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(Draft translation from Icelandic)

Act on Insurance Activities

No. 60, 11 May 1994

CHAPTER I

Scope. Definition of concepts.

Distinctions between these and other activities

Scope

Article 1

This Act shall apply to insurance activities. It shall also apply to insurance brokerage. Activities covered by this Act shall be subject to operating licence.

Article 2

The following parties shall be authorised to carry out insurance activities in Iceland:

1. limited-liability and mutual companies, which have obtained an operating licence in this country as provided for in Article 26;
2. foreign insurance companies with head offices in the European Economic Area which have obtained an operating licence in their home state, cf. Articles 64 and 65;
3. foreign insurance companies, with head offices located outside of the European Economic Area, which have obtained a licence to operate a branch in this country, cf. Article 71.

The Act on Limited-liability Companies shall apply to limited-liability insurance companies and the provisions of the Act on Co-operative Societies shall apply to mutual insurance companies, which are established and operated in co-operative form, unless otherwise indicated by the provisions of this Act and Regulations issued by virtue of it.

Companies which are established by separate legislation to carry out insurance activities may operate such activities in the form of limited-liability companies or as mutual companies or in other legitimate form of enterprise, provided they are subject to the same operating environment as private companies and fulfil the provisions of Chapter II. The same shall apply to foreign insurance companies obtaining a licence to carry out insurance activities in Iceland.

[The provisions of Chapter VII on the activities of foreign insurance companies shall not apply to re-insurances, which those insurance companies with licences to operate in Iceland as provided for in Article 26, purchase abroad.]¹⁾

¹⁾ Act No. 63/1997, Art. 1.

Article 3

The Act shall not apply to retirement funds, pension funds and sickness funds of individual trade unions or professional groups, sector associations and enterprises, nor to the State Social Security Institute, the Unemployment Insurance Fund, and similar institutions which operate under special legislation, except insofar as such parties may operate insurance activities.

Article 4

This Act shall apply to groups of companies, cf. Article 7, where the parent company is an insurance company. [The Financial Supervisory Authority]¹⁾ may decide that provisions of the Act on groups of companies shall apply to connections between a company, which is not an insurance company, and insurance companies where the former would be regarded as a parent company in accordance with this Act if it carried out insurance activities.

[The Financial Supervisory Authority]¹⁾ may also decide that the Act shall apply to companies which are not regarded as groups of companies where there are substantial connections between them. In such case, the companies shall appoint one among them the parent company.

In assessing whether there is a controlling interest in a company, cf. Article 7, the rights of the parent company and subsidiary or of the subsidiaries shall be combined.

¹⁾ Act No. 84/1998, Art. 5.

Article 5

No one may, on a commercial basis, encourage the provision of direct insurance for an insurance risk in Iceland, cf. Article 8, by parties other than insurance companies with an operating licence in the country. An operating licence in a member state of the European Economic Area shall be considered equivalent to an operating licence in Iceland, provided the requirements for authorisation to establish a branch or provide services, cf. Chapter VII, are fulfilled.

[The Financial Supervisory Authority]¹⁾ may, under exceptional circumstances, authorise exceptions from the prohibition provided for in the first sentence of the first paragraph.

¹⁾ Act No. 84/1998, Art. 5.

Definition of concepts

Article 6

For the purposes of this Act, an establishment of an insurance company shall mean:

1. the head office of a company as defined in their Articles of Association,
2. a branch,
3. an office under the direction of personnel of a foreign insurance company,
4. the location of an individual delegated by a foreign insurance company to operate on its behalf.

Where a foreign insurance company is operating in Iceland, as referred to in Points 3 or 4 of the first paragraph, the company shall be deemed to have activities in this country equivalent to a branch; the company must thus fulfil the requirements of Chapter VII concerning such activities.

Article 7

For the purposes of this Act the following meanings shall apply:

- *parent company*: a company which controls another company;
- *subsidiary*: a company which is controlled by a parent company. A subsidiary of a subsidiary shall also be regarded as a subsidiary of the parent company;
- *control*: that a company (the parent company) controls the majority of votes in another company, or
 - has holdings in another company and the right to appoint or dismiss the majority of members of the board or executives, or
 - has holdings in another company and the right to exercise decisive influence on its activities on the basis of the company's Articles of Association or agreements with it, or
 - has holdings in another company and controls a majority in that company on the basis of an agreement with other shareholders or other owners, or
 - has holdings in another company and holds a dominant position in it, or
 - there are comparable connections of individuals or legal entities with a company;
- *a group of companies*: a parent company and a subsidiary or group of subsidiaries;
- [- *an affiliated company*: a company, which is not a subsidiary, which another company and its subsidiaries have a holding in and have significant influence on; a company is deemed to have significant influence if it, together with its subsidiaries, controls 20% or more of the votes in the company in which participation is held];¹⁾
- *qualifying holdings*: a direct or indirect holding in a company which represents 10% or more of its equity capital or voting rights or other holding which enable the exercise of a significant influence over the management of the company concerned;
- *member state*: a state which is a member of the European Economic Area;
- *home state*: the member state where the head office of an insurance company is located and where its operating licence was issued;
- *host state*: a Member state where an insurance company, whose head office is in another state, has a branch or provides services without an establishment;
- *member state where services are provided*: a member state where an insurance company, or a branch in another member state, insures risks located in that state, cf. Article 8, without having an establishment there;
- *a third state*: a state outside the European Economic Area;
- *a regulated market*: a financial market in a member state or a third state, which is considered a regulated market by the home state and is characterised by regular activities and regulations approved and issued by supervisory authorities, who define the conditions for the activities of and access to the market;

Time

- *supervisory authorities*: the party which, in accordance with the national law of the state concerned, is to supervise insurance companies and insurance activities; in Iceland this is [the Financial Supervisory Authority];²⁾

[- *close connections*: connections of an insurance company with:

- a. other companies in a group of companies to which the insurance company belongs,
- b. parties owning qualifying holdings in the insurance company, amounting to a minimum holding, however, of 20%,
- c. parties owning qualifying holdings in the parent company of an insurance company, amounting to a minimum holding, however, of 20%,
- d. companies in which the insurance company owns a qualifying holding, amounting to a minimum holding, however, of 20%,
- e. companies in which the insurance company owns a holding and in which a group of companies, to which the insurance company belongs, has a qualifying holding, if their total holdings, however, amount to at least 20%;

- *insurance brokerage*: professional activities by a legal entity or individual operating independently, providing information, professional advice and assistance in concluding an agreement for direct insurance coverage or in implementing the provisions of such an agreement with respect to the insurance company and operating independently of individual insurance companies;

- *insurance broker*: an individual or legal entity who provides insurance brokerage and has in all respects completely free choice of the company dealt with;

- *insurance agent*: a person who works in the name of and on behalf of one or more specific insurance companies, promoting, proposing and preparing insurance agreements or assisting in the implementation of such agreements, for instance, where damage has occurred;

- *insurance salesman*: an employee who works for an insurance broker or insurance agent or insurance company, who handles, for instance, preparatory work and promotion of insurances, without authorisation to oblige customers in any way to insure, and who collects premiums if agreements have been concluded.]³⁾

¹⁾ Act No. 97/2000, Art. 1.

²⁾ Act No. 84/1998, Art. 5.

³⁾ Act No. 63/1997, Art. 2.

Article 8

For the purposes of this Act, the state in which a risk is situated shall be:

- for *property insurance*: the state in which the insured property is situated, where insurance coverage is taken out on buildings or on buildings and chattels in the same insurance contract;

- for *motor vehicle insurance*: the state in which the motor vehicle is registered;

- for *travel insurance*: the state where the policyholder purchased the insurance, provided its period of validity is no longer than four months;

- for *other non-life assurance (direct insurance)*: the state where the policyholder has his/her habitual residence or, in the case of a legal entity, the member state where the residence which is primarily connected with the insurance contract is located;

- for *life, accident, and sickness insurance (personal insurance)*: the state where the obligation arose, i.e. where the policyholder has his/her habitual residence or, in the case of a legal entity, the state where the location which is primarily connected with the insurance contract is situated (activities are carried out).

In this Act *large risk* shall mean insurance classes specifically covering business operations and large companies. Insurance classes as provided for under Points 4, 5, 6, 7, 11, 12, 14 and 15 of the first paragraph of Article 22 shall be considered large risks. Non-life assurances for large companies in classes of Points 3, 8, 9, 10, 13 and 16 shall also be considered large risks. [Large companies refers to companies which fulfil at least two of the following conditions: the outcome of their balance sheet amounts to ECU 6.2 million or more, their annual turnover amounts to ECU 12.8 million or more and the man-years they account for are at least 250. If an enterprise is part of a group of companies, the group of companies as a whole shall be assessed on the basis of its consolidated accounts. [The Financial Supervisory Authority]¹⁾ may allow occupational associations, joint ventures or enterprises which temporarily form a group to be considered as one enterprise for the purposes of this paragraph.]²⁾

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 63/1997, Art. 3.

Distinctions between these and other activities

Article 9

An insurance company may not carry out any activities other than insurance activities unless otherwise indicated by the provisions of Article 11.

An insurance company shall be regarded as carrying out an activity other than insurance activities if it holds, either alone or together with another insurance company, control in a company which carries on activities other than insurance activities. In the case of a group of companies or an insurance company with direct or indirect operational connections with other companies, and where the parent company is not an insurance company, the insurance companies shall be considered one company in this regard.

Notwithstanding the provisions of the first and second paragraphs, an insurance company may operate a commercial bank or other financial activity as a separate company, provided the activity is subject to an operating licence and the surveillance of a public authority.

An insurance company may not assume guarantees which are not insurance obligations. It may not assume obligations which are not connected to the normal operations of an insurance company.

Article 10

Life assurance activities may not be carried out together with other insurance activities. A company may, however, conduct life re-insurance activities along with other insurance activities. A life assurance company may also be granted an operating licence for sickness and accident insurances.

Article 11

An insurance company may carry out the following ancillary activities:

1. acting as agent for insurance companies with authorisation to operate in Iceland, and for other companies subject to the supervision of the [Financial Supervisory Authority]¹⁾ or other public authorities;
2. building, owning and operating real estate as a form of long-term investment of the company's assets;
3. claims handling and loss prevention activities;
4. operation and supervision of funds which are connected to or similar to insurance activities;
5. other operations directly resulting from and in normal connection with insurance activities.

Activities as provided for in Point 5 shall be subject to authorisation from [the Financial Supervisory Authority].¹⁾ [The Financial Supervisory Authority]¹⁾ may decide that activities covered by Point 5 shall be operated by a separate company.

¹⁾ Act No. 84/1998, Art. 5.

Article 12

Insurance activities and ancillary activities as provided for in Article 11 shall be carried out in accordance with good business practice and custom in the insurance business and with regard for the interests of the policyholders and the insured. In case of failure to do so, [the Financial Supervisory Authority]¹⁾ shall issue instructions to remedy whatever is deficient.

¹⁾ Act No. 84/1998, Art. 5.

Article 13

The name of an insurance company shall give clear indication that it is an insurance company. Parties without authorisation to carry out insurance activities may not have names which could indicate or imply that they conduct insurance business, nor publish or issue anything, either printed or in other form, which could possibly indicate that they carry on insurance activities.

The legal form of an insurance company shall be clearly indicated in its name. When publishing or otherwise communicating information to the general public on the amount of its share capital or initial capitalisation, [an insurance company] shall specify both the subscribed capital and the amount already paid.

[Parties not registered in the Register of Insurance Brokers may not have names which could indicate or imply that they carry out insurance brokerage, nor publish or issue anything, either printed or in other form, which could possibly indicate that they carry on insurance brokerage.]¹⁾

¹⁾ Act No. 63/1997, Art. 4.

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CHAPTER II

Establishment of an insurance company. Operating licence and registration in the Register of Insurance Companies

Establishment of an insurance company

Article 14

The founders of an insurance company shall draw up and sign a Memorandum of Association. The Memorandum of Association shall include a draft of the Articles of Association for the company and decisions on the aspects listed in Article 15.

The founders must be at least three in number. The majority of the founders must be domiciled in Iceland. Founders may be individuals, the Icelandic state and its institutions, local authorities in Iceland and their institutions, insurance companies with an establishment in Iceland, registered limited-liability companies, registered co-operatives, other registered companies with limited liability, registered partnerships, registered public partnerships??, as well as self-governing institutions subject to public supervision located in Iceland. [Founders must be legally competent, have an unblemished reputation and may not, during the last five years have, in connection with business operations, been convicted of a punishable offence under the Criminal Code or Acts on limited-liability companies, private limited-liability companies, accounting, financial statements, bankruptcy or public levies, nor under legislation on insurance activities. A founder may neither be in moratorium nor have been declared bankrupt during the past five years.]¹⁾

A person who signs the Memorandum of Association and other documents regarding the establishment of a company on behalf of a legal entity shall fulfil the conditions set for natural persons. He/She shall bear responsibility jointly with the party represented, to the same extent as if he/she were a founder, except for the payment of any share capital or initial funding for which the party represented has subscribed.

[Nationals or legal entities of states which are members of the Agreement Establishing a European Economic Area are exempt from the requirements on domicile of the second paragraph, provided the nationals concerned are domiciled in a member state or legal entities with a location there. The Minister may grant exemptions from the requirements on domicile.]¹⁾

¹⁾ Act No. 63/1997, Art. 5.

Article 15

The Memorandum of Association for an insurance company must include the following:

1. the names and addresses of the founders;
2. how much is to be paid for each share in the company;
3. time limits which may be set for subscribing for shares and their payment;
4. rules on the payment of share capital or initial funding;
5. any decisions that founders or others shall enjoy special rights or benefits in the company;
6. any decisions requiring an agreement with the founders or other parties which would represent substantial financial obligations on behalf of the company;
7. any decisions that the company shall take over assets which shall not be paid for with shares in the company;
8. when the initial shareholders' meeting shall be held and how it shall be convened, unless it is evident from the provisions of Article 18 that the meeting shall be held without special notification of such;
9. whether the company shall bear the cost of establishment and, if so, how high such cost may be. This cost may not exceed 5% of subscribed share capital, after deducting public expenditure (*sic*) and appraisal cost, cf. Article 16. [The Financial Supervisory Authority]¹⁾ may grant exemptions from the maximum cost of establishment. The founders may not be remunerated for the establishment.

The Memorandum of Association for a mutual insurance company shall, furthermore, include:

10. members' and guarantors' guarantees as regards the obligations of the company, as well as their mutual guarantees;
11. whether and to what extent the company shall be able to assume re-insurance without mutual guarantee;
12. what rules shall apply to return on the initial capital.

The Memorandum of Association shall specify the measures which are necessary and of significance for evaluating any assets which the company is to take over.

If the company is established with a view to acquiring the insurance activities or insurance portfolio of another insurance company, mention shall be made of such in the Memorandum of Association; it shall also be specified whether a draft agreement has been concluded on the transfer of the insurance portfolio and an examination by [the Financial Supervisory Authority]¹⁾ has been carried out, cf. Chapter X.

Documents which contain important information which is not included in the Memorandum of Association shall be affixed to it and considered an integral part of the Memorandum.

All agreements on aspects which are mentioned in the Memorandum of Association but were not approved upon its adoption, shall be invalid as far as the company is concerned.

¹⁾ Act No. 84/1998, Art. 5.

Article 16

Shares shall be paid for in cash. [The Financial Supervisory Authority]¹⁾ may grant authorisation for payment to be made by other means.

Where contributions to the payment for shares are made by other means than in cash, it must be possible to assess the financial value of such. They may not involve obligations to provide labour or services, nor may contributions take the form of claims on other founders or others who subscribe for shares even where such claims are secured by collateral.

Where [a subscriber's] intention is to make payment other than cash payment, an application thereto must be sent [the Financial Supervisory Authority]¹⁾ together with an appraisal. The appraisal must be made by one or more impartial, expert appraisers approved by [the Financial Supervisory Authority].¹⁾ Appraisers must have access to all documentation in order to be able to make whatever investigations they regard as necessary, and may demand that the founders or the company provide all the information and assistance they deem necessary for their task. If [the Financial Supervisory Authority]¹⁾ accepts this application the Memorandum of Association may be drawn up.

Should [the Financial Supervisory Authority]¹⁾ see reason to expect the value of the contribution to have changed since the time the appraisal was carried out and the initial shareholders' meeting held, it may demand a declaration of the value from the appraisers or a new appraisal.

The provisions of this Article shall also apply if the company accepts financial assets from the founders, shareholders or guarantors which are not payment for shares, if such payment is to be made within two years of the date of the Memorandum of Association or if payment amounts to more than one-tenth of the share capital or initial funding.

¹⁾ Act No. 84/1998, Art. 5.

Article 17

The founders shall draw up proposed Articles of Association for the insurance company, including the following:

1. the name of the company and its address;
2. the purpose of the company, its field of endeavour and area of operation;
3. the total amount of share capital or initial financing, amount of each share and voting rights;
4. whether shares may be freely traded and rules on redemption or special rights which may be attached to them, as well as limitations which may be set on the owners' authorisations to exercise such;
5. the number of members of the Board of Directors and alternates, together with auditors, and their terms of office;
6. how a shareholders' meeting is to be convened;
7. what questions are to be dealt with at the annual general meeting (AGM);
8. the period which comprises the company's financial year;
9. how profits are to be disposed of and action in case of losses;
10. allocation of dividends and bonuses;
11. how the assets of the company may be disposed of and apportionment of assets upon winding up of the company.

The Articles of Association of a mutual company shall, furthermore, provide for:

12. conditions for membership in the company and for termination of membership;
13. aspects referred to in the provisions of Points 10-12 of Article 15.

Time

Article 18

A decision on the establishment of an insurance company must be taken at an initial shareholders' meeting.

The founders shall see to it that subscriber lists and the contracts and documentation listed in the Memorandum of Association, including appraisal documents and a statement, if appropriate, cf. Article 16, are available for inspection for a period of one week prior to the initial meeting at a location specified in the announcement of the meeting.

If there are subscribers for all the shares at the initial shareholders' meeting, and all acknowledged subscribers agree, the establishment of the company may be effected without further meetings. If such is not the case, the founders must call all subscribers to a new initial shareholders' meeting.

The documentation mentioned in the second paragraph shall be presented at the initial shareholders' meeting, together with explanations of the costs referred to in Point 9 of the first paragraph of Article 15. Information shall also be provided on the accepted share capital or initial funding, as well as on allocation of shares and capital already collected. This information shall be entered in the minutes of the meeting.

Article 19

A company may not be listed as an insurance company in the register of limited-liability companies or other register of companies until an operating licence has been issued.

Members who propose to establish a mutual insurance company may be registered provided no insurance contracts are effected nor liability assumed as a result of such contracts, nor the collection of insurance premiums begun, until the company has been registered.

Article 20

An unregistered insurance company may neither acquire rights nor accept obligations. Nor may it be a party to court action except in cases concerning the subscription of shares or initial funding.

If, notwithstanding the provisions of the second paragraph of Article 19, insurance contracts are entered into, the parties concluding the contracts on behalf of the company shall jointly guarantee to honour such contracts and are jointly liable for such. If the company accepts the obligations imposed by the contracts within four weeks from the registration of the company, the concerned parties shall no longer be liable except when the interests of the insured would otherwise be deemed to be seriously prejudiced. Such agreements are not binding upon the policyholder unless the company's acceptance of the obligations has been declared.

Enrolment of members in a mutual company in accordance with the second paragraph of Article 19 is thus only binding if notice of the company is sent to the Register of Insurance Companies within one year of their enrolment. If the company is refused registration the agreement becomes null and void.

With regard to other acts, carried out on behalf of the insurance company prior to its registration, those parties who have participated in the acts or decisions shall bear responsibility *in solidum* for honouring them. Upon its registration the company assumes these obligations and obligations as provided for in its Articles of Association.

If any legal action is concluded prior to the registration of a company, where the other contracting party was aware that the company was not registered, such other party may, unless otherwise agreed upon, invalidate the action if notification has not been sent to the Register of Insurance Companies within the time limit indicated in Article 21, or if registration was refused. If the other contracting party was not aware that the company was not registered, it may invalidate the action as long as the company is not registered.

Operating licence of insurance companies

Article 21

An application for operating licence shall be sent to [the Financial Supervisory Authority]¹⁾ within six months of the date of the Memorandum of Association, together with a notification for registration in the Register of Insurance Companies, cf. Article 28.

The application and accompanying documentation shall include the following:

1. the name of the company and its legal form;
2. a certified copy of the Articles of Association and the minutes of the initial shareholders' meeting;
3. a list of the founders and share capital or initial funding, which of them own a qualifying holding in the company and how large this is [and a report on other close connections which the company has];²⁾

- # Time
4. a draft of the Articles of Association for ratification;
 5. the insurances classes or sub-classes for which authorisation is applied, cf. Articles 22 and 23;
 6. if applicable, a list of additional activities which the company plans to operate, cf. Article 11;
 7. a special plan for activities, cf. Article 24;
 8. confirmation that the company fulfils the provisions of Article 33 on minimum amounts;
 9. the basis for calculating premiums, premium reserves, allocation of bonuses, surrender values, and paid-up life assurance policies; rules as to what information life assurance policyholders should provide and comparable documentation, as applicable, in connection with health insurance operated on a technical basis when the application is made for an operating licence in accordance with Article 23;
 10. insurance conditions for compulsory insurances and information on the types of life assurance the company plans to offer.

If an application is not received within the prescribed time limit, registration of the company shall be refused. In such case, all obligations of parties subscribing for shares or initial funding shall no longer be valid. The same shall apply if registration is refused for other reasons. After that the company cannot be registered unless exceptional circumstances exist, in which case the company may be registered even though the time limit has expired.

An insurance company may not be listed in the Register of Insurance Companies unless its share capital or initial funding, which was subscribed at its founding, has been fully paid up.

An insurance company may not commence its activities until it has received an operating licence and is registered in the Register of Insurance Companies.

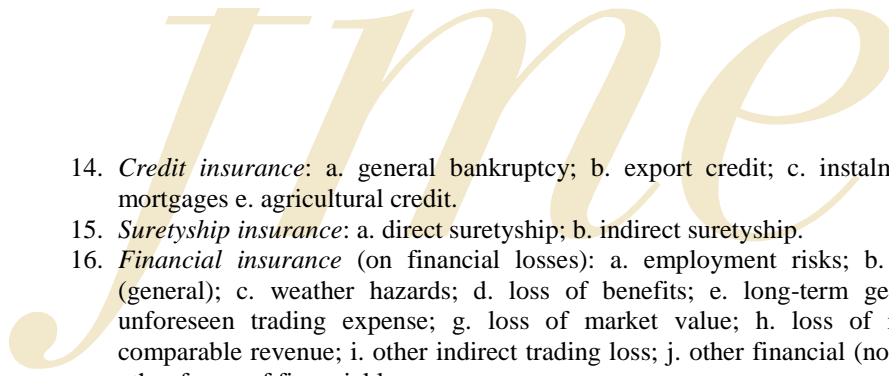
¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 63/1997, Art. 6.

Article 22

An operating licence for trading in insurances other than life assurances shall be limited to specific insurance classes or sub-classes of them in accordance with the following list:

1. *Accident insurance* (accidents, industrial injuries and occupational diseases): a. fixed monetary benefits; b. indemnity after assessment of damage consequences; c. fixed monetary benefits or indemnity after assessment of damage consequences; d. injury to passengers.
2. *Sickness insurance* (illness, loss of health): a. fixed monetary benefits; b. indemnity after assessment of damage consequences; c. fixed monetary benefits/indemnity after assessment of damage consequences.
3. *Vehicle own-damage insurance*: property loss, including total loss of: a. motorised land vehicles other than railway rolling stock; b. land vehicles other than motorised vehicles;
4. *Railway rolling-stock insurance*: property loss, including total loss of railway rolling stock.
5. *Aviation hull insurance*: property loss, including total loss of aircraft.
6. *Marine and inland water hull and machinery insurance*: property loss, including total loss of: a. marine vessels; b. lake vessels; c. river and canal vessels.
7. *General cargo insurance*: property damage, including total loss of cargo and baggage in transport, regardless of the means of transport.
8. *Property insurance* (fire and natural forces): property loss, including total loss, other than to property as listed in classes 3, 4, 5, 6 and 7, due to: a. fire, b. explosion, c. storm, d. natural forces other than storm, e. nuclear energy, f. land subsidence.
9. *Other property insurances*: property loss, including total loss, other than to property as listed in classes 3, 4, 5, 6 and 7, due for instance to hail, frost or any event, such as theft, etc. not included in class 8.
10. *Motor vehicle third-party liability insurance*: third-party liability arising from the use of motor vehicles, including operator liability.
11. *Aircraft third-party liability insurance*: third-party liability arising from the use of aircraft, including operator liability.
12. *Marine and inland water third-party liability insurance*: third-party liability arising from the use of ships, vessels or boats on the sea, lakes, rivers or canals, including operator liability.
13. *General third-party liability insurance*: All third-party liability other than listed under classes 10, 11 and 12.



14. *Credit insurance*: a. general bankruptcy; b. export credit; c. instalment contracts; d. mortgages e. agricultural credit.
15. *Suretyship insurance*: a. direct suretyship; b. indirect suretyship.
16. *Financial insurance* (on financial losses): a. employment risks; b. income shortfall (general); c. weather hazards; d. loss of benefits; e. long-term general expense; f. unforeseen trading expense; g. loss of market value; h. loss of rental income or comparable revenue; i. other indirect trading loss; j. other financial (non-trading) loss; k. other forms of financial loss.
17. *Legal assistance*: legal expenses and cost of litigation.
18. Assistance to travellers: assistance to persons in difficulties while travel-ling away from their home or permanent residence.

The risks included in a specific class may not be included in any other class except in instances referred to in the third paragraph.

A joint operating licence may be granted for the following classes of non-life assurance, cf. the first paragraph:

1. accident and sickness insurance, as provided for in Points 1 and 2;
2. vehicle and cargo insurance, as provided for in Points 1d, 3, 7 and 10;
3. marine and cargo insurance, as provided for in Points 1d, 4, 6, 7 and 12;
4. aviation and cargo insurance, as provided for in Points 1d, 5, 7 and 11;
5. property insurance, as provided for in Points 8 and 9;
6. third-party liability insurance as provided for in Points 10, 11, 12 and 13;
7. credit and suretyship insurance as provided for in Points 14 and 15;
8. direct insurance, as provided for in Points 1-18;
9. re-insurance as provided for in Points 1-18.

An insurance company obtaining an operating licence for classes of direct insurances as provided for in the first and second paragraphs (principal risk) may include an additional class (ancillary risk) without special authorisation where:

1. the ancillary risk is connected to the principal risk;
2. the ancillary risk is connected to the assets which are insured against the principal risk;
3. the ancillary risk is covered by the contract insuring the principal risk.

The risks included in the classes referred to in Points 14, 15 and 17 of the first paragraph may not, however, be regarded as ancillary risks in other insurance classes, with the exception that risks in the class referred to in Point 17 may be regarded as an ancillary risk in the class referred to in Point 18 where the conditions of the first paragraph are fulfilled and the principal risk is exclusively connected with assistance provided to individuals in difficulty while travelling away from their home or permanent residence. The insurance class provided for in Point 17 may also be regarded as ancillary risk where the risk or dispute is connected to the use of ships and boats.

[A Regulation¹⁾ shall be issued on legal assistance insurance, the class as provided for in Point 17 of the first paragraph, to ensure the interests of policyholders in disputes with the insurance company itself.]²⁾

¹⁾Reg. 99/1998.

²⁾Act No. 63/1997, Art. 7.

Article 23

An operating licence for trading in life assurance and sickness insurance, as well as related accident and sickness insurance, shall be limited to specific insurance classes or sub-classes of them in accordance with the following list:

1. *Life assurance on death and survival without investment risk*: a. assurance on survival to a stipulated age only; b. assurance on death only; c. assurance on survival to a stipulated age or on an earlier death; d. life assurance with return of premiums; e. annuities; f. supplementary benefits for personal injury, including incapacity for employment; g. supplementary benefits for death due to an accident; h. supplementary benefits for disability resulting from accident or sickness.
2. *Couples' and children's/Marriage and childbirth?? insurance*: a. life assurance in connection with marriage; b. life assurance in connection with birth of children;
3. *Life assurance on death and survival with investment risk*: a. assurance on survival to a stipulated age only; b. assurance on death only; c. assurance on survival to a stipulated age or on an earlier death; d. life assurance with return of premiums; e. annuities;
4. *Health insurance*: long-term health insurance not subject to cancellation.

- # Time
5. *Other life assurance*: Other categories of life assurance with risk based on life expectation.
 6. *Re-insurance of life and health insurance*.

Article 24

The plan of activities, which is to accompany an application for an operating licence, shall provide for the following:

1. an account of re-insurance protection and the maximum liability the company intends to bear for its own account in each class of insurance;
2. a list of the items to cover the minimum amounts provided for in Article 33;
3. a reasoned appraisal of the cost of establishing the activities and how this is to be financed;
4. a forecast balance sheet showing the estimated financial status of the company at the end of each of the first three financial years, together with estimates of annual income and expenses;
5. an estimate of how the company intends to cover its underwriting obligations and fulfil requirements as to solvency margin during the first three financial years.

If application is made for an operating licence for credit insurance, as provided for in Point 14 of the first paragraph of Article 22, in addition to the documentation provided for in the first paragraph an account must be provided of the rules followed in the estimation of unsettled liabilities due to credit insurance contracts, i.e. its technical provisions, and what assets are intended for that purpose.

Article 25

[The Financial Supervisory Authority]¹⁾ shall assess applications on operating licences. The opinion of [the Financial Supervisory Authority]¹⁾ must be made available within six months from receipt of the application and all documentation which is to accompany an application, cf. Articles 21-24.

When examining an application for an operating licence by a life assurance company, care shall be taken to ensure that the basis of calculations is sound and at the same time fair towards both life assurance policyholders and beneficiaries. The same shall apply to rules on bonuses to policyholders and the allocation of profits, the rules for which shall be clear and specific. The interest premises for premiums and premium reserves, as well as the cost margin and safety margin, shall be determined in a prudent manner. Premiums for new insurance policies shall be sufficient to enable the company to meet its commitments without requiring a special increase in equity capital.

Should [the Financial Supervisory Authority]¹⁾ be of the opinion that the Board or managing director of the company lack the competence to direct the company, or to ensure adequately sound and prudent management, or if their track record is such that this could be expected to become the case, they may refuse the operating licence. The same shall apply if those holding qualifying holdings in the company are deemed unable to adequately ensure sound and prudent management. [If the company has close connections with others, an operating licence shall only be granted if such connections will not impede supervision of the company's activities. If the law of a third state applies to those parties with which an insurance company has close connections, thus impeding supervision of the company's activities, the operating licence shall be refused, as shall also be the case if it is likely that difficulties in implementing that legislation may make supervision difficult. If the actual head office of the company is not in this country, the operating permit shall be refused.]²⁾ If [the Financial Supervisory Authority]¹⁾ does not endorse an application, it shall provide grounds for so doing and notify the applicant in writing.

The [Financial Supervisory Authority]¹⁾ is entitled to a longer time limit than specified in the first paragraph to deliver its opinion of an application by a subsidiary which is directly or indirectly under the control of a party located outside the European Economic Area.

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 63/1997, Art. 8.

Article 26

If the company fulfils the requirements for solvency margin and minimum amounts, cf. Chapter III, and the [Financial Supervisory Authority]¹⁾ can in other respects endorse the application, as well as approve the company's Articles of Association, the Minister shall grant an operating licence, after which the company may be registered in the Register of Insurance Companies.

The operating licence shall include information on those insurance activities which the company may carry out. An operating licence may be granted for individual classes of insurances, as provided

for in Articles 22 or 23, or individual sub-classes thereof, or for more than several classes jointly, as provided for in the second paragraph of Article 22. An operating licence granted for a specific class of insurance shall also be valid for ancillary risks in other classes, providing the conditions of the third paragraph of Article 22 are fulfilled. The Minister shall determine what other aspects shall be indicated in an operating licence.

¹⁾Act No. 84/1998, Art. 5.

Article 27

An insurance company which has obtained an operating licence in Iceland and subsequently proposes to take up another class or subclass of insurance, or intends to substantial change its activities, must apply for authorisation of the new activity to the [Financial Supervisory Authority],¹⁾ providing documentation as required under Articles 20-24 which is necessary for it to assess the application.

If the company fulfils conditions on solvency margin and minimum amounts, having regard to the new activity, and if the application is approved in other respects, [the Financial Supervisory Authority]¹⁾ shall grant a licence for the new activity.

Amendments to the Articles of Association of an insurance company should be sent to [the Financial Supervisory Authority]¹⁾ within a week of their adoption. If [the Financial Supervisory Authority]¹⁾ has no comment to make on the amendments, the company shall, within two months, send the Authority a dated copy of its entire Articles of Association, including the amendments adopted.

¹⁾Act No. 84/1998, Art. 5.

Register of Insurance Companies

Article 28

A register shall be kept of all insurance companies which have received operating licences in Iceland which shall be in the custody of [the Financial Supervisory Authority].¹⁾ Branches with operating licences in Iceland must also be registered, as well as parties providing services here without an establishment in the country. The public shall have access to the Register of Insurance Companies.

Operating licences and licences for new activity shall be immediately entered in the Register of Insurance Companies. A decision to handle new classes of insurance or change activities substantially shall not be valid until registered in the Register of Insurance Companies.

The following shall be entered in the Register of Insurance Companies, as appropriate:

1. the date of the Memorandum of Association, minutes of the initial shareholders' meeting and Articles of Association;
2. the name, legal form and area of operation, domicile and legal venue;
3. the field of activity and purpose;
4. the date of the operating licence and a list of the classes of insurance and sub-classes which the company is authorised to deal in and ancillary activities, cf. Article 11;
5. subscribed and paid-up share capital and initial funding and own equity; the names of those parties with a qualifying holding in the company and how large this is;
6. members of the Board and alternates, auditors and actuaries;
7. the names of persons who can oblige the company;
8. the name and address of an establishment of a foreign insurance company, cf. Article 6, which has a branch in Iceland or which provides services, and the name and location of its representatives in Iceland who can oblige the company and represent it, as well as, where appropriate, the person who handles the settlement of vehicle third-party insurance claims.
9. the date of transfer/acquisition of insurance portfolios together with a list of sub-classes of insurance which are transferred/acquired.
10. date of appointment of a winding-up committee, the names of the committee members, the date of the revocation of the operating licence, the date of the termination of a company and when it was eradicated from the Register of Insurance Companies.

All amendments concerning aspects which are to be notified to the Register of Insurance Companies shall, as promptly as possible and no later than within one month's time, be notified and accompanied by documentation which verifies their adoption and legitimacy. Notifications shall be received on special forms provided by [the Financial Supervisory Authority].¹⁾

If notifications to the Register of Insurance Companies do not satisfy the provisions of law or the company's Articles of Association, or decisions are not taken as provided for by law or in the company's Articles of Association, they shall not be registered. Written notice of refusal shall be made, stating the grounds for such.

time

Each year a list shall be published in the Legal Gazette of companies listed in the Register of Insurance Companies which have received an operating licence to carry out insurance activities, along with branches and insurance companies of member states which provide services in Iceland. Notification of the registration of a new company or branch in the Register of Insurance Companies, of transfer and acquisition of insurance portfolios, and of the eradication of an insurance company from the Register of Insurance Companies and the reasons for such, shall also be published.

¹⁾ Act No. 84/1998, Art. 5.

CHAPTER III

Financial basis. Technical provisions. Holdings

Solvency margin and minimum solvency margin

Article 29

The solvency margin of an insurance company is comprised by its total assets after deducting necessary depreciation and devaluations, intangible assets, and any type of foreseeable debts and obligations, including technical provisions. The solvency margin shall consist of assets corresponding to the following balance sheet items:

1. paid-up share capital or initial funding;
2. one-half of the unpaid share capital or initial funding, providing paid-up capital comprises at least 25% of the total capital;
3. reserves which are not intended to cover the company's obligations;
4. unallocated profits less any deficit brought forward;
5. contributions from the owners of mutual insurance companies in accordance with more explicitly stated rules;
6. hidden reserves resulting from the over- or undervaluation of balance sheet items, at the request of the company and provided it can provide grounds for their existence and their permanent nature;
7. preferred share capital and subordinated loans, in accordance with more explicitly stated rules;
8. bonds without fixed maturity and other securities, in accordance with more explicitly stated rules.

More detailed provisions of the assets which may be included in the solvency margin of an insurance company shall be set in a Regulation.

[The adjusted solvency margin of an insurance company, which has another insurance company as its subsidiary or affiliated company, shall be its solvency margin as provided for in the first paragraph after deducting the amounts resulting from including the same assets, directly or indirectly, from more than one party, as well as all the assets resulting from mutual capitalisation. Regard shall be had for all subsidiaries and affiliated companies, companies which control or have holdings in the insurance company, and other subsidiaries and affiliated companies of these companies. The Financial Supervisory Authority may, in exceptional cases, demand or authorise that another method be used in calculating the adjusted solvency margin.

If an insurance company is a subsidiary of another insurance company or a company whose main activity is a holding in an insurance company, the adjusted solvency margin of the parent company shall be calculated in accordance with the provisions of this Article in addition to the calculation of the solvency margin of the insurance company. The calculation shall have regard for all the affiliated companies of the parent company.

More detailed provisions on the adjusted solvency margin shall be laid down in a Regulation. Such Regulation may also specify exemptions from the obligation of calculating the adjusted solvency margin. Should the calculations cover enterprises in other states, co-operation between supervisory authorities shall be as provided for in international agreements to which Iceland is a party and co-operation agreements concluded by the Financial Supervisory Authority on their basis.]¹⁾

¹⁾ These provisions shall be implemented in supervision based on annual financial statements for the financial year 2001.

Article 30

The solvency margin of an insurance company, which carries out non-life assurance activities, shall at all times amount to at least the higher of the following two amounts, which shall be referred to as the company's minimum solvency margin, cf. however, Article 33:

1. 18% or 16% of the company's written premiums in accordance with its profit-and-loss accounts, after deducting repayments and cancellations, but without deducting the portion of re-insurers in the premiums, is multiplied by the ratio of paid claims for own account to total paid claims as per the profit-and-loss account. If the resulting proportion is lower than 0.50, the figure used for multiplication shall be 0.50. This is multiplied with 18% of premiums amounting to up to ECU 10 million, and 16% of those exceeding that amount. The premiums shall include owner's contributions in mutual companies, in accordance with more detailed provisions which shall be laid down in a Regulation.

2. 26% or 23% of the company's mean claim amount for the past three financial years, as indicated by the profit-and-loss account, without deducting the portion of re-insurers in claims, is multiplied by the ratio of paid claims for own account to total paid claims as per the profit-and-loss account; If the resulting proportion is lower than 0.50, the figure shall be multiplied by 0.50. The mean claim amount is calculated as one-third of the sum, without deducting the portion of re-insurers, of [provision for claims]¹⁾ at the end of the last financial year and paid claims for the last three financial years, after [provision for claims]¹⁾ at the beginning of the three-year period has been [deducted].¹⁾ The ratio is multiplied with 26% of the mean claims amount up to ECU 7 million, and 23% of anything exceeding that amount.

The mean of the last seven financial years shall be used instead of the three-year mean when calculating the mean in accordance with Point 2 if the company carries out activities mainly in storm, hail or frost insurance or in credit insurance.

Derogation is permitted from the above rules to reduce the amount where sickness insurance business is conducted on a technical basis by an insurance company which does not deal in life assurance; provisions thereto shall be laid down in a Regulation.

[The Financial Supervisory Authority]¹⁾ may lay down rules on how price level changes shall be taken into account when calculating solvency margin.

¹⁾ Act No. 84/1998, Art. 5.

Article 31

The solvency margin of an insurance company which carries out life assurance activities shall at all times amount to at least the cumulative amounts resulting from the following calculations which shall be referred to as the company's minimum solvency margin, cf. however, Article 33:

1. 4% of the life assurance provisions in direct insurance, according to the technical basis, without any deductions as regards the re-insurers' portion, plus life assurance provisions due to life re-insurance acceptances, is multiplied by the ratio between the life assurance provisions less the re-insurers' portion and the total amount of life assurance provisions, as this ratio was during the previous financial year; this ratio may in no case be less than 0.85.

2. 0.3% of the total life assurance amounts for death risk, without any deductions as regards the re-insurers' portion, is multiplied by the ratio of total life assurance amount, less the re-insurers' portion, and the total amount of life assurances, as the ratio was during the previous financial year; this ratio may in no case be less than 0.50.

If temporary assurance on death is involved, with a validity of three years or less, the percentage of Point 2 shall be 0.1% instead of 0.3%, and 0.15% if the validity is over three but no more than five years.

For sickness insurance not subject to cancellation by the company, the minimum solvency margin shall be calculated as provided for in Point 1 of the first paragraph. The minimum solvency margin for supplementary insurance coverage for life assurance for incapacity for employment, death due to accident or sickness, or permanent disability shall be calculated as provided for in Point 1 of the first paragraph of Article 30.

More detailed rules on minimum solvency margin shall be laid down in a regulation when life assurance is connected with investment risk.

Article 32

Should an insurance company, which has obtained an operating licence in Iceland, fail to satisfy minimum requirements for solvency according to its annual financial statement, or at any other time, the company must immediately draw up a plan, indicating when and how this objective will be achieved, which will be submitted to [the Financial Supervisory Authority]¹⁾ for a decision as to whether the measures to be taken are adequate.

If the solvency margin of an insurance company is less than one-third of the minimum solvency margin, or less than the minimum amount specified in Article 33 for the activities carried out by the company, whichever is higher, the plan provided for in the first paragraph shall be aimed at

remedying the company's financial situation promptly; [the Financial Supervisory Authority]¹⁾ shall set the company a time limit for such, cf. Chapter XI.

[If the adjusted solvency margin of an insurance company or its parent company is less than the minimum solvency margin referred to in Articles 30, 31 and 33, with the addition of its share in the minimum solvency margin of all affiliated and subsidiary companies which are insurance companies, the insurance company must immediately draw up a plan as to when and how this objective shall be achieved, to be submitted to the Financial Supervisory Authority for a decision as to whether it is deemed adequate. The minimum solvency margin of affiliated and subsidiary companies shall be calculated in accordance with the provisions indicated, even if other rules apply in their home states.]²⁾

¹⁾ Act No. 84/1998, Art. 5. ²⁾ Act No. 97/2000, Art. 3. These provisions shall be implemented in supervision based on annual financial statements for the financial year 2001.

Article 33

[Notwithstanding the provisions of Articles 30 and 31, minimum solvency margin, measured in ECU, may never be lower than:

- | | |
|---|--------------------------|
| 1. for a life assurance company, cf. Article 23; | 800,000 |
| 2. for a company dealing in third-party liability insurance, cf. Point 10-13 of the first paragraph of Article 22, or credit and suretyship insurance, cf. Points 14 and 15 of the first paragraph of Article 22, see however Point 6 of this Article | 400,000 |
| 3. for a company dealing in non-life assurances, cf. Points 3-8, 16 or 18 of the first paragraph of Article 22 | 300,000 |
| 4. for a company dealing in accident and sickness insurances, cf. Points 1 and 2 of the first paragraph of Article 22 | 300,000 |
| 5. for a company dealing in legal assistance insurance, cf. Point 17 of the first paragraph of Article 22; or other property insurance, cf. Point 9 of the first paragraph of Article 22 | 200,000 |
| 6. for a company dealing in credit insurance, cf. Point 14 of Article 22, and where yearly premiums amount to a minimum of ECU 2,500,000 or 4% of the total premiums | 1,400,000] ¹⁾ |

If an insurance company deals in more than one class of insurance the amount used for reference shall be that which is highest.

[The Financial Supervisory Authority]²⁾ may authorise that the minimum amounts provided for in the first paragraph shall be lower in the case of a mutual insurance company than in a limited-liability insurance company, having regard to the liability of policyholders in accordance with the company's Articles of Association, cf. Article 42. The minimum amounts may, however, never be lower than three-fourths of the amount required of a limited-liability insurance company.

Upon the establishment of an insurance company, and while the company is operating on the basis of a proposed plan for its activities, cf. Article 24, the required minimum solvency margin shall be determined on the basis of that plan and its reviewed version, if the plan's premises change.

¹⁾ Act No. 63/1997, Art. 9.

²⁾ Act No. 84/1998, Art. 5.

Technical provisions

Article 34

The technical provisions shall be evaluated so that they represent the total unsettled liabilities of an insurance company resulting from insurance contracts concluded. Detailed provisions on appraisal of technical provisions shall be laid down in a Regulation on the annual financial statements or consolidated annual accounts of insurance companies.

An insurance company shall, in addition to fulfilling at all times the requirements for solvency margin as provided for in this Act, ensure that it has at all times assets specially earmarked to cover technical provisions. The assets shall be selected having regard for security, return on investment and market conditions, with the company ensuring a diversity and spread in its assets. The risk involved in the assets intended to cover technical provisions shall be appraised in each individual instance, especially with regard to their spread so as to ensure the weighting of individual types and asset items is limited. Regard shall be had for the risk involved in a specific type of investment and the amounts for covering technical provisions limited accordingly.

Detailed provisions on the types of assets which may be included to cover of technical provision, their combination and weighting, shall be laid down in a Regulation.¹⁾

¹⁾ Reg. 646/1995, cf. 581/1997.

Article 35

Assets to cover technical provisions due to insurance risk in a member state shall be invested in that state unless [the Financial Supervisory Authority]¹⁾ grants an exemption from this requirement specifically.

Assets to cover technical provisions shall be chosen with regard to exchange rate risk, in order to reduce its effects to the extent possible. An insurance company may invest, in another currency, assets to cover up to 20% of its underwriting liabilities in a specific currency.

An insurance company shall be free to invest as it wishes assets not required to cover technical provisions, having regard for considerations of prudence and after satisfying requirements for the company's satisfactory solvency margin.

¹⁾ Act No. 84/1998, Art. 5.

Article 36

The Board of an insurance company which has obtained an operating licence in Iceland must ensure that the company has at its disposal sufficient expert knowledge to assess and calculate the company's technical provisions and to handle actuarial calculations and analyses for the company. [The Financial Supervisory Authority]¹⁾ may demand that a party having expert knowledge in this field be engaged by an insurance company if it deems such knowledge to be insufficient in the company.

¹⁾ Act No. 84/1998, Art. 5.

Article 37

A life assurance company must have at its disposal the services of an actuary, or specialist with comparable knowledge, who can carry out the necessary actuarial calculations and analyses for the company. Only persons recognised by [the Financial Supervisory Authority]¹⁾ may assume such tasks for a life assurance company.

The actuary of a life assurance company shall calculate the company's technical provisions (life assurance provisions). He/She shall make sure that the proper calculation basis is used for premiums, premium reserve and allocation of bonuses, and that the rules for determining surrender value and the amounts of optional life assurances are followed. The same shall apply to sickness and health insurances operated on a technical basis.

The actuary of a life assurance company may demand from the company any documentation or information he/she needs to perform his/her task. He/She may demand that a Board meeting be convened and shall have as a rule the right to be present and to speak at Board meetings. Should he/she disagree with a decision of the Board, he/she has the right to have an opinion recorded in the minutes.

Should an actuary become aware that a life assurance company for whom he/she works does not observe the prescribed rules on the above-mentioned aspects, he/she shall notify the [the Financial Supervisory Authority]¹⁾ thereof without delay. [The Financial Supervisory Authority]¹⁾ may demand that an actuary of a life assurance company provide information necessary for supervision of the basis for fixing premiums, life assurance provisions and financial situation of the life assurance company.

¹⁾ Act No. 84/1998, Art. 5.

Article 38

An insurance company must keep a list of assets intended to cover its technical or life assurance provisions at any time and ensure that new assets are registered during the financial year when changes take place. A copy of this list, attested to by a certified accountant and, if appropriate, an actuary, shall be sent to [the Financial Supervisory Authority]¹⁾ along with the annual financial statement and at another point in time if [the Financial Supervisory Authority]¹⁾ sees reason to request it.

¹⁾ Act No. 84/1998, Art. 5.

Time

Holdings Article 39

Any individual or legal entity, including a group of companies, which directly or indirectly intends to acquire a qualifying interest in an insurance company shall notify such to [the Financial Supervisory Authority]¹⁾ in advance and how large a holding is to be acquired. Furthermore, the party concerned shall give notification in the same manner when intending to directly or indirectly increase its holding to such an extent that it, or the corresponding voting rights, would reach or exceed 20%, 33% or 50%, or that the insurance company would become its subsidiary.

[The Financial Supervisory Authority]¹⁾ may refuse to allow a shareholder to acquire a holding or exercise voting rights as referred to in the first paragraph, if it deems the party concerned is not qualified to do so with a view to ensuring the sound and prudent operation of the company. A reasoned refusal must have reached the party concerned within three months of the day the notification referred to in the first paragraph was received.

Where an increase to a holding, as referred to in the first paragraph, is concerned, [the Financial Supervisory Authority]¹⁾ may set a deadline by which the increase must have occurred, provided such has not been refused.

Should a shareholder with a qualifying holding in an insurance company, intend to reduce its shareholding to within any of the limits specified in the first paragraph, [the Financial Supervisory Authority]¹⁾ must be notified of such in advance, and of how large the holding will subsequently be.

As soon as an insurance company learns of the purchase or change of ownership of shares in the company which result in a holding exceeding or dropping below any of the limits specified in the first and fourth paragraphs, it must notify [the Financial Supervisory Authority]¹⁾ thereof.

Each year an insurance company must, together with its annual financial statement, send [the Financial Supervisory Authority]¹⁾ a list of shareholders with qualifying holdings in the company and the shareholding of each of them.

[The provisions of this Act shall apply as applicable to close connections. Close connections may not be established unless it is clearly demonstrated that they will not impede supervision of the company's activities.]²⁾

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 63/1997, Art. 10.

Article 40

Should a party with a qualifying holding in an insurance company exercise its rights in such manner that it may be considered detrimental to the sound and prudent operation of the company, [the Financial Supervisory Authority]¹⁾ may decide that the holding of the shareholder shall not confer voting rights or demand that the insurance company or the party concerned take appropriate measures.

[The Financial Supervisory Authority]¹⁾ may take similar measures towards parties failing to observe the obligation of prior notice of acquisition of a qualifying holding or of change to a qualifying holding, cf. Article 39. Voting rights, which have been cancelled, shall be reinstated if [the Financial Supervisory Authority]¹⁾ approves the acquisition of the qualifying holding.

If [the Financial Supervisory Authority]¹⁾ has decided that a holding as referred to in the first paragraph shall not confer voting rights, these holdings shall not be included in calculations of how large a portion of votes are represented at shareholders' meetings.

[If [the Financial Supervisory Authority]¹⁾ deems that close connections impede supervision of the activities of an insurance company, it shall request that the connections be terminated immediately, unless it deems other measures sufficient.]²⁾

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 63/1997, Art. 11.

Article 41

A limited-liability insurance company may never itself own more than 10% of its shares. The shares owned by the limited-liability insurance company itself shall not confer voting rights.

A mutual insurance company may not acquire part of its own initial funding as assets or collateral for payment. A subsidiary of such a company may not acquire part of its own initial funding as assets or collateral for payment.

If new shares may be paid for by means of debt cancellation or by means other than cash payment in the event of an increase of share capital or initial funding, appropriate rules concerning such shall be incorporated in the resolution adopted by the shareholders' meeting concerning the

increase, with the provisions of Article 16 applying as appropriate. A decision that payment for new shares may be made with cancellation of debts must be approved by [the Financial Supervisory Authority].¹⁾

Any decisions on reduction of share capital or initial capital of an insurance company shall be subject to the approval of [the Financial Supervisory Authority].¹⁾

The initial capital of a mutual insurance company may not be reduced or refunded unless the approval of the Authority has been obtained. Mutual insurance companies and companies operating under special legislation shall keep a register on holdings of initial capital. The holdings shall be entered with information on the name and address of each guarantor. Registration of the initial capital holding must be attested to by the company.

¹⁾ Act No. 84/1998, Art. 5.

Article 42

Anyone who purchases insurance from a mutual insurance company is a part-owner of the company. Rules shall be laid down in the company's Articles of Association on the liability of policyholders for its obligations.

An insurance company obtaining re-insurance from a mutual company may be exempted from such liability if this is authorised in the company's Articles of Association. The re-insurance premiums which are exempted may not comprise more than 10% of the company's total premiums without the consent of [the Financial Supervisory Authority].¹⁾

The liability of a policyholder is based on the calendar year and ceases at each year-end if no claim is made on the policyholder within two years from the end of the calendar year when the policy expired.

Only the liquidator of a bankrupt estate or the winding-up committee of a mutual insurance company can demand payment of a policyholder in accordance with their liability obligations, and not the company's individual creditors. [The Financial Supervisory Authority]¹⁾ may, however, authorise the Board of a mutual insurance company to demand such payment from policyholders, provided such is necessary in order for the company to meet its obligations. Such an authorisation may, however, only be granted for one year at a time.

Each insurance policy issued by a mutual insurance company shall explain clearly the responsibility of policyholders.

¹⁾ Act No. 84/1998, Art. 5.

CHAPTER IV

Board of Directors. Auditing and Accounts

Board of Directors

Article 43

The Board of Directors of an insurance company which has obtained an operating licence in Iceland shall be elected at the annual general meeting as provided for in the Articles of Association and shall be comprised of at least three persons. The Board shall generally supervise that the company's activities comply with law and its Articles of Association, including supervision of accounting and the disposal of the company's capital. [The Board, together with the Managing Director, are responsible for ensuring that the company's structure and internal checks and surveillance are satisfactory and that the company can provide the information required to supervise its activities. The Financial Supervisory Authority may lay down general rules on internal checks and surveillance of insurance companies.]¹⁾

[Members of the Board and Managing Directors must be domiciled in Iceland, be legally competent, have an unblemished reputation and may not, during the last five years have, in connection with business operations, been declared bankrupt nor convicted of a punishable offence under the Criminal Code or Acts on limited-liability companies, private limited-liability companies, accounting, financial statements, bankruptcy or public levies, nor under legislation on insurance activities. Nationals of states which are members of the Agreement Establishing a European Economic Area are exempt from the requirements on domicile, provided the nationals concerned are domiciled in a member state. The Minister may grant exemptions from the domicile requirements. The educational qualifications, work experience and previous career of the Managing Director shall be such that it may be deemed certain that he/she can fulfil his/her position in a satisfactory manner.]²⁾

The Board shall convene the annual general meeting. If an annual general meeting, to be held as provided for by law, the Articles of Association or the resolution of the annual general meeting, is not convened, [the Financial Supervisory Authority]¹⁾ shall convene the annual general meeting at the

demand of a member of the Board, the managing director, an auditor or a party with voting rights at an annual general meeting. [The Financial Supervisory Authority]³⁾ shall appoint a meeting chairman and the Board shall provide him with a list of parties with voting rights, the minutes of the annual general meetings, and the auditors' records. The company shall bear the cost of the annual general meeting.

Should members of the Board or the Managing Director receive commissions or other remuneration from insurances which the company acquires or cedes, due to participation in brokerage or agency activities or due to any financial interest they may have in such activity, [the Financial Supervisory Authority]³⁾ must be sent notification thereof.

The Board of a parent company shall notify [the Financial Supervisory Authority]³⁾ when a group of companies is formed or an insurance company gains control of another company. [Substantial changes in the structure of a group of companies shall also be notified when they take effect.]²⁾

The Board of an insurance company shall set guidelines on the securities trading of the company, its Board members and employees. These guidelines shall be ratified by the Financial Supervisory Authority⁴⁾

he Board and Managing Director shall alert [the Financial Supervisory Authority]³⁾ without delay should they acquire knowledge of issues of decisive importance for the company's continuing activities.

¹⁾ Act No. 97/2000, Art. 4.

¹⁾ Act No. 63/1997, Art. 12.

¹⁾ Act No. 84/1998, Art. 5.

¹⁾ Act No. 11/2000, Art. 16.

Article 44

An annual financial statement must be compiled for each financial year. The annual financial statement shall include a profit-and-loss account, a balance sheet, notes and information on off-balance sheet items. A report shall also be compiled by the board, which shall be an integral part of the annual financial statement. An insurance company's accounting year shall be the calendar year. The annual financial statement shall present a clear picture of the financial status and operating performance of the insurance company and shall be compiled in accordance with law, regulations and good accounting practices.

The annual financial statement and the report of the Board must be signed by the Board and the Managing Director. Should a Board member or the Managing Director have any objections to make, the person concerned shall sign with a proviso and explain in the Board's report the substance of the proviso.

The annual financial statement, together with the Board's report, shall be freely available at an outlet of the insurance company after their adoption by the annual general meeting.

If the annual financial statement of an insurance company does not comply with law, regulations and the company's Articles of Association, [the Financial Supervisory Authority]¹⁾ may demand changes to the financial statement and that it be subjected once more to examination by a shareholders' meeting, and set the company a reasonable deadline for holding the latter. [The Financial Supervisory Authority]¹⁾ shall publish the main conclusions of the annual financial statement in the Legal Gazette.

The Minister shall set more detailed provisions on the form and content of the annual financial statement and on consolidated accounts in a Regulation.²⁾

¹⁾ Act No. 84/1998, Art. 5.

¹⁾ Reg. 612/1996, 613/1996 and 677/1996.

Auditing and accounts

Article 45

The annual financial statement of an insurance company shall be audited by a certified accountant. The annual general meeting shall elect auditors in accordance with the company's Articles of Association. If an insurance company is a part of a group of companies, the same certified accountant shall audit the entire group of companies. In the case of a company of the sort referred to in the second paragraph of Article 11 [the Financial Supervisory Authority]¹⁾ may demand that at least one certified accountant be shared by all the companies.

An auditor may not be a member of the Board, an employees of the insurance company or work on its behalf in any capacity except auditing. He/She may not be in debt to the company, neither as a debtor or guarantor, and the same shall apply to his/her spouse.

The company's auditor shall have the right to attend Board and shareholders' meetings of the company and is obliged to attend the annual general meeting if the Board or a person with voting rights so requests.

¹⁾ Act No. 84/1998, Art. 5.

Article 46

The auditor shall audit the annual financial statement of the insurance company in accordance with good auditing practices. Through the audit, he/she shall arrive at a reasoned conclusion concerning the credibility of the information provided by the annual financial statement and make sure that the annual financial statement is prepared in accordance with law, rules, the Articles of Association and good accounting practices. The auditor shall attest the annual financial statement, explain the conclusions of the audit and give his/her opinion. Should the auditor be of the opinion that the report of the Board does not contain the required information or is inconsistent with the annual financial statement, he/she shall, in attesting to the report, point out the items he/she feels should properly be included.

[The auditors of an insurance company must provide [the Financial Supervisory Authority]¹⁾ with information on the implementation and conclusions of auditing, should it so request. They are also obliged to alert [the Financial Supervisory Authority]¹⁾ without delay should they, in carrying out their work for the company or for those with whom the company has close connections, become aware of:

- a. probable infringements against the legislation which applies to the company's activities;
- b. issues which may be of decisive importance for the continuing activities of the company;
- c. comments or provisos to the attestation to the annual financial statement.

Information which an auditor provides [the Financial Supervisory Authority]¹⁾ in accordance with the provisions of this Article shall not be considered a violation of compulsory or negotiated confidentiality.]²⁾

Should company or a consolidated company publish its financial statement the form and wording shall be in accordance with the attested and audited annual financial statement and include the attestation of the certified accountant. If the annual financial statement is made public in an abbreviated version, mention shall be made, in addition to the information on provisos with signing, that this is a shortened version.

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 63/1997, Art. 13.

Article 47

An insurance company which has obtained an operating licence in Iceland must, within 10 days of its signing and within four months from the end of the financial year, send [the Financial Supervisory Authority]¹⁾ the company's audited and signed annual financial statement. [The Financial Supervisory Authority]¹⁾ shall set detailed rules on the documentation on the activity which shall accompany an annual financial statement and which are necessary in order to carry out the supervision provided for in this Act.

¹⁾ Act No. 84/1998, Art. 5.

Article 48

If an insurance company, which has obtained an operating licence in Iceland, operates a branch or provide services abroad, it shall provide [the Financial Supervisory Authority]¹⁾ with information on the amount of premiums, claim costs and agency commissions without deducting the re-insurers' portion, with a breakdown by the individual states and activities where a branch is operated or services provided. There shall also be a breakdown by insurance classes in accordance with detailed rules laid down by [the Financial Supervisory Authority].¹⁾ This information on activities in member states shall be sent to the supervisory authorities concerned in the host states if they expressly request.

[The Financial Supervisory Authority]¹⁾ shall collect comparable information on the activities of insurance companies from member states in Iceland from the supervisory authorities concerned in their home states.

¹⁾ Act No. 84/1998, Art. 5.

Article 49

Only the following may be allocated as dividends: profit, as indicated by the approved financial statement for the last financial year, profit brought forward from previous years and free reserves less unallocated deficit, as well as assets which, in accordance with law and the Articles of

Association, are to be placed in special reserves, provided it is clear that the company fulfils the requirements on minimum solvency margin, that care has been taken to set aside adequate funds for the company's technical provisions, and that the applicable rules on valuation of the company's assets and their depreciation have been followed.

CHAPTER V

Public administration. Supervision

Public administration

Article 50

The Minister of Insurance Affairs shall be ultimately responsible for all matters covered by this Act.

...¹⁾

¹⁾ Act No. 84/1998, Art. 5.

Articles 51-52

...¹⁾

¹⁾ Act No. 84/1998, Art. 5.

Supervision

Article 53

[The Financial Supervisory Authority shall supervise parties carrying out activities subject to the provisions of this Act and the branches of foreign insurance companies which have obtained operating licences in Iceland. The supervision shall be as provided for in this Act and the Act on Public Supervision of Financial Activities.]¹⁾

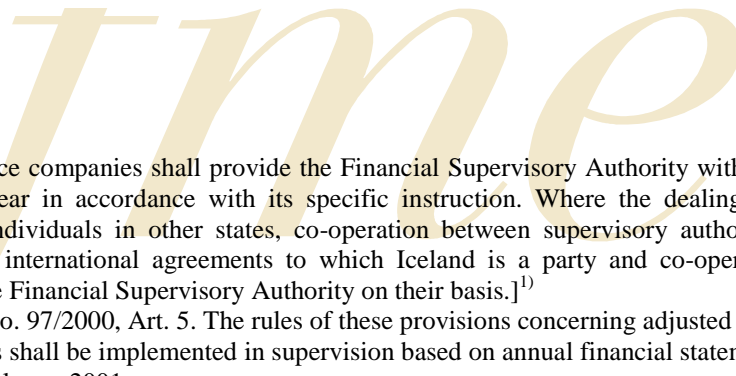
¹⁾ Act No. 84/1998, Art. 5.

Article 54

[The Financial Supervisory Authority shall, at least once each year, investigate the solvency margin and liquidity margin of insurance companies, based on their financial statements from the previous year and other necessary documentation and information on their activities. The adjusted solvency margins of insurance companies and their parent companies shall also be investigated, as appropriate. The Financial Supervisory Authority may contact subsidiaries or affiliates of insurance companies, companies which control or have holdings in an insurance company, as well as the subsidiaries and affiliates of those companies, to obtain the necessary documentation if the insurance company itself has failed to provide the Financial Supervisory Authority with such. The enterprises in question must comply with requests for such documentation. It makes no difference whether the participation is direct or indirect. The documentation may be verified with on-site spot checks, either at the insurance company itself or at other companies in the same group of companies. The Financial Supervisory Authority shall then assess whether the requirements of Articles 29-33, as applicable, are fulfilled. If the Financial Supervisory Authority has comments it shall notify the company thereof. If it proves necessary to take special measures as a result, the provisions of Chapter XI shall apply.]¹⁾

[The Financial Supervisory Authority]¹⁾ shall each year assess the technical provisions of insurance companies, including whether sufficient regard has been had for the risk of unreliable valuation of assets with a necessary margin and whether requirements on assets set aside to cover technical provisions have been satisfied, cf. Articles 34 and 35. In the documentation sent to [the Financial Supervisory Authority]¹⁾ with their annual financial statements, insurance companies shall explain how their technical provisions are determined and what assets are specified to cover them. [The Financial Supervisory Authority]¹⁾ may lay down general rules for evaluation of technical provisions and as to what documentation must be included with annual financial statements in this connection.

[The Financial Supervisory Authority shall keep track of dealings by an insurance company with its subsidiaries and affiliated companies, companies which control or have holdings in the insurance company, and other subsidiaries and affiliated companies of these companies. Furthermore, the Financial Supervisory Authority shall keep track of dealings between an insurance company with individuals with holdings of 20% or more in the above-mentioned companies. Special attention shall be paid to loans, guarantees and off-balance-sheet items, financial items which could comprise part of the solvency margin, investments, re-insurance dealings and agreements on division of cost.



Insurance companies shall provide the Financial Supervisory Authority with a report on such dealings each year in accordance with its specific instruction. Where the dealings are made with enterprises or individuals in other states, co-operation between supervisory authorities shall be as provided for in international agreements to which Iceland is a party and co-operation agreements concluded by the Financial Supervisory Authority on their basis.¹⁾

¹⁾ Act No. 97/2000, Art. 5. The rules of these provisions concerning adjusted solvency margins shall be implemented in supervision based on annual financial statements for the financial year 2001.

²⁾ Act No. 84/1998, Art. 5.

Article 55

[The Financial Supervisory Authority]¹⁾ shall, to the extent practicable, monitor insurance terms available in Iceland and ensure that they comply with Icelandic legislation and fair trade practices. If [the Financial Supervisory Authority]¹⁾ is of the opinion that this is not the case, it shall demand that such provisions be altered or removed. The terms of compulsory insurances must be sent to [the Financial Supervisory Authority]¹⁾ in advance, as well as any changes to them, before being offered on the insurance market.

[The Financial Supervisory Authority]¹⁾ shall also keep track of the basis for fixing insurance premiums in order to ensure that premiums in Iceland are fair towards policyholders while reflecting the inherent risks of insurance business plus normal operating expenses. Should [the Financial Supervisory Authority]¹⁾ deem that this is not the case it shall make a comment, giving the reasons for such. Satisfactory documentation on the technical basis of life assurance and health insurance, as well as any changes to the same, shall be submitted in advance to [the Financial Supervisory Authority]¹⁾ before insurance policies of these classes are offered on the insurance market.

[The Financial Supervisory Authority]¹⁾ shall supervise the business practices, sales activities and claims settlement of insurance companies with operating licences in Iceland. [The Financial Supervisory Authority]¹⁾ shall also check the operating arrangements, accounting and internal checks and surveillance of insurance companies. [The Financial Supervisory Authority]¹⁾ shall carry out the investigations of the insurance companies it considers necessary to this end. It shall also, in this regard, keep track of the activities of insurance companies of member states which are authorised to offer insurance in Iceland on the basis of operating licences from the home state and deliver their comments to the company concerned or the supervisory authority in the home state, if necessary, on improvements to aspects which [the Financial Supervisory Authority]¹⁾ deems to have been defective.

...¹⁾

[The Financial Supervisory Authority]¹⁾ shall always be authorised to examine, as far as insurance companies carrying out insurance activities in Iceland are concerned, whether their terms of insurance, basis for fixing premiums or other activities or operations are in accordance with law and the applicable rules, and shall be entitled to any documentation in this regard from the insurance companies.

[The Financial Supervisory Authority]¹⁾ can demand any sort of documentation or information from individuals or legal entities which own or plan to acquire or exercise holdings in an insurance company in order to evaluate whether they are covered by the notification obligation as provided for in Article 39 and whether they are deemed eligible to exercise a qualifying holding in accordance with Articles 39 and 40.

The Financial Supervisory Authority can demand any sort of documentation or information from subsidiaries or affiliates, or from other parties regarded as having close connections with an insurance company, which the Authority regards as necessary for its supervision of the insurance company.

Should the Financial Supervisory Authority be of the opinion that activities covered by this Act are carried out without the required authorisation, it may demand from the parties concerned such documentation and information as are necessary to determine whether such is the case. It can demand that such activities cease immediately. In addition, it may make public the names of parties regarded as offering services without authorisation.

Provisions of the Act on Public Supervision of Financial Activities on daily fines, administrative fines, and search for and seizure of documentation may be applied for obtaining information and carrying out supervision as provided for in this Article.

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 11/2000, Art. 17.

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CHAPTER VI

Obligation to provide information

Choice of legislation on insurance contracts

Obligation to provide information.

Article 56

Before concluding an insurance contract with an individual, an insurance company, or the party concluding the contract on its behalf, shall provide the policyholder with detailed information on the substance of the legislation which the parties intend to select to apply to the contract. [The policyholder] shall also be informed as to which parties look after handling of complaints or disputes arising from insurance contracts concluded with insurance companies, without prejudice to the right of the party concerned to take legal action.

The selection of legislation applicable to the insurance contract, together with a confirmation of the fact that the policyholder has received detailed information as to the substance of that legislation shall be indicated in the contract itself or its accompanying documents.

Article 57

The policyholder shall always be informed of the name and location of the insurance company offering the insurance and responsible for the risk before he becomes obliged by the insurance contract. This information shall always appear on letters and other notification to the policyholder, together with the location of the company's head office in the case of a branch. Derogation from the obligation to provide information in the second sentence may be allowed when the risk is classified as a large risk, cf. Article 8.

All binding offers, insurance contracts and their equivalents must include information on the name and location of the company which bears the insurance risk and its head office. In the case of third-party liability insurance for motor vehicles, where service is provided without an establishment, the name and address of the company representative handling settlement of claims shall also be provided.

Insurance companies with head offices in a member state may advertise their services in Iceland in the same manner as companies which have obtained an operating licence in Iceland, providing they comply with the laws and rules applicable to advertisements in this country.

Article 58

Insurance terms for compulsory insurances must be submitted to [the Financial Supervisory Authority]¹⁾ before being offered to policyholders where the insurance risk is in Iceland, cf. Article 8, and the same shall apply to the technical basis for life assurance and health insurance, cf. Article 21. Companies which obtain an operating licence as provided for in Article 71 shall, in the same manner, submit examples of their terms and the basis for fixing premiums of other insurance classes.

Everyone involved in the sale of insurance on behalf of insurance companies must provide identification of their position, issued and signed by the insurance company or companies for which they work. Insurance agents and insurance salesmen must, as far as possible before an insurance agreement is concluded, inform the party concerned of the premiums and insurance terms.

Insurance companies must see to it that activities, as provided for in the second paragraph, are carried out so that insurance provision be made with a view to the interests of the policyholder and insured. They are also to see to it that the victim receive adequate information on his/her right to benefits and a breakdown of how such benefits are determined.

¹⁾ Act No. 84/1998, Art. 5.

Article 59

The conditions of direct insurance, except life assurance, cf. Article 60, which are offered for insurance risks in Iceland which are not large risks, as referred to in Article 8, shall be in Icelandic or other language which the policyholders agree to and which enables them to acquaint themselves with the conditions of importance for their contents, the protection provided, and the terms offered, before the contract is concluded.

Article 60

Before an insurance contract for the classes of life assurance and others, for which an operating licence has been granted as provided for in Article 23, has been concluded, and also during

the term of the contract, when commitment has been effected in Iceland, cf. Article 8, the policyholder shall be informed in writing, in Icelandic, of the following aspects:

1. the name of the insurance company and its legal form;
2. the address of the head office of the life assurance company and, where applicable, of the branch with which the contract was concluded;
3. all the types of benefits covered by the contract and of the right to make changes to the benefits during the term of the contract;
4. the period of validity of the life assurance;
5. how the contract may be cancelled;
6. how premiums are to be paid, for how long and how they may be altered during the period of the contract;
7. how bonuses are calculated and how and when they are paid;
8. rules on surrender and paid-up life policies and the extent to which the right to such is guaranteed;
9. a breakdown of the premiums for each class of life assurance (type of benefit), and for ancillary risks, where applicable;
10. where investment-linked policies are concerned: definitions of the units to which the benefits are linked;
11. where investment-linked policies are concerned: the nature of the underlying assets of the units;
12. what right the policyholder has to cancel his/her commitment to a life assurance contract;
13. general information on taxes to be paid as a result of the life assurance.

In addition to information on the general and specific conditions of life assurance, which he/she is to be provided with, a policyholder shall, during the period of the contract, be informed in writing of the following:

1. any changes to the aspects of Points 1-2 of the first paragraph;
2. any changes to the conditions of insurance or changes to Acts regarding aspects of Points 3-11 of the first paragraph;
3. his/her balance with regard to annual bonuses.

The information provided for in the first and second paragraphs may be provided in a language other than that stipulated in the first paragraph, after a written request thereto has been received by the life assurance policyholder, or if a policyholder can choose the legislation which shall apply to the contract.

If a life assurance contract for at least six months duration has been concluded, and if this concerns individual life assurance, the company shall notify the policyholder in writing of the entry into force of the contract. A policyholder shall have a time limit of 30-days from the date the notification is received to cancel the insurance. A written notice of cancellation shall release both parties from any future obligations that would subsequently have arisen from the contract. Any legal effects and conditions of cancellation shall be in other respects governed by the laws applicable to the contract.

The basis of calculation for the technical provisions of the life assurance and for bonuses shall be accessible to the public.

Choice of legislation applicable to insurance contracts

Article 61

Where this Act states that the legislation of a specified state shall apply, this shall mean that the rules of law of that state shall apply, with the exception of rules on the selection of legislation for insurance contracts.

Where a state consists of more than one territorial unit, each of which has its own rules of law on contractual obligations, each territorial unit shall be considered a separate state for the purposes of determining what legislation shall apply.

Rules of law which are mandatory in Iceland shall apply even where the legislation of another state would otherwise form the basis of an insurance contract.

In the case of compulsory insurance, the mandatory rules of law of the state which imposed the insurance obligation shall apply.

Customary international rules on the selection of legislation, which apply to contractual obligations, shall be applied only insofar as they are compatible with the provisions of this Act.

Article 62

The laws of the state where commitment was effected shall apply to contract on life assurance. The insurance company, or the party concluding the contract on its behalf, and the policyholder may,

however, reach agreement that the legislation of the home state of the insurance company shall apply to the obligation, provided the legislation of this state authorise such agreements, cf. however the third and fourth paragraphs of Article 61.

Where a life assurance policyholder is a natural person who is not a national of the state of his/her habitual residence, the parties may choose to be bound by the laws of the state of which he is a national.

Where a life assurance policyholder is a legal entity and the obligation was effected in Iceland, although the insured is, as a rule, located in another state or is a national of that state, the parties may also select the legislation of this state.

Where the obligation was effected in a state other than Iceland and the laws of that state allow for more extensive contractual rights than are provided for in the first and second paragraphs, the parties may choose legislation to the extent allowed by the laws of that state.

Article 63.

In direct insurance other than life assurance, the legislation of the state where the risk is situated shall apply to the insurance contract where this is also the state where the policyholder as a rule is located. The insurance company, or the party concluding the contract on its behalf, and the policyholder may, however reach agreement that the legislation of the home state of the insurance company shall apply to the obligation, provided the legislation of this state authorise such agreements, cf. however the third and fourth paragraphs of Article 61.

Where the insurance risk is in a state other than that where the policyholder is as a rule located, the parties may choose whether the legislation of the state in which the risk is situated or of the state where the policyholder is as a rule located shall apply.

Where the policyholder pursues a commercial or industrial activity, the insurance risk connected to it is situated in more than one state, and the insurance contract covers more than one type of risk, the parties may choose either the legislation of these states or the laws of the state where the policyholder is as a rule located.

Where the insurance risk is situated in a state other than Iceland and the legislation of that state allows for more extensive contractual rights than are provided for in the second and third paragraphs, the parties may choose legislation to the extent allowed by the laws of that state.

When the risk which the contract covers is limited to harmful events which take place in a state other than the one in which the insurance risk is situated, the parties may always choose the legislation of the state in which the harmful events take place.

When the insurance risk is a large risk, cf. Article 8, the parties may always choose the legislation which shall apply to the insurance contract, cf. however, the third and fourth paragraphs of Article 61.

If the parties to an insurance contract other than a life assurance contract have not made a valid choice of legislation, and that choice does not derive from the provisions of this Act, the rules of law of the state considered most relevant to the contract, according to this Article, shall apply. Where not otherwise specified, it shall be presumed that [the legislation of] the state in which the insurance risk is situated, is most relevant to the contract.

Where a choice has been made as provided for in the seventh paragraph, but [the legislation of] another state which could have been selected is regarded as more relevant to part of the contract, the legislation of that state may be chosen for that part of the contract where special circumstances so warrant.

CHAPTER VII

Activities of foreign insurance companies in Iceland

Foreign insurance companies with head offices in the European Economic Area

Article 64

Foreign insurance companies with head offices in member states, which have obtained an operating licence from the supervisory authority concerned, may establish a branch in Iceland, provided they are authorised for insurance activities in the same classes of insurance and sub-classes in their home state.

Should such a company request to establish a branch in this country, cf. Article 6, [the Financial Supervisory Authority]¹⁾ shall obtain the following information and documentation from the supervisory authority in its home state:

1. a plan for the proposed activities and structure of the branch in Iceland and confirmation that the company has an operating licence in those insurance classes and sub-classes which it proposes to offer in Iceland;
2. the address of the branch where the company's appointed representative is located, documentation may be obtained on the activities and to which all communication shall be sent;
3. the name of the appointed representative of the branch authorised to oblige the company towards third parties and to represent it in court in Iceland;
4. a declaration that the company is a party to International vehicle insurance (*Alþjóðlegar bifreiðatryggingar á Íslandi sf.*) if it proposes to carry out activities as provided for in Point 10 of the first paragraph of Article 22;
5. a certificate from the supervisory authority that the requirements concerning solvency margin for the company's operations in general are fulfilled, together with comments on the proposed activities if any;
6. The terms of compulsory insurances which the branch proposes to offer in Iceland and, where applicable, the technical basis of life assurance and health insurance.

Before a branch commences operation in Iceland [the Financial Supervisory Authority]¹⁾ shall inform the supervisory authority of the home state of any general conditions which may apply to the insurance activities of the branch in Iceland and of provisions concerning the public good.

[The Financial Supervisory Authority]¹⁾ shall, within two months of receiving the above documentation, give notice that the company may establish a branch, after which it may commence activity.

The company must notify any changes to items in the second paragraph, with the exception of Point 5, to [the Financial Supervisory Authority]¹⁾ in writing at least one month in advance. [The Financial Supervisory Authority]¹⁾ shall, at least once each year, obtain a certificate as provided for in Point 5 on the company's solvency margin.

¹⁾ Act No. 84/1998, Art. 5.

Article 65

Foreign insurance companies with head offices in member states, which have obtained an operating licence from their supervisory authority, may provide services in Iceland without having an establishment in the country, provided they are authorised for insurance activities in the same classes of insurance and sub-classes in their home state.

Should a company request to provide services in Iceland without having an establishment in the country [the Financial Supervisory Authority]¹⁾ shall obtain the following information and documentation from the supervisory authority in its home state:

1. a certificate from the supervisory authority that the solvency margin requirements for the company's activities as a whole are fulfilled;
2. a list of the insurance classes and sub-classes which the company is authorised to deal in;
3. a list of the types of risk the company proposes to insure in Iceland;
4. a declaration that the company is a party to International vehicle insurance (*Alþjóðlegar bifreiðatryggingar á Íslandi sf.*) if it proposes to carry out activities as provided for in Point 10 of the first paragraph of Article 22; and the name and address of the representative in Iceland responsible for settling claims, cf. the fifth paragraph;
5. examples of the terms of compulsory insurances which the company proposes to offer in Iceland and, where applicable, the technical basis of life assurance and health insurance.

The company may provide services in Iceland once [the Financial Supervisory Authority]¹⁾ has given notice that all the documentation provided for in the second paragraph have been received by the Authority.

The company must notify any changes to items in Points 2-5 of the second paragraph to [the Financial Supervisory Authority]¹⁾ in writing at least one month in advance. [The Financial Supervisory Authority]¹⁾ shall, at least once each year, obtain a certificate as provided for in Point 1 of the second paragraph.

A company which offers services without having an establishment in the country, as provided for in Point 10 of the first paragraph of Article 22, shall see to it that parties entitled to benefits resulting from damage in Iceland are not in a less fortunate position than others due to the fact that no establishment is located here. The representative referred to in Point 4 of the second paragraph shall obtain all necessary documentation on damages and have full authorisation to pay benefits and represent the company in Iceland. He/She must also provide the competent authorities in Iceland with information as to whether statutory vehicle insurance has been provided and its period of validity. The

representative may not assume other tasks for the company in Iceland than those specified in this paragraph.

¹⁾ Act No. 84/1998, Art. 5.

Article 66

Supervisory authorities of member states, or representatives appointed by them, shall be entitled, after having notified [the Financial Supervisory Authority]¹⁾ thereof, to conduct such on-site investigations of insurance companies to which they have granted operating licences and which carry on operations in Iceland, as are necessary for the enforcement of statutory supervision of the operations in Iceland of branches of [companies in] member states. [The Financial Supervisory Authority]¹⁾ may participate in such investigations. Costs incurred as a result shall be paid by the supervisory authorities of the home state.

¹⁾ Act No. 84/1998, Art. 5.

Article 67

[The Financial Supervisory Authority]¹⁾ shall provide the supervisory authorities of the home states concerned with information on the activities of branches in Iceland in order for them to make an overall assessment of the solvency margin of insurance companies operating in this country which are under their supervision.

[The Financial Supervisory Authority]¹⁾ may take any measures necessary to ensure the interests of policyholders and insured, should the company fail to fulfil the prescribed requirements for solvency margins and technical provisions. It shall, if necessary, take measures to prohibit or restrict the company from disposing freely of assets in Iceland, in compliance with the provisions of the laws applicable thereto and, if possible, after consulting the supervisory authorities of the home state.

[The Financial Supervisory Authority]¹⁾ may prohibit a foreign insurance company, which operates a branch or provides services in Iceland, from further activities if it repeatedly and flagrantly violates the provisions of this Act or Regulations issued by virtue of it, or the provisions of other Acts on financial activities, and attempts to have the deficiencies remedied with demands or actions provided for by this Act have proved to no avail.

¹⁾ Act No. 84/1998, Art. 5.

Article 68

If an insurance company which has a branch or offers services in Iceland, requests to transfer its insurance portfolio, in whole or in part, to another company with an establishment in the European Economic Area, the supervisory authorities of the home state of the former may authorise the transfer of the portfolio after receiving confirmation from the supervisory authorities of the home state of the latter that the prescribed requirements on solvency margin will be fulfilled following the acquisition of the portfolio and after consultation with [the Financial Supervisory Authority].¹⁾ Where the insurance risk is situated in Iceland, the approval of [the Financial Supervisory Authority]¹⁾ shall always be required for the transfer. The provisions of the second paragraph of Article 86 shall apply to notifications in the Legal Gazette concerning an insurance portfolio which is transferred, if the insurance risk is situated in Iceland. The rights and obligations of policyholders, the insured and others involved in insurance contracts shall be as provided for in the fourth paragraph of Article 86.

[The Financial Supervisory Authority]¹⁾ shall deliver its opinion within three months of receiving the request for transfer; failure to do so shall imply that it takes a positive view of the transfer.

¹⁾ Act No. 84/1998, Art. 5.

Article 69

Should the supervisory authorities of its home state revoke the operating licence of a company which has a branch or offers services in Iceland, [the Financial Supervisory Authority]¹⁾ shall, upon receiving notification thereof, take appropriate measures to prevent the company from entering into any further insurance contracts in Iceland. It shall co-operate with the appropriate supervisory authorities to safeguard, as far as possible, the interests of policyholders and the insured; if necessary, the provisions of Article 67 on restrictions to or prohibition of the free disposal of assets shall apply.

¹⁾ Act No. 84/1998, Art. 5.

Article 70

An insurance company, which has a branch or offers services in Iceland, shall notify the Register of Insurance Companies of any changes to the aspects listed in Article 22 as applicable. If a new plan of operation, as provided for in Article 24, is compiled it shall also be forwarded.

[The Financial Supervisory Authority]¹⁾ may demand that all documentation, which should be sent to the Authority due to activities in Iceland, are provided in Icelandic translation by a certified translator.

¹⁾ Act No. 84/1998, Art. 5.

Foreign insurance companies in Iceland with head offices outside of the European Economic Area

Article 71

Foreign insurance companies with their head offices outside the European Economic Area, which have operating licences for insurance activities in their home states, can obtain a licence to carry out activities in a branch in Iceland in accordance with this Act, provided Icelandic insurance companies enjoy no less favourable rights in those home states.

Before insurance companies with head offices outside the Area are granted operating licences in Iceland, parties to the Agreement Establishing a European Economic Area shall be consulted on the granting of a licence.

The company must be registered in Iceland and shall appoint one general agent, approved by [the Financial Supervisory Authority],¹⁾ who shall represent it in questions concerning its activities and be authorised to oblige the company concerning its activities in Iceland. [He/She must be domiciled in Iceland, be legally competent, have an unblemished reputation and may not, during the last five years, have been declared bankrupt nor, in connection with business operations, been convicted of a punishable offence under the Criminal Code or Acts on limited-liability companies, private limited-liability companies, accounting, financial statements, bankruptcy or public levies, nor under legislation on insurance activities.]²⁾

The company shall have legal venue in Iceland, as far as its activities in this country are concerned, and may be prosecuted in an Icelandic court for the satisfaction of claims arising from those activities.

[Accounts and other documentation concerning the branch's activities shall be preserved in the branch itself.

An agreement with one or more third states may be concluded whereby other provisions on supervision of a branch's activities than are set in this Act shall apply, provided that insured are ensured sufficient and comparable protection. Such agreements may not grant branches of companies with head offices outside the European Economic Area more lenient conditions than apply to branches of insurance companies with head offices there. Other member states shall be consulted concerning agreements of this sort and they shall be informed of them prior to their conclusion.]²⁾

¹⁾ Act No. 84/1998, Art. 5.

¹⁾ Act No. 63/1997, Art. 16.

Article 72

An application for operating licence and registration in the Register of Insurance Companies shall be sent to [the Financial Supervisory Authority],¹⁾ accompanied by documentation as provided for in Articles 21-24, as applicable, as necessary for it to evaluate the application. Examples of the insurance terms and basis for fixing premiums in the insurance classes which the company proposes to deal in Iceland shall also accompany the application.

[The company must fulfil the requirements of Chapter III on solvency margin, based on its activities in Iceland as applicable; its solvency margin shall, however, never be less than half of the relevant amount provided for in Article 33. The company must have in Iceland assets amounting to one-half the amount provided for in Article 33 or one-third of the minimum solvency margin, whichever is higher, while assets in excess of this and adding up to its minimum solvency margin, shall be preserved in a member state. Supervision by one member state of the overall solvency margin for all branches of the company in the European Economic Area may replace the method described in this paragraph; detailed provisions thereupon shall be laid down in a Regulation. In such case the provisions of Article 66, concerning supervision of solvency margin of branches, shall apply as appropriate.

An amount corresponding to one-fourth of the minimum required in Article 33 shall be put up initially as a guarantee fund and preserved in a location approved by [the Financial Supervisory Authority].¹⁾ The guarantee fund may only be used to ensure that the company can meet its obligations

time

under insurance contracts concluded in Iceland. Individual insured parties may not demand satisfaction of payment beyond such limits as [the Financial Supervisory Authority]¹⁾ deems do not prejudice the rights of other insured for satisfaction of the company's underwriting liabilities.]²⁾

The company shall invest assets in Iceland corresponding to its technical provisions due to activities in this country, as calculated in accordance with computation and evaluation rules which apply in Iceland. Furthermore, the requirements of Acts on investment by foreign parties in Icelandic industry must be fulfilled.

Before making a final decision thereupon, [the Financial Supervisory Authority]¹⁾ shall notify the member states of an application by a subsidiary of a parent company which has its head office in a third state for an operating licence in Iceland, and if parties acquire, directly or indirectly, a holding in an insurance company licenced to operate in Iceland, so that the latter becomes the subsidiary of the former.

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 63/1997, Art. 17.

Article 73

The general agent shall send [the Financial Supervisory Authority]¹⁾ the annual financial statement of the foreign company, as well as the financial statement for its activities in Iceland, no later than one month after their adoption, along with the annual report, signed by the Board of Directors and attested to by an auditor. The annual financial statement for activities in Iceland shall be received no later than four months after the end of each financial year. The documentation prescribed by the rules laid down by [the Financial Supervisory Authority]¹⁾ shall accompany it, including that provided for in Articles 34 and 35, on assets intended to cover the technical provisions. [The provisions of Chapter IV shall apply *mutatis mutandis* to the branch.]²⁾

The general agent shall notify [the Financial Supervisory Authority]¹⁾ without delay and in writing should the supervisory authorities in the company's home state have comments on its activities, if a moratorium is decided, a decision taken to wind up the company or bankruptcy has been declared.

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 63/1997, Art. 18.

Article 74

If the company violates laws and regulations on insurance activities or neglects the obligations they place upon it, thereby jeopardising the interests of policyholders and insured, [the Financial Supervisory Authority]¹⁾ shall grant the company a specific time limit for taking the necessary remedial measures. If satisfactory measures have not been taken within this time limit, and [the Financial Supervisory Authority]¹⁾ deems the interests of policyholders and insured to be jeopardised, the Authority may appoint a new general agent to conclude any transactions and settlements connected with the company's activities in Iceland. For such purposes he shall be authorised to dispose of the company's assets in Iceland to the extent permitted by [the Financial Supervisory Authority].¹⁾

[The provisions of Chapters X and XI shall apply *mutatis mutandis* to the branch.]²⁾

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Act No. 63/1997, Art. 19.

Article 75

The Minister may, after having received a proposal from [the Financial Supervisory Authority],¹⁾ revoke the operating licence of a company if it no longer satisfies the requirements for an operating licence or blatantly neglects its obligations in accordance with this Act.

When a licence is revoked [the Financial Supervisory Authority]¹⁾ shall decide whether to make an attempt to transfer the insurance portfolio to one or more other insurance companies carrying out insurance activities in Iceland, or whether the company shall by other means attempt to conclude its obligations arising from insurance contracts entered into. If it carries out life assurance activities [the Financial Supervisory Authority]¹⁾ may decide that the life assurance portfolio be set under special direction, cf. Article 94.

When revoking an operating licence [the Financial Supervisory Authority]¹⁾ may restrict or prohibit the company from controlling its assets and property.

¹⁾ Act No. 84/1998, Art. 5.

Article 76

The company shall be eradicated from the Register of Insurance Companies if it loses its operating licence as provided for in Article 75, provided its transactions and settlement of obligations in Iceland have been fully concluded.

If the company gives notice that it requests to cease its activities in Iceland and that its establishment be eradicated from the Register of Insurance Companies, such shall only be done if [the Financial Supervisory Authority]¹⁾ deems that the establishment need not operate any longer to fulfil obligations for which it is responsible. The same shall apply if the company has no general agent in Iceland and none has been appointed within the time limit set by [the Financial Supervisory Authority].¹⁾ The Authority can in such case appoint a general agent in accordance with the provisions of Article 74.

The guarantee fund, which has been set aside as provided for in Article 72, may only be released after the company's operating licence has been revoked and the company can demonstrate that it has satisfied all its obligations in Iceland, or provided sufficiently high guarantees for its obligations in the opinion of [the Financial Supervisory Authority].¹⁾

¹⁾ Act No. 84/1998, Art. 5.

CHAPTER VIII

Activities in other states of insurance companies with an operating licence in Iceland

Article 77

An insurance company, which has obtained an operating licence in Iceland and requests to operate a branch in another state of the European Economic Area, shall notify this to [the Financial Supervisory Authority]¹⁾ and submit the following documentation:

1. the name and address of the branch where the company's appointed representative is located;
2. the name of the appointed representative of the branch authorised to oblige the company towards third parties and to represent it in court in the member state;
3. a plan for the proposed activities and structure of the branch;
4. a list of the insurance classes and sub-classes which the company plans on dealing in;
5. a declaration that the company is a party to a national office and, if applicable, a special guarantee fund in the member state concerned if it proposes to carry out activities as provided for in Point 10 of the first paragraph of Article 22.

If [the Financial Supervisory Authority]¹⁾ has no comments to make concerning the proposed activity, financial situation or qualification and professional expertise of the management or the appointed representative of the branch, [the Financial Supervisory Authority]¹⁾ shall, within three months of receiving all the above-listed documentation, send the supervisory authorities of the host state the documentation, together with a certificate attesting that the company fulfils the requirements for solvency margin as provided for in Article 29-33, as appropriate. The company shall also be notified that the said documentation has been sent.

[The Financial Supervisory Authority]¹⁾ may refrain from forwarding the documentation provided for in the first and second paragraphs if it has reason to doubt that the operational structure or financial situation is satisfactory as a basis for the proposed activity. A notice to the effect that the above-mentioned documentation will not be forwarded to the supervisory authority of the member state in question shall be sent to the company within three months and the reasons for this specified in writing.

The company may establish the branch and commence activity once notification has been received from the supervisory authorities of the host state or if no such notification has been received two months after all documentation provided for in the first and second paragraphs have been received by them.

The company must notify any changes to items in the first paragraph to [the Financial Supervisory Authority]¹⁾ in writing at least one month in advance.

¹⁾ Act No. 84/1998, Art. 5.

Article 78

If an insurance company, which has obtained an operating licence in Iceland, requests to provide services in another member state without having an establishment there, the company must notify [the Financial Supervisory Authority]¹⁾ of such, together with information on which classes or sub-classes

of insurance it proposes to deal in. [The Financial Supervisory Authority]¹⁾ shall, within one month, send the supervisory authority of the member state concerned the following documentation, notifying the company at the same time that the information has been sent.

1. a certificate that the solvency margin for the company's activities as a whole is satisfactory;
2. a list of the insurance classes and sub-classes which the company is authorised to deal in;
3. a list of the insurance classes and sub-classes which the company plans on offering in the member state;
4. a declaration that the company is a party to a national office and, if applicable, a special guarantee fund in the member state concerned if it proposes to offer services as provided for in Point 10 of the first paragraph of Article 22; and the name and address of a special representative who handles settlement of claims in that sub-class.

The company may provide services once it has received notification that the information provided for in the first paragraph has been sent and their reception confirmed.

If [the Financial Supervisory Authority]¹⁾ does not send the above-listed information within the prescribed time it shall notify the company of the reasons for so doing within the same time period.

The company must notify any changes to [the Financial Supervisory Authority]¹⁾ in writing at least one month in advance.

¹⁾ Act No. 84/1998, Art. 5.

Article 79

If an insurance company, which has obtained an operating licence in Iceland, proposes to commence activities in a state outside the European Economic Area, it shall notify [the Financial Supervisory Authority]¹⁾ of such in advance, together with a description of the proposed activities and other information requested and deemed necessary by [the Financial Supervisory Authority].¹⁾

The provisions of Articles 77 and 78 shall also apply to insurance companies with head offices outside of the European Economic Area, which have obtained a licence to operate a branch in Iceland and propose to commence activity in a member state. [The Financial Supervisory Authority]¹⁾ may, however, have a longer time limit to deal with such cases than is prescribed in the former instance. It shall consult with the supervisory authorities of the member state before taking a decision on the application.

¹⁾ Act No. 84/1998, Art. 5.

CHAPTER IX

Insurance brokerage

Definition. Application for operating licence

Article 80

[A party proposing to carry out insurance brokerage in Iceland must send the Ministry a written application for an operating licence.

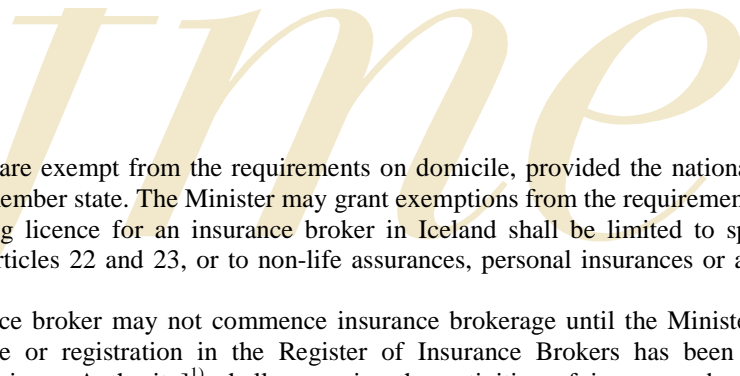
The operating licence of an insurance broker, issued in a member state, shall be deemed equivalent to an operating licence in Iceland, provided the requirements of this Act are fulfilled. If the activities are not subject to an operating licence the insurance broker shall apply for an operating licence, in which case the same rules shall apply as apply to domestic insurance brokers.]¹⁾

¹⁾ Act No. 63/1997, Art. 20.

Article 81

...¹⁾

[The requirement for an operating licence are domicile in Iceland, that the applicant is legally competent, has an unblemished reputation and has not, during the last five years, been declared bankrupt nor, in connection with business operations, been convicted of a punishable offence under the Criminal Code or Acts on limited-liability companies, private limited-liability companies, accounting, financial statements, bankruptcy or public levies, nor under legislation on insurance activities. Parties are also required to possess the necessary knowledge for such work, have no financial connections of any sort with insurance companies, resulting from holdings or interests, other than in connection with the insurance contracts entered into, and are deemed in other respects qualified to carry out such activities in a satisfactory manner. They shall also submit a certificate attesting to valid professional liability insurance, to compensate for damage resulting from their work and for which they are liable for compensation. Nationals of states which are members of the Agreement Establishing a European



Economic Area are exempt from the requirements on domicile, provided the nationals concerned are domiciled in a member state. The Minister may grant exemptions from the requirements on domicile.]¹⁾

An operating licence for an insurance broker in Iceland shall be limited to specific classes of insurance, cf. Articles 22 and 23, or to non-life assurances, personal insurances or all types of direct insurances.

[An insurance broker may not commence insurance brokerage until the Minister has granted an operating licence or registration in the Register of Insurance Brokers has been effected.]¹⁾ [The Financial Supervisory Authority]¹⁾ shall supervise the activities of insurance brokers. They must provide all the information necessary for the enforcement of supervision of their activities in accordance with this Act. [The Financial Supervisory Authority]¹⁾ is authorised to make on-site investigations for this purpose if necessary.

An insurance broker may not handle direct insurance for insurance companies other than those with operating licences in Iceland or which are entitled to provide services there.

[The Minister shall lay down detailed provisions in a Regulation³⁾ on the requirements for an operating licence, on the activities of insurance brokers, including submission of documentation such as profit-and-loss accounts and balance sheets, on professional liability insurance, including the amount of the insurance and its minimum requirements, on the examination committee, instruction course and examination required to be able to carry out insurance brokerage.]¹⁾

¹⁾ Act No. 63/1997, Art. 21.

²⁾ Act No. 84/1998, Art. 5.

³⁾ Reg. 350/1997, Reg. 352/1997, Reg. 853/1999.

Article 82

[An insurance broker may not accept remuneration of any sort from an insurance company not resulting from insurance contracts which have been effected between the insurance company and a policyholder].¹⁾

[An insurance broker may not accept premiums on behalf of an insurance company unless authorised to do so in writing.]¹⁾ The funds received by an insurance broker on behalf of an insurance company, or for a policyholder, as the result of an insurance contract, or in preparing or concluding such, must be delivered to their rightful owner as promptly as possible. The broker shall keep these funds completely separate from other funds in his/her possession or custody.

An insurance broker shall in every respect conduct his/her tasks in compliance with good insurance practices. He/She must assist both parties and look after their interests, while ensuring that contracts do not set the parties illegal, unfair or abnormal terms. [An insurance broker must inform those whom he serves of the commissions which he will receive as a result of their business, if they so request.]¹⁾

An insurance broker must provide [the Financial Supervisory Authority]¹⁾ with any information it requests concerning insurance contracts which he/she has effected.

¹⁾ Act No. 63/1997, Art. 22.

²⁾ Act No. 84/1998, Art. 5.

Obligation to provide information.

Article 83

An insurance broker shall supply a prospective policyholder with any information and render any assistance required to evaluate the conditions and terms available and to assess his/her insurance needs prior to drawing up an insurance contract, and must observe the obligation to provide information in Chapter VI before concluding an insurance contract. [He/She must adequately explain the type and scope of the insurance risk in order to be able to make the prospective policyholder an offer.]¹⁾ He/She must also, after a contract has been effected, provide the policyholder with instruction and advice, for instance, if damage occurs which is covered by the insurance contract.

¹⁾ Act No. 63/1997, Art. 23.

Article 84

¹⁾ Act No. 63/1997, Art. 24.

Time

Registration

Article 85

[The Financial Supervisory Authority]¹⁾ shall keep a register of authorised insurance brokers in Iceland. [Provision shall be made in a Regulation²⁾ for the information to be registered.]³⁾

[If an insurance broker seriously neglects its obligations or fails to pay supervision fees, if its activities are not in accordance with its role as an insurance broker, or if it no longer fulfils the conditions for an operating licence, [the Financial Supervisory Authority]¹⁾ shall revoke the operating licence. If [the Financial Supervisory Authority]¹⁾ deems such sufficient, however, it may issue a warning or state a time limit for rectification of the deficiencies. The Minister shall confirm the cancellation of an operating licence within seven days.

If activities requiring registration are carried out without authorisation [the Financial Supervisory Authority]¹⁾ shall immediately take measures to ensure that such activities cease.]³⁾

The registration of insurance brokers shall be published in the Legal Gazette, and once each year a list of authorised insurance brokers shall be published there.

¹⁾ Act No. 84/1998, Art. 5.

²⁾ Reg. 853/1999.

³⁾ Act No. 63/1997, Art. 25.

CHAPTER X

Transfer of insurance portfolios. Mergers of companies

Transfer

Article 86

If an insurance company, which has obtained an operating licence in Iceland, desires to transfer its insurance portfolio in whole or in part to another company which has also obtained an operating licence in Iceland, both companies must send [the Financial Supervisory Authority]¹⁾ an application for transfer, together with a draft agreement between the companies and whatever documentation the Authority considers necessary. [The Financial Supervisory Authority]¹⁾ shall examine the application, having regard to the interests of both companies and whether there is reason to expect that the transfer could cause damage to the companies' policyholders and insured.

If [the Financial Supervisory Authority]¹⁾ deems there is reason to refuse to authorise the transfer, such shall be notified to the companies without delay. If such is not the case, and where it concerns insurance risk situated in Iceland, cf. Article 8, [the Financial Supervisory Authority]¹⁾ shall publish a notice in the Legal Gazette concerning the request for transfer and call for written comments from policyholders and insured within a specified time limit which shall not be shorter than one month. The company shall advertise the proposed transfer and the date the notice appeared in the Legal Gazette.

[The Financial Supervisory Authority]¹⁾ shall grant permission for the transfer, once the time limit referred to in the second paragraph has expired, if it deems, having regard for the comments submitted, that the transfer request should be agreed to.

The rights and obligations of policyholders, insured and others provided for in insurance contracts shall automatically remain valid after the transfer. Policyholders may cancel their insurance contracts with the company as of the date the transfer of the insurance portfolio takes place if they send notice of the cancellation in writing within one month of the transfer date.

¹⁾ Act No. 84/1998, Art. 5.

Article 87

[The Financial Supervisory Authority]¹⁾ may authorise an insurance company which has obtained an operating licence and so requests, to transfer its insurance portfolio in Iceland in whole or in part to another company with an establishment in the European Economic Area, if the supervisory authorities of the home state of the company accepting the portfolio confirm that the prescribed requirements on solvency margin are satisfied, after taking the transferred portfolio into consideration. The supervisory authorities in the member state where the insurance risk is situated, cf. Article 8, must always give their consent for the transfer. Provisions of Article 86 shall apply to the transfer.

[The Financial Supervisory Authority]¹⁾ may also authorise a branch of an insurance company with its head office outside the European Economic Area, which has an operating licence in Iceland, to transfer its insurance portfolio in Iceland, in whole or in part, to another insurance company, in which case the provisions of Article 86 shall also apply to the transfer. The provisions of Article 68 shall

apply to transfers of portfolios of insurance companies with head offices in the European Economic Area, with branches in Iceland or offering services in this country.

¹⁾ Act No. 84/1998, Art. 5.

Mergers

Article 88

If insurance companies which have obtained an operating licence in Iceland request that a merger be effected through the acquisition of one or more insurance companies by their dissolution, in such manner that all the assets and liabilities will be transferred completely without settlement of the companies' estates, all the companies involved must send [the Financial Supervisory Authority]¹⁾ an application for transfer, together with a draft agreement between the companies on the merger and whatever documentation the Authority considers necessary. The same shall apply if two or more insurance companies request that a merger be effected through the establishment of a new insurance company, with the dissolution of the companies without settlement of their estates, in such manner that all the assets and liabilities will be transferred to the new company. Authorisation for the transfer of insurance portfolios, cf. Article 86, must be granted for the merger to take place.

The provisions of the first paragraph shall also apply to companies as referred to in Article 11 which request to transfer their assets and liabilities completely to an insurance company without settlement of the company's estate.

A merger, either by acquisition or through the establishment of a new company, may be authorised even if one or more of the companies which are acquired or which are dissolved are subject to settlement of their estates, provided that this option be open only to companies which have not yet begun allocating their assets to their owners.

¹⁾ Act No. 84/1998, Art. 5.

Article 89

The draft merger agreement which accompanies an application shall specify, for instance, how payment is to be made for shares in companies which cease their insurance activities, when shares which may be used as payment shall convey rights to dividends and other privileges, what rights shareholders of a company which ceases its activities acquire in the company acquiring its assets and liabilities, and any other measures which may involve changes to the rights of shareholders. It shall also state whether Board members, representatives on the executive council or managing directors shall enjoy any specific benefits and, in such case, what benefits.

Certified financial statements, listing the assets and liabilities of each company on the date of the proposed merger, as well as the joint initial balance following the merger, shall be submitted; the statements may not be over six months' old when the decision is taken to effect the merger. [The Financial Supervisory Authority]¹⁾ may, however, authorise the use of the companies' annual financial statements from the end of the last financial year.

When a merger is effected through the establishment of a new company, a draft of its Articles of Association shall also be submitted. The same shall apply to any amendments, other than change of name, made to the Articles of Association of the [merging] companies.

[The Financial Supervisory Authority]¹⁾ shall grant authorisation for the merger. The operating licences of the company or companies ceasing insurance activities shall be revoked as of the date specified by [the Financial Supervisory Authority]¹⁾ and the company or companies eradicated from the Register of Insurance Companies.

¹⁾ Act No. 84/1998, Art. 5.

CHAPTER XI.

Special measures. Loss of operating licence. Winding-up of companies

Special measures

Article 90

If an insurance company, which has obtained an operating licence in Iceland, fails to satisfy minimum requirements for solvency according to its annual statement, or at any other time, the company must immediately draw up a plan, indicating when and how this objective will be achieved, which will be submitted to [the Financial Supervisory Authority]¹⁾ for a decision as to whether the measures to be taken are deemed adequate.

If the solvency margin of an insurance company is less than one-third of the prescribed amount or less than the minimum amount specified for the activities carried out by the company, cf. Article 33,

whichever is higher, the plan provided for in the first paragraph shall be aimed at remedying the company's financial situation promptly; [the Financial Supervisory Authority]¹⁾ shall set the company a specific time limit for such.

If the company's technical provisions are underestimated in the annual statement or at another time, in the estimation of [the Financial Supervisory Authority],¹⁾ or if its financial situation has otherwise deteriorated, with the result that the prescribed requirements for solvency margin are no longer fulfilled, appropriate measures shall similarly be taken.

[The Financial Supervisory Authority]¹⁾ may restrict or prohibit an insurance company, which has obtained an operating licence in Iceland, from disposing of its assets and property, if such is part of actions to rectify its financial situation, cf. the first to third paragraph. A decision to this effect must be notified to the supervisory authorities of the member states as appropriate.

If the company is proceeding in accordance with a special operating plan, cf. Article 24, and if the company's financial situation has deteriorated from the projections of that plan, [the Financial Supervisory Authority]¹⁾ shall decide on necessary measures and demand that a new plan of operation for the next three years be provided if necessary.

¹⁾ Act No. 84/1998, Art. 5.

Loss of operating licence

Article 91

If an insurance company repeatedly fails to heed the instructions of [the Financial Supervisory Authority]¹⁾ concerning measures to satisfactorily assess its technical provisions or ensure the secure investment of assets intended to cover them, or violates laws and regulations on insurance activities or the Articles of Association under which it operates, [the Financial Supervisory Authority]¹⁾ shall set the company a specific time limit for making the necessary improvements.

If satisfactory measures have not been taken within the time limit set [the Financial Supervisory Authority]¹⁾ may propose to the Minister that the company's operating licence be revoked. [The Financial Supervisory Authority]¹⁾ may, however, extend the time limit if it deems that those measures already taken by the company are likely to result in the prescribed improvements within a short time.

An operating licence may also be revoked if a company does not utilise it within twelve months of the date of issue or if activities have been suspended for six months or longer.

¹⁾ Act No. 84/1998, Art. 5.

Article 92

[The Financial Supervisory Authority]¹⁾ shall propose that the Minister revoke the operating licence of an insurance company if the company has not taken the necessary measures to rectify its financial situation, if the company no longer fulfils the requirements for an operating licence, or if it seriously neglects its obligations under the laws and regulations on insurance activities, thus jeopardising the interests of policyholders and insured.

Detailed grounds must always be given for revocation of operating licence and written notification given to the company concerned.

If the Minister revokes an operating licence [the Financial Supervisory Authority]¹⁾ shall notify the supervisory authorities of the member states, who shall take appropriate measures to prevent the company from entering into new insurance commitments within their jurisdiction, in a branch office or by providing services there. [The Financial Supervisory Authority]¹⁾ shall, with a view to protecting the interests of policyholders and insured and in consultation with other supervisory authorities concerned, restrict as necessary the free disposal of the company's assets if technical provisions have been underestimated, requirements for solvency margin are not satisfied and there is a danger that the company's financial situation will deteriorate if no action is taken.

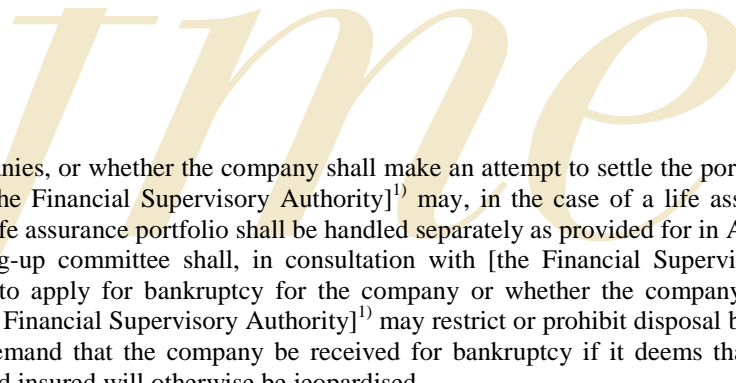
¹⁾ Act No. 84/1998, Art. 5.

Winding-up of companies

Article 93

If the operating licence of an insurance company is revoked the Minister shall, after having received the proposals of [the Financial Supervisory Authority],¹⁾ appoint a three-person winding-up committee for the company. The winding-up committee shall assume all the powers of the company's Board, which shall subsequently have no authority. The winding-up committee shall immediately convene a meeting of shareholders or participants and inform them of the situation.

[The Financial Supervisory Authority]¹⁾ shall, after consulting the winding-up committee, take a decision as to whether the company shall seek to transfer its insurance portfolio to one or more other



insurance companies, or whether the company shall make an attempt to settle the portfolio accounts by other means. [The Financial Supervisory Authority]¹⁾ may, in the case of a life assurance company, decide that the life assurance portfolio shall be handled separately as provided for in Article 94.

The winding-up committee shall, in consultation with [the Financial Supervisory Authority],¹⁾ decide whether to apply for bankruptcy for the company or whether the company should continue operations. [The Financial Supervisory Authority]¹⁾ may restrict or prohibit disposal by the company of its assets and demand that the company be received for bankruptcy if it deems that the interests of policyholders and insured will otherwise be jeopardised.

Remuneration to the winding-up committee, as well as all costs it incurs, shall be paid from the assets of the insurance company concerned in advance of the order of priority for the settlement.

¹⁾ Act No. 84/1998, Art. 5.

Article 94

If a winding-up committee is established for a life assurance company and it has been decided that the life assurance portfolio shall be handled separately, [the Financial Supervisory Authority]¹⁾ shall immediately take over assets set aside to cover technical provisions, have the provisions recalculated and the assets evaluated. Payable and reported life assurance claims shall be settled according to the rules which applied before the appointment of the winding-up committee. Life assurance claims which are not yet due for payment may be paid to the extent deemed justifiable [the Financial Supervisory Authority]¹⁾ having regard to the company's equity status. Surrenders are not allowed except as settlement of loans secured by life assurance policies.

When the revaluation provided for in the first paragraph is complete, [the Financial Supervisory Authority]¹⁾ shall seek other life assurance companies willing to take over the life assurance portfolio and technical provisions. [The Financial Supervisory Authority]¹⁾ shall assess any offers made and choose that which it deems most advantageous for the insured. [The Financial Supervisory Authority]¹⁾ shall announce the main aspects of the accepted bid in the Legal Gazette and seek comments from policyholders and insured parties, to be made in writing and received by the Authority within one month of the publishing of the notification. After receiving the comments [the Financial Supervisory Authority]¹⁾ may transfer the portfolio to the life assurance company it has selected, together with assets intended to cover the technical provisions, provided the receiving company then assumes all obligations of the life assurances.

Those policyholders or insured, who have submitted comments and do not wish to agree to the transfer, shall be entitled to a repayment of the value of their life assurance in proportion to the remaining assets.

Should there be no bids for the life assurance portfolio or no bids which the [the Financial Supervisory Authority]¹⁾ wishes to recommend, the assets of the insured shall be paid to them in proportion to the value of their life assurance policies.

¹⁾ Act No. 84/1998, Art. 5.

Article 95

If it is decided to petition for bankruptcy for a life assurance company, assets set aside to cover technical provisions shall not be included in the assets of the bankruptcy estate nor shall the technical provisions be included in its liabilities. The provisions of Article 94, on separate handling of the life assurance portfolio, shall apply and [the Financial Supervisory Authority]¹⁾ may demand from the bankruptcy estate any documentation necessary to conclude its settlement and disposal. If special handling of the life assurance portfolio has been decided upon before petition for bankruptcy is submitted, this shall not affect actions taken in accordance with this Article and Article 94.

¹⁾ Act No. 84/1998, Art. 5.

Article 96

If a decision is taken to petition for bankruptcy for an insurance company which deals in non-life assurances and has obtained an operating licence in Iceland, [the Financial Supervisory Authority]¹⁾ shall, as soon as the estate has been received for bankruptcy proceedings, assess whether the interests of the policy holders and the insured would be best served by transferring the insurance portfolio, in whole or in part, to another or other insurance companies. If an offer is made which [the Financial Supervisory Authority]¹⁾ deems to be advantageous for the policyholders and the insured, [it]¹⁾ shall make a proposal on the transfer of the portfolio and give notice in the Legal Gazette of the main substance of such an agreement. It shall also invite comments from policyholders and insured, which must be received in writing within one month of the publication of the announcement. Having regard for such comments [the Financial Supervisory Authority]¹⁾ shall, after expiration of the time limit, decide whether the proposed transfer of the portfolios is feasible.

¹⁾ Act No. 84/1998, Art. 5.

Article 97

When a decision is taken on voluntary winding-up of a company, in accordance with the Articles of Association of an insurance company which has obtained an operating licence in Iceland, the company shall submit to [the Financial Supervisory Authority]¹⁾ a report of its unsettled underwriting liabilities as well as a statement on the proposed settlement of these liabilities.

[The Financial Supervisory Authority]¹⁾ shall evaluate and decide whether the interests of policyholders and insured would be best served by the transfer of the insurance portfolio to another or other companies and, in cases where a life assurance portfolio is involved, whether that portfolio shall be handled separately, cf. Article 94.

¹⁾ Act No. 84/1998, Art. 5.

CHAPTER XII Miscellaneous provisions

Article 98

The Minister for insurance affairs may issue regulations¹⁾ on matters dealt with in this Act.
¹⁾Reg. 573/1995, Reg. 350/1997, Reg. 352/1997, Reg. 494/1997, Reg. 99/1998, Reg. 853/1999.

Article 99

Violations against this Act shall be liable to fines or [imprisonment of up to two years],¹⁾ unless more severe punishment is provided for in other Acts.

¹⁾ Act No. 82/1998, Art. 213.

Article 100

...

The Act shall enter into force 1 April 1994, with the exception of the provisions of Articles 34 and 35, concerning assets to cover technical provisions, which shall apply from [1 July 1995].¹⁾

¹⁾ Act No. 139/1994, Art. 1.

Temporary provisions

...

¹⁾

...

Certain insurance companies in operation shall be allowed a transitional period extending to year-end 1994, in accordance with the Agreement Establishing a European Economic Area, to fulfil the requirements of this Act on solvency margin and minimum solvency margin; they may not operate elsewhere in the European Economic Area outside of Iceland until these requirements have been satisfied.

...

¹⁾

Provisions of acts 73/239/EEC, 88/357/EEC, 79/267/EEC and 90/619/EEC, as subsequently amended, may be applied concerning operating licences and supervision of insurance activities towards those member states of the European Economic Area which have not yet harmonised their legislation with Directives 92/49/EEC and 92/96/EEC.

¹⁾ Act No. 84/1998, Art. 5.