaking intends to engage in the activity of insurance class referred to in subparagraph 10 of paragraph 3 of Article 7 of this Law (except for insurance against civil liability of carriers), documents certifying that the insurance undertaking is a member of the National Insurers' Bureau and the guarantee reserve of that European Union Member State and that it has assigned a representative for settlement of claims, granting appropriate powers to him, the name, surname and address of the representative.

3. The supervisory authority shall have the right, within one month after receiving all the information specified in paragraph 1 of this Article, refuse to forward the information referred to in paragraph 2 of this Article, notifying the insurance undertaking thereof in writing, only where the insurance undertaking fails to comply with the requirements stipulated in the legal acts of the Republic of Lithuania and/or the financial standing of the insurance undertaking is not stable and sound according to the requirements set out in the legal acts of the Republic of Lithuania.

4. The supervisory authority's refusal to forward information referred to in paragraph 3 of this Article may be appealed by an insurance undertaking to the court following the procedure established by laws of the Republic of Lithuania.

5. Upon receiving information referred to in paragraph 2 of this Article from the supervisory authority and having fulfilled other conditions laid down in the legal acts of another European Union Member State, an insurance undertaking shall have the right to start providing services in another European Union Member State.

6. An insurance undertaking must notify, not later than one month in advance, about any changes it plans to make in the information submitted pursuant to the provisions of paragraph 1 of this Article. Provisions of paragraphs 1, 2, 3, 4 and 5 of this Article shall apply to submission of information by an insurance undertaking, forwarding of the submitted information to the competent authority of another European Union Member State and refusal to forward the information. Refusal of the supervisory authority to forward information shall deprive the insurance undertaking of the right to make the planned changes.

Article 54. Establishment of a Branch of an Insurance Undertaking in Another European Union Member State

1. An insurance undertaking which intends to establish a branch in another European Union Member State must submit to the supervisory authority the following information and documents:

1) the name of another European Union Member State in which it intends to establish a branch;

2) a business plan of a form and content determined by the supervisory authority;

3) the address of the registered office of the branch where correspondence may be sent and received and a confirmation that any correspondence addressed to the head of the branch of the insurance undertaking may be sent to the indicated address;

4) documents attesting that the insurance undertaking has appointed a person of good repute, having adequate professional qualifications and experience in the field of insurance to act as the head of the branch, who is duly empowered to establish rights and duties of the insurance undertaking which has established its branch in another European Union Member State in respect of third parties, to represent the insurance undertaking in court and at other government and administration institutions of that European Union Member State;

5) where an insurance undertaking intends to carry out, through a branch established in another European Union Member State, insurance activity falling within the insurance class referred to in subparagraph 10 of paragraph 3 of Article 7 of this Law (except for insurance against civil liability of carriers), documents certifying that the insurance undertaking is a member of the National Insurers' Bureau and the guarantee fund of that European Union Member State.

2. Documents specified in paragraph 1 of this Article must be submitted in Lithuanian and English or in the state language or one of the state languages of another European Union Member State, where under the legal acts of another European Union Member State all documents submitted to the competent authority of that Member State must be submitted in the state language or one of the state languages of that Member State.

3. Within three months after receiving the documents and information specified in paragraph 1 of this Article and in the absence of the conditions referred to in paragraph 4 of this Article, the supervisory authority must forward the documents and information received, notifying the insurance undertaking thereof in writing on the same day, to the competent authority of another European Union Member State in which the insurance undertaking intends to establish a branch, together with a proof that the insurance undertaking meets the solvency margin requirements set out in the legal acts of the Republic of Lithuania.

4. The supervisory authority may, within three months after receiving all the documents and information specified in paragraph 1 of this Article, refuse, notifying the insurance undertaking thereof in writing, to forward the documents and information referred to in paragraph 3 of this Article only where:

1) the structure of the supervisory and management bodies of the insurance undertaking does not meet the requirements stipulated in the legal acts of the Republic of Lithuania and/or is not adequate for an efficient management of the insurance undertaking;

2) the insurance undertaking fails to comply with the requirements stipulated in the legal acts of the Republic of Lithuania and/or the financial standing of the insurance undertaking is not stable and sound according to the requirements stipulated in the legal acts of the Republic of Lithuania;

3) members of the supervisory board and the board, the head of the administration, the chief accountant, the chief actuary of the insurance undertaking or the appointed head of the established branch do not meet the criteria set out in the legal acts of the Republic of Lithuania;

4) it may be assumed from the submitted business plan that the interests of the policyholders, the insured persons, beneficiaries, and any injured third parties are not properly protected or there are reasonable grounds to believe that the obligations of the insurance undertaking arising from insurance contracts will not be fulfilled on a continuous basis.

5. The supervisory authority's refusal to forward information referred to in paragraph 4 of this Article may be appealed by an insurance undertaking to the court following the procedure established by laws of the Republic of Lithuania.

6. An insurance undertaking may establish a branch and launch its activities upon receiving from the competent authority of another European Union Member State a notification about the right to establish the branch and start its activities as well as the conditions of the activities, where such a notification is not received within two months after receipt by the insurance undertaking of a written notification from the supervisory authority referred to in paragraph 3 of this Article, upon the expiry of a two-month time limit.

7. The supervisory authority and the competent authority of another European Union Member State where a branch has been established must be notified at least one month in advance of any planned changes in the information and documents referred to in subparagraphs 2, 3 and 4 of paragraph 1 of this Article. Submission of information by the insurance undertaking, forwarding of the submitted information to the competent authority of another European Union Member State and refusal to forward information shall be subject to provisions of paragraphs 1, 2, 3, 4 and 5 of this Article; however, the three-month time limit provided for in paragraphs 3 and 4 of this Article shall be replaced by a time limit of one month. Refusal of the supervisory authority to forward information shall deprive the insurance undertaking of the right to make the planned changes.

Article 55. Branches of Insurance Undertakings Engaged in Non-life Insurance in the Swiss Confederation

Branches of insurance undertakings engaged in non-life insurance in the Swiss Confederation shall be established and shall operate under the rules applicable to the

establishment and activity of branches of insurance undertakings in other European Union Member States to the extent the Agreement between the European Economic Community and the Swiss Confederation concerning direct insurance other than life assurance does not provide otherwise.

CHAPTER III

SPECIFIC FEATURES OF SUPERVISION OF REINSURANCE ACTIVITY

Article 56. Licence to Engage in Reinsurance Activity

1. A licence to engage in reinsurance activity shall be issued to engage in non-life reinsurance, life reinsurance or all reinsurance activity based on the request of the applicant.

2. Provisions of paragraphs 1, 2, 3, 5, 6, 7, 8, 9, 10 and 11 of Article 12 of this Law shall *mutatis mutandis* apply to the licence of reinsurance undertakings.

3. An application to issue a licence to engage in reinsurance activity shall *mutatis mutandis* be subject to provisions of Article 14 of this Law, except for provisions of subparagraph 11 of paragraph 2 and paragraph 6 of Article 14 of this Law.

4. Provisions of paragraphs 1, 2, 3, 5, 6, 7, 8, 10, 3 and 11 of Article 15 of this Law shall *mutatis mutandis* apply to the licence of reinsurance undertakings.

5. Consultations with other authorities shall *mutatis mutandis* be subject to provisions of Article 16 of this Law.

6. Information about the changes shall *mutatis mutandis* be subject to provisions of Article 17 of this Law.

7. Suspension and withdrawal of a licence to engage in reinsurance activity shall *mutatis mutandis* be subject to provisions of paragraphs 1, 2, 3 and 5 of Article 19 of this Law.

Article 57. Management of a Reinsurance Undertaking

1. Management of a reinsurance undertaking shall *mutatis mutandis* be subject to provisions of Articles 20, 21 and 27 of this Law.

2. Acquisition and transfer of directly or indirectly held shares of a reinsurance undertaking shall *mutatis mutandis* be subject to provisions of Article 22 of this Law.

3. The internal control system of a reinsurance undertaking shall *mutatis mutandis* be subject to provisions of Article 26 of this Law.

Article 58. Business Plan of a Reinsurance Undertaking

The business plan of a reinsurance undertaking shall *mutatis mutandis* be subject to provisions of Article 33 of this Law.

Article 59. Technical Provisions

Technical provisions shall *mutatis mutandis* be subject to provisions of Article 34 of this Law.

Article 60. Coverage of Technical Provisions by Assets

1. Coverage of technical provisions by assets shall *mutatis mutandis* be subject to provisions of Article 35 of this Law.

2. Failure to comply with requirements for formation of technical provisions and their coverage by assets shall *mutatis mutandis* be subject to provisions of paragraphs 1 and 2 of Article 36 of this Law.

Article 61. Solvency Margin of a Reinsurance Undertaking

1. The solvency margin of a reinsurance undertaking shall *mutatis mutandis* be subject to provisions of paragraphs 1, 2 and 5 of Article 39 of this Law.

2. The minimum guarantee fund of a reinsurance undertaking shall be EUR 3 000 000.

Article 62. Plans for Restoration of Financial Standing of a Reinsurance Undertaking

1. Plans for restoration of financial standing of a reinsurance undertaking shall *mutatis mutandis* be subject to provisions of paragraphs 1, 2, 3, 4, 5, 6 and 9 of Article 40 of this Law.

2. If the financial standing of a reinsurance undertaking deteriorates and the contractual obligations are under threat, the supervisory authority shall have the right to request that reinsurance undertakings have a higher solvency margin than required under the legal acts. To that end, requirements for the required solvency margin may be increased, in order that the reinsurance undertaking could satisfy solvency margin requirements in the nearest future.

Article 63. Accounting, Financial Statements and Audit of a Reinsurance Undertaking

Accounting, financial statements and audit of reinsurance undertakings shall *mutatis mutandis* be subject to provisions of Article 43 of this Law.

Article 64. Financial Reinsurance

The supervisory authority shall have the right to establish rules regulating financial reinsurance activity.

Article 65. Transfer of Rights and Duties under Reinsurance Contracts

1. On the basis of a written agreement and upon obtaining an authorisation from the supervisory authority, a reinsurance undertaking shall have the right to transfer its rights and duties under reinsurance contracts to another insurance or reinsurance undertaking, an insurance or reinsurance undertaking of another European Union Member State or a branch of a third country insurance or reinsurance undertaking established in the Republic of Lithuania or another European Union Member State.

2. A reinsurance undertaking shall have the right to transfer its rights and duties under all reinsurance contracts or part of them which were concluded when exercising the right of establishment or the right to provide services to an insurance or reinsurance undertaking of another European Union Member State only where a competent authority of this state confirms that after the transfer of the rights and duties, the solvency margin required under the legal acts of this state will be preserved by the entity taking over the rights and duties.

3. A written agreement on the transfer of rights and duties must have a clause that the transfer of rights and duties shall be deemed to have taken place from the moment of publication of the authorisation for the transfer rights and duties by the supervisory authority in the supplement *Informaciniai pranešimai* to the official gazette *Valstybės žinios*.

4. A reinsurance undertaking must announce about its intention to transfer rights and duties under reinsurance contracts in at least two daily newspapers circulated in the whole of the Republic of Lithuania and in another European Union Member State where the insurance undertaking carries out its activities. The announcement about the intention to transfer the rights and duties under reinsurance contracts must specify the time period, not shorter than 30 days, within which the reinsured shall have the right to express their objection in writing against the intention of the reinsurance undertaking to transfer rights and duties under reinsurance contracts.

5. Where the insurance undertaking has failed to properly fulfil the requirement specified in paragraph 4 of this Article, the supervisory authority shall have the right to request the reinsurance undertaking to announce about its intention to transfer rights and duties under reinsurance contracts once again or additionally inform each reinsured in writing.

6. Upon the expiry of the time limit set in paragraph 4 of this Article, the reinsurance undertaking which intends to transfer its rights and duties under reinsurance contracts must apply to the supervisory authority seeking an authorisation for the transfer of the rights and duties under reinsurance contracts. The authorisation for the transfer of the rights and duties under

insurance contracts shall be issued following the procedure set by the supervisory authority within three months from the application if:

1) all the documents and information specified in the description of the Procedure for Issuing Authorisations for the Transfer of Rights and Duties under Reinsurance Contracts established by the supervisory authority have been submitted;

2) the entity taking over the rights and duties under reinsurance contracts assumes all the rights and duties arising from reinsurance contracts;

3) after the transfer of the rights and duties under reinsurance contracts, the solvency margin of the entities taking over the rights and duties under insurance contracts is retained at the level required by legal acts.

7. When issuing an authorisation for the transfer of rights and duties under reinsurance contracts, the supervisory authority must set a time limit within which the rights and duties have to be transferred. The authorisation for the transfer of the rights and duties under reinsurance contracts shall be published in the supplement *Informaciniai pranešimai* to the official gazette *Valstybės žinios*.

8. The rights and duties under reinsurance contracts shall be transferred together with the assets covering technical provisions. If it is intended to transfer the rights and duties under reinsurance contracts without all the assets or part of the assets covering technical provisions, an authorisation for the transfer of the rights and duties under reinsurance contracts may be issued only if the supervisory authority approves a plan for the restoration of the assets covering technical provisions submitted following the procedure determined by the supervisory authority.

Article 66. Activities of Branches of Third Country Reinsurance Undertakings in the Republic of Lithuania

Reinsurance activity of branches of third country reinsurance undertakings and supervision thereof shall *mutatis mutandis* be subject to provisions of paragraphs 2, 3 and 4 of Article 74, paragraphs 1, 3, 4, 5 and 6 of Article 75, paragraph 1 and subparagraphs 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 of paragraph 2 of Article 76, paragraph 1 and subparagraphs 1, 2, 3, 4, 6, 7 and 8 of paragraph 2, paragraphs 3, 4 and 5 of Article 77 (except for the provision of paragraph 4 regarding a third country insurance undertaking entitled to engage in insurance activities of both life assurance and non-life insurance branches) of Articles 78, 79, paragraph 1 and 2, subparagraphs 1, 2, 4 and 5 of paragraph 3, paragraphs 4 and 5 of Article 80, Articles 81, 82, 84 and 85 of this Law.

Article 67. Transfer of Rights and Duties under Reinsurance Contracts of a Branch of a Third Country Reinsurance Undertaking

1. A branch of a third country reinsurance undertaking shall have the right to transfer its rights and duties under all reinsurance contracts or part of them to an insurance or reinsurance undertaking or a branch of a third country insurance or reinsurance undertaking established in the Republic of Lithuania where, based on the data available to the supervisory authority, it may be claimed that after the transfer of the rights and duties, the adequate solvency margin required under the legal acts will be preserved by the entity taking over the rights and duties.

2. In addition, a branch of a third country reinsurance undertaking shall have the right to transfer rights and duties under all reinsurance contracts or part of them to an insurance or reinsurance undertaking of another European Union Member State where a competent authority of this Member State confirms that after the transfer of the rights and duties, the adequate solvency margin required under the legal acts will be preserved by the entity taking over the rights and duties under reinsurance contracts.

3. Transfer of rights and duties under reinsurance contracts shall also be subject to other requirements set out in Articles 41 and 42 of this Law to the extent this Law does not provide otherwise.

Article 68. Termination, Reorganisation and Bankruptcy of Reinsurance Undertakings

1. Reorganisation, restructuring, bankruptcy, voluntary and compulsory liquidation of reinsurance undertakings shall *mutatis mutandis* be subject to provisions of Articles 139, 140, 141, 143, paragraphs 1, 2 and 3 of Article 144, Articles 145, 146, 147, 148, 149 and 155.

2. Where a reinsurance undertaking is liquidated, obligations arising from reinsurance contracts which were concluded when exercising the right of establishment or the right to provide services shall be fulfilled in the same manner as the obligations arising from other reinsurance contracts of that reinsurance undertaking.

CHAPTER IV

**INSURANCE ACTIVITY OF INSURANCE UNDERTAKINGS OF
OTHER EUROPEAN UNION MEMBER STATES IN
THE REPUBLIC OF LITHUANIA**

Article 69. Right to Engage in Insurance Activity in the Republic of Lithuania

Insurance undertakings of other European Union Member States in the Republic of Lithuania shall have the right to establish subsidiaries, provide services or establish branches.

Article 70. Right of Insurance Undertakings of other European Union Member States to Provide Services in the Republic of Lithuania

1. An insurance undertaking of another European Union Member State shall have the right to start the provision of services in the Republic of Lithuania only after the supervisory authority receives from the competent authority of that European Union Member State documents which this authority must submit to the supervisory authority under the legal acts of that European Union Member State, and upon meeting other conditions specified in this Article.

2. An insurance undertaking of another European Union Member State which intends to engage in activity of the insurance class referred to in subparagraph 10 of paragraph 3 of Article 7 of this Law (except for insurance against civil liability of carriers) must also submit to the supervisory authority:

1) documents certifying that the insurance undertaking of another European Union Member State is a member of the Motor Insurers' Bureau of the Republic of Lithuania and participates in the guarantee fund of the Bureau;

2) documents certifying that the insurance undertaking of another European Union Member State has appointed its representative in the Republic of Lithuania with adequate authorisations to represent that undertaking in court and at other government and administration institutions of the Republic of Lithuania as well as in dealing with natural or legal persons, also specify the name, surname and address of the representative;

3) documents certifying that the assigned representative has been granted the right to administer insured events, pay insurance benefits, verify on behalf of the insurance undertaking of another European Union Member State the fact of conclusion and validity of compulsory insurance contracts;

4) the address in the Republic of Lithuania of the representative referred to in subparagraph 3 of this paragraph.

3. Assignment of a representative provided for in this Article and presence of a representative in the Republic of Lithuania shall not be considered as establishment of a branch, agency or office of an insurance undertaking of another European Union Member State in the Republic of Lithuania within the meaning of paragraph 62 of Article 2 and Article 6 of this Law; however a branch of an insurance undertaking of another European Union Member State (the same or other than the represented undertaking) established in the Republic of Lithuania may be appointed a representative.

4. In any other case not provided for in this Article the possibility for insurance undertakings of other European Union Member States to provide services in the Republic of Lithuania shall not grant the right to an insurance undertaking of another European Union Member State to assign a person subordinate to instructions and control of the represented undertaking, residing in the Republic of Lithuania permanently or for a long period of time, who has been empowered to establish the rights and duties for an insurance undertaking of another European Union Member State in respect of third parties.

Article 71. Branches of Insurance Undertakings of Other European Union Member States

1. Upon being informed by the competent authority of another European Union Member State about the intention of an insurance undertaking of that Member State to establish a branch in the Republic of Lithuania and upon receiving from that authority information and documents of the insurance undertaking of another European Union Member State which the authority must provide to the supervisory authority in accordance with the legal acts of that Member State, the supervisory authority must inform, within two months after the receipt of this information, the competent authority of that European Union Member State about conditions applicable to the activities of branches of insurance undertakings of other European Union Member States in the Republic of Lithuania without violating public order. Where the supervisory authority fails to provide such information within this time limit, the insurance undertaking of another European Union Member State shall have the right to establish a branch and commence its activities in the Republic of Lithuania.

2. An insurance undertaking of another European Union Member State which has established a branch in the Republic of Lithuania must notify the supervisory authority, not later than one month in advance, about any planned changes in the information and documents which, when planning to establish a branch in the Republic of Lithuania, it submitted to the competent authority of that European Union Member State in accordance with the requirements of the legal acts of that Member State.

3. An insurance undertaking of another European Union Member State shall have the right to engage in the activity falling within the insurance class referred to in subparagraph 10 of paragraph 3 of Article 7 of this Law (with the exception of insurance against civil liability of carriers) through a branch established in the Republic of Lithuania only upon becoming a member of the Motor Insurers' Bureau of the Republic of Lithuania and taking part in the guarantee fund of the Bureau.

4. In the case of the association of underwriters known as Lloyd's, in any disputes in the Republic of Lithuania arising from or related to insurance contracts concluded by a branch of this association established in the Republic of Lithuania, the policyholders, the insured persons, beneficiaries and any injured third parties shall have no less rights than in disputes arising from insurance contracts concluded by any other insurance undertakings and branches of insurance undertakings of other European Union Member States or third countries. The head of a branch of the association of underwriters known as Lloyd's in the Republic of Lithuania (authorised representative of the branch) must have sufficient powers to represent the association in disputes settled in court and other disputes arising from an insurance contract or related to it and to establish rights and duties for the respective insurers of that association in respect of third parties.

Article 72. Branches of Insurance Undertakings Engaged in Non-life Insurance in the Swiss Confederation

Unless otherwise provided for by the supervisory authority, the establishment and activities of branches of insurance undertakings of the Swiss Confederation engaged in non-life insurance in the Republic of Lithuania shall be subject to the same rules applicable to the establishment and activities of branches of insurance undertakings of other European Union Member States.

Article 73. Language

All documents submitted to the supervisory authority shall be in the Lithuanian language, and where documents are submitted by a competent authority or insurance undertaking of another European Union Member State – and/or in the English language.

CHAPTER V

**ACTIVITIES OF THIRD COUNTRY INSURANCE UNDERTAKINGS IN
THE REPUBLIC OF LITHUANIA**

Article 74. Right to Engage in Insurance Activity

1. Third country insurance undertakings shall have the right to engage in insurance activity in the Republic of Lithuania only through a subsidiary or a branch established in the Republic of Lithuania, except for the cases provided for in Article 225 of this Law.

2. Insurance activity and supervision of branches of third country insurance undertakings shall be subject to the same requirements as insurance undertakings of the Republic of Lithuania,

taking account of exceptions and specific nature of the legal status and activities of the branch provided for in this Chapter and resolutions of the supervisory authority.

3. Having regard to the specific nature of the legal status and activities of branches of third country insurance undertakings, the supervisory authority shall approve mandatory instructions or recommendations on the application of the provisions of this Law to branches of third country insurance undertakings.

4. Activities and supervision of agencies of third country insurance undertakings shall be subject to the same provisions that apply to branches of third country insurance undertakings.

Article 75. Authorisation for Insurance Activity of a Branch

1. A branch of a third country insurance undertaking shall have the right to carry out insurance activity in the Republic of Lithuania only subject to an authorisation obtained from the supervisory authority for the activity of the branch and subsequent registration of the branch in the Register of Legal Entities. The branch of a third country insurance undertaking must inform the supervisory authority about registration within five working days.

2. An authorisation to engage in insurance activity shall be issued to engage in insurance activity of the entire insurance class or several insurance classes belonging to branches of life assurance or non-life insurance, except for the cases when the applicant wishes to engage in insurance activity of only a share of the risks belonging to the insurance class (classes).

3. An authorisation for the activity of a branch shall be granted for an unlimited period of time.

4. An authorisation for the insurance activity of a branch shall be issued only to a specific third country insurance undertaking and may not be transferred to another person.

5. An authorisation shall be issued for insurance activity of only one branch. Structural units of the branch shall be established and operate in the Republic of Lithuania in the manner stipulated by the supervisory authority.

6. The procedure for issuing authorisations and the form of the authorisation for the insurance activity of a branch of a third country insurance undertaking shall be established by the supervisory authority.

Article 76. Application for an Authorisation for Insurance Activity of a Branch

1. A third country insurance undertaking must submit to the supervisory authority an application for an authorisation for the insurance activity of a branch in the Republic of Lithuania.

2. An application for an authorisation for the insurance activity of a branch in the Republic of Lithuania submitted by a third country insurance undertaking must be accompanied by the following documents:

1) a written confirmation of a competent authority of a third country that the insurance undertaking of that country has the right to engage in the insurance activity in the third country in which it is registered;

2) an authorisation for the establishment of a branch in the Republic of Lithuania issued by the competent authority of the third country or the information that the competent authority of the third country does not object to the establishment of a branch in the Republic of Lithuania;

3) confirmation of the competent authority of the third country that the insurance undertaking of that country, for the last three years, has met the requirements of solvency margin, formation of technical provisions and their coverage by assets as well as other requirements stipulated in the legal acts of the third country for the activities of insurance undertakings, also indicating the insurance classes in the activities of which the insurance undertaking of the third country has the right to engage. Where the third country insurance undertaking has been operating for less than three years, the competent authority of that country must provide confirmation of the entire period of activities of the third country insurance undertaking;

4) a decision of the management body of the third country insurance undertaking to establish a branch in the Republic of Lithuania, to approve the articles of association of the branch, and to appoint the head of the branch, as well as a written commitment of the management body to keep financial statements and other documents related to the activities of the established branch at the registered office of the branch;

5) documents certifying that the third country insurance undertaking has appointed a person of good repute, adequate professional qualifications and experience to act as the head of the branch who has been empowered to establish rights and duties for the third country insurance undertaking, to represent the undertaking in the court of the Republic of Lithuania and other state government and administration institutions;

6) documents certifying that the third country insurance undertaking has appointed persons of good repute, adequate professional qualifications and experience to act as the chief accountant and the chief actuary of the branch;

7) articles of association of the branch;

8) agreements specified in paragraph 1 of Article 27 of this Law if they have been concluded;

9) information in the form set by the supervisory authority about shareholders, other controlling persons, participating undertakings and members of the supervisory and management bodies of the third country insurance undertaking;

10) a business plan in the form set by the supervisory authority together with financial statements of the third country insurance undertaking for the last three years audited by an audit firm. Where the third country insurance undertaking has been operating for less than three years, it shall provide financial statements for each completed financial year audited by an audit firm;

11) documents certifying that the third country insurance undertaking has concluded a bank deposit contract as specified in paragraph 1 of Article 85 of this Law, and documents certifying that the third country insurance undertaking has transferred to a bank account in the Republic of Lithuania the amount of money which together with the deposit funds of the insurance undertaking would constitute the minimum guarantee fund specified in paragraph 2 of Article 84 of this Law. It shall also be obligatory to provide information about the origin of all these funds;

12) if it is intended to engage in the activity of the insurance class (with the exception of insurance against civil liability of carriers) provided for in subparagraph 10 of paragraph 3 of Article 7 of this Law, documents evidencing that the insurance undertaking in every other European Union Member State has assigned a representative with adequate authorisations for the settlement of claims, the name and address of the representative.

Article 77. Issuance of an Authorisation for Insurance Activity of a Branch

1. The supervisory authority shall, within six months after filing of an application for an authorisation for the insurance activity of a branch, adopt a decision on issuing of an authorisation and notify the applicant thereof in writing.

2. The supervisory authority shall refuse to issue an authorisation for the insurance activity of a branch where:

1) the documents provided for by this Law or the documents required according to the procedure established by this Law have not been submitted or the submitted documents do not meet the requirements set out in the legal acts of the Republic of Lithuania;

2) a third country insurance undertaking in a third country where it has been registered does not own assets equivalent in Euro to at least 1/2 of the amount referred to in paragraph 3 of Article 39 of this Law, taking account of the insurance class in which it intends to engage;

3) members of the supervisory board, the board of the third country insurance undertaking (or members of the bodies equivalent to them), the head of the administration, and

the head of the branch to be established, its chief accountant and the chief actuary are not of good repute, do not have adequate professional qualifications and experience;

4) shareholders (member share holders, etc.) and controlling persons of the third country insurance undertaking are not of good repute, their financial standing and/or the financial standing of the third country insurance undertaking is not stable and sound;

5) it may be assumed from the submitted business plan that the interests of the policyholders, the insured persons, the beneficiaries, and the injured third parties will not be properly protected, or there is a reasonable ground to assume that the obligations of the branch of the third country insurance undertaking arising from insurance contracts will not be met on a continuous basis;

6) the origin of the deposit of the third country insurance undertaking and the guarantee fund of its branch is illegal;

7) the head of the branch of the third country insurance undertaking also holds a position which may give rise to a conflict of interests;

8) the supervisory authority has not entered into a cooperation agreement with the competent authority of the third country on the exchange of information or the competent authority of the third country has not assumed, in accordance with form of obligation determined by the supervisory authority, a unilateral obligation to provide information to the supervisory authority;

9) legal acts valid in the third country do not provide conditions for ongoing and efficient supervision of the insurance undertaking of that country and protection of the interests of the policyholders, the insured persons, beneficiaries and any injured third parties, or the competent authority of the third country does not perform efficient supervision of that insurance undertaking and does not protect the interests of the policyholders, the insured persons, beneficiaries and the injured third parties.

3. When issuing an authorisation for the activities of a branch of a third country insurance undertaking, the supervisory authority shall have the right to set conditions which must be fulfilled by the branch of the said undertaking before starting its activity and/or conditions or restrictions on insurance activity of certain risks which must be complied with by the branch of the third country insurance undertaking in its activities.

4. A branch of a third country insurance undertaking in the Republic of Lithuania may engage only in the insurance activity of those insurance classes which it is authorised to carry out under the licence (authorisation, etc.) to engage in insurance activity and/or legal acts of the third country. Where the third country insurance undertaking has the right to engage in life assurance and non-life insurance branches at the same time, a branch of the third country insurance

undertaking established in the Republic of Lithuania shall have the right to engage only in the activities of insurance classes falling within non-life insurance branch.

5. When there is a suspicion that the deposit of a third country insurance undertaking or the guarantee fund of its branch may have been paid in cash of illegal origin, the supervisory authority must apply the State Security Department seeking its conclusion about the origin of the said financial resources. In such a case, the time limit specified in paragraph 1 of this Article shall be suspended and shall be resumed upon receipt of the conclusion from the State Security Department.

Article 78. Information about Changes

A branch of a third country insurance undertaking established in the Republic of Lithuania must notify the supervisory authority, following the procedure prescribed by it, about any changes in the information provided in the documents submitted to the supervisory authority for obtaining an authorisation for insurance activity of the branch.

Article 79. Suspension and Withdrawal of an Authorisation for the Insurance Activity of a Branch

1. When there are grounds specified in paragraph 1 of Article 205 of this Law, the supervisory authority shall have the right to suspend the authorisation for the insurance activity of a branch.

2. The supervisory authority shall have the right to withdraw the authorisation for the insurance activity of a branch where:

1) a third country insurance undertaking or its branch in the Republic of Lithuania no longer meets the requirements which were set for the issuance of the authorisation for the insurance activity of the branch;

2) the branch of the third country insurance undertaking is in gross breach of legal acts;

3) at the request of the third country insurance undertaking;

4) the branch of the third country insurance undertaking has not commenced insurance activity or related activities within 12 months after the issuance of the authorisation for the insurance activity of the branch;

5) the branch of the third country insurance undertaking has not been engaged in insurance or related activity for more than six months;

6) the branch of the third country insurance undertaking has failed to implement the plans for the restoration of financial standing set out in Article 40 of this Law;

7) the third country insurance undertaking is in liquidation or bankruptcy proceedings have been initiated against it;

8) the time period for the operation of the branch set out in its articles of association has expired;

9) the competent authority of the third country prohibits the third country insurance undertaking from carrying out insurance activity in the Republic of Lithuania;

10) in the event of a case specified in paragraph 9 of Article 87 of this Law;

11) the court adopts a decision to terminate the activity of the branch for violations of the laws of the Republic of Lithuania.

3. The supervisory authority shall notify the competent authority of the third country about its decision to withdraw the authorisation for the insurance activity of the branch.

4. The decision on the withdrawal of the authorisation for the insurance activity of a branch must be thoroughly substantiated. The supervisory institution must notify the third country insurance undertaking about its decision and the reasons for it.

Article 80. Head and Other Employees of the Branch

1. Before the appointment of the head of a branch, the third country insurance undertaking must provide to the supervisory authority information in the form determined by the supervisory authority and obtain approval of the supervisory authority for the candidate applying for the position of the head of the branch. The supervisory authority shall adopt a decision on the approval of the candidate within 30 working days.

2. A third country insurance undertaking must:

1) determine the strategic objectives of the branch, measures aimed at achieving these objectives and the procedure for monitoring of the measures and evaluating the results;

2) establish an independent risk management strategy of the branch related to the activity carried out by the branch and monitor the implementation thereof.

3. Apart from other functions provided for by laws, the head of a branch of a third country insurance undertaking shall perform the following functions:

1) determine the procedure for concluding insurance contracts which shall be also applicable to undertakings of insurance agents, paying particular attention to the disclosure of information essential when concluding insurance contracts to the policyholders, respect for and security of the interests of every policyholder;

2) establish the procedure for reporting about insured events and events which could be recognised as insured events and the procedure for accounting of the results of investigation of

these reports as well as the rules for investigating insured events and events which could be recognised as insured events;

3) establish the procedure for examination of complaints submitted by the policyholders, insured persons, beneficiaries and injured third parties as well as the procedure for providing responses to applicants; a description of this procedure must be published on the website of the branch of the third country insurance undertaking and provided upon request of any person concerned where the person concerned bears the costs of such provision;

4) define the procedure for assessment of professional qualifications, good repute and experience of persons seeking senior positions in the administration of the branch;

5) implement instructions and recommendations of the supervisory authority relating to enhancement of internal control of the branch and its transparent, credible and prudent management.

4. The head of the branch of a third country insurance undertaking shall have no right to appoint the chief accountant, chief actuary and the head of the internal audit service (internal auditor). Those persons shall be appointed by another body of the third country insurance undertaking; their appointment and activity shall be subject to requirements of this Law, however, they shall be accountable to the body of the third country insurance undertaking which has appointed them.

5. The head of a branch of a third country insurance undertaking may not perform the duties of a member of other management bodies, the chief accountant or chief actuary of the third country insurance undertaking in question, be a member of the supervisory board or the board of another insurance undertaking or be employed in the administration of another insurance undertaking.

Article 81. Business Plan

1. The activities of a branch of a third country insurance undertaking must be based on a business plan. The branch of the third country insurance undertaking must notify the supervisory authority about the intended changes in the business plan and coordinate the amendments according to the procedure prescribed by the supervisory authority.

2. The form of the business plan as well as the procedure for submitting it shall be established by the supervisory authority.

Article 82. Technical Provisions of a Branch

1. A branch of a third country insurance undertaking must comply with the requirements set for the establishment and coverage by assets of technical provisions as stipulated in this Law and by the supervisory authority.

2. Assets which a branch of a third country insurance undertaking uses to cover its technical provisions must be situated only in the Republic of Lithuania.

Article 83. Specific Features of Reinsurance Activity of a Branch

A branch of a third country insurance undertaking established in the Republic of Lithuania shall have the right to engage in reinsurance of the risks of the insurance class in which it carries out its activities in accordance with the procedure stipulated in the laws of the Republic of Lithuania, and only in the cases where the third country insurance undertaking has the right to engage in reinsurance of the risks of an analogous insurance class in that country.

Article 84. Solvency Margin of a Branch

1. Solvency margin of a branch of a third country insurance undertaking shall be calculated according to the procedure established by this Law and the supervisory authority.

2. A portion of the available solvency margin equal to the larger of the following amounts – the minimum guarantee fund or 1/3 of the required solvency margin, shall comprise the guarantee fund of the branch of the third country insurance undertaking. The minimum guarantee fund of the branch shall be equal to 1/2 of the amount specified in paragraph 3 of Article 39 of this Law, taking account of the activities of insurance classes carried out by the branch. The funds provided for in paragraph 1 of Article 85 of this Law shall be included when calculating the minimum guarantee fund.

3. The guarantee fund must be kept or invested only in the Republic of Lithuania, while other funds of the solvency margin – only in the European Union Member States.

Article 85. Deposit of a Third Country Insurance Undertaking

1. A third country insurance undertaking which has established a branch in the Republic of Lithuania must, for the entire period of activity of the branch, enter into a demand deposit contract with a commercial bank established in the Republic of Lithuania or a branch of a foreign bank for a sum of money not smaller than 1/4 of the amount referred to in paragraph 3 of Article 39 of this Law, having regard to the activity of the insurance classes in which the established branch intends to engage.

2. Funds referred to in paragraph 1 of this Article may be used only in accordance with the procedure determined by the supervisory authority in order to discharge the obligations of the branch arising from insurance contracts.

3. The bank deposit contract specified in paragraph 1 of this Article must have a clause providing that the branch of the third country insurance undertaking shall have the right to dispose of the deposit funds only upon submitting to the bank a written consent of the supervisory authority.

Article 86. Transfer of Rights and Duties under Insurance Contracts of a Branch

1. A branch of a third country insurance undertaking shall have the right to transfer rights and duties under all insurance contracts or part of them to an insurance undertaking or a branch of a third country insurance undertaking established in the Republic of Lithuania where the information available to the supervisory authority or the information held by the competent authority of the chosen European Union Member State, provided according to the procedure set out in Article 87 of this Law, allows to assume that after the transfer of the rights and duties, the adequate solvency margin required under the legal acts will be preserved by the entity taking over the rights and duties.

2. A branch of a third country insurance undertaking shall have the right to transfer rights and duties under all insurance contracts or part of them to an insurance undertaking of another European Union Member State where a competent authority of this Member State confirms that after the transfer of the rights and duties, the adequate solvency margin required under the legal acts will be preserved by the entity taking over the rights and duties.

3. A branch of a third country insurance undertaking shall also have the right to transfer rights and duties under all insurance contracts or part of them to a branch of the third country insurance undertaking established in another European Union Member State, where the competent authority of that Member State or the chosen competent authority of the European Union Member State specified in accordance with the procedure established in Article 87 of this Law verifies that after the transfer of the rights and duties, the adequate solvency margin required under the legal acts will be preserved by the entity taking over the rights and duties, that the legal acts of that Member State permit such transfers of rights and duties, and that the Member State in question does not object to the transfer of rights and duties.

4. In cases specified in paragraphs 1, 2 and 3 of this Article, the supervisory authority shall issue an authorisation for the transfer of rights and duties under insurance contracts only where the conditions referred to in subparagraphs 1, 2, 3 and 4 of paragraph 3 of Article 42 of this Law are met and a consent has been obtained from the competent authority of another

European Union Member State in which the insurance risk is situated or another European Union Member State of the commitment under a life assurance contract.

5. Where a consent or approval stipulated in this Article is not received within three months after the submission of information to the competent authority of another European Union Member State, it shall be deemed that the competent authority of the Member State in question does not object to the transfer of rights and duties.

6. Transfer of rights and duties shall also be subject to other requirements set out in Articles 41 and 42 of this Law to the extent this Law does not provide otherwise.

Article 87. Advantages in Establishing or upon Establishment of Branches in Several European Union Member States

1. A third country insurance undertaking which intends to obtain or has already obtained authorisations for insurance activity of a branch in more than one European Union Member State shall have the right to apply to the supervisory authority for the application of the following advantages:

1) solvency margin may be calculated having regard to the insurance activity of branches of the insurance undertaking carried out in the Republic of Lithuania and other European Union Member States;

2) a deposit of the insurance undertaking may be kept in only one European Union Member State in which a branch of the insurance undertaking is engaged in insurance activity;

3) the funds of the guarantee fund may be kept in any European Union Member State where a branch of the insurance undertaking is engaged in insurance activity;

2. The application shall be accompanied by documents certifying that an analogous application has been or is being filed with the competent authorities of all other European Union Member States in which the third country insurance undertaking intends to carry out or is already carrying out insurance activity through the established branches. The application must indicate the chosen competent authority of the European Union Member State which in the future will supervise solvency determined by the activities carried out in the European Union Member States also specifying the reasons for choosing this particular competent authority.

3. Advantages may be applied only where all the competent authorities of the European Union Member States to which an application for advantages must be submitted agree to apply the advantages.

4. Advantages shall come into effect when the chosen competent authority informs the supervisory authority and the competent authorities of the other European Union Member States that it will supervise solvency determined by the insurance activity carried out by the branches in

the Republic of Lithuania and the other European Union Member States or, where the supervisory authority has been chosen as the competent authority, when it informs the appropriate competent authorities of the other European Union Member States.

5. The supervisory authority must provide information necessary for the supervision of solvency to the competent authority of another European Union Member State chosen by a third country insurance undertaking.

6. Having regard to the advantages revoked by other competent authorities, the supervisory authority shall revoke the application of advantages where at least one competent authority requests that.

7. Financial statements, other financial and statistical reports of branches of third country insurance undertakings shall be submitted to the chosen competent authority of the European Union Member State following the procedure set out in the legal acts of that Member State. A deposit of a third country insurance undertaking must be held only in that European Union Member State.

8. After withdrawal of an authorisation for insurance activity of a branch of a third country insurance undertaking enjoying an advantage, the supervisory authority must notify the competent authorities of the other European Union Member States in which the third country insurance undertaking has branches.

9. Upon receiving information that the competent authority of another Member State has adopted a decision to withdraw the authorisation for insurance activity of a branch of a third country insurance undertaking enjoying an advantage, the supervisory authority shall have the right to resort to sanctions also to the branch of the third country insurance undertaking established in the Republic of Lithuania. Where the competent authority of another European Union Member State has adopted a decision to withdraw the authorisation for insurance activity due to insufficient solvency margin calculated by including all the branches of the third country insurance undertaking in the European Union Member States, the supervisory authority shall withdraw the authorisation for insurance activity of the branch.

10. In carrying out supervision of solvency of the branch of a third country insurance undertaking, the chosen competent authority of another European Union Member State referred to in paragraph 2 of this Article shall have the same rights to have access to information as the supervisory authority.

CHAPTER VI

INSURANCE CONTRACT AND CO-INSURANCE

SECTION ONE
GENERAL PROVISIONS

Article 88. Application of Provisions of this Chapter

1. Pre-contractual relations between the parties, the terms and conditions of the insurance contract and the relations arising from and related to the insurance contract shall be subject to provisions of the Civil Code and this Chapter.

2. Provisions of this Chapter shall apply to reinsurance only where this is expressly provided for in this Chapter.

3. The provisions of Section One of this Chapter shall apply to all insurance contracts, unless the provisions of other sections of this Law or this section provide otherwise.

4. The provisions of Sections One, Two and Three of this Chapter regulating contractual relations of insurance contracts shall apply to insurance contracts covering large risks to the extent the parties to the contract have not agreed otherwise.

Article 89. Classification of Insurance Contracts

1. According to the branches of insurance, insurance contracts may be classified into life and non-life insurance contracts. Non-life insurance contracts shall comprise property, civil liability and health insurance contracts.

2. According to the nature of insurance benefits, insurance contracts shall be classified into indemnity and sum insurance contracts.

3. Sum insurance contracts shall be life assurance contracts and health insurance contracts under which the insurer commits to pay out, upon occurrence of an insured event, a benefit equal to the sum insured or part thereof.

4. Indemnity insurance contracts shall be property, civil liability and health insurance contracts under which the insurer commits to pay out, upon occurrence of an insured event, a benefit equal to the amount of the loss incurred.

Article 90. Insurance Policy Conditions

1. Insurance policy conditions must specify the following:

1) cases where insurance contracts are concluded upon a written application of the policyholder;

2) insured events;

3) non-insured events where the insurer is not under an obligation to pay insurance benefits;

- 4) the subject covered;
- 5) procedure for calculation of sums insured (where they are established), calculation of rates of premiums, procedure for payment of premiums as well as consequences for the breaches of the procedure;
- 6) conditions for double insurance, partial insurance and supplementary insurance in case of an indemnity insurance contract;
- 7) rights and duties of the insurer, policyholder, beneficiary and the injured third party;
- 8) loss evaluation procedure;
- 9) procedure for calculation of benefits and time periods for their payment;
- 10) revision and termination of the terms and conditions of an insurance contract, including the procedure for termination of an insurance contract where the policyholder objects to the insurer's intention to transfer rights and duties under the insurance contract to another insurer(s);
- 11) the procedure for settlement between the parties to the contract after the termination of the insurance contract, including settlement with the policyholder who, objecting to the insurer's intention to transfer rights and duties under the insurance contract to another insurer(s) has terminated the insurance contract;
- 12) the procedure for transfer of the insurer's rights and duties under the insurance contract to another insurer;
- 13) the procedure for resolution of disputes between the policyholder and the insurer;
- 14) the procedure for providing information to the other party to the contract.

2. Insurance policy conditions must be published on the website of the insurance undertaking.

3. At the request of the supervisory authority, the insurer must amend insurance policy conditions which contradict the provisions of legal acts or violate consumer rights and interests. At the request of the supervisory authority, the insurer must in the future conclude insurance contracts according to the amended insurance policy conditions.

4. Before commencing compulsory insurance, at the request of the supervisory authority, the insurer must submit compulsory insurance policy conditions to the supervisory authority, except for the cases where compulsory insurance conditions are provided for in legal acts. The supervisory authority shall verify whether the submitted compulsory insurance conditions are in compliance with legislative requirements, are not in breach of the interests of policyholders, insured persons, beneficiaries and the injured third parties, including consumers.

Article 91. Information for the Policyholder

1. Before concluding a non-life insurance contract, the insurer or a person authorised by him must provide to the policyholder who is a natural person:

- 1) information specified in paragraph 8 of Article 6.993 of the Civil Code;
- 2) information about the law applicable to the insurance contract, and where the contractual parties are free to choose the applicable law – the law proposed by the insurer.

2. During the period of validity of the contract, the insurer must inform, without delay, the policyholder of a non-life insurance contract, who is a natural person, about any changes in the information specified in paragraph 1 of this Article.

3. Upon conclusion of an insurance contract, an insurance policy must be issued to the policyholder, and where an individual insurance contract has been concluded – a copy of the individual insurance contract.

4. Where upon conclusion of an insurance contract, the policyholder applies to the insurer with a request to be provided with copies of the insurance policy conditions or the individual insurance contract, the insurance policy, the policyholder's written application for the conclusion of an insurance contract and any other documents in attestation of the conclusion of the insurance contract, the insurer must issue the policyholder with copies of the documents requested after the latter pays the agreed fee which is not in excess of the costs of issuing of copies of documents (where such a fee is provided for in the insurance contract).

5. Where this Chapter provides for individual negotiation of the terms and conditions of the insurance contract, the insurer must inform the policyholder about the proposed condition of the insurance contract as well as its consequences. This condition of individual agreement shall be valid only where the policyholder confirms in writing that he has familiarised himself with it and expresses his written consent to include it in the insurance contract.

Article 92. Insurable Interest

A lawful interest of the policyholder or the insured person which may be expressed in money shall be an obligatory condition of an indemnity insurance contract.

Article 93. Insurance Risk

1. Before conclusion of an insurance contract, the insurer shall have the right to assess insurance risk in accordance with the procedure set out in Article 6.994 of the Civil Code.

2. In calculating insurance premiums and benefits, the insurer shall not have the right to consider the policyholder's or the insured person's gender as a factor influencing insurance risk, except for cases specified in paragraph 2 of Article 114 of this Law.

3. In calculating insurance premiums and benefits, the insurer shall not have the right to consider factors related to pregnancy and maternity as factors influencing insurance risk.

Article 94. Failure to Pay the Premium

1. If the policyholder fails to pay the premium or its part within the time period provided for in the insurance contract (except in the cases where coming into effect of the contract is conditional on the payment of the premium or its part), the insurer must inform the policyholder thereof in writing, and state that unless the premium or its part is paid within 15 days and in case of life assurance – within 30 days after receipt of the notification, insurance cover will be suspended and will be renewed only after the policyholder pays the premium or its part. If the contract does not provide for any other way of notification, it shall be presumed that the policyholder has received the notice sent by the insurer by post after a reasonable period of time after it has been sent. The insurance contract may provide for time periods longer than those specified in this paragraph.

2. If an insured event occurred during the suspension of the insurance cover, the insurer shall not be under an obligation to pay the insurance benefit. If, in case of insurance against civil liability, the insurance contract provides that an insured event is considered to be a submission of the claim for compensation of the damage, the performance of any acts that resulted in the damage during the suspension of the insurance cover shall grant the insurer the right to refuse to pay the benefit even if the claim for compensation of the damage has been submitted after the suspension of the insurance cover.

3. If the suspension of insurance cover due to failure to pay the insurance premium lasts for more than three months, and in case of life assurance – for more than six months, the insurer shall have the right to terminate the insurance contract unilaterally.

Article 95. Right to the Insurance Benefit

The right to request payment of the insurance benefit shall belong to the policyholder and, in cases provided for in this Law and/or the insurance contract, also to the beneficiary or the injured third party. If the beneficiary or the injured third party requests payment of the insurance benefit, the insurer shall have the right to use all the pleadings he has against the policyholder.

Article 96. Payment of the Insurance Benefit

1. The policyholder, beneficiary and/or any injured third party must provide to the insurer submit all the documents and information available to him about the circumstances and consequences of the insured event which are essential when determining the amount of the

benefit. At the request of the insurer, the persons mentioned in this paragraph must also provide documents about the circumstances and consequences of the insured event essential when determining the amount of the benefit which he is entitled to obtain following the procedure established by laws and other legal acts. The insurance contract must indicate what documents are to be provided to the insurer.

2. The insurer must investigate the circumstances necessary to establish the fact and consequences of the insured event and determine the insurance benefit, by making a reasonable effort. The insurance benefit must be paid not later than within 30 days from the day of receipt of all the information important for establishing the fact, circumstances and consequences of the insured event as well as determining the amount of the insurance benefit. If the insurance contract provides for a periodic payment of insurance benefits, the provision of the second sentence of this paragraph shall apply to the first periodic insurance benefit.

3. The insurer shall not have the right to:

1) pay the insurance benefit or refuse to pay it unless he is convinced of the occurrence of the insured event;

2) refuse to pay the insurance benefit unless he has verified all the information available to him.

4. At the request of the insurer, natural and legal persons must provide him with all the information available to them about the circumstances and consequences of the insured event and of the event that may be recognised as an insured event. If the circumstances of the insured event or the event that may be recognised as an insured event are investigated by state institutions, at the request of the insurer, these institutions must provide, free of charge, information in writing about the facts established during the investigation and its findings.

5. If the event is an insured event and the insurer and the policyholder disagree on the amount of the insurance benefit, at the request of the policyholder, the insurer must pay out the amount of the benefit undisputed by the parties, where determining an exact amount of damage takes more than three months.

6. The insurer must prove the circumstances which release him from payment of the insurance benefit or give him the right to reduce the benefit.

7. When the insurer refuses to pay the benefit or reduces it due to violation of the insurance contract conditions by the policyholder, he must take account of the policyholder's fault, the gravity of breach of the insurance contract conditions, its causal relationship with the insured event and the amount of damage resulting from the breach.

8. When the insurer refuses to pay the insurance benefit or reduces it, he must provide a detailed and reasoned explanation of the reasons for such a decision to the policyholder,

beneficiary or the injured third party. Where the insurance benefit has not been paid within 30 days from the report about the insured event, the insurer must provide to the policyholder (beneficiary) a detailed account in writing about the progress of the investigation of the insured event.

Article 97. Automatic Extension of the Period of Validity of an Insurance Contract

1. Upon expiry of the period of validity of an insurance contract, in the cases provided for in the insurance contract the period of validity of the contract may be extended automatically but for not longer than one year, unless a party to the insurance contract expresses disagreement as to the extension of the contract.

2. In the case specified in paragraph 1 of this Article, the disagreement must be stated by a party to the contract in writing at least one month before the expiry of the period of validity of the insurance contract and where the period of validity of the contract is shorter than three months – before any other reasonable term agreed between the parties.

3. Conditions for an automatic extension of the period of validity of the insurance contract must be negotiated individually at the moment of conclusion of the insurance contract.

Article 98. Settlement of the Insurer with the Policyholder after Termination of the Insurance Contract

When determining conditions for the settlement between the insurer and the policyholder after termination of the insurance contract, account must be taken of the fault of a party for breach of the contract conditions, the insurer's administrative costs related to conclusion and implementation of the contract, the amounts of insurance premiums paid for the period during which insurance cover was not provided, the unpaid amounts of insurance premiums for the provided insurance cover and other important circumstances.

Article 99. Duties of the Beneficiary, Insured Person and Injured Third Party

1. An insurance contract may establish the duties of the beneficiary and the injured third party, which must be performed by them when exercising the right to the insurance benefit, as well as the duties of the insured person.

2. In exercising his rights, the insurer shall have no right to invoke non-compliance of the beneficiary, insured person and injured third party with their duties under the insurance contract if they are unaware of conclusion of the contract and their duties under the insurance contract, or if they do not have a possibility to perform such duties.

3. In exercising his rights, the insurer shall have the right to invoke the fact that the policyholder failed to perform his duty to duly inform the beneficiary, insured person or the injured third party about the concluded contract and their duties.

SECTION TWO

SPECIFIC FEATURES OF PROPERTY INSURANCE

Article 100. Policyholder, Insured Person and Beneficiary

A policyholder may conclude a contract for insurance of his own property interests or the interests of another person who, upon conclusion of the insurance contract, becomes the insured person. In property insurance, only the person whose property interests have been insured may be the beneficiary.

Article 101. Value of Property in Property Insurance

Where the value of property is not specified in the insurance contract, it shall be considered that the value of property is its market value at the moment of conclusion of the insurance contract.

Article 102. Insurance Benefit

The amount of the insurance benefit shall be equal to the amount of damage incurred and/or other expenses (insurable interest) borne by the policyholder, insured person or beneficiary due to an insured event, unless it has been agreed between the parties that the insurer must compensate for only part of the damage (other expenses).

Article 103. Gross Negligence

An insurance contract may provide for the cases where the insurer is released from the duty to pay the insurance benefit if the insured event occurs due to gross negligence of the policyholder or the insured person. Such cases must be negotiated individually.

SECTION THREE

SPECIFIC FEATURES OF THIRD PARTY LIABILITY INSURANCE

Article 104. Insured Person

A policyholder may conclude a third party liability insurance contract for insurance of his own or another person's property interests relating to civil liability; under the insurance contract such a person becomes the insured person.

Article 105. Insured Event

Unless the third party liability insurance contract provides otherwise, the insured event shall mean civil liability incurred by the policyholder or the insured person for the consequences of the actions (act or omission) committed by the policyholder or the insured person during the period of validity of the insurance contract even if such consequences occurred after the expiry of the contract.

Article 106. Expenses Compensated by the Insurer

1. Unless the insurance contract provides otherwise, the insurer must compensate for reasonable expenses incurred by the policyholder or the insured person borne while rebutting the claim of the injured third party for indemnity. The expenses shall be compensated even if it later transpires that the claim for compensation of the damage was unfounded.

2. The insurer shall not be under an obligation to compensate for the expenses provided for in paragraph 1 of this Article and shall have the right to require that the compensated expenses be reimbursed if the policyholder or the insured person have caused damage to the injured third party intentionally.

Article 107. Payment of the Insurance Benefit

1. The insurer shall pay the insurance benefit to the injured third party, and where the policyholder or the insured person compensated for the damage caused to the injured third party, the insurer shall pay the insurance benefit to the policyholder or the insured person.

2. Where the sum insured is less than the joint damage caused to all injured third parties, the insurance benefit shall be distributed among the injured third parties proportionately to the amount of the damage caused to them.

Article 108. Right of Direct Claim

The injured third party shall have the right to request directly that the insurer, who has covered civil liability of the person liable for the damage, pays out the benefit.

Article 109. Consequences of Payment of an Insurance Benefit

When the insurer pays the benefit for the damage in the amount equal to the sum insured, the insurer's obligation shall remain in force until the expiry of the period of validity of the insurance contract for the total sum insured without deductions of benefits paid, except for the

cases where the insurance contract provides that the insurer's obligation remains in force only for the remaining amount of the sum insured.

Article 110. Insurer's Right to Reclaim the Amounts Paid from the Policyholder or Insured Person

1. Where an insured event occurs as specified in paragraph 3 of Article 6.1014 of the Civil Code due to the policyholder's (or the insured person's) intent, the insurer, upon payment of the benefit, shall have the right to reclaim the amount paid from the policyholder or the insured person.

2. In the cases specified in the third party liability insurance contract, where the insured event occurs due to a gross negligence of the policyholder or the insured person, the insurer, upon payment of the benefit, shall have the right to reclaim the amount paid or its part from the policyholder or the insured person. This term of the insurance contract must be negotiated individually.

Article 111. Transfer of an Object

1. Where a third party liability insurance contract has been concluded on insurance of civil liability which may arise when managing, using or disposing of an object with individual features, such an insurance contract shall expire when the owner of the object changes, unless the contract provides otherwise.

2. Where the third party liability insurance contract specifies several objects with individual features, upon the change of the owner of one of these objects, insurance cover of property interests relating to that object shall expire.

**SECTION FOUR
SPECIFIC FEATURES OF LIFE ASSURANCE**

Article 112. Conclusion of an Insurance Contract

1. The policyholder may conclude a life assurance contract regarding his own or any other person's property interests.

2. A life assurance contract shall be considered concluded for the benefit of the person whose life is covered by insurance (the insured person) unless the contract provides for another beneficiary.

3. A life assurance contract may be concluded for the benefit of the person who is not the insured person only subject to a written consent of the insured person. Where the insured person

is under 18 years of age, he has been recognised legally incapable or of limited legal capacity, the insurance contract may be concluded only for the benefit of the insured person, except for the cases where there are all of the following conditions:

- 1) the insured person is under 18 years of age;
- 2) the beneficiary named is a close relative of the insured person;
- 3) the beneficiary is appointed in the event that the insured person survives until the expiry of the time period provided for in the contract.

4. Transfer of the commitment of the annuity payer provided for in paragraph 1 of Article 6.448 of the Civil Code shall be possible where the annuity payer concludes an insurance contract with the insurer and pays the premium equal to the amount of the annuity.

5. When concluding an insurance contract specified in paragraph 2 of Article 6.289 of the Civil Code, the legal person under liquidation shall pay the agreed premium to the insurer while the insurer shall commit to pay periodical insurance benefits to the beneficiary – the person in respect of whom the legal person under liquidation has an obligation to compensate for the damage incurred as a result of injury or loss of life of the natural person.

Article 113. Information to the Policyholder of a Life Assurance Contract

1. Prior to conclusion of a life assurance contract, the insurer or his authorised representative must provide to the policyholder in writing information specified in paragraph 1 of Article 91 of this Law and, in addition, inform the policyholder in writing about:

- 1) possible conditions of the insurance contract concerning the sums insured and benefits which the policyholder is free to choose when concluding the insurance contract, the amounts of premiums for each chosen variant of the sum assured and benefit;

- 2) possible terms of the assurance contract;

- 3) conditions and ways of termination of the insurance contract, including the policyholder's right to terminate the life assurance contract according to the procedure specified in Article 121 of this Law on concessionary terms;

- 4) forms of, procedure for and duration of payment of insurance premiums;

- 5) the procedure for and forms of determining the amount of insurance benefits and the procedure for their payment;

- 6) the interest rate, the principles and ways of calculation of the insurer's profit share belonging to the policyholders and methods of distribution of that profit share, the procedure for determining the surrender value and approximate amounts of the surrender value, if the insurance contract concluded is related to capital accumulation;

7) where an assurance contract is concluded under which the policyholder bears investment risk – the objects into which investment may be made, their nature, income from investments during the last three years;

8) essential information about taxation procedures applicable to insurance contracts.

2. During the period of validity of the insurance contract, the insurer must promptly notify the policyholder of the life assurance contract in writing about:

1) any changes in the insurer's name, legal status or the address of the registered office and, where the insurance contract has been concluded by a branch of the insurer – about changes in the particulars relating to the branch;

2) any changes in the information specified in paragraph 1 of this Article, where policy conditions or the law applicable to the insurance contract are amended.

3. Each year the insurer, within the time periods specified in the insurance contract, must inform the policyholder in writing about the insurer's profit share belonging to the policyholder, the amount of the surrender value, where the contract concluded is related to capital accumulation.

4. The information provided must be clear and readily understood.

5. The information shall be provided in the Lithuanian language or, at the request of the policyholder and upon agreement with the insurer, in any other language.

Article 114. Insurance Risk

1. In assessing insurance risk, the insurer shall have the right to take account of the insured person's age, health condition, profession and other objective criteria influencing insurance risk, also ensuring that equal conditions of calculating insurance premiums and benefits would apply to a group of persons of the same risk level.

2. In assessing insurance risk, the insurer shall have the right to take account of the insured person's gender only in cases where the gender is considered to be a decisive factor in assessing insurance risk, in compliance with the reliable and accurate statistical and actuarial data published and regularly updated on the website of the supervisory authority in accordance with its prescribed procedure.

3. The insurer shall be prohibited from requesting in any form that the policyholder, insured person and other persons provide to him data of genetic testing.

4. In executing the rights provided to him under law or the life assurance contract, the insurer shall not invoke the following:

1) the policyholder has not fulfilled the obligation under Article 6.993 of the Civil Code due to negligence, where more than 10 years have passed since the conclusion of the life assurance contract;

2) the policyholder has not fulfilled the obligation under Article 6.1010 of the Civil Code due to negligence, where more than 10 years have passed since the increase of the insurance risk;

5. The terms specified in paragraph 4 of this Article shall also apply where additional health insurance risk is included in the life assurance contract.

6. In exercising the rights granted to him by the life assurance contract, during the period of validity of the insurance contract the insurer shall have no right to unilaterally increase the insurance premium where the insurance risk increases due to the policyholder's or the insured person's age and/or sickness, with the exception of cases where the policyholder or the insured person causes his sickness deliberately.

7. In the cases specified in insurance contracts, which must be negotiated individually, the insurer shall have the right to unilaterally change the amount of the specified insurance premium only where this change relates to:

- 1) the change of the interest rate on domestic and international markets;
- 2) changed statistical data about insured events and insurance benefits.

8. It shall be permitted to unilaterally change the amount of insurance premium on the grounds specified in paragraph 7 of this Article only where this change is not essential. In determining whether the change is essential, it must be taken into account, whether, due to the essential change, the policyholder (beneficiary) is not deprived of the possibility to receive what he expected from the insurance contract.

9. Prior to a change of the insurance premium, the policyholder must be given detailed information in writing about the change, specifying the reasons for the change of the premium and providing conditions for termination of the insurance contract.

Article 115. Benefit Due to Death of the Insured Person

Where the policyholder or the insured person in the cases specified in the life assurance contract has not appointed the beneficiary, the benefits payable due to the insured person's death shall be inherited according to the procedure set forth by laws.

Article 116. Appointment and Replacement of the Beneficiary

1. The policyholder shall have the right to appoint one or several beneficiaries who, upon the occurrence of the insured event, shall acquire the right to the insurance benefit or its part. The policyholder shall notify the insurer about the appointed beneficiary in writing. Where the

insured person is under 18 years of age, he has been recognised legally incapable or of limited legal capacity, the policyholder shall have no right to appoint the beneficiary, except for the cases where there are all of the following conditions:

- 1) the insured person is under 18 years of age;
- 2) the beneficiary to be appointed is a close relative of the insured person;
- 3) the beneficiary is appointed in the event that the insured person survives until the expiry of the time period provided for in the contract.

2. The policyholder shall have the right to appoint an irrevocable beneficiary. The policyholder must inform the person in writing about his appointment as the irrevocable beneficiary.

3. When appointing the beneficiary who is not the insured person, a written consent of the insured person is obligatory, except for the cases where there are all of the following conditions:

- 1) the insured person is under 18 years of age;
- 2) the beneficiary to be appointed is a close relative of the insured person;
- 3) the beneficiary is appointed in the event that the insured person survives until the expiry of the time period provided for in the contract.

4. Where the policyholder has appointed several beneficiaries without specifying the individual amounts of benefit due to each beneficiary, upon occurrence of the insured event, the beneficiaries shall have equal rights to the benefit.

5. The policyholder shall have the right to replace or revoke the beneficiary by notifying the insurer thereof in writing. When replacing the beneficiary with another beneficiary who is not the insured person, a written consent of the insured person is obligatory, except for the cases where there are all of the following conditions:

- 1) the insured person is under 18 years of age;
- 2) the beneficiary to be appointed is a close relative of the insured person;
- 3) the beneficiary is appointed in the event that the insured person survives until the expiry of the time period provided for in the contract.

6. The irrevocable beneficiary may be replaced or revoked only subject to his written consent.

7. The beneficiary shall be considered appointed, replaced or revoked if, prior to occurrence of an insured event, the insurer has received from the policyholder a written notification of the appointment, replacement or revocation of the beneficiary and the conditions specified in paragraphs 3, 5 and 6 of this Article have been fulfilled.

8. Where the policyholder has specified in his will the manner in which insurance benefits are to be inherited after his death, this request of the policyholder shall be held equivalent to the appointment or replacement of the beneficiary only provided that the insurer has been informed thereof in writing by the policyholder or, upon his death, by his inheritors, and the conditions specified in paragraphs 3, 5 and 6 of this Article have been fulfilled.

9. In the cases and according to the procedure specified in the life assurance contract, the right to appoint, replace and revoke the beneficiary shall also be vested in the insured person. In such a case, the appointment, replacement or revocation of the beneficiary shall *mutatis mutandis* be subject to the provisions of this Article.

10. Where the beneficiary has been appointed, replaced or revoked disregarding the provisions of this Article, the appointment, replacement or revocation of the beneficiary shall be void, except for the case of revocation of the beneficiary who is not an irrevocable beneficiary as provided for in paragraph 4 of Article 6.191 of the Civil Code.

11. Upon the occurrence of the insured event, the right to insurance benefit shall be acquired by the beneficiary appointed only according to the procedure specified in this Article.

Article 117. Exemptions from Application of the Provisions of the Civil Code

The provisions of the Civil Code on insurance in excess of the value of insurance (Article 6.1001), insurance against various risks (Article 6.1002) and on assignment of the rights of the insured to compensation of the damage onto the insurer (Article 6.1015) shall not apply to the assurance contract.

Article 118. Insurance Benefit

1. The insurance benefit under an insurance contract shall be paid with no regard to the policyholder's or beneficiary's income received from other sources.

2. The insurer shall have the right to reduce the benefit by the amount of the premiums not paid for the period of suspension of insurance cover and the amount of income which would have been received from investment of such premiums.

Article 119. Policyholder's Right to Refuse Payment of Premiums

1. Where during the period of validity of a life assurance contract related to capital accumulation the minimum amount, if specified in the insurance contract, is accumulated, the policyholder shall have the right not to pay the premium. In this case the life assurance contract shall stay in force for the remaining period of validity of the contract and benefits under the life

assurance contract shall be adjusted following the procedure specified in the contract, taking into account the accumulated minimum amount.

2. The policyholder's right provided for in paragraph 1 of this Article shall be exercised according to the procedure specified in the life assurance contract.

Article 120. Insurer's Right to Terminate the Insurance Contract

The insurer shall have the right to unilaterally terminate the life assurance contract only in the event of a material breach of the terms and conditions of the contract and in the case specified in paragraph 1 of Article 6.1009 of the Civil Code.

Article 121. Termination of Insurance Contract on Concessionary Terms

1. The policyholder who is a natural person unilaterally shall have the right to unilaterally terminate a life assurance contract the term of which is not less than six months by notifying the insurer thereof in writing within 30 days from the moment he was informed about the concluded contract.

2. In the case specified in paragraph 1 of this Article, upon termination of the life assurance contract, the insurer must reimburse the total insurance premium which has been paid by the policyholder, with the exception of the case specified in paragraph 3 of this Article.

3. Upon termination by the policyholder of a life assurance contract related to investment funds (when the investment risk is borne by the policyholder) in the case specified in paragraph 1 of this Article, the insurer shall have the right to reimburse the amount of insurance premiums paid by the policyholder, recalculated based on the investment performance which occurred during the period of validity of the insurance contract. This term of the insurance contract must be negotiated individually.

4. In the cases provided for in this Article, upon termination of a life assurance contract by the policyholder who is a natural person no obligations related to the insurance contract may arise.

Article 122. Payment of Premium after Cancellation of the Insurance Contract

The insurance contract may specify the cases and procedure, where a life assurance contract related to capital accumulation terminated by the insurer because the policyholder has not paid the premium shall be renewed where the policyholder, within six months from the termination of the life assurance contract, reimburses the surrender value paid by the insurer.

Article 123. Payment of Surrender Value

1. Where a life assurance contract related to capital accumulation is terminated or otherwise expires before the term, or where the insurer exercises the right granted by laws or under the insurance contract to refuse payment of the benefit or to reduce it, the amount paid to the policyholder must not be less than the surrender value.

2. Where, upon recognition of a life assurance contract as invalid, restitution is due for the benefit of the policyholder, the insurer must reimburse surrender value to the policyholder if it is higher than the premiums paid by the policyholder.

3. The procedure for the calculation and payment of the surrender value as well as approximate amounts of the surrender value must be specified in the life assurance contract.

Article 124. Transfer of Property Rights Arising From Insurance Contracts

1. According to the procedure specified in a life assurance contract, the policyholder and the beneficiary may transfer the property rights arising from the life assurance contract to another person.

2. Upon the transfer of the rights arising from the life assurance contract, appointment of the beneficiary, except for the irrevocable beneficiary, shall become void.

Article 125. Pledge of Property Rights Arising From Insurance Contracts

1. In order to ensure the fulfillment of the obligation, the policyholder may pledge the following property rights arising from the life assurance contract related to capital accumulation: the right to the insurance benefit and the right to the surrender value. The policyholder may pledge the right to surrender value only subject to consent of the irrevocable beneficiary.

2. The beneficiary may pledge/mortgage the right to the benefit only upon occurrence of an insured event.

3. The insurer must be informed in writing about the pledge/mortgage of the property rights arising from the life assurance contract.

4. The claim of the pledgee may be satisfied from the insurance benefit only upon the occurrence of an insured event. The insurer must satisfy the claim of the pledgee/mortgagee from the insurance benefit only upon expiry of the time limit specified in paragraph 2 of Article 96 of this Law.

5. The pledgee/mortgagee shall have priority against the beneficiary for the satisfaction of his claim, save for the case where the beneficiary is irrevocable. Where the irrevocable beneficiary has been appointed after the pledgee of the property rights arising from the insurance contract, the pledgee/mortgagee shall have priority against the irrevocable beneficiary for the satisfaction of his claim.

6. After the insurer has satisfied the pledgee's claim, the surrender value or the insurance benefit shall be reduced by the amount equal to the amount of the pledgee's/mortgagee's claims satisfied by the insurer.

SECTION FIVE

SPECIFIC FEATURES OF HEALTH INSURANCE

Article 126. Insured Person

1. The policyholder may conclude a health insurance contract for the coverage of the property interests related to his health or the property interests of another person who, upon conclusion of the contract becomes the insured person.

2. Where health insurance is insurance against loss, only the insured person may be the beneficiary, and in the event of his death – the appointed beneficiary.

Article 127. Application of Other Provisions of this Law

1. Provisions of paragraphs 1, 2 and 3 of Article 114 and Articles 115, 116 and 120 of this Law shall *mutatis mutandis* apply to a health insurance contract.

2. Where a health insurance contract is a sum insurance contract, provisions of Article 112, 117 and 118 of this Law shall *mutatis mutandis* also apply, however the provisions of the Civil Code concerning partial insurance (Article 6.999) and supplementary insurance (Article 6.1000) shall not apply.

Article 128. Insurance Risk

1. In executing the rights granted by law or under the health insurance contract, the insurer may not invoke the facts that:

1) the policyholder has not fulfilled the obligation specified in Article 6.993 of the Civil Code due to negligence, if more than five years have passed since conclusion of the insurance contract;

2) the policyholder has not fulfilled the obligation specified in Article 6.1010 of the Civil Code due to negligence, if more than five years have passed since the risk increase.

2. In exercising the rights granted to him by the life assurance contract, during the period of validity of the insurance contract the insurer shall not have the right to unilaterally increase the insurance premium where the insurance risk increases due to the policyholder's or the insured person's age and sickness, with the exception of cases where the policyholder or the insured person causes his sickness deliberately.

SECTION SIX
CO-INSURANCE

Article 129. Participation in Co-insurance

1. Mutual rights and duties of the insurers participating in co-insurance shall be established in the contract. The following data must be indicated therein:

- 1) the insurer who is appointed leading insurer;
- 2) the fee of the leading insurer for the administration of co-insurance contracts, unless otherwise agreed;
- 3) the share of insurance risk in percentage assumed by each insurer;
- 4) the procedure for distribution of insurance premiums received under the co-insurance contract;
- 5) the procedure for communicating information relating to the co-insurance contract by the leading insurer to the other insurers;
- 6) one of the ways for paying the insurance benefit as specified in paragraph 5 of this Article;
- 7) the procedure for settlement by the insurers with the leading insurer, where the way for paying the insurance benefit specified in subparagraph 1 of paragraph 5 of this Article is applied;
- 8) the procedure and conditions for the insurer's withdrawal from co-insurance.

2. The leading insurer shall exercise all the rights and fulfil all the duties of the insurer, unless this Law provides otherwise.

3. An insurance contract shall be concluded according to the terms and conditions prepared by the leading insurer.

4. The insurance policy issued by the principal insurer, in addition to the insurance policy particulars prescribed by paragraph 1 of Article 6.991 of the Civil Code, must contain the following information:

- 1) the name and address of the registered office of the leading insurer;
- 2) the names and addresses of registered office of other insurers participating in co-insurance;
- 3) the share of insurance risk in percentage assumed by each insurer;
- 4) one of the ways for paying the insurance benefit as specified in paragraph 5 of this Article;
- 5) signatures and seals of all the insurers, if their mutual contract provides that the insurance policy shall be signed not only by the leading insurer but also by all the other insurers.

5. The insurance benefit under the co-insurance contract shall be paid in one of the following ways, which must be specified in the insurance contract:

1) the leading insurer shall pay the insurance benefit on his own behalf and on behalf of other insurers participating in co-insurance;

2) each insurer participating in co-insurance shall pay the amount of insurance benefit in proportion to the share of insurance risk assumed.

6. If it is established in the insurance contract that the leading insurer pays the insurance benefit on its own behalf and on behalf of other insurers participating in co-insurance, the policyholder, beneficiary or any injured third party must apply to the leading insurer for the payment of the insurance benefit.

7. If it is established in the insurance contract that each insurer participating in co-insurance pays the amount of the insurance benefit in proportion to the assumed share of insurance risk, after the leading insurer has stated the fact of the insured event and the amount of the insurance benefit and decided upon the payment thereof, the policyholder, beneficiary or any injured party must apply to each insurer participating in co-insurance for the payment of insurance benefit taking into account the share of insurance risk assumed by them. In the event of a dispute between the policyholder, beneficiary or injured third party and one of the insurers regarding the payment of a share of the insurance benefit, the said insurer shall be the defendant in court.

8. The leading insurer's decision concerning the establishment of the fact of an insured event or non-existence of the insured event, the amount of the insurance benefit and decision to pay the insurance benefit shall be binding on the insurers participating in co-insurance.

Article 130. Co-insurance in the European Union Member States

1. The provisions of Article 129 of this Law shall not apply to co-insurance operations in the European Union Member States by insurance undertakings and insurance undertakings of other European Union Member States, which satisfy all of the following criteria:

1) a co-insurance contract is concluded for covering the risks of insurance classes referred to in subparagraphs 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 16 of paragraph 3 of Article 7 of this Law, except for the risks of the insurance class referred to in subparagraph 13 of paragraph 3 of Article 7 of this Law, which relate to damage arising from the use of nuclear sources or from medicines and other medicinal products;

2) a co-insurance contract is concluded only for covering large insurance risks which, by reason of their nature or size, call for the participation of several insurers for their coverage;

3) insurance risk is covered by a single insurance contract for the period specified in the contract at an overall premium provided for in the contract and by two or more insurers, each of whom assumes a share of insurance risk and one of whom is the leading insurer;

4) insurance risk is situated within a European Union Member State or Member States;

5) the leading insurer complies with the requirements set in this Article and, according to the status defined in the contract concluded between the insurers, in contractual relations the leading insurer is considered to be the insurer covering the whole insurance risk;

6) the registered office or branch of at least one of the insurers is located in the European Union Member State other than that of the leading insurer;

7) the leading insurer fully assumes the rights and duties of the leading insurer and has the right to determine the terms and conditions of the insurance contract and the amount of the insurance premium.

2. The requirements provided for in Articles 53 or 70 of this Law shall be applied to the leading insurer.

3. The establishment of technical provisions of insurance undertakings of the Republic of Lithuania and branches of third country insurance undertakings established in the Republic of Lithuania, which participate in co-insurance in the European Union Member States, the coverage of technical provisions by assets, communication of statistical data and other information to the supervisory authority shall be subject to provisions of the legal acts of the Republic of Lithuania.

4. The supervisory authority shall co-operate with the European Commission and the competent authorities of other European Union Member States for the purpose of examining any difficulties which might arise in implementing the provisions of this Article, compliance with the provisions of this Article and in observing any misuse of these provisions either in that the leading insurer does not assume all the rights and duties of the leading insurer or the insurance risks do not require the participation of two or more insurers for their coverage.

CHAPTER VII

LAW APPLICABLE TO INSURANCE CONTRACTS

Article 131. Application of Provisions of this Chapter

This Chapter shall establish the law applicable to non-life insurance contracts that cover the risks within the European Union Member States, to compulsory insurance contracts where a European Union Member State provides for the commitment to conclude an insurance contract as well as the law applicable to life assurance contracts where the policyholder has his domicile

or registered office, to which the life assurance contract relates, is situated in a European Union Member State.

Article 132. Mandatory Rules of Law

The mandatory rules of the law of the European Union Member State in which the insurance risk is situated, of the commitment under the life assurance contract or of the European Union Member State which provides for the commitment to conclude an insurance contract shall apply to insurance contracts whatever the law applicable to the insurance contract.

Article 133. Law Applicable to Non-life Insurance Contracts

1. This Article shall set out the law applicable to non-life insurance contracts which cover insurance risks situated in the European Union Member States, where the parties to the non-life insurance contract have not chosen the law applicable.

2. Where the policyholder has his domicile or registered office in a European Union Member State in which the insurance risk is situated, the law of that European Union Member State shall apply or, where the legal acts of that Member State so allow, the law of any other state.

3. Where the policyholder has his domicile or registered office not in the same European Union Member State in which the insurance risk is situated, the parties to the insurance contract may choose either the law of the European Union Member State in which the insurance risk is situated or the law of the Member State in which the policyholder has his domicile or registered office.

4. Where the policyholder is engaged in economic and commercial activities or is a self-employed professional, in concluding an insurance contract covering insurance risks related to the activities of the policyholder which are situated in differed European Union Member States, the parties to the insurance contract may choose the law of any of these Member States or the law of the Member State in which the policyholder has his domicile or registered office.

5. Notwithstanding the provisions of paragraphs 2, 3 and 4 of this Article, in concluding an insurance contract in respect of insured events which may occur in a European Union Member State other than the Member State where the risk is situated, the parties to the insurance contract may choose the law of the former Member State.

6. The parties to insurance contracts covering large insurance risk shall be granted freedom to choose the law applicable.

7. The fact that the parties to an insurance contract have chosen the applicable law in cases referred to in paragraphs 2 and 6 of this Article shall not affect the application of the

mandatory rules of the law of the European Union Member State to which all other circumstances when choosing the applicable law are related.

8. Agreement of the parties to an insurance contract as regards the applicable law must be expressed or explicitly stated in the terms and conditions of the insurance contract or must be clearly presumable from concrete circumstances. Where this is not the case or where the parties to the contract have not chosen the applicable law, the law of the state referred to in this Article to which the insurance contract is most closely related shall be applied. However, a substantial part of the insurance contract which is more closely related to a state other than that referred to in paragraphs 1, 2, 3, 4 and 5 of this Article may, by way of exception, be subject to the law of that state. It shall be presumed that the insurance contract is most closely related to the law of the European Union Member State in which the insurance risk is situated.

9. Where an insurance contract is concluded for covering insurance risks situated in more than one European Union Member State, for the purpose of this paragraph, the insurance contract shall be deemed to consist of several insurance contracts each of which is related to only one Member State.

Article 134. Law Applicable to Compulsory Insurance Contracts

1. A compulsory insurance contract shall be subject to the law of the European Union Member State which provides for the obligation to conclude the insurance contract.

2. Where the laws of the Republic of Lithuania provide for the obligation to conclude an insurance contract, this obligation shall not be deemed properly discharged where the concluded insurance contract does not comply with the provisions of the legal acts of the Republic of Lithuania which are applicable to such insurance.

3. Where, in cases of compulsory insurance, the law of the European Union Member State in which insurance risk is situated is contrary to the law of the Member State which provides for the obligation to conclude an insurance contract, the law of the latter state shall apply.

4. Where an insurance contract is concluded for covering insurance risks situated in more than one European Union Member State and at least one of them stipulates compulsory insurance, for the purpose of paragraph 2 of this Article, the insurance contract shall be deemed to consist of several insurance contracts each of which is related to only one Member State.

5. Where a Member State provides for compulsory insurance and the insurer is obliged to notify the competent authorities about the expiry of insurance cover, the expiry of insurance cover shall have legal effects on the third parties only under the circumstances specified in the legal acts of that European Union Member State.

Article 135. Law Applicable to Life Assurance Contracts

1. This Article shall specify the law applicable to life assurance contracts, where the parties to the life assurance contract have not chosen the law applicable to the insurance contract.

2. The law applicable to life assurance contracts shall be the law of the European Union Member State of the commitment under a life assurance contract.

3. Where the policyholder has his domicile in a European Union Member State other than that of which he is a national, the parties to the insurance contract may choose the law of the European Union Member State of which the policyholder is a national.

CHAPTER VIII**INTERVENTION MEASURES, TERMINATION, REORGANISATION AND
BANKRUPTCY OF INSURANCE UNDERTAKINGS****SECTION ONE****INTERVENTION MEASURES****Article 136. Application of Provisions of this Section**

1. This Section regulates application of intervention measures in respect of:

1) insurance undertakings of the Republic of Lithuania and their branches established in the European Union Member States;

2) branches of third country insurance undertakings established in the Republic of Lithuania.

2. Measures specified in subparagraphs 1, 2, 3, 4, 5, 6, 7 and 8 of paragraph 1 of Article 2.131 of the Civil Code applied by the court shall be considered as intervention measures provided that they meet the criteria set forth in paragraph 37 of Article 2 of this Law.

3. Measures provided for in subparagraphs 5 and 9 of Article 204 of this Law applied by the supervisory authority and other measures, which are intervention measures as indicated during their application by the supervisory authority upon considering their possible effects, shall be considered as intervention measures.

Article 137. Intervention Measures

1. Only the court or the supervisory authority shall have the right to adopt a decision concerning the application of intervention measures.

2. Intervention measures shall be subject to the law of the Republic of Lithuania.

Article 138. Information about Intervention Measures

1. The supervisory authority, upon receipt of the experts' report and recommendations specified in paragraph 2 of Article 2.130 of the Civil Code, must submit to the court a conclusion regarding the intervention measures which the court intends to apply. Having adopted a decision to apply intervention measures, the court must forthwith notify the supervisory authority of the adopted decision and its coming into effect.

2. The supervisory authority must, without delay, inform the competent authorities of the other European Union Member States about the decision of the court or the supervisory authority itself to apply intervention measures and about the coming into effect of the decision, indicating the possible effects of the measures on natural or legal persons of the other European Union Member State. Where possible, the supervisory authority must inform the competent authorities of the other European Union Member States thereof before the adoption of the decision to apply intervention measures.

3. Upon adopting a decision to impose intervention measures, the court or the supervisory authority must forthwith publish the operative part of the decision in the supplement *Informaciniai pranešimai* to the official gazette *Valstybės žinios*.

4. The supervisory authority must forthwith publish the operative part of its own or the court's decision to impose intervention measures in the Official Journal of the European Union.

5. Publication referred to in paragraphs 3 and 4 of this Article must specify the institution which has adopted the decision to impose intervention measures, the applicable law and the appointed temporary members of the management body of the insurance undertaking.

6. Intervention measures shall be applied and shall have legal consequences irrespective of whether or not information about them has been published in the manner set forth in paragraphs 3 and 4 of this Article.

7. The provisions of paragraphs 3, 4 and 5 of this Article relating to publication of information about intervention measures shall not apply where the intervention measures only affect the rights of shareholders of an insurance undertaking or the employees of an insurance undertaking or a branch of a third country insurance undertaking. The supervisory authority shall have the right to commit an insurance undertaking or a branch of a third country insurance undertaking to inform these persons about the intervention measures.

SECTION TWO

TERMINATION, REORGANISATION AND BANKRUPTCY OF

INSURANCE UNDERTAKINGS AND TERMINATION OF ACTIVITIES OF BRANCHES OF THIRD COUNTRY INSURANCE UNDERTAKINGS

Article 139. Termination, Reorganisation and Bankruptcy of Reinsurance Undertakings

1. Reorganisation of an insurance undertaking by the decision of the general meeting of shareholders and its transformation shall be possible upon the authorisation of the supervisory authority, issued in the manner prescribed by the supervisory authority. Where the insurance undertaking is reorganised by the court decision, before adopting the said decision, the court must obtain the conclusion of the supervisory authority.

2. The supervisory authority shall have the right to obligate the insurance undertaking to inform the interested parties about the reorganisation, restructuring and change of the type of activity and, having regard to the provisions of Article 148 of this Law, to establish the procedure for submission of such information.

Article 140. Obligations under Insurance Contracts of an Insurance Undertaking in Liquidation

Where an insurance undertaking is liquidated, obligations arising from insurance contracts which were concluded when exercising the right of establishment or the right to provide services shall be fulfilled in the same manner as the obligations arising from other insurance contracts of that insurance undertaking.

Article 141. Voluntary Liquidation of an Insurance Undertaking

1. The general meeting of shareholders of an insurance undertaking shall have the right to take a decision to liquidate the insurance undertaking only after the insurance undertaking has transferred its rights and duties under insurance contracts in accordance with the procedure laid down in this Law and has been granted an authorisation by the supervisory authority, in accordance with the procedure established by the latter, to liquidate the insurance undertaking.

2. The supervisory authority shall take a decision regarding the issuance of an authorisation to liquidate the insurance undertaking within 30 working days from the submission of all the necessary and properly executed documents.

3. Before appointing a liquidator, a member or the chairman of the liquidation commission, approval of the candidate by the supervisory authority must be received in accordance with the procedure established by the supervisory authority. The supervisory

authority shall take a decision regarding the approval of the candidates within 30 working days from the submission of all the necessary and properly executed documents.

4. The insurance undertaking must, within three working day, notify the supervisory authority in writing about the decision taken to liquidate the insurance undertaking and to appoint the liquidator or to set up the liquidation commission and to appoint its chairman.

Article 142. Application to Initiate Investigation of the Insurance Undertaking's Activity

1. Upon revoking a licence to engage in insurance activity, the supervisory authority must obligate the insurance undertaking to transfer its rights and duties under insurance contracts and set the time limit within which the rights and duties must be transferred.

2. An insurance undertaking having rights and duties under insurance contracts shall have no right to engage in any other economic and commercial activities.

3. If an insurance undertaking fails to transfer its rights and duties under insurance contracts within the time limit set by the supervisory authority, the latter must apply to the prosecutor for initiating investigation of insurance activity following the procedure prescribed by Articles 2.124 – 2.131 of the Civil Code.

Article 143. Compulsory Liquidation of an Insurance Undertaking

1. Before passing a decision regarding compulsory liquidation of an insurance undertaking on the grounds laid down in Article 2.106 of the Civil Code, the court must inform the supervisory authority thereof and receive its conclusion regarding compulsory liquidation of the insurance undertaking.

2. The supervisory authority shall nominate to the court the candidates for the post of a liquidator or members and the chairperson of the liquidation commission. Having passed a decision to liquidate the insurance undertaking, to appoint a liquidator or a liquidation commission and its chairperson, the court must notify the supervisory authority thereof in writing within three working days.

Article 144. Bankruptcy of an Insurance Undertaking

1. The insurance undertaking bankruptcy proceedings shall be heard in accordance with the procedure laid down in the Enterprise Bankruptcy Law, unless this Law provides otherwise.

2. The bankruptcy proceedings in respect of an insurance undertaking shall be conducted only in court. The petition for the initiation of bankruptcy proceedings shall be filed with the

court by the supervisory authority. The court shall examine the petition for the initiation of bankruptcy proceedings filed by the supervisory authority within seven days.

3. If the petition for the initiation of bankruptcy proceedings is filed by other persons according to the procedure laid down by law, before passing a decision to initiate bankruptcy proceedings, the court must receive a conclusion from the supervisory authority regarding the insolvency of the insurance undertaking.

4. The supervisory authority shall nominate to the court a candidate for the post of the administrator.

5. Having passed a decision to initiate bankruptcy proceedings against the insurance undertaking, the court must notify the supervisory authority thereof in writing within three working days.

6. No meetings of policyholders and other creditors shall be convened during the handling of an insurance undertaking's bankruptcy case by the court. The interests of the said persons shall be represented by a committee of representatives of creditors formed by the supervisory authority. The committee of representatives of creditors shall consist of not more than 15 members. The committee of representatives of creditors shall consist of policyholders, insured persons, beneficiaries, injured third parties, other creditors and representatives of the supervisory authority. The regulations of the committee shall be approved by the supervisory authority.

7. The initial meeting of the committee of representatives of creditors shall be convened by the supervisory authority or, on the instruction of the supervisory authority, by the administrator.

Article 145. Reorganisation of a Third Country Insurance Undertaking Related to a Branch Established in the Republic of Lithuania

1. Reorganisation of a third country insurance undertaking may have legal consequences relating to the rights and duties of policyholders, insured persons, beneficiaries and injured third parties of a branch of this undertaking in the Republic of Lithuania only upon obtaining an authorisation from the supervisory authority.

2. The supervisory authority shall have the right to obligate a branch of a third country insurance undertaking to inform about the reorganisation procedures and, having regard to the provisions of Article 148 of this Law, to establish the procedure for submission of such information.

Article 146. Termination of Activities of a Branch of a Third Country Insurance Undertaking Established in the Republic of Lithuania

1. A third country insurance undertaking shall have the right to adopt a decision to terminate the activities of its branch established in the Republic of Lithuania only upon transferring, in the manner prescribed by this Law, its rights and duties under insurance contracts concluded by the branch and upon obtaining an authorisation from the supervisory authority.

2. The supervisory authority shall take a decision regarding the issuance of an authorisation within 30 working days from the receipt of all the necessary and properly executed documents.

3. Having adopted a decision to terminate the activities of a branch, the third country insurance undertaking must appoint a person responsible for the termination of activities of the branch. Before appointing a person responsible for the termination of activities of the branch, the third country insurance undertaking must obtain the supervisory authority's approval of the candidate in the manner prescribed by the supervisory authority. The supervisory authority shall take a decision regarding the approval of the candidate specified in this paragraph within 30 working days from the receipt of all the necessary and properly executed documents.

4. A decision to terminate the activities of the branch of a third country insurance undertaking and to appoint a person responsible for the termination of activities of the branch must be communicated by the third country insurance undertaking to the supervisory authority in writing within three working days.

Article 147. Compulsory Termination of Activities of a Branch of a Third Country Insurance Undertaking Established in the Republic of Lithuania

1. The activities of a branch of a third country insurance undertaking established in the Republic of Lithuania shall be terminated in a compulsory manner after the supervisory authority adopts a decision to revoke the authorisation for insurance activity of the branch. In this case, the supervisory authority shall nominate the person responsible for the termination of activities.

2. If, in accordance with the procedure established by law, other institutions of the Republic of Lithuania intend to adopt a decision to terminate the activities of a branch of a third country insurance undertaking established in the Republic of Lithuania, the supervisory authority shall nominate the person responsible for the termination of activities. Having adopted the decision to terminate the activities of the branch of a third country insurance undertaking and appoint a person responsible for the termination of activities, the state institution must notify the supervisory authority thereof in writing within three working days.

Article 148. Information Related to Liquidation and Bankruptcy Proceedings of an Insurance Undertaking and Termination of Activities of a Branch of a Third Country Insurance Undertaking

1. The supervisory authority must forthwith inform the competent authorities of other European Union Member States about the adopted decision to liquidate the insurance undertaking, terminate the activities of a branch a third country insurance undertaking or to initiate bankruptcy proceedings against the insurance undertaking, indicating possible consequences of the above actions for natural or legal persons of this European Union Member State.

2. Where possible, the supervisory authority must notify the competent authority of another European Union Member State before adopting the decision to liquidate the insurance undertaking, to terminate the activities of a branch of a third country insurance undertaking or to initiate bankruptcy proceedings against the insurance undertaking.

3. The liquidator of the insurance undertaking in liquidation, the chairman of the liquidation commission, the person responsible for the termination of activities of a branch of a third country insurance undertaking or the administrator of the insurance undertaking in bankruptcy must without delay publish information about the decision to liquidate the insurance undertaking, to terminate the activities of the branch of the third country insurance undertaking or to initiate bankruptcy proceedings against the insurance undertaking in the supplement *Informaciniai pranešimai* to the official gazette *Valstybės žinios*.

4. The liquidator of the insurance undertaking in liquidation, the chairman of the liquidation commission, the person responsible for the termination of activities of a branch of a third country insurance undertaking or the administrator of the insurance undertaking in bankruptcy must forthwith publish an excerpt from the adopted decision in the Official Journal of the European Union. In addition to other information, the announcement must contain the address and other contact information of the liquidator of the insurance undertaking in liquidation, the chairman of the liquidation commission, the person responsible for the termination of activities of a branch of a third country insurance undertaking or the administrator of the insurance undertaking in bankruptcy as well as the law applicable to liquidation or bankruptcy procedures.

5. The liquidator of the insurance undertaking in liquidation, the chairman of the liquidation commission, the person responsible for the termination of activities of a branch of a third country insurance undertaking or the administrator of the insurance undertaking in bankruptcy must without delay notify in writing every known creditor whose domicile or registered office is in another European Union Member State about the decision to liquidate the

insurance undertaking, to terminate the activities of the branch of a third country insurance undertaking or to initiate bankruptcy proceedings against the insurance undertaking. The information must specify the following:

- 1) the time limits and procedure for filing credit claims and the entity with whom the claim shall be filed;
- 2) legal consequences of failure to file or late filing of creditors' claims;
- 3) sequence of satisfaction of credit claims and measures securing the credit claims;
- 4) consequences for insurance contracts of liquidation and bankruptcy of an insurance undertaking and termination of activities of a branch of a third country insurance undertaking, the moment of expiry of rights and duties related to the insurance contracts.

6. The information referred to in paragraph 5 of this Article shall be presented in the Lithuanian language and the state language or one of state languages of a European Union Member State. The document must have the heading "Invitation to lodge a claim. Time limits to be observed" in all the official languages of the European Union. If the credit claim arises from the insurance contract, the information shall be submitted in the state language or in one of the state languages of the European Union Member State where the creditor has his domicile or registered office.

7. A creditor whose domicile or registered office is in another European Union Member State, while exercising the right to file a credit claim, must submit copies of documents confirming the credit claim (if any), indicate the date when the credit claim arose, the amount of the claim and measures whereby the claim is secured. The creditor's information shall be submitted in the state language or one of the state languages of the European Union Member State where the creditor has his domicile or registered office. However, the information must contain the heading "Kreditorinis Kreditorių reikalavimas" (Credit claim) or "Pastabos dėl kreditorių reikalavimo" (Comments concerning Credit claim) in the Lithuanian language.

8. The liquidator of the undertaking in liquidation, the chairman of the liquidation commission, the person responsible for the termination of activities of a branch of a third country insurance undertaking or the administrator of the undertaking in bankruptcy must properly and on a regular basis inform creditors about the progress of liquidation or bankruptcy procedures.

9. The liquidator of the undertaking in liquidation, the chairman of the liquidation commission, the person responsible for the termination of activities of a branch of a third country insurance undertaking or the administrator of the undertaking in bankruptcy must submit information to the supervisory authority in the manner established by the supervisory authority.

10. Upon request of the competent authority of another European Union Member State, the supervisory authority must furnish information about liquidation of an insurance undertaking,

termination of activities of a branch of a third country insurance undertaking or bankruptcy of the insurance undertaking.

Article 149. Use of Assets Covering Technical Provisions of an Insurance Undertaking in Liquidation or in Bankruptcy and a Branch of a Third Country Insurance Undertaking whose Activities Are Terminated

1. Assets covering technical provisions of an insurance undertaking in liquidation or in bankruptcy or a branch of a third country insurance undertaking whose activities are terminated, which are included in the list specified in paragraph 7 of Article 35 of this Law, may only be used to satisfy creditors' claims of the policyholders, insured persons, beneficiaries and injured third parties arising from insurance contracts, save for the exception indicated in paragraph 4 of this Article. Assets covering technical provisions and funds received following the transfer of the funds may not be used for recovery under other liabilities of an insurance undertaking or a branch of another third country insurance undertaking.

2. If assets covering technical provisions are not sufficient to satisfy all creditors' claims arising under insurance contracts of the insurance undertaking in liquidation or in bankruptcy or a branch of a third country insurance undertaking whose activities are terminated, the said claims shall be satisfied in proportion to the sum which is due to each creditor.

3. Funds other than assets covering technical provisions of the insurance undertaking or a branch of a third country insurance undertaking shall be used to satisfy claims of creditors referred to in paragraph 1 of this Article, whose claims were not fully satisfied from the assets covering technical provisions, and all other creditors in the manner established by law. The balance of funds of technical provisions which remains after satisfying creditors' claims of persons referred to in paragraph 1 of this Article shall also be used to satisfy claims of all other creditors in the manner established by law.

4. If assets other than those covering technical provisions of the insurance undertaking in bankruptcy prove insufficient to cover administrative expenses, the court, upon the proposal of the committee of representatives of creditors, having regard to the opinion of the supervisory authority, upon the administrator's request, shall have the right to allocate up to 10% of assets covering technical provisions for administrative expenses of the insurance undertaking in bankruptcy.

Article 150. Termination of Insurance Contracts of Insurance Undertakings in Bankruptcy

1. After the court ruling to initiate bankruptcy proceedings becomes effective:

1) non-life insurance contracts, except for contracts of compulsory insurance against civil liability in respect of the use of motor vehicles, shall terminate;

2) contracts of compulsory insurance against civil liability in respect of the use of motor vehicles shall terminate after 30 days (except for the cases where contracts of compulsory insurance against civil liability in respect of the use of motor vehicles provide for an earlier date of termination of the insurance contract);

3) life assurance contracts shall terminate if the rights and duties under these contracts are not transferred within the time limit set by the supervisory authority.

2. Policyholders of the insurance contracts referred to in subparagraphs 1 and 2 of paragraph 1 of this Article shall acquire the right to creditors' claims in respect of the share of paid insurance premiums for the period from the termination of the insurance contract on the grounds specified in paragraph 1 of this Article to the expiry of the insurance contract.

Article 151. Termination of Insurance Contracts of Branches of Third Country Insurance Undertakings

1. Upon revocation by the supervisory authority of an authorisation for the activity of a branch of a third country insurance undertaking due to the fact that the liabilities of the branch exceed the assets assigned to it:

1) non-life insurance contracts, except for contracts of compulsory insurance against civil liability in respect of the use of motor vehicles, shall terminate;

2) contracts of compulsory insurance against civil liability in respect of the use of motor vehicles shall terminate after 30 days (except for the cases where contracts of compulsory insurance against civil liability in respect of the use of motor vehicles provide for an earlier date of termination of the insurance contract);

3) life assurance contracts shall terminate if the rights and duties under these contracts are not transferred from revocation of an authorisation for the activity of the branch of a third country insurance undertaking until the time limit set by the supervisory authority.

2. Policyholders of the insurance contracts referred to in subparagraphs 1 and 2 of paragraph 1 of this Article shall acquire the right to creditors' claims in respect of the share of paid insurance premiums for the period from the termination of the insurance contract on the grounds specified in paragraph 1 of this Article to the expiry of the insurance contract.

3. If the liabilities of a branch of a third country insurance undertaking exceed the assets assigned to it, after the revocation of an authorisation for the activity of a branch of a third country insurance undertaking, the supervisory authority shall state this fact in its resolution. In this case:

1) non-life insurance contracts, except for contracts of compulsory insurance against civil liability in respect of the use of motor vehicles, shall terminate;

2) contracts of compulsory insurance against civil liability in respect of the use of motor vehicles shall terminate after 30 days (except for the cases where contracts of compulsory insurance against civil liability in respect of the use of motor vehicles provide for an earlier date of termination of the insurance contract);

3) the supervisory authority shall set a time limit for the transfer of rights and duties under the life-assurance contracts. Life assurance contracts shall terminate if the rights and duties under these contracts are not transferred within the time limit set by the supervisory authority.

4. Policyholders of the insurance contracts referred to in subparagraphs 1 and 2 of paragraph 3 of this Article shall acquire the right to creditors' claims in respect of the share of paid insurance premiums for the period from the termination of the insurance contract on the grounds specified in paragraph 3 of this Article to the expiry of the insurance contract.

Article 152. Policyholders' Credit Claims upon Termination of Life Assurance Contracts

1. Each policyholder of life assurance contracts which have terminated on the grounds specified in Article 150 or 151 of this Law shall acquire the right of credit claim against an insurance undertaking or a branch of a third country insurance undertaking.

2. Where a life assurance contract has been concluded only for covering a death risk, the policyholders shall acquire the right of credit claim to the share of the paid insurance premium for the period from the termination of the insurance contract on the grounds specified in Article 150 or 151 of this Law to the expiry of the period of the insurance contract provided for in the contract.

3. The amount of the policyholder's credit claim in case of a life assurance contract related to capital accumulation shall equal the amount of technical provisions established/formed for the insurance contract of that policyholder on the day of termination of the contract.

Article 153. Characteristics of Transfer of Rights and Duties under Life Assurance Contracts of an Insurance Undertaking in Bankruptcy

1. When transferring the rights and duties under the life assurance contracts of an insurance undertaking in bankruptcy, a 30-day time limit shall apply instead of the time limits specified in paragraph 5 of Articles 41 and paragraphs 1 and 3 of Article 42 of this Law.

2. When transferring the rights and duties under life assurance contracts of an insurance undertaking in bankruptcy, subparagraph 2 of paragraph 3 of Article 42 of this Law shall apply taking into account the exceptions specified in this Article.

3. When transferring the rights and duties under life assurance contracts of an insurance undertaking in bankruptcy, subparagraph 4 of paragraph 3 of Article 42 of this Law shall not apply, but the mandatory precondition for the issuance of an authorisation by the supervisory authority for the transfer of the rights and duties shall be safeguarding of property interests of policyholders, insured persons, beneficiaries and injured third parties of the insurance undertaking in bankruptcy, which is feasible under the specific circumstances of the bankruptcy proceedings.

4. Where the assets covering the technical provisions of the insurance undertaking in bankruptcy prove insufficient to satisfy credit claims arising from life assurance capital saving contracts, the insurance undertaking in bankruptcy transferring the rights and duties under life assurance contracts shall have the right to transfer a share of the duty concerning the insurance benefit and payment of surrender value. In such a case, the contract relating to the transfer of rights and duties must specify the share of the insurance benefit and surrender value that the entity taking over the rights and duties under insurance contracts must pay. From the moment of transfer of rights and duties under the insurance contracts, the policyholder shall acquire the right of credit claim to the share of the surrender value calculated until the day of the transfer of rights and duties, the obligation of payment whereof has been retained by the insurance undertaking in bankruptcy.

5. A plan for the restoration of assets covering technical provisions provided for in paragraph 7 of Article 42 of this Law shall not be required if, when implementing the provisions of paragraph 4 of this Article, the transferred assets covering technical provisions are adequate to the rights and duties taken over.

Article 154. Characteristics of Transfer of Rights and Duties under Life Assurance Contracts of a Branch of a Third Country Insurance Undertaking whose Activities Are Terminated

Having regard to the provisions of Article 153 of this Law, the supervisory authority shall establish the procedure for the transfer of rights and duties under life assurance contracts of a branch of a third country insurance undertaking whose activities are terminated and the liabilities of which exceed the assets assigned to it.

Article 155. Licence of an Insurance Undertaking in Liquidation or in Bankruptcy to Engage in Insurance Activity

1. If the licence to engage in insurance activity has not been revoked before the adoption of a decision to liquidate the insurance undertaking or to initiate bankruptcy proceedings against it, the supervisory authority shall suspend the licence after the adoption of the above-mentioned decision.

2. Having suspended the licence to engage in insurance activity, the insurance undertaking in liquidation or in bankruptcy shall have the right to perform only the activities relating to insurance specified in the decision of the supervisory authority regarding the suspension of the licence to engage in insurance activity.

3. Before applying to the administrator of the Register of Legal Entities for removal of the undertaking from the Register, the liquidator of the insurance undertaking in liquidation or the chairman of the liquidation commission, the administrator of the insurance undertaking in bankruptcy must submit to the supervisory authority an application for the revocation of the licence to engage in insurance activity.

Article 156. Authorisation to Engage in Insurance Activity Granted to a Branch of a Third Country Insurance Undertaking whose Activities Are Terminated

1. If the authorisation to engage in insurance activity of a branch has not been revoked before the adoption of the decision to terminate the activities of the branch of a third country insurance undertaking, the supervisory authority shall suspend the validity of such authorisation.

2. Upon suspension of an authorisation to engage in insurance activity of a branch, the branch of a third country insurance undertaking shall have the right to engage only in insurance related activities specified in the said decision of the supervisory authority.

3. Before applying to the administrator of the Register of Legal Entities for the removal of the branch of a third country insurance undertaking from the Register, the person responsible for the termination of activities of the branch must submit to the supervisory authority an application for the revocation of an authorisation to engage in insurance activity of the branch.

Article 157. Rights of Third Parties

1. Application of intervention measures, liquidation of an insurance undertaking, termination of activities of a branch of a third country insurance undertaking or bankruptcy of an insurance undertaking shall not affect the rights in rem as regards the assets assigned to the insurance undertaking or the branch of a third country insurance undertaking, situated within the territory of another European Union Member State at the moment of coming into force of the

decision to apply intervention measures, to liquidate the insurance undertaking, to terminate the activities of the branch of a third country insurance undertaking or to initiate bankruptcy proceedings against the insurance undertaking. The consequences of the application of intervention measures, liquidation, termination of activities of a branch or bankruptcy for the rights and duties of participants of the regulated securities market shall be established by legal acts applicable to this securities market.

2. Application of intervention measures, liquidation of the insurance undertaking, termination of activities of a branch or bankruptcy of the insurance undertaking may not affect the seller's rights to the transferable, transferred assets or assets being transferred to the purchaser – an insurance undertaking or a branch of a third country insurance undertaking – based on the retention of title until full settlement for the assets is effected or other contractual conditions are satisfied if at the moment of coming into force of the decision to apply intervention measures, to liquidate the insurance undertaking, to terminate the activities of the branch of the third country insurance undertaking or to initiate bankruptcy proceedings against the insurance undertaking the assets were situated within another European Union Member State.

3. Application of intervention measures, liquidation of the the insurance undertaking, termination of activities of a branch or bankruptcy of the insurance undertaking may not constitute grounds for rescinding the purchase-sale contract concluded by the seller – an insurance undertaking or a branch of a third country insurance undertaking after the transfer of the assets to the purchaser, it also may not affect the transfer of the title to the assets to the purchaser if at the moment of coming into force of the decision to apply intervention measures, to liquidate the insurance undertaking, to terminate the activities of the branch of the third country insurance undertaking or to initiate bankruptcy proceedings against the insurance undertaking the assets were situated within another European Union Member State.

4. Application of intervention measures, liquidation of the the insurance undertaking, termination of activities of a branch or bankruptcy of the insurance undertaking may not affect the right of creditors to demand the set-off of their claims where such a set-off is permitted by the law applicable to the claim of the insurance undertaking or the branch of a third country insurance undertaking.

5. Provisions of paragraphs 1, 2, 3 and 4 of this Article shall not preclude actions for voidness, voidability or unenforceability of acts and other transactions violating legal acts, the rights or legitimate interests of creditors of the insurance undertaking or a branch of a third country insurance undertaking.

6. Provisions of the laws of the Republic of Lithuania in respect of voidness, voidability or unenforceability of acts and other transactions violating legal acts, the rights or legitimate

interests of creditors of the insurance undertaking or a branch of a third country insurance undertaking shall not apply if it is established that:

1) these acts and other transactions are subject to the law of another European Union Member State;

2) the applicable law does not provide for any means of challenging those acts and other transactions in the relevant case.

7. Where, after the coming into force of the decision to apply intervention measures, to liquidate the insurance undertaking, to terminate the activities of a branch of a third country insurance undertaking or to initiate bankruptcy proceedings against the insurance undertaking, the insurance undertaking or the branch of a third country insurance undertaking has concluded a transaction under which it has transferred the title to an immovable object, a ship or an aircraft subject to registration in a public register, or to securities the title whereof or transfer whereof presupposes, under the law of the European Union Member State, entry in a register, securities account or placement in the Central Depository, the validity of that transaction shall be governed by the law of the European Union Member State within whose territory the immovable object, the register, the securities account or the Central Depository is situated.

8. The effects of the application of intervention measures, liquidation of the insurance undertaking, termination of activities of a branch or bankruptcy of the insurance undertaking on a pending lawsuit concerning the assets or the rights of the insurance undertaking or of the branch of the third country insurance undertaking shall be governed by the law of the European Union Member State in which the lawsuit is pending.

Article 158. Requirements for the Appointed Persons

1. A person appointed liquidator of the insurance undertaking in liquidation, chairman of the liquidation commission, a person responsible for termination of the activities of the branch of the third country insurance undertaking or administrator of the insurance undertaking in bankruptcy must be of good repute, qualified and experienced.

2. The person appointed to the positions specified in paragraph 1 of this Article shall be entitled to receive a copy of the decision on the appointment.

3. Persons specified in paragraph 1 of this Article acting in another European Union Member States must comply with the requirements of legal acts of that Member State, in particular with regard to requirements for the sale of assets and provision of information to the employees. If legal acts of another European Union Member State provide for the possibility to register the applied intervention measures, liquidation or bankruptcy of the insurance undertaking in the public registers of that European Union Member State, the persons referred to

in paragraph 1 of this Article shall have the right to do so. If registration of the applied intervention measures, liquidation or bankruptcy of the insurance undertaking in the in the public registers of the respective European Union Member State is mandatory, persons specified in paragraph 1 of this Article must do so. Registration costs shall be included in the costs of application of intervention measures, liquidation of the insurance undertaking, termination of the activities of the branch or bankruptcy of the insurance undertaking.

4. Persons referred to in paragraph 1 of this Article shall be bound by the duty not to disclose information specified in Article 198 of this Law.

5. If persons specified in paragraph 1 of this Article, whose appointment is out of the court's jurisdiction, fail to properly discharge their functions, violate legal acts or interests of the policyholders, insured persons, beneficiaries, injured third parties or other creditors, the supervisory authority shall have the right to request replacement of the person and to set the time limit for the appointment of a new person.

6. If persons specified in paragraph 1 of this Article, whose appointment is within the court's jurisdiction, fail to properly discharge their functions, violate legal acts or interests of the policyholders, insured persons, beneficiaries, injured third parties and other creditors, the supervisory authority shall have the right to apply to the court requesting replacement of a person appointed to this position. In such a case, the supervisory authority shall nominate a new candidate for the position.

CHAPTER IX INSURANCE AND REINSURANCE INTERMEDIARIES

SECTION ONE GENERAL PROVISIONS

Article 159. Application of Provisions of this Chapter

The provisions of this Chapter shall not apply to persons rendering insurance mediation services, if there are all of the following conditions:

- 1) the insurance contract requires only the knowledge of the insurance cover that is provided by this person;
- 2) the insurance contract is not a life assurance contract;
- 3) the insurance contract does not cover any civil liability risk;

4) the principal economic commercial activity of the person providing insurance mediation services, which generated over 50 per cent of the person's income in the preceding financial year, is other than insurance mediation;

5) the offered insurance is complementary to the product or service supplied by any provider, where such insurance covers the risk of breakdown, loss or damage to goods supplied by that provider; or damage to or loss of baggage and other risks linked to the travel booked with that provider, even if the insurance covers life assurance or civil liability risks, provided that the cover is ancillary to the main cover for the risks linked to that travel;

6) the amount of the annual premium does not exceed EUR 500, and the total period of validity of the insurance contract, including any possible automatic renewals (when the period of validity of the contract is extended with no intention to refuse the provided insurance cover in future is voiced by the policyholder), does not exceed five years.

SECTION TWO

INSURANCE BROKER UNDERTAKING OF THE REPUBLIC OF LITHUANIA

Article 160. Licence to Engage in Activities of an Insurance Broker Undertaking

1. An insurance broker undertaking shall have the right to engage in insurance mediation activity only subject to a licence granted by the supervisory authority.

2. A licence to engage in activities of an insurance broker undertaking shall be issued:

1) to a public limited liability company, a private limited liability company or a European company (*Societas Europaea*) which is being established;

2) to a new public limited liability company, a private limited liability company or a European company (*Societas Europaea*) which will operate upon the reorganisation of legal persons and is intending to engage activities of an insurance broker undertaking;

3) to a public limited liability company, a private limited liability company or a European company (*Societas Europaea*) which is changing the type of its activities into activities of an insurance broker undertaking.

3. A licence to engage in activities of an insurance broker undertaking form shall be effective in all the other Member States of the European Union, granting the right to engage in insurance and reinsurance activities through exercising the right of establishment and/or the right to provide services under the conditions specified in Article 189 of this Law.

4. A licence to engage in activities of an insurance broker undertaking shall be issued for an indefinite period of time.

5. A licence to engage in activities of an insurance broker undertaking shall be issued only for a particular insurance broker undertaking and may not be transferred to another person.

6. Licensing Rules for Activities of Insurance Broker undertakings as well as the form of the licence shall be approved by the supervisory authority.

7. An insurance broker undertaking being established may be registered in the Register of Legal Entities and where a licence to engage in activities of an insurance broker undertaking is issued not to the insurance broker undertaking being established, appropriate changes in the Register of Legal Entities may be made only upon issuing of the licence to engage in activities of an insurance broker undertaking. The insurance broker undertaking must notify the supervisory authority about the fact of registration within five working days.

8. Pursuant to the procedure set out in the regulations of the Register of Legal Entities the supervisory authority must notify the Register of Legal Entities about the issuance, suspension or withdrawal of a licence to engage in activities of an insurance broker undertaking.

9. The list of insurance broker undertakings shall be announced on the website of the supervisory authority.

Article 161. Issuance of a Licence to Engage in Activities of an Insurance Broker undertaking

1. Within four months from the submission of an application for the issuance of a licence to engage in activities of an insurance broker undertaking as well as all the documents specified in the Licensing Rules for Activities of Insurance Broker undertakings, the supervisory authority shall take a decision concerning the issuance of a licence to engage in activities of an insurance broker undertaking and shall inform the applicant thereof in writing.

2. The supervisory authority shall refuse to issue a licence to engage in an insurance broker undertaking where:

1) the documents required by the supervisory authority have not been submitted or the submitted documents do not meet the requirements of legal acts of the Republic of Lithuania;

2) persons in control of the insurance broker undertaking, firms participating therein, members of the supervisory and management bodies of the insurance broker undertaking are not of good repute while the head of the administration is not of good repute, is not qualified and experienced;

3) the insurance broker undertaking does not possess professional civil liability insurance;

4) in view of the scope of the contemplated activities (contemplated number of customers, the turnover, internal structure, territory of the activity, future branches and agencies) the insurance broker undertaking intends to employ an insufficient number of insurance brokers;

5) the presented business plan implies that interests of the policyholders, the insured persons, the beneficiaries and the injured third parties are not properly protected;

6) the authorised capital has not been fully paid-up;

7) the authorised capital is paid up in cash or assets the origin of which is not legal;

8) the insurance broker undertaking is a successor to the rights and obligations of a legal person or legal persons the implementation of which would violate the provisions of paragraph 4 of Article 162 of this Law and/or would endanger the interests of the policyholders, the insured persons, the beneficiaries and the injured third parties;

9) state fees and charges for the granting of a licence to engage in activities of an insurance broker undertaking have not been paid.

Article 162. Requirements for Insurance Broker Undertakings

1. The part of the name of an insurance broker undertaking defining the type of the firm must contain the words “Akcinė draudimo brokerių bendrovė” (public limited liability insurance broker undertaking), “Uždaroji akcinė draudimo brokerių bendrovė” (private limited liability insurance broker undertaking) or “Europos draudimo brokerių bendrovė” (European insurance broker undertaking), or their respective acronyms, such as “ADBB”, “UADBB” or “EDBB”. No other legal person shall have the right to use in its name combinations of these words or their acronyms and the combination of the words “draudimo brokeris” (insurance broker) or a combination identical to it, save for the exceptions provided by the law.

2. The authorised capital of an insurance broker undertaking may not be less than EUR 15 000, and the equity may not be less than 4 % of the insurance premiums income through a financial year payable to insurers and not less than EUR 15 000. The articles of association of an insurance broker undertaking, amended because of an increase or decrease of the authorised capital, must be agreed with the supervisory authority according to the procedure set out by the supervisory authority prior to the submission of the information on the amendments to the Register of Legal Entities. The supervisory authority shall take a decision on the amendments to the articles of association within 20 days of the submission of all the duly executed documents. The increase of the authorised capital may be registered according to the procedure laid down by the law, only when the shares have been fully paid-up.

3. An insurance broker undertaking must insure professional civil liability. The amount of insurance must be not less than EUR 1 000 000 per one insured event and EUR 1 500 000 for

all insured events over a year. The insurance cover must be valid throughout the entire territory of the European Union. An insurance broker undertaking must possess insurance cover for the entire period of its activities.

4. An insurance broker undertaking shall have no right to engage in any other economic commercial activities, except for the activities of insurance mediation, reinsurance mediation and mediation in concluding pension accumulation agreements. Moreover, an insurance broker undertaking may carry out valuation of property to be covered by insurance according to the procedure established by the Law on Basics of Property and Business Valuation.

5. An insurance broker undertaking must present statistical, financial and other information to the supervisory authority in the form established by it, where such information is required for the supervision of activities of the insurance broker undertaking.

Article 163. Management of an Insurance Broker undertaking

Persons in control of an insurance broker undertaking, firms participating therein, members of the supervisory and management bodies of the insurance broker undertaking must be of good repute and the head of the administration must be of good repute, qualified and experienced.

Article 164. Independence of an Insurance Broker undertaking

1. An insurance broker undertaking shall be an independent insurance mediator having the right to engage in insurance mediation authorised by an insurer, a policyholder, an insured person, a beneficiary or an injured party.

2. An insurance broker undertaking must act in the interests of the policyholder, the insured person, the beneficiary or the injured third party. An insurance broker undertaking must indemnify the policyholder, the insured person, the beneficiary or the injured third party for the losses arising from default of this duty according to the procedures prescribed by the Civil Code.

3. In carrying out the insurance mediation activity related to conclusion of insurance contracts under the insurer's authorisation, an insurance broker undertaking must, having regard to the needs of the policyholder, provide the policyholder with an opportunity to choose between analogous or similar services according to insurance cover provided by at least two insurers.

4. An insurance broker undertaking must disclose to policyholders, insured persons, beneficiaries and injured third parties the nature of contractual relations with the insurers upon whose authorisation they carry out mediation activity and furnish the information specified by the supervisory authority, and, prior to the conclusion of an insurance contract, furnish the information specified in Articles 91 and 113 of this Law.

5. At an insurance broker undertaking the functions related to insurance and reinsurance mediation may only be fulfilled by an insurance broker who is employed or holds an elective position at that firm.

6. An insurance broker undertaking must open a separate bank account where the funds of only the policyholders, the insured persons, the beneficiaries and the injured third parties as well as the funds of the insurers assigned for payments to the above-mentioned persons shall be transferred. Execution of claims arising under other obligations of the insurance broker undertaking may not be levied against the said funds and in the case of bankruptcy of the insurance broker undertaking the credit claims only of the policyholders, the insured persons, the beneficiaries and the injured third parties may be satisfied from the funds kept in the account.

Article 165. Suspension and Withdrawal of a Licence to Engage in Activities of an Insurance Broker undertaking

1. When there are grounds specified in paragraph 1 of Article 205 of this Law, the supervisory authority shall have the right to suspend a licence to engage in activities of an insurance broker undertaking.

2. The supervisory institution shall have the right to withdraw the licence of an insurance broker undertaking if the insurance broker undertaking:

- 1) no longer meets the requirements under which the licence was issued;
- 2) has grossly violated legal acts;
- 3) refuses the licence;
- 4) fails to start insurance mediation activity within 12 months from the issuance of the licence to engage in activities of an insurance broker undertaking;
- 5) does not pursue insurance brokerage activity for a period of time exceeding six months.

3. The decision to withdraw the licence to engage in activities of an insurance broker undertaking must be thoroughly substantiated. The supervisory institution must inform in writing the insurance broker undertaking about the adopted decision and the reasons for it.

SECTION THREE

INSURANCE BROKERS AND THE CHAMBER OF INSURANCE BROKERS

Article 166. Insurance Broker

1. Only a natural person of good repute who has passed the qualifying examination of an insurance broker, has been entered in the list of insurance brokers administered by the

supervisory authority and has become a member of the Chamber of Insurance Brokers may be an insurance broker.

2. The qualifying examinations of insurance brokers shall be held and its procedure shall be determined by the supervisory authority.

3. Qualification examinations of insurance brokers shall be held at least once every four months.

4. The supervisory authority shall within five days enter the insurance broker who has passed the qualifying examination on the list of insurance brokers and issue a certificate in the established form. The data of the list of insurance brokers shall be made available to the public in the website of the supervisory authority.

5. The supervisory authority shall have the right to strike an insurance broker off the list of insurance brokers:

- 1) at the insurance broker's written request;
- 2) upon the death of the insurance broker;
- 3) if the insurance broker has not started professional activities within 12 months or if he has not been carrying out his activities for more than 12 months;
- 4) if new facts become known after the entry on the list of insurance brokers due to which the insurance broker would have been refused entry on the list;
- 5) where the conditions that preclude the insurance broker from being considered as of good repute arise;
- 6) on the recommendation of the Chamber of Insurance Brokers given with a view to the decision made at the Court of Honour of Insurance Brokers;
- 7) in the cases provided for in paragraph 8 of this Article.

6. The supervisory authority shall have the right to suspend the certificate of the insurance broker upon the request of the Court of Honour of Insurance Brokers provided for in paragraph 3 of Article 178 of this Law. During the period of suspension the certificate the insurance broker shall have no right to fulfil at the insurance broker undertaking any functions related to insurance mediation.

7. The insurance broker who has been removed from the list of the insurance brokers must return the document referred to in paragraph 4 of this Article to the supervisory authority. This requirement shall not apply in the case specified in subparagraph 2 of paragraph 5 of this Article. The person removed from the list of insurance brokers in the cases referred to in subparagraphs 4, 5, 6 and 7 of paragraph 5 of this Article shall have the right to become an insurance broker again not earlier than three years after his removal from the list of insurance brokers.

8. The supervisory authority shall have the right to hold re-evaluation of performance of an insurance broker, if complaints about the activities of the insurance broker prove to be justified or if the evaluation data put to doubt his proper qualification. If it is established that the insurance broker has lost his qualification or failed to attend his performance re-evaluation without a good reason, he shall be removed from the list of insurance brokers.

9. An insurance broker may perform the functions related to insurance and reinsurance mediation only if he is employed or holds an elective position at the insurance broker undertaking.

10. An insurance broker must adhere to the code of professional ethics.

Article 167. Chamber of Insurance Brokers

1. The Chamber of Insurance Brokers shall be an association which unites all insurance brokers and implements self-governance principles of insurance brokers.

2. The Chamber of Insurance Brokers shall have the seal with its name and the settlement account. The Chamber of Insurance Brokers shall be liable for its obligations to the extent of its assets and shall not be liable for the commitments assumed by its members, whereas the members of the Chamber of Insurance Brokers shall not be liable for the obligations of the Chamber of Insurance Brokers.

3. In its activities the Chamber of Insurance Brokers shall abide by this Law and other legal acts as well as the statute of the Chamber of Insurance Brokers.

Article 168. Founding and Registration of the Chamber of Insurance Brokers

1. The Chamber of Insurance Brokers shall be founded at the general statutory meeting of members of the Chamber of Insurance Brokers.

2. At the statutory meeting the statute of the Chamber of Insurance Brokers shall be approved. If the statute of the Chamber of Insurance Brokers is not approved at the statutory meeting, a repeat meeting shall be called within 30 days.

3. The Chamber of Insurance Brokers shall be deemed founded upon the registration thereof in the Register of Legal Entities.

Article 169. Statute of the Chamber of Insurance Brokers

1. The statute of the Chamber of Insurance Brokers must indicate:

1) the name, legal form, symbols and registered office of the Chamber of Insurance Brokers;

2) objectives, functions and tasks of the activities;

3) conditions and procedure of entry, withdrawal and exclusion from membership in the Chamber of Insurance Brokers;

4) rights and duties of the members of the Chamber of Insurance Brokers;

5) the procedure for establishing and liquidating branches; their rights and relations with management bodies of the Chamber of Insurance Brokers;

6) the procedure for setting up the management bodies of the Chamber of Insurance Brokers, their competence, functions and responsibility, the procedure for calling the general meeting, recalling the elective management bodies and their members;

7) sources of assets and funding as well as control of financial activity;

8) the procedure for providing financial and other support;

9) the procedure for amending and supplementing the statute;

10) the procedure for reorganisation and liquidation of the Chamber of Insurance Brokers;

2. The statute may also provide for other provisions regulating activities of the Chamber of Insurance Brokers, provided such provisions do not contradict this Law and other laws.

Article 170. Members of the Chamber of Insurance Brokers

1. Only persons who have passed the qualifying examinations of insurance brokers, have been entered on the list of insurance brokers administered by the supervisory authority and possess a certificate of the insurance broker, have taken the oath of the insurance broker shall be entitled to membership in the Chamber of Insurance Brokers. The Chamber of Insurance Brokers shall be prohibited from refusing membership to a person meeting all the above requirements.

2. Members of the Chamber of Insurance Brokers shall have the right to:

1) take part in the activities of the Chamber of Insurance Brokers and nominate their representatives to the management bodies of the Chamber of Insurance Brokers;

2) make use of the services provided by the Chamber of Insurance Brokers;

3) make use of the information accumulated by the Chamber of Insurance Brokers;

4) obtain information about the activities of the Chamber of Insurance Brokers;

5) contest in the court the decisions of the bodies of the Chamber of Insurance Brokers.

Article 171. Exclusion of an Insurance Broker from the Chamber of Insurance Brokers

1. An insurance broker who has been removed from the list of insurance brokers must be excluded from membership of the Chamber of Insurance Brokers according to the procedure prescribed by the General Meeting of the Chamber of Insurance Brokers.

2. The Chamber of Insurance Brokers shall be prohibited from removing from membership of the Chamber of Insurance Brokers an insurance broker who has not yet been removed from the list of insurance brokers.

Article 172. Functions of the Chamber of Insurance Brokers

The Chamber of Insurance Brokers shall perform the following functions:

- 1) taking into account the recommendations of the supervisory authority, prepare and approve the code of professional ethics of insurance brokers and control the compliance with it;
- 2) prepare and supplement the statute of the Chamber of Insurance Brokers;
- 3) prepare the regulations of the Court of Honour of Insurance Brokers;
- 4) organise and co-ordinate internships and in-service training for insurance brokers;
- 5) present proposals to the supervisory authority concerning qualifying examinations and re-evaluation of performance of insurance brokers organised by the said authority;
- 6) establish the obligatory number of hours of in-service training courses to be attended by insurance brokers every year;
- 7) solve issues concerning improvement of professional activities of insurance brokers;
- 8) consider complaints of persons pertaining to violations of activities and professional ethics of insurance brokers;
- 9) taking into account the decision by the Court of Honour of Insurance Brokers, present proposals to the supervisory authority to suspend the certificate of the insurance broker for an up to one year period or remove the insurance broker from the list of insurance brokers;
- 10) perform other functions set out by the statute.

Article 173. Management of the Chamber of Insurance Brokers

The bodies of the Chamber of Insurance Brokers shall be the General Meeting of the Chamber of Insurance Brokers, the Presidium and the Administration. The Presidium and the Administration shall be the management bodies of the Chamber of Insurance Brokers.

Article 174. General Meeting of the Chamber of Insurance Brokers

1. Insurance brokers shall attend an annual General Meeting of the Chamber of Insurance Brokers to discuss and develop activities of insurance brokers.
2. The General Meeting of the Chamber of Insurance Brokers shall be convened and organized by the Presidium of the Chamber of Insurance Brokers.
3. The General Meeting of the Chamber of Insurance Brokers shall be the supreme body of the Chamber of Insurance Brokers.

4. The General Meeting of the Chamber of Insurance Brokers shall be convened in accordance with the procedure laid down by the Statute of the Chamber of Insurance Brokers. An extraordinary meeting shall be convened if it is requested by no less than 1/5 of the members of the Chamber of Insurance Brokers or by the Presidium on its resolution.

5. The General Meeting of the Chamber of Insurance Brokers shall have the right to:

- 1) adopt, amend and supplement the Statute of the Chamber of Insurance Brokers;
- 2) establish the number of members of the Presidium of the Chamber of Insurance Brokers;
- 3) elect and dismiss members of the Presidium of the Chamber of insurance Brokers;
- 4) elect the President of the Chamber of Insurance Brokers;
- 5) appoint insurance brokers to members of the Court of Honour of Insurance Brokers;
- 6) choose an auditing company for auditing sets of financial statements of the Chamber of Insurance Brokers;
- 7) fix the amount of the membership fee to be paid by the members of the Chamber of Insurance Brokers;
- 8) prepare the regulations of the Court of Honour of Insurance Brokers;
- 9) prepare the code of professional ethics of insurance brokers;
- 10) approve the report on the use of funds of the Chamber of Insurance Brokers;
- 11) establish the number of employees of the Chamber of Insurance Brokers and fix the amount of their salaries;
- 12) address other issues provided for in the Statute of the Chamber of Insurance Brokers.

6. The General Meeting of the Chamber of Insurance Brokers shall be valid if it is attended by no less than a half of the members. Decisions shall be taken by a simple majority vote, except for the cases specified by laws.

7. Where the General Meeting of the Chamber of Insurance Brokers does not have a quorum, a repeat meeting shall be held according to the procedure laid down in the Statute of the Chamber of Insurance Brokers not later than after 30 days. This meeting shall have the right to take decisions on the issues which were on the agenda of the originally planned meeting, irrespective of the number of members attending the repeat meeting.

Article 175. The Presidium and the Administration of the Chamber of Insurance Brokers

1. Activities of the Chamber of Insurance Brokers between the General Meetings of the Chamber of Insurance Brokers shall be managed by the Presidium. The Presidium of the

Chamber of Brokers shall be elected according to the procedure laid down in the Statute of the Chamber of Insurance Brokers.

2. The meeting of the Presidium of the Chamber of Insurance Brokers shall be legal when attended by at least one half of its members and its decisions shall be legal when they are voted in favour of by not less than one half of the attending Presidium members. All members shall have equal rights. In the event of a tie, the President of the Chamber of Insurance Brokers shall have the casting vote.

3. Activities of the Chamber of Insurance Brokers shall be organized and carried out by the Administration.

4. The Administration of the Chamber of Insurance Brokers shall be headed by the Director. The Director and the chief accountant shall be appointed by the Presidium of the Chamber of Insurance Brokers. The duties of the chief accountant may also be performed by the companies engaged in accounting services.

Article 176. Grounds for Bringing a Disciplinary Action against an Insurance Broker

1. On the proposal of the Presidium of the Chamber of Insurance Brokers or the supervisory authority, a disciplinary action may be taken against an insurance broker for the violation of this Law, other legal acts, professional activities or the Code of Professional Ethics of Insurance Brokers.

2. Within 30 days from the day of receipt of the proposal of the Presidium of the Chamber of Insurance Brokers or the supervisory authority to take a disciplinary action against an insurance broker, the Court of Honour of Insurance Brokers shall take a decision to take or not to take disciplinary action against the insurance broker.

Article 177. Court of Honour of Insurance Brokers

1. The Court of Honour of Insurance Brokers shall be composed in accordance with the following procedure:

1) three insurance brokers with an at least three-year record of work in insurance mediation shall be appointed by the General Meeting of the Chamber of Insurance Brokers;

2) the supervisory authority and the State Consumer Rights Protection Authority shall each appoint a member.

2. The length of powers of the Court of Honour of Insurance Brokers shall be three years. The same persons may be appointed as members of the Court of Honour of Insurance Brokers for no more than two consecutive terms of office.

3. The Court of Honour of Insurance Brokers may hear cases if the hearing is attended by not less than three members, provided that at least one of them has been appointed not by the members' meeting of the Chamber of Insurance Brokers.

4. The Court of Honour of Insurance Brokers must take a decision within 60 days from the day of adoption of the decision to take a disciplinary action.

5. The Court of Honour of Insurance Brokers shall act in accordance with its Rules. The Rules of the Court of Honour of Insurance Brokers shall be approved by the General Meeting of the Chamber of Insurance Brokers.

Article 178. Disciplinary Penalties and other Decisions Made by the Court of Honour of Insurance Brokers

1. Penalties listed below may be imposed on the insurance broker by the Court of Honour of Insurance Brokers for the violations specified in paragraph 1 of Article 176 of this Law:

- 1) a warning;
- 2) a reprimand;
- 3) a publicly announced reprimand.

2. Only one disciplinary penalty shall be imposed for one breach. One year after the imposition of a disciplinary penalty the insurance broker shall be considered not having been imposed the disciplinary penalty.

3. If the auditor with the penalty being still effective repeatedly commits the breaches specified in paragraph 1 of Article 176 of this Law, the Court of Honour of Insurance Brokers may adopt one of the following decisions:

- 1) apply to the supervisory authority for suspension of the insurance broker's certificate for up to one year;
- 2) apply to the supervisory authority with a request to strike an insurance broker off the list of insurance brokers.

4. Having adopted a decision to impose penalties specified in paragraph 1 of this Article or the decision described in paragraph 3 hereof, the Court of Honour of Insurance Brokers must submit the decision to the Chamber of Insurance Brokers within 14 days of the adoption of the relevant decision. The insurance broker shall be given a written notification of the adopted decision within three days from the day of adoption of the decision.

5. During the hearing of the case at the Court of Honour of Insurance Brokers, the insurance broker may proceed with his duties.

Article 179. Appeals against Decisions of the Court of Honour of Insurance Brokers

Decisions adopted by the Court of Honour of Insurance Brokers may be appealed within one month of serving of the relevant decision in accordance with the procedure established by legal acts.

Article 180. Sources of Funds of the Chamber of Insurance Brokers

Sources of funds of the Chamber of Insurance Brokers shall be as follows:

- 1) membership fees provided for in the Statute of the Chamber of Insurance Brokers and other target contributions;
- 2) income from the provided teaching services;
- 3) property and funds transferred by natural and legal persons for no consideration;
- 4) target funds of the State and municipalities;
- 5) funds donated by non-public organisations, international organisations and foundations;
- 6) the interest from the funds deposited in credit institutions;
- 7) assets inherited under a will;
- 8) borrowed funds;
- 9) other funds obtained legitimately.

Article 181. Control of Financial Activity of the Chamber of Insurance Brokers

Sets of financial statements of the Chamber of Insurance Brokers shall be audited by the auditing company chosen at the General Meeting of the Chamber of Insurance Brokers.

Article 182. Reorganization and Liquidation of the Chamber of Insurance Brokers

The Chamber of Insurance Brokers may be reorganised and liquidated according to procedure established by laws.

SECTION FOUR

TIED INSURANCE INTERMEDIARIES OF THE REPUBLIC OF LITHUANIA

Article 183. List of Tied Insurance Intermediaries

1. Every insurance undertaking or a branch of a third party insurance undertaking must administer a list of tied insurance intermediaries acting in its name and/or in its interests in the manner established by the supervisory authority. The list shall also contain data on the employees of the undertaking of insurance agents whose duties include insurance mediation.

2. An insurance undertaking or a branch of a third party insurance undertaking shall have the right to enter an undertaking of insurance agents into the list of tied insurance intermediaries only having verified the repute and qualification of persons working for this undertaking of insurance agents whose duties shall cover insurance mediation and in case of an insurance agent – only upon checking his reputation and qualification. These persons must be of good repute and qualified.

3. An insurance undertaking or a branch of a third party insurance undertaking, having entered a tied insurance intermediary in the list, must issue the tied insurance intermediary with a certificate confirming this fact.

Article 184. Professional Civil Liability Insurance of Tied Insurance Intermediaries

1. Tied insurance intermediaries must insure professional civil liability which might arise in case of improper insurance mediation. The amount of insurance must be not less than EUR 1 000 000 per one insured event and EUR 1 500 000 for all insured events over a year. The insurance cover must be valid throughout the entire territory of the European Union. The tied insurance intermediary must have insurance cover throughout the period of mediation activities.

2. A tied insurance intermediary shall have the right not to insure professional civil liability if:

1) a insurance undertaking or a branch of a third party insurance undertaking has concluded a professional civil liability insurance contract of a tied insurance intermediary for the amount referred to in paragraph 1 of this Article, and the insurance cover under this insurance contract is valid throughout the territory of the European Union for the entire period of activity of the tied insurance intermediary on behalf and in the interests of the insurance undertaking or the branch of the third party insurance undertaking;

2) a insurance undertaking or a branch of a third party insurance undertaking, when concluding a contract with the tied insurance intermediary, has assumed an obligation to fully indemnify the loss which occurred due to the failure by the tied insurance intermediary to perform his duties or due to the improper performance of such duties.

3. An insurance undertaking or a branch of a third country insurance undertaking must ensure that the tied insurance intermediaries acting on their behalf and for their interests follow the requirements set forth in paragraphs 1 or 2 of this Article. In case of failure by the insurance undertaking or a branch of a third country insurance undertaking to fulfil the above duty, it must fully indemnify the loss incurred due to the failure by the tied insurance intermediary to fulfil professional duties or improper fulfilment thereof.

4. Insurance undertakings or branches of third country insurance undertakings must organise professional training sessions for the staff of undertakings of insurance agents whose activities include insurance mediation as well as for insurance agents.

Article 185. Insurance Mediation Activity of Tied Insurance Intermediaries

1. Rights and duties of tied insurance intermediaries in conducting insurance mediation activities shall be established in a written agreement with the insurance undertaking or a branch of a third country insurance undertaking. Insurance agents must adhere to the provisions of legal acts regulating individual activities of a natural person.

2. A tied insurance intermediary shall be prohibited from concurrently carrying out insurance mediation activities on behalf and in the interests of two or more insurers relating to contracts providing identical or similar insurance cover.

3. A tied insurance intermediary must provide to policyholders, insured persons, beneficiaries and injured third parties the information specified by the supervisory authority and, prior to the conclusion of the insurance contract, also the information specified in Articles 91 and 113 of this Law.

4. Insurance premium paid to a tied insurance intermediary shall be considered as paid to the insurance undertaking or a branch of a third country insurance undertaking; however, the amounts paid by the insurance undertaking or a branch of a third country insurance undertaking to the tied insurance intermediary and intended for making payment to policyholders, insured persons, beneficiaries or injured third parties shall be deemed paid to those persons only upon their actual receipt of the said amounts.

5. An insurance undertaking or a branch of a third country insurance undertaking, having regard to the resolutions and recommendations of the supervisory authority, must provide mandatory instructions on the mediation activity to the tied insurance intermediaries acting on its behalf and in its interests.

Article 186. Mediation of Tied Insurance Intermediaries for Insurance Undertakings of any other European Union Member State Engaged in Activities in the Republic of Lithuania

1. A tied insurance intermediary mediating for an insurance undertaking of any other European Union Member State which provides services or has established a branch in the Republic of Lithuania, shall be subject to the same requirements as those applied in case of mediation for an insurance undertaking or a branch of a third country insurance undertaking.

2. The supervisory authority shall give recommendations to an insurance undertaking of any other European Union Member State, which provides services or has established a branch in the Republic of Lithuania, regarding management of the list of tied insurance intermediaries, control of professional civil liability insurance and professional training of insurance agents and the employees of undertakings of insurance agents whose duties cover insurance mediation activities.

Article 187. Public Access to the Data of the List of Tied Insurance Intermediaries

1. Every insurance undertaking or a branch of a third country insurance undertaking must publish on its website the data of the list of its representing insurance agents, undertakings of insurance agents and their staff whose duties cover insurance mediation.

2. The website of the supervisory authority shall contain references to the data of the list of tied insurance intermediaries published on the websites of insurance undertakings, whereas the data of the list published on the insurance undertakings' websites shall contain references to the website of the supervisory authority.

3. Should there be any changes in the list data, appropriate amendments must be within 5 working days made in the data of the lists published on the websites of the insurance undertakings or branches of third country insurance undertakings.

4. The supervisory authority shall specify what data of the list of tied insurance intermediaries should be made public.

SECTION FIVE

REINSURANCE INTERMEDIARIES

Article 188. Reinsurance Intermediaries

1. The entities specified in subparagraphs 1 and 3 of paragraph 1 of Article 3, subparagraphs 1 and 3 of paragraph 1 of Article 4 and subparagraph 1 of paragraph 2 of Article 5 as well as branches of third country insurance intermediaries specified in subparagraph 3 of paragraph 2 of Article 5 of this Law shall have the right to carry out reinsurance activities only after the supervisory authority enters, in accordance with the procedure laid down by it, them on the list of reinsurance intermediaries, managed by the supervisory authority. The list of reinsurance intermediaries shall be announced on the website of the supervisory authority.

2. A reinsurance intermediary may be entered on the list of reinsurance intermediaries (the list being managed by the supervisory authority), provided he:

1) is of good repute and qualified. Where a reinsurance intermediary is a legal person, the members of its supervisory and management bodies must be of good repute, while the persons responsible in undertaking for carrying-out of reinsurance mediation activities must be of good repute and qualified;

2) has professional civil liability insurance set in paragraph 1 of Article 184 of this Law, or some other method of ensuring the indemnification of the loss incurred through its activities, analogous to that established in paragraph 2 of Article 184 of this Law.

3. The supervisory authority shall have the right to strike the reinsurance intermediary off the list of reinsurance intermediaries:

1) at the written request of the reinsurance intermediary;

2) if new facts become known after the entry on the said list due to which the reinsurance intermediary would have been refused entry on the list;

3) where the conditions that preclude the reinsurance intermediary from being considered as of good repute or qualified arise;

4) if the reinsurance intermediary has no professional civil liability insurance set in paragraph 1 of Article 184 of this Law, or some other method of ensuring the indemnification of the loss incurred through its activities, analogous to that established in paragraph 2 of Article 184 of this Law.

4. The provisions of Article 189 of this Law shall apply *mutatis mutandis* to activities of reinsurance intermediaries of the Republic of Lithuania in other European Union member states.

SECTION SIX

ACTIVITY OF INSURANCE INTERMEDIARIES OF EUROPEAN UNION MEMBER STATES

Article 189. Right to Provide Services and Right of Establishment

1. An insurance intermediary which intends to provide services for the first time or establish a branch in other European Union Member States must notify the supervisory authority about this.

2. Within one month after receiving this information indicated in paragraph 1 of this Article, the supervisory authority shall notify thereof the competent authority of another European Union Member State which intends to obtain this information on the basis of the data submitted to the supervisory authority by the European Commission, at the same time informing the insurance intermediary in writing about the sending on the same day.

3. Having fulfilled the requirements laid down in the legal acts of another European Union Member State, the insurance intermediary shall have the right to start operating in another European Union Member State in the ways specified in paragraph 1 of this Article after the lapse of one month from the receipt from the supervisory authority of the information specified in paragraph 2 of this Article or immediately, if the competent authority of another European Union Member State has no intentions to obtain information about future activities of insurance or reinsurance intermediary in this European Union Member State.

4. The supervisory authority shall exchange information with competent authorities of other European Union Member States about sanctions applied to insurance intermediaries. Upon request of competent authorities of other European Union Member States, the supervisory authority shall also furnish other information concerning activities of insurance and reinsurance intermediaries.

5. An insurance intermediary shall have the right to establish a subsidiary in another European Union Member State according to the procedure laid down in the legal acts of that Member State.

SECTION SEVEN

ACTIVITY OF INSURANCE AND REINSURANCE INTERMEDIARIES OF OTHER EUROPEAN UNION MEMBER STATES IN THE REPUBLIC OF LITHUANIA

Article 190. Forms of Activities of Insurance and Reinsurance Intermediaries

Insurance and reinsurance intermediaries of other European Union Member States shall have the right to establish a subsidiary or a branch or to provide services in the Republic of Lithuania.

Article 191. Commencement of Activities of Insurance and Reinsurance Intermediaries

1. Insurance and reinsurance intermediaries of other European Union Member States shall have the right to start to provide services or establish a branch in the Republic of Lithuania only upon the receipt by the supervisory authority of information from the competent authority of another European Union Member State about the intention to start providing services or to establish a branch.

2. Independent insurance and reinsurance intermediaries of other European Union Member States, while carrying out activities in the Republic of Lithuania, must possess the professional civil liability insurance established in paragraph 3 of Article 162 of this Law,

whereas the tied insurance and reinsurance intermediaries must possess the professional civil liability insurance established in paragraph 1 of Article 184 or some other method of ensuring the indemnification of the loss incurred through their activities, analogous to that established in paragraph 2 of Article 184 of this Law.

Article 192. Activity of Insurance and Reinsurance Intermediaries

1. Insurance intermediaries of other European Union Member States must provide information specified by the supervisory authority to the policyholders, insured persons, beneficiaries, and injured third parties and before the conclusion of an insurance contract also furnish the information indicated in Article 91 and 113 of this Law.

2. Insurance and reinsurance intermediaries of other European Union Member States, while carrying out activities in the Republic of Lithuania, must comply with the requirements set out in this Law directly for them as well as other legal acts of the Republic of Lithuania.

3. A branch of independent insurance intermediaries of another European Union Member State must have on its staff insurance brokers or other persons, who, according to the requirements of legal acts of this European Union Member State, may be responsible for providing services of independent insurance mediation.

4. The supervisory authority shall draw up compulsory instructions for insurance undertakings, branches of third country insurance undertakings and recommendations for an insurance undertaking of another European Union Member State which provides services or has established a branch in the Republic of Lithuania, regarding administration of the list of tied intermediaries of another European Union Member State, control of their professional civil liability insurance and professional training of the employees of these tied insurance intermediaries the obligations of which cover insurance mediation activities.

SECTION EIGHT

ACTIVITIES OF THIRD COUNTRY INDEPENDENT INSURANCE INTERMEDIARIES AND REINSURANCE INTERMEDIARIES IN THE REPUBLIC OF LITHUANIA

Article 193. Subsidiary and Branch of an Undertaking of Independent Insurance Intermediaries

1. An undertaking of third country independent insurance intermediaries shall have the right to establish a subsidiary or a branch in the Republic of Lithuania.

2. Before registering the branch in the Register of Legal Entities, the undertaking of third country independent insurance intermediaries must be granted an authorisation by the supervisory authority to engage in the activities of a branch.

3. The procedure for granting the authorisation to engage in the activities of a branch shall be established by the supervisory authority.

4. The activity of branches of undertakings of third country independent insurance intermediaries and of insurance brokers employed in these branches shall be subject to the same provisions as those applied to undertakings of insurance brokers and to insurance brokers of the Republic of Lithuania.

Article 194. Granting of an Authorisation to Engage in the Activity of a Branch

1. Within four months from the date of filing of an application for the granting of an authorisation to engage in the activity of a branch of an undertaking of a third country independent insurance intermediary as well as submission of all documents specified in the instructions on the granting of authorisations, the supervisory authority shall make a decision regarding the granting of the authorisation to the branch of the undertaking of the third country independent insurance intermediary and shall notify the applicant thereof in writing.

2. The supervisory authority shall refuse to grant the authorisation to engage in the activity of a branch of an undertaking of a third country independent insurance intermediary in the case where:

1) the documents required by the supervisory authority have not been submitted or the submitted documents do not meet the requirements laid down in the legal acts of the Republic of Lithuania;

2) the persons in control of a branch of the undertaking of a third country independent insurance intermediary, the members of the undertakings participating therein, the supervisory and management bodies are not of good repute, and the head of the administration is not of good repute, does not have adequate professional qualifications and experience;

3) a branch of the undertaking of a third country independent insurance intermediary has no professional civil liability insurance;

4) having regard to the scope of intended activities (number of customers, turnover, internal structure of the undertaking, territory of the activity, intended branches, agencies), a branch of the undertaking of a third country independent insurance intermediary is planning to employ an insufficient number of insurance brokers;

5) the submitted scheme of operations allows maintaining that the interests of policyholders, insured persons, beneficiaries and injured third parties will not be adequately protected;

6) the value of assets attributed to the branch is below than the amount specified in paragraph 2 of Article 162 of this Law;

7) the origin of the assets attributed to the branch and/or the financial resources for which the attributes assets were acquired is illegal.

Article 195. Suspension and Revocation of the Authorisation for Activity of a Branch

1. The supervisory authority shall have the right to suspend the authorisation for the activity of a branch of the undertaking of a third country independent insurance intermediary on the grounds specified in paragraph 1 of Article 205 of this Law.

2. The supervisory authority shall have the right to revoke the authorisation for activity of a branch of the undertaking of a third country independent insurance intermediary, when the branch:

1) does no longer meet the requirements under which the authorisation was granted;

2) has grossly violated legal acts;

3) refuses the authorisation;

4) does not engage in the activity of third country independent insurance intermediary for 12 months after granting of the authorisation for the activity of the branch of the undertaking of the third country independent insurance intermediary;

5) does not engage in insurance mediation activity for more than 6 months.

3. The decision to revoke the authorisation for activity of the branch of the undertaking of the third country independent insurance intermediary must be duly justified. The supervisory authority must notify the branch of the undertaking of the third country independent insurance intermediary of the decision and its reasons in writing.

Article 196. Reinsurance Intermediaries

1. Reinsurance intermediaries of non-member-countries shall have the right to provide services in the Republic of Lithuania without establishment or to establish a subsidiary or a branch in the Republic of Lithuania.

2. Branches of undertakings of third country reinsurance intermediaries shall be established in accordance with the procedure laid down by legal acts of the Republic of Lithuania.

3. Provisions of paragraphs 1, 2 and 3 of Article 188 of this Law shall apply to activities of third country reinsurance intermediaries in the Republic of Lithuania.

CHAPTER X SUPERVISORY AUTHORITY

SECTION ONE GENERAL PROVISIONS

Article 197. Supervisory Authority

The Bank of Lithuania shall exercise supervision of insurance activities in the Republic of Lithuania.

Article 198. Provision of Information Related to Supervision of Entities Defined in this Law

1. Data related to the supervision of entities defined in this Law and exercised by the supervision authority shall be provided and disclosed in accordance with the procedure laid down by this Law and other laws.

2. Provision of information in the generalized form which does not let to determine the identity of a concrete person shall not be considered as the disclosure of data related to the supervision of entities defined by this Law and exercised by the supervision authority.

3. Having ascertained that the confidentiality of provided information will be ensured, the supervisory authority shall have the right to furnish the data necessary for the performance of the functions of receiving persons, related to the supervision exercised by the supervisory authority of the entities defined by this Law:

- 1) to competent authorities of any other European Union Member State;
- 2) to the Ministry of Finance, the Competition Council and the State Consumer Rights Protection Authority;
- 3) to authorities of any other European Union Member State exercising the supervision of financial and capital market;
- 4) institutions of any other European Union Member State responsible for the supervision of persons participating in liquidation, bankruptcy of financial services companies and other similar procedures;
- 5) to institutions of any other European Union Member State responsible for the supervision of the persons who have been assigned to conduct audit of insurance undertakings,

reinsurance undertakings, credit institutions, financial brokerage companies and other financial institutions;

6) to independent actuaries of insurance or reinsurance undertakings of any other European Union Member State exercising the legal supervision of these undertakings, as well as to institutions responsible for the supervision of these actuaries;

7) institutions of any other European Union Member State which have been granted authorisation under the law to define and inspect violations of company law;

8) to central banks of any other European Union Member State and its other monetary institutions performing similar functions;

9) to other public authorities of any other European Union Member State responsible for the supervision of payment systems;

10) to institutions and persons responsible for carrying-out of liquidation or bankruptcy procedures with respect to participants of insurance undertakings, reinsurance undertakings, insurance intermediaries, financial and capital market – legal persons;

11) to participants of insurance undertakings, reinsurance undertakings, branches of third country insurance or reinsurance undertakings, undertakings of insurance intermediaries, branches of undertakings of third country independent insurance intermediaries established in the Republic of Lithuania, financial and capital market – auditors of legal persons;

12) to law-enforcement bodies of the Republic of Lithuania and other persons who pursuant to laws of the Republic of Lithuania are entitled to receive such information.

4. The supervisory authority shall have the right to conclude contracts, pertaining to the exchange of information necessary to perform supervisory duties, with the competent authorities of foreign countries, institutions exercising supervision of financial and capital market where the laws of these countries ensure the confidentiality of the received information which is not less than that established by this Law.

5. The supervisory authority shall have the right to reveal in accordance with the procedure laid down by the laws the information necessary to perform the functions of the supervisory authority, received from competent authorities of any other European Union Member State and foreign countries, the Competition Council and the State Consumer Rights Protection Authority, institutions exercising the supervision of financial and capital market of any other European Union Member State as well as other institutions, only with the written consent of these institutions and only for the purpose specified therein.

6. Information obtained by the supervisory authority when inspecting a branch of an insurance undertaking, a reinsurance undertaking or an undertaking of insurance intermediaries established in another European Union Member State may be disclosed in accordance with the

procedure laid down by laws only with the consent of the competent authorities of that European Union Member State.

Article 199. Statistical Data

The supervisory authority must, in accordance with the procedure laid down by it, publicly announce statistical insurance, reinsurance and insurance market data.

Article 200. Functions of a Supervisory Authority

When implementing the provisions of this Law, the supervisory authority shall perform the following functions:

1) draft, approve, amend and repeal legal acts regulating activities of insurance undertakings, reinsurance undertakings, insurance intermediaries, branches of non-member-country insurance and reinsurance undertakings and branches of non-member-country undertakings of independent insurance intermediaries established in the Republic of Lithuania, including financial and statistical accounting of insurance undertakings, reinsurance undertakings and branches of insurance and reinsurance undertakings of foreign states;

2) grant and revoke licences to engage in insurance activity, reinsurance activity and activities of insurance broker undertakings;

3) grant and revoke other authorisations determined by this Law as well as authorisations determined by other laws, the granting and revocation of which are assigned the competence of the supervisory authority;

4) observe, analyse, check and supervise in other ways activities of insurance undertakings, reinsurance undertakings, insurance brokerage undertakings, branches of non-member-country insurance and reinsurance undertakings and branches of non-member-country undertakings of independent insurance intermediaries established in the Republic of Lithuania, their compliance with laws and other legal acts;

5) apply sanctions provided for by this Law and other laws;

6) organise qualification examinations and performance re-evaluation of insurance brokers;

7) lay down the procedure of the registration and record-keeping of insurance policies;

8) co-operate with competent authorities, financial and capital market supervisory institutions, competition and consumer rights' protection institutions of the Republic of Lithuania, other European Union Member States and non-member states as well as with other institutions of the Republic of Lithuania;

9) apply to the court for the institution of bankruptcy proceedings against insolvent insurance and reinsurance undertakings;

10) inform the public about fulfilment of the functions of the supervisory authority, significant changes in the insurance system;

11) publish drafts of regulations of the supervisory authority on the internet website of the supervisory authority;

12) ensure that the public has access to the information, except for the information the furnishing of which is prohibited under this Law or other laws, about co-operation of the supervisory authority with competent authorities, financial and capital market supervision institutions, competition and consumers' rights protection institutions of other European Union Member States and non-member states as well as with other institutions of the Republic of Lithuania;

13) submit recommendations to the Chamber of Insurance Brokers, professional association of actuaries, insurance undertakings, reinsurance undertakings and branches of non-member-country insurance and reinsurance undertakings exercising control over the activities of dependent insurance intermediaries in order to ensure that the functions of the said associations and the functions of a branch of the insurance undertaking, reinsurance undertaking or the non-member-country insurance or reinsurance undertaking related to the control of dependent insurance intermediaries, should be disclosed to the public and be transparent;

14) within the remit of its competence represent the interests of the Republic of Lithuania at the institutions of the European Union and their working bodies;

15) perform other functions laid down by this Law and other legal acts of the Republic of Lithuania.

Article 201. Rights of the Supervisory Authority

1. When performing its functions, the supervisory authority shall have the right:

1) to receive from all natural and legal persons the information required for the fulfilment of supervision functions;

2) for performing its functions, to use the services of competent persons and grant them the required powers;

3) to carry out inspections of insurance undertakings, reinsurance undertakings, undertakings of insurance intermediaries, branches of non-member-country insurance and reinsurance undertakings and branches of undertakings of independent insurance intermediaries established in the Republic of Lithuania as well as other persons specified in this Law;

4) to apply sanctions established by this Law and other laws to persons found to have contravened this Law and other legal acts of the Republic of Lithuania regulating insurance, reinsurance and insurance mediation activities;

5) to adopt legal acts established by this Law and other legal acts implementing this Law;

6) to establish the procedure of insurance activity of insurance classes, the terms of the contracts of insurance against separate insurance risks, including compulsory insurance, the requirements that the insurer must comply with when providing services to the customers using means of communications;

7) to apply to the court requesting repeal of the decisions of the bodies of an insurance undertaking, a reinsurance undertaking or an insurance broker undertaking in the cases specified in paragraph 4 of Article 2.82 of the Civil Code as well as invalidation of the contracts concluded by the insurance undertaking, the reinsurance undertaking or the insurance broker undertaking by reason of the said decisions;

8) to participate in international institutions for the supervision of insurance undertakings, reinsurance undertakings, insurance intermediaries and other financial institutions;

9) to conclude agreements regarding the co-operation and information exchange with competent authorities, financial and capital market supervisory institutions, competition and consumer rights' protection institutions of other European Union Member States and non-member states as well as with other institutions of the Republic of Lithuania;

10) to bring an action for the protection of public interest and/or join the proceedings at its own initiative in order to present the finding in the case;

11) in the event of a real threat that an insurance or reinsurance undertaking will become insolvent or the assets assigned to the branch of a non-member country insurance or reinsurance undertaking will become lower than the obligations of the branch, to obligate the insurance undertaking, the reinsurance undertaking or the branch of the non-member country insurance or reinsurance undertaking, intending to execute material contracts, to receive the approval of the supervisory authority.

2. The supervisory authority shall also enjoy other rights laid down in this Law and other legal acts.

Article 202. General Provisions Regarding Decisions Adopted by the Supervisory Authority

1. If this Law and other legal acts establish that in order to pass a decision the supervisory authority must be submitted documents, the supervisory authority shall have the right to require that the applicant submits additional documents and information necessary for the passing of a

decision. In this case the supervisory authority must give its request an elaborate justification, inform the applicant thereof and fix the deadline for the submission of documents and information.

2. If the supervisory authority requested to submit additional documents and information in accordance with the procedure laid down by this Law, the deadline for the adoption of the decision regarding a licence to engage in insurance activity, a licence to engage in activities of an insurance broker undertaking and other authorisations shall be counted from the day of receipt of all the documents and information necessary for passing the decision.

3. In case of a negative decision, the supervisory authority shall notify the applicants about this decision and shall indicate the clear-cut motives of the said decision.

4. The decision made by the supervisory authority or failure to adopt one within the time limit set in legal acts may be appealed against in court in accordance with the procedure laid down by the law.

Article 203. Right of the Supervisory Authority to Information

1. Upon the request of the supervisory authority, state and municipality institutions and other natural and legal persons must furnish information, including confidential information, required for the implementation of the functions and exercising of the rights of the supervisory authority.

2. The supervisory authority shall have the right to address competent authorities, financial and capital market supervision institutions or other institutions, natural and legal persons of other European Union Member States or non-member states with the request to present information required for the implementation of the functions and exercising of the rights of the supervisory authority.

Article 204. Sanctions

The supervisory authority shall have the right to impose the following sanctions:

1) to warn insurance undertakings, reinsurance undertakings, insurance intermediaries, branches of non-member-country insurance and reinsurance undertakings or branches of undertakings of independent insurance intermediaries established in the Republic of Lithuania about the shortcomings or infringements discovered in their work and to set the deadline for the elimination thereof;

2) to impose administrative penalties on members of the supervisory and management boards, heads of administration of insurance undertakings, insurance brokers, insurance intermediaries, heads of branches of non-member-country insurance undertakings or branches of

independent insurance intermediaries established in the Republic of Lithuania, the chief accountants and chief actuaries of insurance undertakings and branches of non-member-country insurance undertakings established in the Republic of Lithuania as well as the persons who have illegally disclosed information of the Supervisory Commission related to supervision of the entities specified in this Law;

3) to impose penalties established in Article 208 of this Law on the grounds specified in Article 208 of this Law;

4) in the cases specified in Article 40 of this Law to demand that an insurance undertaking, a reinsurance undertaking or a branch of a non-member-country insurance or reinsurance undertaking submits plans for the restoration of financial situation and to set a deadline for the submission of the plans;

5) on the grounds established in Article 206 of this Law to obligate an insurance undertaking or a branch of a non-member-country insurance undertaking to assign the rights and duties under the insurance contracts within the time period set by the supervisory authority;

6) to demand that the management or supervisory bodies of an insurance or reinsurance undertaking replace the supervisory body or its member, the board or its member, the head of the administration, the chief accountant or the chief actuary within the time period set by the supervisory authority;

7) to demand that a non-member-country insurance or reinsurance undertaking replaces, within the time period set by the supervisory authority, the head, chief accountant or chief actuary of the branch of the non-member-country insurance or reinsurance undertaking established in the Republic of Lithuania;

8) to demand to replace, within the time period set by the supervisory authority, the liquidator, the chairman or a member of the liquidation commission, the person responsible for the liquidation of the branch of the non-member-country insurance or reinsurance undertaking established in the Republic of Lithuania;

9) to seize, on the grounds, specified in Article 207 of this Law, the assets covering technical provisions of insurance or reinsurance undertakings and branches of non-member-country insurance or reinsurance undertakings established in the Republic of Lithuania;

10) to remove the insurance broker from the list of insurance brokers or suspend the insurance broker's certificate on the grounds laid down in subparagraphs 3, 4, 5, 6 and 7 of paragraph 5 as well as in paragraph 6 of Article 166 of this Law;

11) to suspend the licence to engage in insurance activity, the licence to engage in reinsurance activity, the licence to engage in activities of an insurance broker undertaking, the authorisation to engage in insurance or reinsurance activity of a branch of a non-member-country

insurance or reinsurance undertaking or to engage in activities of a branch of independent insurance intermediaries of any other non-member state in the Republic of Lithuania, or the validity of the rights granted by them, to temporarily prohibit the dependent insurance intermediary to engage in insurance mediation activity;

12) on the grounds specified in subparagraphs 1, 2, 4, 5, 6 and 7 of paragraph 2 of Article 19, subparagraphs 1, 2, 4, 5, 6, 7, 8, 9, 10 and 11 of paragraph 2 of Article 79, subparagraphs 1, 2, 4, 5 of paragraph 2 of Article 165 or subparagraphs 1, 2, 4, 5 of paragraph 2 of Article 195 of this Law to revoke the licence to engage in insurance activity, the licence to engage in reinsurance activity, the licence to engage in activities of an insurance broker undertaking, the authorisation to engage in insurance activity of a branch of a non-member-country insurance or reinsurance undertaking or to engage in activities of a branch of independent insurance intermediaries of any other non-member state in the Republic of Lithuania, to permanently prohibit an insurance intermediary from engaging in insurance mediation activity.

Article 205. Basic Principles of and Procedure for Imposing Sanctions

1. Except for the cases where Article 204 specifies the grounds for the imposition of a specific sanction, the supervisory authority shall impose the sanctions specified in Article 204 of this Law in the presence of at least one of the following grounds:

1) in case the supervisory authority has been refused information or the information furnished is inaccurate;

2) laws of the Republic of Lithuania, decisions of the supervisory authority or any other legal acts have been violated;

3) in the case of failure to comply with the requirements set at the moment of establishing an insurance undertaking, a reinsurance undertaking, an insurance broker undertaking, a branch of a non-member-country insurance or reinsurance undertaking or a branch of independent insurance intermediaries in the Republic of Lithuania or when the abovementioned entities no longer meet the said requirements;

4) in case of failure to adhere to the plan for the restoration of financial situation approved by the supervisory authority for the insurance undertaking, the reinsurance undertaking or an insurance or reinsurance undertaking of any other non-member-country;

5) when the group structure to which the insurance or reinsurance undertaking belongs makes effective supervision impossible;

6) when the persons in control of the insurance or reinsurance undertaking, the participating undertakings, the members of the supervisory and management bodies, the head of the administration, the chief accountant or the chief actuary do not meet the criteria established

in Article 20 of this Law; when the persons in control of the non-member-country insurance or reinsurance undertaking, the participating undertakings, the members of the supervisory and management bodies, the head, the chief accountant or chief actuary of a branch do not meet the criteria established in Article 77 of this Law; when the persons in control of the insurance broker undertaking, the participating undertakings, the members of the supervisory and management bodies, the head of the administration do not meet the criteria established in Article 163 of this Law; when the persons in control of a non-member-country undertaking of independent insurance intermediaries, the participating undertakings, the members of the supervisory and management bodies, the head of a branch do not meet the criteria established in subparagraph 2 of paragraph 2 of Article 194 of this Law;

7) in the event of deterioration of the financial situation of an insurance undertaking, a reinsurance undertaking, an insurance broker undertaking or a branch of a non-member-country insurance or reinsurance undertaking, or a branch of an independent insurance intermediary and the abovementioned financial situation does not longer meet the requirements set out in legal acts, when activities of an insurance undertaking, a branch of a non-member-country insurance undertaking or an insurance broker undertaking may infringe the interests of policyholders, insured persons, beneficiaries or injured third parties, or when the threat of such a deterioration or infringement arises;

8) shareholders of an insurance or reinsurance undertaking have a negative effect or intend to have a negative effect on the transparent, prudent and credible management of the insurance or reinsurance undertaking;

9) standard terms and conditions of insurance contracts of an insurance undertaking, a reinsurance undertaking or a branch of a non-member-country insurance or reinsurance undertaking do not meet the requirements established by legal acts.

2. The supervisory authority shall choose a sanction having regard to the contents of the violation for which it is imposed, personal fault, proportionality of the violation and sanction, the consequences of the violation and the imposed sanction for the person on whom the sanction is imposed and for the security, stability and credibility of the system of insurance, reinsurance and insurance mediation.

3. The decision on the imposition of a sanction, except for the one specified in subparagraph 2 of Article 204 of this Law, shall be adopted within three months from the date of establishment of the violation or the grounds for the imposition of the sanction. Violations shall not be subject to sanctions after the lapse of more than two years from the day of the commitment thereof.

4. The issue of the imposition of a sanction shall be considered in the presence of the person who is subject to the sanction, or his representatives. Absence of the person or his representatives, if they were given due notice of the hearing of the issue, shall not preclude the passing of the decision to impose a sanction.

5. Any violation shall be subject to one sanction only, save for the exceptions established in this Law. Imposition of a sanction shall not exempt the person from fulfilling the duty the failure of fulfilment whereof served as grounds for the imposition of the sanction.

6. The operative part of the decision on the imposition of a sanction may, at the decision of the supervisory authority, be made public on the website of the supervisory authority not later than five working days from the date of the adoption of the decision.

Article 206. Compulsory Transfer of Rights and Duties under Insurance Contracts

1. If the insurance undertaking faces a real threat of insolvency or if there is a threat that the liabilities of the branch of the non-member-country insurance undertaking will exceed the assets assigned to it, in order to protect the interests of the policyholders, insured persons, beneficiaries or injured third parties, the supervisory authority shall have the right to obligate the insurance undertaking or the branch of the non-member-country insurance undertaking to transfer the rights and duties under insurance contracts to the entities intending to take them over.

2. In the case specified in paragraph 1 of Article 142 of this Law, the supervisory authority must obligate to transfer the rights and duties under insurance contracts.

3. An agreement on the transfer of the rights and duties may not be and shall not be subject to a resolution passed by the insurance undertaking's general meeting of shareholders, the supervisory board or the board or any consent granted by these bodies. The agreement on the transfer of the rights and duties shall be signed by the head of the administration of the insurance undertaking or the head of the branch of the non-member-country insurance undertaking.

4. The procedure for compulsory transfer of rights and duties under insurance contracts shall be subject to provisions of Articles 41 and 42 of this Law, except that instead of the supervisory authority's authorisation provided for in the said Articles, the supervisory authority shall be required to confirm compliance with the requirements established by legal acts for the transfer of rights and duties under insurance contracts, also non-application of the terms specified in paragraph 5 of Article 41 and paragraphs 1 and 3 of Article 42 of this Law.

5. A non-member-country insurance undertaking or a branch of a non-member-country insurance undertaking under an obligation to transfer rights and duties under insurance contracts must announce about the envisaged transfer in at least two daily newspapers circulated in the

whole of the Republic of Lithuania and in another European Union Member State where the insurance undertaking carries out its activities.

6. If the policyholder objects to the compulsory transfer of rights and duties under insurance contracts, he shall have the right to terminate the insurance contract following the procedure set out in the insurance contract within one month from the transfer of the rights and duties.

7. Where the policyholder terminates the insurance contract in the case specified in paragraph 6 of this Article, the following shall be reimbursed to him:

1) in case of non-life insurance – the entire amount of insurance premium paid for the period from the transfer of rights and duties under the insurance contract until the expiry of the term provided for in the insurance contract;

2) in case of life assurance, where the life assurance contract has been concluded only concerning death risk – the entire amount of insurance premium paid for the period from the transfer of rights and duties under the insurance contract until the expiry of the term provided for in the insurance contract, and where a life assurance contract related to capital accumulation has been concluded, the amount equal to the amount of technical provisions formed for the insurance contract of that policyholder on the day of transfer of the rights and duties under that contract.

Article 207. Seizure of Assets

1. The supervisory authority shall have the right to seize the assets covering insurance technical provisions of an insurance or reinsurance undertaking or a branch of an insurance or reinsurance undertaking of a non-member country only in the presence of one of the following conditions:

1) an insurance or reinsurance undertaking or a branch of the insurance or reinsurance undertaking of a non-member country fails to meet the requirements regarding the establishment/formation of technical provisions and covering them with assets (paragraph 1 of Article 36 of this Law);

2) an insurance or reinsurance undertaking or a branch of the insurance or reinsurance undertaking of a non-member country violates the solvency margin requirements and there is a threat that the financial standing of the insurance or reinsurance undertaking or the branch of the insurance or reinsurance undertaking of the non-member country may deteriorate even further (paragraph 3 of Article 40 of this Law);

3) an insurance or reinsurance undertaking or a branch of the insurance or reinsurance undertaking of a non-member country, in due time, fails to submit a plan for the restoration of financial soundness or fails to implement it (paragraph 6 of Article 40 of this Law);

4) an insurance or reinsurance undertaking or a branch of the insurance or reinsurance undertaking of a non-member country fails to comply with the obligation imposed by the supervisory authority to transfer rights and duties under insurance or reinsurance contracts;

5) in the event of revocation of a licence to engage in insurance or reinsurance activity or an authorisation for insurance or reinsurance activity of a branch.

2. Seizure of assets shall be imposed according to the procedure set forth in paragraphs 2, 3 and 4 of Article 205 of this Law. The assets seizure act shall be signed by the chairman of the supervisory authority. Assets seizure acts shall be registered according to the procedure specified in the Law of the Republic of Lithuania on the Register of Property Seizure Acts.

3. The supervisory authority shall have the right to enter an action in court for the invalidation of the transaction involving the seized assets.

Article 208. Fines Imposed by the Supervisory Authority

1. A fine in the amount of up to EUR 30 000 may be imposed on an insurance or reinsurance undertaking or a branch of the non-member-country insurance undertaking engaged in insurance or related activity or a branch of the non-member-country reinsurance undertaking engaged in reinsurance or related activity which, according to the licence to engage in insurance or reinsurance activity or an authorisation for the activities of the branch, these persons have no right to engage in.

2. A fine in the amount of up to EUR 20 000 may be imposed on an insurance or reinsurance undertaking, an undertaking of insurance intermediaries or a branch of a non-member-country insurance or reinsurance undertaking or a branch of an independent insurance intermediary which refused to furnish information or furnished false information to the supervisory authority.

3. A fine in the amount of up to EUR 100 000 may be imposed on an insurance or reinsurance undertaking, an undertaking of insurance intermediaries or a branch of a non-member-country insurance or reinsurance undertaking or a branch of an independent insurance intermediary which have committed gross violation of this Law or any other legal acts regulating insurance, reinsurance and insurance mediation activity.

4. A fine shall be imposed according to the procedure prescribed in paragraphs 2, 3 and 4 of Article 205 of this Law.

5. A fine imposed by the supervisory authority must be paid into the State budget not later than within one month from the date when an insurance or reinsurance undertaking, an undertaking of insurance intermediaries or a branch of a non-member-country insurance or

reinsurance undertaking or a branch of an independent insurance intermediary received the decision on the imposition of the fine.

6. An unpaid fine shall be recovered according to the procedure prescribed by the Code of Civil Procedure.

7. The imposition of fines shall not exempt a legal person or heads of a branch from civil and criminal liability established by law.

Article 209. Supervision of Insurance and Reinsurance Undertakings of other European Union Member States Providing Services in the Republic of Lithuania and Branches of Insurance and Reinsurance Undertakings of European Union Member States Established in the Republic of Lithuania

1. Financial supervision of insurance and reinsurance undertakings of other European Union Member States providing services in the Republic of Lithuania, or of branches of such undertakings established in the Republic of Lithuania shall be carried out by a competent authority of respective European Union Member States. Despite this provision, the supervisory authority shall have the rights and duties established in this Article.

2. The supervisory authority:

1) shall have the right to receive information from an insurance or reinsurance undertaking of another European Union Member State necessary for carrying out the supervisory functions;

2) shall have the right to carry out inspections of the branch established in the Republic of Lithuania according to the procedure prescribed in Article 212 of this Law;

3) shall have the right to participate in the inspection of a branch of an insurance and reinsurance undertaking of another European Union Member State established in the Republic of Lithuania which is carried out by the competent authority of the European Union Member State;

4) shall have the right to impose sanctions specified in paragraph 3 of this Article on the grounds provided for in subparagraphs 1 and 2 of paragraph 1 of Article 205 of this Law, also in the event of deterioration of the financial standing of a branch of the insurance and reinsurance undertaking of another European Union Member State so that it no longer meets the requirements laid down by legal acts, where the activities of the insurance undertaking of another European Union Member State may result in violation of interests of the policyholders, insured persons, beneficiaries or injured third parties or in the event of a threat of such deterioration of violation, or where the risky activity of a branch of the insurance undertaking of another European Union Member State may be detrimental to the interests of the policyholders, insured persons, injured third parties and beneficiaries;

5) upon receiving a request specified in Article 219 of this Law from the competent authority of another European Union Member State, must impose sanctions referred to in subparagraphs 3 and 4 of paragraph 3 of this Article, without taking into consideration other provisions of this Article;

6) shall give recommendations and mandatory instructions to an insurance and reinsurance undertaking of another European Union Member State or its branch concerning their activities in the Republic of Lithuania.

3. The following sanctions may be imposed on an insurance and reinsurance undertaking of another European Union Member State by the supervisory authority:

1) to warn an insurance or reinsurance undertaking of another European Union Member State of the established violations of legal acts of the Republic of Lithuania and set the time limits for the elimination of the violations;

2) to impose administrative penalties on the head of a branch of the insurance or reinsurance undertaking of another European Union Member State, and demand his replacement;

3) in the manner specified in paragraphs 2 and 3 of Article 207 of this Law and at the request of the competent authority of another European Union Member State, to seize the assets of the insurance or reinsurance undertaking of another European Union Member State located in the Republic of Lithuania;

4) to temporarily or permanently prohibit the insurance or reinsurance undertaking of another European Union Member State from engaging in activities in the Republic of Lithuania.

4. If an insurance or reinsurance undertaking of another European Union Member State violates legal acts of the Republic of Lithuania applicable to it, fails to submit information to the supervisory authority or is engaged in risky activities which may be detrimental to the interests of the policyholders, insured persons, injured third parties and beneficiaries, the supervisory authority shall first of all warn the undertaking of the established violations of legal acts of the Republic of Lithuania and shall set the time limits for the elimination thereof. If the violations are not eliminated within the time limits and in the manner established by the supervisory authority, the supervisory authority must inform thereof the competent authority of another European Union Member State and request that it undertakes all measures permissible under law to eliminate the violations.

5. If it transpires that the measures provided for in paragraph 4 of this Article are not sufficient to eliminate the violations, the supervisory authority, having warned the competent authority of another European Union Member State, shall have the right to impose sanctions referred to in subparagraphs 2 and 4 of paragraph 3 of this Article. In case of urgent necessity,

the supervisory authority shall have the right to impose these sanctions without taking into consideration provisions of paragraph 4 of this Article.

6. The sanction shall be chosen having regard to the nature of the violation for which it is to be applied, the consequences of the violation and the sanction to be applied on the insurance or reinsurance undertaking of another European Union Member State and on the security, stability and credibility of the insurance system. The supervisory authority shall notify the insurance undertaking of another European Union Member State in writing of the sanction, also providing thorough justification of the imposition of the sanction.

7. The resolution regarding the imposition of a sanction may be appealed against in court in accordance with the procedure established by law.

Article 210. Supervision of Activities of Insurance Intermediaries of another European Union Member State Providing Services in the Republic of Lithuania or Branches of these Intermediaries Established in the Republic of Lithuania

1. Supervision of insurance mediation activities of insurance intermediaries of another European Union Member State providing services in the Republic of Lithuania or of branches of these insurance intermediaries established in the Republic of Lithuania shall be carried out by the competent authority of this European Union Member State. Despite this provision, the supervisory authority shall have the rights and duties established in this Article.

2. The supervisory authority shall have the right to:

1) receive information from an insurance intermediary of another European Union Member State or a branch established by it;

2) carry out inspections of a branch of the insurance intermediary of another European Union Member State according to the procedure laid down in Article 212 of this Law;

3) participate in the inspection of a branch of insurance intermediary of another European Union Member State which is carried out by the competent authority of that European Union Member State;

4) impose sanctions provided for in paragraph 3 of this Article on the grounds specified in subparagraphs 1 and 2 of paragraph 1 of Article 205 of this Law, also in case of deterioration of the financial standing of a branch of the insurance intermediary of another European Union Member State and it no longer meets the requirements of legal acts or in case of violation of interests of the policyholders, insured persons, beneficiaries or injured third parties or in case of a threat of such deterioration or violation or where the risky activity of the insurance intermediary of another European Union Member State or its branch may be detrimental to the interests of the policyholders, insured persons, injured third parties and beneficiaries;

5) give recommendations and mandatory instructions to an insurance intermediary of the European Union Member State or a branch established by it concerning their activities in the Republic of Lithuania.

3. The supervisory authority shall have the right to impose the following sanctions on the insurance intermediary of another European Union Member State or its branch:

1) to warn an insurance intermediary of another European Union Member State of the established violations of legal acts of the Republic of Lithuania and set the time limits for the elimination of the violations;

2) to impose administrative penalties on the head of the branch of the insurance intermediary of another European Union Member State established in the Republic of Lithuania in the manner established by law;

3) to demand replacement of the head or the staff involved in mediation activities of the branch of the insurance intermediary of another European Union Member State established in the Republic of Lithuania;

4) to seize, according to the procedure laid down in paragraphs 2 and 3 of Article 207 and upon the request of the competent authority of another European Union Member State, the assets of an insurance intermediary of another European Union Member State or its branch, situated in the Republic of Lithuania;

5) to temporarily or permanently prohibit the activities of the insurance intermediary in the Republic of Lithuania.

4. The supervisory authority shall choose the sanction having regard to the nature of the violation for which it is to be applied, the consequences of the violation and the sanction to be applied on the insurance intermediary of another European Union Member State or its branch. The supervisory authority shall immediately inform the competent authority of another European Union Member State of the applied sanction.

5. The resolution regarding the imposition of a sanction may be appealed against in court in accordance with the procedure established by law. The appeal shall not suspend the enforcement of the resolution.

Article 211. Supervisory Authority's Rights to Information Related to the Activities of Reinsurance and Reinsurance Mediation

1. The provisions of this Law shall apply:

1) reinsurance undertakings of the Republic of Lithuania;

2) reinsurance undertakings of other European Union Member States and non-member countries which conclude contracts without having established themselves in the Republic of Lithuania or upon establishing branches in the Republic of Lithuania;

3) reinsurance intermediaries of other European Union Member States and non-member countries which conclude contracts without having established themselves in the Republic of Lithuania or upon establishing branches in the Republic of Lithuania.

2. The supervisory authority shall have the right to receive information from the persons referred to in paragraph 1 of this Article and to carry out inspections of reinsurance undertakings of the Republic of Lithuania or branches or agencies in the Republic of Lithuania of persons referred to in subparagraphs 2 and 3 of paragraph 1 of this Article.

3. Reinsurance undertakings of the Republic of Lithuania and branches of non-member-country reinsurance undertakings established in the Republic of Lithuania must, in the manner established by the supervisory authority, publish the annual financial statements audited by an audit firm.

4. If the requirements laid down in paragraphs 2 and 3 of this Article are not met, the supervisory authority shall have the right to temporarily or permanently prohibit insurance undertakings of the Republic of Lithuania or branches of non-member-country insurance undertakings established in the Republic of Lithuania from concluding reinsurance contracts with or through the persons referred to in paragraph 1 of this Article.

5. The supervisory authority shall have the right to apply to court for the institution of bankruptcy proceedings against the insolvent reinsurance undertaking of the Republic of Lithuania.

Article 212. Inspections Carried out by the Supervisory Authority

1. The supervisory authority shall have the right to organise and carry out inspections in order to verify compliance with this Law and the legal acts adopted on the basis thereof.

2. The procedure for carrying out inspections shall be established by the supervisory authority.

3. The supervisory authority shall have the right to carry out inspections of:

1) insurance, reinsurance undertakings and undertakings of insurance intermediaries of the Republic of Lithuania;

2) branches of insurance, reinsurance undertakings and insurance intermediaries of the Republic of Lithuania established in another European Union Member State, upon giving prior notice to the competent authority of this Member State and subject to providing conditions for participation of representatives of this authority in the verification;

3) a branch of an insurance, reinsurance undertaking or insurance intermediary of another European Union Member State established in the Republic of Lithuania at the request of the competent authority of this Member State and subject to providing conditions for participation of representatives of this authority in the verification;

4) a branch of an insurance, reinsurance undertaking of a non-member country established in the Republic of Lithuania, upon giving prior notice to the competent authority of this country and subject to providing conditions for participation of representatives of this authority in the verification;

5) the persons with whom an insurance, reinsurance undertaking or a branch of an insurance, reinsurance undertaking of a non-member country has entered into contracts referred to in paragraph 1 of Article 27 of this Law;

6) the undertakings referred to in paragraph 2 of Article 48 of this Law;

7) the persons unlawfully pursuing the activities of insurance, reinsurance or insurance mediation or are related with infringements of this Law or the legal acts adopted on the basis thereof.

4. In carrying out an inspection, the employees of the supervisory authority shall have the right:

1) to receive oral and written explanations of the persons under inspection, to require that these persons or representatives thereof arrive to present their explanations to the official premises of the employee conducting the inspection;

2) upon presentation of an official identification document and a decision of the supervisory authority, to have unimpeded access to the premises of legal persons during their working hours, inspect the documents, record books, and other sources of information needed for the carrying out of the inspection and, on the basis of the collected evidence, to receive conclusions from expert institutions or experts;

3) to request or produce copies of accounting documents, contracts, orders as well as other documents and information;

4) to temporarily, for not more than one month, seize the documents of the legal persons under inspection that may be used as evidence of violations, leaving a justified decision for the seizure of the documents and a statement of the seizure of the documents;

5) upon producing a decision of the supervisory authority, to obtain from credit and financial institutions the data, certificates and copies of documents of the financial operations related to the legal person under inspection.

5. The rights of the supervisory authority to carry out inspections of branches of insurance undertakings, reinsurance undertakings or undertakings of insurance intermediaries of

the Republic of Lithuania established in non-member countries and of other persons shall be specified in co-operation agreements with the competent authorities of non-member countries.

6. The employees of the supervisory authority may engage police officers in the Republic of Lithuania in exercising the rights specified in paragraph 4 of this Article.

Article 213. Insurance and Reinsurance Policy Conditions and Other Information

1. The supervisory authority shall not have the right to demand that insurance and reinsurance policy conditions and other terms and conditions, rates of insurance and reinsurance premiums and other documents used in contractual relations of insurance and reinsurance, and in the case of life insurance and reinsurance – also actuarial information which is used to calculate rates of insurance and reinsurance premiums and/or insurance and reinsurance technical provisions be submitted for advance approval or on a regular basis.

2. When addressing the insurer or reinsurer, the supervisory authority shall have the right to demand that it present insurance or reinsurance policy conditions and other terms and conditions, rates of insurance and reinsurance premiums or other documents used in contractual relations of insurance or reinsurance, and in the case of life insurance or reinsurance – also actuarial information which is used to calculate rates of insurance and reinsurance premiums and/or insurance or reinsurance technical provisions. The supervisory authority shall have the right to check compliance of the submitted documents and information with the provisions of legal acts regulating contractual relations of insurance and reinsurance, and in the case of life insurance and reinsurance – with provisions of legal acts regarding the actuary principles used by an insurance or reinsurance undertaking of the Republic of Lithuania and a branch of a non-member country insurance or reinsurance undertaking established in the Republic of Lithuania. The requirement to submit the information referred to in this paragraph may not be a precondition for activities of the insurer and reinsurer. The supervisory authority may not prescribe submission of the above-specified information on regular basis.

Article 214. Settlement of Disputes between Consumers and the Insurer

Disputes between consumers and the insurer shall be settled in accordance with the procedure laid down by the Law of the Republic of Lithuania on the Bank of Lithuania.

SECTION THREE

COOPERATION WITH THE EUROPEAN COMMISSION AND

THE COMPETENT AUTHORITIES OF

OTHER EUROPEAN UNION MEMBER STATES

Article 215. Cooperation on the Issues of Supervision of Direct Insurance and Reinsurance

1. The supervisory authority must closely cooperate with the European Commission and the competent authorities of other European Union Member States on the issues of improvement of supervision of direct insurance and reinsurance in the European Union

2. The supervisory authority must inform the European Commission about the major difficulties arising when applying the provisions of legal acts of the Republic of Lithuania drawn up on the basis of directives of the European Union, and together with the European Commission and other European Union Member States analyse the problems encountered in order to find an appropriate solution to these problems.

Article 216. Information on Compulsory Insurance

1. The supervisory authority must inform the European Commission about the compulsory insurance in the Republic of Lithuania, indicating the following:

- 1) legal norms regulating compulsory insurance;
- 2) information which must be included in the insurance policy of compulsory insurance.

2. Compulsory insurance policies of insurance undertakings of other European Union Member States and other certificates the content of which complies with the requirements published by the European Commission in the Official Journal of the European Union shall be recognised in the Republic of Lithuania.

Article 217. Information Connected with Non-member Country Persons

1. The supervisory authority must inform the European Commission and the competent authorities of other European Union Member States about the following:

1) the issuance of a licence to engage in insurance activity to an insurance undertaking which, directly or indirectly, is a subsidiary of a non-member-country legal person or persons. In this case, the supervisory authority must also provide information on the structure of a group to which the subsidiary insurance undertaking belongs;

2) shares of an insurance undertaking acquired by a non-member-country legal person or persons, if this undertaking becomes a subsidiary of the insurance undertaking.

2. The supervisory authority must inform the European Commission about major obstacles and difficulties encountered by insurance undertakings of the Republic of Lithuania in non-member-countries.

3. Upon request of the European Commission, the Supervisory Commission must temporarily suspend procedures regarding:

1) granting of authorisations to engage in insurance activities of a branch of a non-member-country insurance undertaking in the Republic of Lithuania or issuance of a licence to engage in insurance activity to an insurance undertaking which, directly or indirectly, is a subsidiary of a non-member-country legal person or persons;

2) issuance of authorisations to acquire shares of an insurance undertaking to a non-member-country legal person or persons which, following the acquisition, will directly or indirectly have a subsidiary in the Republic of Lithuania.

4. Procedures provided for in paragraph 3 of this Article shall be suspended for a period not longer than three months, however, the supervisory authority must extend this term upon the request of the European Commission.

5. Provisions set forth in paragraph 3 of this Article shall not apply if subsidiaries of insurance undertakings of non-member-country legal persons established in other European Union Member States or subsidiaries of these insurance undertakings establish a subsidiary insurance undertaking in the Republic of Lithuania, or intend to acquire shares of an insurance undertaking in the Republic of Lithuania.

6. Upon request of the European Commission, the supervisory authority must inform the European Commission about:

1) all applications for granting of authorisations to engage in insurance activities of branches of non-member-country insurance undertakings in the Republic of Lithuania or applications for issuance of a licence to engage in insurance activity to an insurance undertaking which, directly or indirectly, is a subsidiary of a non-member-country legal person or persons;

2) applications for acquisition of shares of an insurance undertaking by a non-member-country legal person or persons which, following the acquisition, will directly or indirectly have a subsidiary in the Republic of Lithuania.

7. The information related to non-member country persons engaged in reinsurance activities shall *mutatis mutandis* be subject to provisions of paragraphs 1 and 2 of Article 21 of this Law.

Article 218. Transfer of Rights and Duties under Insurance Contracts

1. If the competent authority of another European Union Member State requests the supervisory authority for its opinion regarding the intention of the insurance undertaking supervised by the competent authority of another European Union Member State to transfer the rights and duties under insurance contracts to an insurance undertaking of the Republic of

Lithuania, the supervisory authority must, within three months, inform about its objection or consent to the transfer of rights and duties.

2. The supervisory authority shall have the right to object to the transfer of rights and duties under insurance contracts only where the solvency margin of an insurance undertaking of the Republic of Lithuania or a branch of a non-member-country insurance undertaking in the Republic of Lithuania, as required under legal acts, is not maintained.

Article 219. Sanctions

1. Upon receipt of information from the competent authority of another European Union Member State about restrictions on the management, use and disposal of assets as imposed on the insurance undertaking of the state and a request to impose such restrictions in the Republic of Lithuania, the supervisory authority must make a decision regarding imposition of these restrictions (seizure of assets) in the Republic of Lithuania.

2. Upon receipt of information from the competent authority of another European Union Member State about revocation of a licence to engage in insurance activity of the insurance undertaking of that state, the supervisory authority must adopt a decision to prohibit this insurance undertaking from engaging in insurance activities in the Republic of Lithuania.

Article 220. Intervention Measures

1. The intervention measures which are applied by institutions of other European Union Member States that will or may affect natural and legal persons of the Republic of Lithuania shall be fully recognised in the Republic of Lithuania without any additional formalities even if the intervention measures of this kind are not provided for in the Republic of Lithuania or application of these intervention measures in the Republic of Lithuania is linked to fulfilment of certain additional conditions, and these conditions have not yet been fulfilled.

2. Intervention measures applied by other European Union Member States shall come into force in the Republic of Lithuania at the same time they become effective in other European Union Member States.

3. Having received information from the competent authority of another European Union Member State about the adopted decision to apply intervention measures, the supervisory authority shall have the right, taking into consideration the possible effect of such measures on natural and legal persons of the Republic of Lithuania, to announce the received information in the supplement *Informaciniai pranešimai* to the official gazette *Valstybės žinios*.

Article 221. Supplementary Supervision

1. Upon request of the competent authority of another European Union Member State, the supervisory authority must carry out a verification of information essential for supplementary supervision itself or allow this authority, the audit firm indicated by this institution, or another expert to carry out the verification of information essential for supplementary supervision in the Republic of Lithuania:

1) in undertakings related with an insurance undertaking or reinsurance undertaking of another European Union Member State;

2) in a subsidiary of an insurance undertaking or reinsurance undertaking of another European Union Member State;

3) in a parent company of an insurance undertaking or reinsurance undertaking of another European Union Member State;

4) in subsidiaries of a parent company of an insurance undertaking or reinsurance undertaking of another European Union Member State.

2. Where, upon the request of the competent authority of another European Union Member State, the supervisory authority carries out a verification of information essential for supplementary supervision, the representatives of the competent authority of another European Union Member State shall have the right to participate in the said verification.

Article 222. Liquidation and Bankruptcy

1. Having received information from the competent authority of another European Union Member State about the adopted decision to liquidate an insurance undertaking of another European Union Member State or to institute bankruptcy proceedings against it, the supervisory authority shall have the right, taking into consideration the possible effect of such measures on natural and legal persons of the Republic of Lithuania, to announce the received information in the supplement *Informaciniai pranešimai* to the official gazette *Valstybės žinios*.

2. The decision to liquidate an insurance undertaking of another European Union Member State and its branches in the Republic of Lithuania shall be fully recognised in the Republic of Lithuania without any additional formalities and shall come into force at the moment it becomes effective in the European Union Member State.

3. A person appointed by the state institution of another European Union Member State or another entity to the position referred in paragraph 1 of Article 158 of this Law, who intends to engage in activities in the Republic of Lithuania, must have a copy of translation of the decision on the appointment into the Lithuanian language. Legalisation and other similar formalities shall not be required.

4. Persons referred to in paragraph 3 of this Article or their representatives, appointed according to the procedure established by legal acts of another European Union Member State, shall have the right to perform in the Republic of Lithuania all actions which they have the right to perform in that European Union Member State.

CHAPTER XI FINAL PROVISIONS

Article 223. Other Requirements for Insurance Undertakings

Operating non-life insurance undertakings which have valid life assurance contracts shall use rights and perform duties pursuant to such contracts until their expiry. The parties to the said contracts may not change the term of the life assurance contract concluded prior to 1 January 2004 by establishing a longer term of the life assurance contract. Operating non-life insurance undertakings which have valid life assurance contracts must act in compliance with instructions of the supervisory authority regarding separate administration of life assurance and non-life insurance activities.

Article 224. Monetary Unit

1. All the values indicated in Euro in this Law shall be expressed in Litas according to the official exchange rate of the Euro and the Litas announced by the Bank of Lithuania.

2. Values indicated in Euro in this Law, the indexing of which is established in legal acts of the European Union, shall be indexed by the supervisory authority taking into account the European Consumer Price Index as declared by the Eurostat.

Article 225. Insurance and Reinsurance Undertakings of Members of the World Trade Organisation

1. Insurance undertakings of the members of the World Trade Organisation, which have not established a branch in the Republic of Lithuania, shall have the right to conclude contracts of voluntary insurance of insurance classes listed in subparagraphs 5, 6, 11 and 12 of paragraph 3 of Article 7 of this Law as well as contracts of voluntary insurance of cargo transported by ships (sea, lake, river and canal) and aircraft with natural and legal persons of the Republic of Lithuania.

2. The possibility for third country insurance undertakings which are members of the World Trade Organisation to act in the cases specified in paragraph 1 of this Article shall not grant the right to a third country insurance undertaking to appoint a person who would be subject

to the instructions and control of the represented third country insurance undertaking and would be a long-term or permanent resident of the Republic of Lithuania and who would be duly empowered to establish the rights and duties for the third country insurance undertaking.

3. When carrying out supervision of activities of an insurance undertaking of a third country which is a member of the World Trade Organisation and which has not established a branch in the Republic of Lithuania, the supervisory authority shall have the right:

1) to receive information from the third country insurance undertaking, necessary for the performance supervisory functions;

2) to impose sanctions specified in paragraph 4 of this Article on the grounds provided for in subparagraphs 1 and 2 of paragraph 1 of Article 205 of this Law or in case of infringement of interests of the policyholders, insured persons, beneficiaries or injured third parties.

4. The following sanctions may be imposed on an insurance undertaking of a member of the World Trade Organisation:

1) to warn the third country insurance undertaking of the discovered infringements of legal acts of the Republic of Lithuania and set the time limit for elimination thereof;

2) to temporarily or permanently prohibit the third country insurance undertaking from concluding insurance contracts with natural or legal persons of the Republic of Lithuania.

5. If an insurance undertaking of a third country, which is a member of the World Trade Organisation, violates legal acts of the Republic of Lithuania, fails to submit information to the supervisory authority or is engaged in risky activities which may be detrimental to the interests of the policyholders, insured persons, injured third parties and beneficiaries, the supervisory authority shall first of all notify the third party insurance undertaking of the discovered violations of legal acts of the Republic of Lithuania and shall set the time limit for the elimination thereof. If the violations are not eliminated within the time limit and according to the procedure specified by the supervisory authority, the supervisory authority must inform the competent authority of the third party and demand it to undertake all measures permissible under the legal acts of the third party to eliminate the violations.

6. If it is discovered that the measures provided for in paragraph 5 of this Article are not sufficient to eliminate violations, the supervisory authority shall have the right to impose measures referred to in subparagraph 2 of paragraph 4 of this Article having given an advance warning to the competent authority of the third party which is a member of the World Trade Organisation. In the event of urgent necessity, the supervisory authority shall have the right to impose the above sanction without taking into consideration the provisions specified in paragraph 5 of this Article.

7. The supervisory authority shall inform in writing the insurance undertaking of a third party which is a member of the World Trade Organisation about the sanction and shall specify detailed reasons for imposing it.

8. When carrying out supervision of activities of a reinsurance undertaking of a third party which is a member of the World Trade Organisation and which has not established a branch in the Republic of Lithuania, the supervisory authority shall have the right to obtain, in accordance with the procedure laid down by it, information necessary to perform supervisory functions.

Article 226. Reinsurance Undertakings of Foreign Countries which Are Not Members of the World Trade Organisation

When carrying out supervision of activities of a reinsurance undertaking of a third party which is not a member of the World Trade Organisation – either with or without a branch established in the Republic of Lithuania - the supervisory authority shall have the right to obtain, in accordance with the procedure laid down by it, information necessary to perform supervisory functions.

Article 227. Insurance Contracts

1. This Law shall be applied to legal relations arising from the insurance contract or related to it, which emerge after 1 January 2004, save for the exemptions specified in this Article.

2. Where legal relations arising from or related to the insurance contract emerged before 1 January 2004, this Law shall be applicable to the rights and obligations which have emerged after 1 January 2004.

3. Where the contractual obligation is being fulfilled after 1 January 2004, the fulfilment of the obligation shall be regulated by the norms of this Law.

Article 228. Insurance Risk Assessment Taking into Consideration the Gender of an Insured Person

1. The supervisory authority shall announce on its website the procedure referred to in paragraph 2 of Article 114 of this Law and shall, not less frequently than once a year, update the actuarial and statistical data referred to in paragraph 2 of Article 114 of this Law.

2. The Ministry of Health, the Statistics Lithuania and other state institutions and agencies must furnish to the supervisory authority the information necessary when performing the functions referred to in paragraph 2 of Article 114 of this Law.

3. The Ministry of Finance shall inform the European Commission about the provisions of paragraph 2 of Article 114 of this Law.

4. After the lapse of five years from 21 December 2007 and taking into account the report prepared by the European Commission, the Ministry of Finance shall, together with the relevant interested institutions, debate the expediency of the provisions of paragraph 2 of Article 114 of this Law and inform the European Commission about this.

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

PRESIDENT OF THE REPUBLIC

ROLANDAS PAKSAS

Annex to
the Republic of Lithuania
Law on Insurance

LEGAL ACTS OF THE EUROPEAN UNION IMPLEMENTED BY THIS LAW

1. Council Directive 64/225/EEC of 25 February 1964 on the abolition of restrictions on freedom of establishment and freedom to provide services in respect of reinsurance and retrocession (OJ 2004 special edition, Chapter 6, Volume 1, p. 5);

2. 72/166/EEC: Council Directive of 24 April 1972 on the approximation of the laws of Member States relating to insurance against civil liability in respect of the use of motor vehicles, and to the enforcement of the obligation to insure against such liability (OJ 2004 special edition, Chapter 6, Volume 1, p. 10);

3. 73/239/EEC: first Council Directive of 24 July 1973 on the co-ordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance (OJ 2004 special edition, Chapter 6, Volume 1, p. 14);

4. Council Directive 73/240/EEC of 24 July 1973 abolishing restrictions on freedom of establishment in the business of direct insurance other than life assurance (OJ 2004 special edition, Chapter 6, Volume 1, p. 31);

5. Council Directive 76/580/EEC of 29 June 1976 amending Directive 73/239/EEC on the co-ordination of laws, regulations and administrative provisions relating to the taking up and

pursuit of the business of direct insurance other than life assurance (OJ 2004 special edition, Chapter 6, Volume 1, p. 44);

6. Council Directive 78/473/EEC of 30 May 1978 on the co-ordination of laws, regulations and administrative provisions relating to Community co-insurance (OJ 2004 special edition, Chapter 6, Volume 1, p. 64);

7. Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC) (OJ 2004 special edition, Chapter 17, Volume 1, p. 21);

8. Seventh Council Directive of 13 June 1983 based on the article 54 (3) (g) of the treaty on consolidated accounts (83/349/EEC) (OJ 2004 special edition, Chapter 6, Volume 17, p. 58);

9. 84/5/EEC: Second Council Directive of 30 December 1983 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles (OJ 2004 special edition, Chapter 6, Volume 7, p. 3);

10. Second Council Directive of 22 June 1988 on the co-ordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and laying down provisions to facilitate the effective exercise of freedom to provide services and amending directive 73/239/EEC (88/357/EEC) (OJ 2004 special edition, Chapter 6, Volume 1, p. 198);

11. Council Directive of 8 November 1990 amending, particularly as regards motor vehicle liability insurance, directive 73/239/EEC and directive 88/357/EEC which concern the co-ordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance (90/618/EEC) (OJ 2004 special edition, Chapter 6, Volume 1, p. 252);

12. Council Directive 92/49/EEC of 18 June 1992 on the co-ordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and amending directives 73/239/EEC and 88/357/EEC (third non-life assurance directive) (OJ 2004 special edition, Chapter 6, Volume 1, p. 346);

13. European Parliament and Council Directive 95/26/EC of 29 June 1995 amending directives 77/780/EEC and 89/646/EEC in the field of credit institutions, directives 73/239/EEC and 92/49/EEC in the field of non-life assurance, directives 79/267/EEC and 92/96/EEC in the field of life assurance, directive 93/22/EEC in the field of investment firms and directive 85/611/EEC in the field of undertakings for collective investment in transferable securities (UCITS), with a view to reinforcing prudential supervision (OJ 2004 special edition, Chapter 6, Volume 2, p. 269);

14. Directive 98/78/EC of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance class (OJ 2005 L 323, p.1);

15. Amending Council Dir. 85/611/EEC, 92/49/EEC, 92/96/EEC and 93/22/EEC as regards exchange of information with non-member-countries (OJ 2004 special edition, Chapter 6, Volume 3, p. 348);

16. Directive 2001/17/EC of the European Parliament and of the Council of 19 March 2001 on the reorganisation and winding-up of insurance undertakings (OJ 2004 special edition, Chapter 6, Volume 4, p. 3);

17. Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (OJ 2004 special edition, Chapter 6, Volume 4, p. 251);

18. Directive 2002/13/EC of the European Parliament and of the Council of 5 March 2002 amending Council Directive 73/239/EEC as regards the solvency margin requirements for non-life assurance undertakings (OJ 2004 special edition, Chapter 6, Volume 4, p. 310);

19. Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance (OJ 2004 special edition, Chapter 6, Volume 6, p. 3);

20. Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation (OJ 2004 special edition, Chapter 6, Volume 4, p. 330);

21. Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council (OJ 2004 special edition, Chapter 6, Volume 4, p. 340);

22. Council Directive 2004/113/EC of 13 December 2004 implementing the principle of equal treatment between men and women in the access to and supply of goods and services (OJ 2004 L 373, p.37);

23. Directive 2005/1/EC of the European Parliament and of the Council of 9 March 2005 amending Council Directives 73/239/EEC, 85/611/EEC, 91/675/EEC, 92/49/EEC and 93/6/EEC and Directives 94/19/EC, 98/78/EC, 2000/12/EC, 2001/34/EC, 2002/83/EC and 2002/87/EC in order to establish a new organisational structure for financial services committees (OJ 2005 L 79, p.9);

24. Directive 2005/14/EC of the European Parliament and of the Council of 11 May 2005 amending Council Directives 72/166/EEC, 84/5/EEC, 88/357/EEC and 90/232/EEC and

Directive 2000/26/EC of the European Parliament and of the Council relating to insurance against civil liability in respect of the use of motor vehicles (OJ 2005 L 149, p.14);

25. Directive 2005/68/EC of the European Parliament and of the Council of 16 November 2005 on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC (OJ 2005 L 323, p.1);

26. Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007 amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector (OJ 2007 L 247, p.1).