EU-project: Support to the Judicial Academy: Developing a training system for future judges and prosecutors

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INSURANCE ACT
ZAKON O OSIGURANJU

TITLE I
GENERAL PROVISIONS

General provision
Article 1

(1) This Act regulates the terms and conditions for the establishment and management of insurance undertakings, the conduct of internal audit and audit of insurance undertakings, winding-up and bankruptcy proceedings, insurance agency and brokerage activities, powers of the supervisory authority and carrying out of supervision activities.

(2) This Act also regulates consumer protection, insurance and reinsurance pool, the Croatian Insurance Bureau and the form of association of insurers.

(3) This Act also governs taking up and pursuit of insurance business by insurance undertakings from Member States and third countries in the territory of the Republic of
Croatia, as well as application of relevant law to insurance contracts involving international elements.

**Insurance undertaking**

**Article 2**

(1) An insurance undertaking shall be a legal person having its head office in the Republic of Croatia that has been granted authorisation to carry on insurance business by the supervisory authorities.

(2) An insurance undertaking may not be entered in the judicial register of companies before the authorisation referred to in paragraph 1 above is obtained.

(3) The words "insurance undertaking" or any derivation thereof as part of the company name or abridged company name may be entered in the judicial register of companies and used in legal transactions only if the legal person in question has been granted the authorisation referred to in paragraph 1 of this Article.

(4) By way of derogation from paragraph 3 above, the words "insurance undertaking" or any derivation thereof as part of the company name or abridged company name may also be entered in the judicial register of companies and used in legal transactions by another undertaking which is explicitly permitted to do so under another Act.

**Insurance business**

**Article 3**

(1) Within the meaning of this Act, insurance business is the conclusion and performance of non-life and life insurance contracts or reinsurance contracts, except compulsory social insurances.

(2) Non-life insurance business comprises the following insurance classes:

1. personal accident insurance
2. health insurance
3. insurance of land motor vehicles
4. insurance of railway locomotives and rolling stock
5. insurance of aircrafts
6. insurance of vessels
7. insurance of goods in transit
8. insurance against fire and natural disasters
9. other property insurance lines
10. motor vehicle liability insurance
11. aircraft liability insurance
12. insurance of liability arising out of use of vessels
13. other liability insurance lines
14. credit insurance
15. suretyship insurance
16. insurance of miscellaneous financial losses
17. insurance of legal protection
18. travel insurance

(3) Life assurance business comprises the following insurance classes:

1. life assurance
2. annuity insurance
3. supplementary insurance linked with life assurance policy
4. other life insurance lines
5. assurance/insurance under points 1 and 2 of this paragraph linked with units of investment funds (unit-linked business)

(4) Other life insurance lines referred to in paragraph 3, point 4 of this Article shall be divided into:

1. tontine
2. assurance with paid-up sum assured
3. insurance business referred to in paragraph 3, point 3 which includes preservation of value of capital or payment of minimum interest.

(5) The schedule of risk types by class and line of business shall be prescribed by the supervisory authorities.

(6) Large risks, within the meaning of this Act, are:
1. the risks under the lines of insurance referred to in Paragraph 2, Items 4 to 7 and Items 11 and 12 of this Article;
2. the risks under the lines of insurance referred to in Paragraph 2, Items 14 and 15 of this Article where the Insured pursues an economic activity and these risks relate to that activity;
3. the risks under the lines of insurance referred to in Paragraph 2, Items 3, 8, 9, 10, 13 and 16 of this Article if the Insured satisfies at least two of the following conditions:
   - the value of the assets at the end of the year exceeds HRK 46,500,000.00;
   - net revenue in the financial year exceeds HRK 96,000,000.00;
   - the average number of employees in the course of the financial year exceeds 250.

**Member State and the undertaking**

**Article 4**

(1) Within the meaning of this Act, a Member State is a state which is member of the European Union.

(2) A person from a Member State is a natural person having a habitual residence or legal person having its principal place of business in the territory of a Member State.

(3) An insurance undertaking from a Member State is a legal person which has been granted authorisation to carry on insurance business by the competent supervisory authorities.

**Third country and the undertaking**

**Article 5**
(1) For the purposes of this Act, a third country is a country other than the Republic of Croatia and other than a Member State.

(2) Within the meaning of this Act, a person from a third country is a natural person having habitual residence outside the territory of the Republic of Croatia and a Member State or a legal person having its principal place of business outside the territory of the Republic of Croatia and a Member State.

(3) An insurance undertaking from a third country is a legal person established outside the territory of the Republic of Croatia and a Member State which has been granted authorisation to carry on insurance business by the competent supervisory authority.

(4) An insurance undertaking from the Swiss Confederation is a legal person established in the Swiss Confederation which has obtained authorisation from the supervisory authority to carry on insurance business.

Carrying on of insurance business
Article 6

(1) The insurance business may be conducted by:

1. an insurance undertaking having a principal place of business in the Republic of Croatia which has been granted authorisation to carry on insurance business by the supervisory authorities.
2. a branch of an insurance undertaking from a third country which has been granted authorisation to carry on insurance business by the supervisory authorities.
3. an insurance undertaking from a Member State which pursuant to this Act has the right to carry on insurance business in the territory of the Republic of Croatia either directly or through a branch.

(2) The persons referred to in paragraph 1 above may conduct only such line of insurance which has been granted authorisation to carry on insurance business.

Prohibition against carrying on insurance business
Article 7

(1) No person, other than those referred to in Article 6 of this Act, shall be authorised to carry on insurance business.

Reinsurance
Article 8

Reinsurance, within the meaning of this Act, is transfer of that part of the risk in excess of the retention of the insurance undertaking to another insurance undertaking which carries on reinsurance business (hereinafter referred to as: reinsurance business).
Participation and qualifying holding
Article 9

(1) Pursuant to this Act, an entity shall be deemed to hold a participation in another entity if it has a direct or indirect holding, shares or any other rights on the basis of which it holds 20% or more of voting rights or of the capital of a certain legal person.

(2) A qualifying holding pursuant to this Act shall mean an indirect or direct ownership of a holding, shares or other rights in an undertaking on the basis of which the holder acquires 10% or more of voting rights or of the capital of a certain legal person, or a holding less than 10% if the holder exercises influence over the management of the legal person in which the holding subsists.

Related persons and indirect investments
Article 10

(1) Pursuant to this Act, related persons are independent entities which are interrelated in one of the following ways:

- by way of management, capital or in any other way so that, as a result of such relationship, they mutually create business policy and act in a concerted manner with the aim of achieving common business objectives;
- one person has the possibility of guiding another or has a predominant influence over another in decision-making in the area of funding and management;
- the operations of one person or its operating results may have a significant impact on the operations or operating results of another person.

(2) Pursuant to this Act, related persons shall also be considered to be the persons that are related:
- as immediate family members;
- as members of the management board, supervisory board or procurators or as immediate family members of such persons;
- as persons employed under an employment contract subject to special terms and conditions, as well as their immediate family members;
- in such a manner that one person has a holding in another person, or that the persons deemed related pursuant to other points hereunder have a joint, direct or indirect holding in a third party;
- in such a manner that the same person or persons that are deemed related has or have holdings in both persons pursuant to other points of this Article;
- in such a manner that they form a holding company in accordance with the Companies Act.

(3) Pursuant to this Act, immediate family members shall be considered to be:
- spouse and the person who has lived with him or her in a joint household for a longer period of time and who, according to the Act that regulates marital and family relations, has the same legal position as the spouse.
- children and adopted children,
- other persons under custody of that person.
(4) A group of related persons comprises all persons who are related in at least one of the ways described under paragraphs 1 and 2 of this Article.

(5) Pursuant to this Act, related persons shall also be deemed to be other forms of related persons in accordance of the Companies Act.

(6) Pursuant to this Act, controlled companies and controlling companies shall be deemed to be the controlled companies and controlling companies within the meaning of the Companies Act.

(7) Pursuant to this Act, the exercising of control shall be deemed to be the relationship between a controlled company and controlling company or a similar relationship between any natural and legal person.

(8) Where this Act stipulates that an insurance undertaking may not invest in a specific legal person, such prohibition shall apply to both direct and indirect investments.

(9) Indirect investments are investments in the entities that are related to a specific legal person as referred to in paragraph 8 of this Article.

**Indirect acquisition**

*Article 11*

(1) An indirect holder of shares, holdings or other rights entitling the holder to participation in management or a share in capital is the person for whose account another person, as a direct holder, has acquired the said shares, holdings or other rights entitling the holder to participation in the management.

(2) A person shall be deemed to be an indirect holder of shares, holdings or other rights entitling him/her to participation in the management or acquisition of shares or other securities, whose direct holder is a person related to the person in question.

**Supervisory authority**

*Article 12*

(1) The supervisory authority, within the meaning of this Act, is the Croatian agency for supervision of financial services.

(2) The competent supervisory authority is a public authority of the Member State which is authorised under law or other regulations to exercise supervision over insurance activities or insurance agency and brokerage activities.

(3) The competent supervisory authority referred to in Paragraph 2 of this Article is also deemed to be an authority from the Swiss Confederation which is authorised under law or other regulations to exercise supervision over insurance activities or insurance agency and brokerage activities where the provisions of this Act appropriately apply to an insurance undertaking from the Swiss Confederation or its branch in the Republic of Croatia.
Compulsory insurance in the field of transportation
Article 13

(1) Compulsory insurance lines in the field of transportation are those insurance lines that are governed by the Act on Compulsory Insurance in Transportation.

TITLE II
STATUS PROVISIONS

II.1 Common provisions

Application of the provisions of the Companies Act
Article 14

(1) Insurance undertakings shall be governed by the Companies Act except as otherwise specifically provided herein.

Form of an undertaking
Article 15

(1) An insurance undertaking may be set up by local and foreign legal and natural persons under the terms and conditions set out in this Act.

(2) An insurance undertaking may be set up in the form of either a joint-stock undertaking or a mutual insurance undertaking.

(3) A reinsurance undertaking may be set-up in the form of a joint-stock undertaking only.

Activities of insurance undertakings
Article 16

(1) An insurance undertaking may carry out insurance operations in an individual class or line of business in respect of which it has obtained authorisation from the supervisory authorities to carry on insurance business.

(2) An insurance undertaking may carry out insurance operations purely in life assurance classes or purely in non-life insurance classes.

(3) By way of derogation from paragraph 2 of this Article, an insurance undertaking carrying out operations in life assurance class may also write personal accident and health insurance lines referred to in Article 3 (2), points 1 and 2 of this Act if it has been granted authorisation by the supervisory authorities to carry on the concerned insurance lines.

(4) By way of derogation from paragraph 2 of this Article, a non-life insurance undertaking which carries on only personal accident and health insurance referred to in Article 3, paragraph 2, points 1 and 2 of this Act may also write business under the life assurance class.
if it has been granted authorisation by the supervisory authorities to carry on the concerned lines of assurance.

(5) An insurance undertaking that has obtained an authorisation from the supervisory authorities to conduct insurance business in one or more non-life insurance classes, may also accept risks in a non-life insurance class in respect of which it has not been granted authorisation, provided that the following conditions are fulfilled:

1. the insurance in question covers a risk:
   - relating to the main risk,
   - relating to the subject of the main risk, and
   - covered by the same insurance contract;

2. the risk does not relate to the insurance lines referred to in Article 3 (2), points 14 and 15 of this Act;
3. the risk is of secondary importance in relation to the main risk.

(6) By way of derogation from paragraph 1 of this Article, an insurance undertaking may also conduct operations that are directly or indirectly related to insurance operations.

(7) The following operations shall be considered to be the operations referred to in the previous paragraph:

1. intermediation in sale or sale of damaged property under property insurance which, in the claim settlement process, has become the property of the insurance undertaking.
2. taking measures for minimising and prevention of risks likely to be detrimental to the persons and property insured;
3. assessment of the level of exposure of the insured property and loss assessment;
4. performance of other intellectual and technical services in relation to the insurance business;

(8) Reinsurance business may be written only by a reinsurance undertaking which has been granted authorisation by the supervisory authorities to carry on reinsurance business.

(9) Notwithstanding paragraph 2 of this Article, the reinsurance undertaking referred to in paragraph 8 above may write reinsurance in all classes of business.

(10) An insurance undertaking which is active in life assurance may also carry on supplementary insurance which primarily comprise insurance against permanent disability due to accident or illness, insurance against death due to accident and insurance against personal injury, including insurance against incapacity for employment due to personal injury, provided that these various kinds of insurance are underwritten in addition to life assurance.

Operating principles of an insurance undertaking
Article 17
(1) An insurance undertaking shall operate in accordance with economic principles, rules of the insurance and actuarial profession and shall adhere to good business practices and professional ethics.

(2) An insurance undertaking shall operate in accordance with the principle of prudent and sound management.

**II.2 JOINT-STOCK INSURANCE UNDERTAKING**

**II.2.1 General provisions**

**Definition**

Article 18

(1) A joint-stock insurance undertaking is a joint-stock undertaking which is entered in the judicial register of companies by virtue of authorisation to carry on insurance business issued by the supervisory authorities.

**II.2.2 Share capital and shares**

**Share capital**

Article 19

(1) The minimum amount of share capital of a joint-stock insurance undertaking may not be less than:

1. HRK 15,000,000.00 if the undertaking is active in one non-life insurance line only,
2. HRK 22,500,000.00 if the undertaking is active in all non-life insurance lines or one of the insurance lines referred to in Article 3 (2), points 10 to 15 of this Act,
3. HRK 22,500,000.00 if the undertaking is active in life assurance,
4. HRK 22,500,000.00 if the undertaking is active in reinsurance.

**Shares**

Article 20

(1) Shares of a joint-stock insurance undertaking must be registered shares.

(2) Shares of a joint-stock insurance undertaking shall be fully paid-up in cash prior to registration of the establishment of the insurance undertaking or registration of increase in its share capital in the judicial register of companies.

(3) Preference shares of a joint-stock insurance undertaking may account for a maximum of 25% of the total shares of the joint-stock insurance undertaking referred to in paragraph 2 of this Article.
(4) Shares of a joint-stock insurance undertaking must be issued in a book-entry form.

(5) The provision of paragraph 2 above shall not apply in the event of merger or division of an insurance undertaking.

II.2.3 Qualifying holdings

Approval to acquire qualifying holding

Article 21

(1) The acquisition of shares in an insurance undertaking, whereby a person directly or indirectly acquires a holding equalling or exceeding the qualifying holding (hereinafter: holder of qualifying holding) in the insurance undertaking shall be subject to the approval of the supervisory authorities (hereinafter: approval to acquire qualifying holding).

(2) In the event of any further acquisition of shares in an insurance undertaking, whereby the person who has qualifying holding would increase his holding so that the proportion of the voting rights or of the capital he holds would reach or exceed 20%, 33% or 50% or so that the insurance undertaking would become his subsidiary, he shall obtain approval from the supervisory authorities.

(3) Where the person which has been granted the approval referred to in paragraphs 1 or 2 of this Article intends to dispose of his shares, which would result in the holding being reduced below the threshold for which the approval was granted, the person in question must inform the supervisory authorities thereof.

(4) The supervisory authorities shall prior to issue of the approval for acquisition of a qualifying holding or the holding referred in paragraph 2 of this Article notify the competent supervisory authorities of the concerned Member State if the entity possessing qualifying holding is one of the following entities:

1. an insurance undertaking, bank or stock-broking company which has been granted approval for carrying out insurance operations, banking operations or transactions with securities,
2. controlling undertaking of an insurance undertaking, bank or stock-broking company referred to in point 1 of this paragraph,
3. an entity under management of the same entity or entities managing the insurance undertaking, bank or stock-broking company referred to in point 1 of this paragraph.

(5) The supervisory authorities shall notify and exchange information with the competent supervisory authorities of the Member State concerned on the eligibility of the acquirer of qualifying holding or the holding referred to in paragraph 2 of this Article.

(6) The supervisory authorities shall specify the method of notification referred to in paragraph 3 of this Article.

(7) The approval referred to in paragraphs 1 and 2 of this Article shall become invalid if the entity, within six months of the date of issue by the supervisory authorities of a decision to grant approval, fails to acquire the shares to which the approval relates.
Taking decisions with regard to granting approval to acquire a qualifying holding

Article 22

(1) An entity wishing to acquire a qualifying holding shall apply for approval to acquire a qualifying holding and such application shall be accompanied by the documents referred to in Article 59 (1), points 4 or 5 of this Act.

(2) The supervisory authorities shall refuse to grant approval for acquisition of a qualifying holding if the information presented shows that:

- the legal and/or financial position of the prospective holder of a qualifying holding or the activities or operations conducted by the prospective holder of a qualifying holding or the persons related to him, or the actions carried out by the prospective holder of a qualifying holding or the persons related to him are likely to be detrimental to the operations of the joint-stock insurance undertaking in accordance with the risk management rules;

- the activities or operations conducted by the prospective holder of a qualifying holding or the persons related to him, or the type of relationship between these persons, the exercise of supervision of the joint-stock insurance undertaking would be made impossible or considerably hindered.

(3) The supervisory authority shall refuse the application for acquisition of a qualifying holding to a foreign prospective qualifying holder if, with regard to the legislation of such entity’s home country or with regard to the practice of such entity’s home country concerning the application and implementation of such legislation, it is assumed that the exercise of supervision of the joint-stock insurance undertaking pursuant to the provisions of this Act would be made impossible or considerably hindered.

(4) Prior to taking the decision based on paragraphs 2 or 3 of this Article, the supervisory authorities shall set the time limit, not less than 15 and not more than 30 days, by which the person in question must provide a statement on the reasons for the rejection.

(5) If a legal person has lodged an application for an authorisation to carry on insurance business, the decision-making procedure with regard to the granting of approval referred to in paragraph 1 of this Article shall be consolidated with the decision-making procedure with regard to the granting of the authorisation to carry on insurance business.

(6) If the supervisory authorities do not take the decision in respect of the application for issue of the approval referred to in Article 21, paragraphs 1 or 2 of this Act within the period stipulated by Article 257 of this Act, the approval shall be deemed to have been issued.

(7) In the case referred to in the preceding paragraph, the supervisory authorities shall at the request of the holder of a qualifying holding issue a decision confirming that the approval was issued within eight days of the date of receipt of an application for issue of such decision.

Prior written notification of the intention to acquire the qualifying holding in a foreign financial institution
Article 23

(1) An insurance undertaking shall prior to its acquisition of the qualifying holding in another insurance undertaking or in another financial institution with its principal place of business outside the territory of the Republic of Croatia (hereinafter: foreign financial institution) notify the supervisory authorities of its intention in writing.

(2) The insurance undertaking referred to in paragraph 1 above shall, prior to any further acquisition on the basis of which it would reach or exceed the limit of 20%, 33% or 50% of voting rights or of the capital of a foreign financial institution or on the basis of which the insurance undertaking would acquire a majority holding in a foreign financial institution, notify the supervisory authorities of its intention in writing.

(3) Where an insurance undertaking intends to sell its shares or holdings in such a manner that its holding in a foreign financial institution is reduced to a level below the threshold referred to in paragraphs 1 and 2 above, it shall notify the supervisory authorities of its intention in writing.

(4) The written notification referred to in paragraph 1 of this Article shall be accompanied by:

1. a list of holders of qualifying holdings in the foreign financial institution along with the information on their holdings and a translation of a notarised extract from the judicial register of companies or another public register for each of them;

2. a translation of a notarised extract from the judicial register of companies or another public register for the foreign financial institution;

3. annual accounts for foreign financial institutions for the past two financial years;

4. where the legislation of the country in which the foreign financial institution has its head office stipulate that the institution is subject to obligatory audit, audited financial statements along with the auditors’ opinion of the annual accounts for the past two financial years shall be produced;

5. a list of persons which are related to the foreign financial institution along with a description of their relationship;

6. a management strategy for the foreign financial institution along with a cost-benefit analysis of the investments.

Legal consequences of acquisition without approval

Article 24

(1) The person who acquires or holds shares in contravention of Article 21 (1) or (2) hereunder shall not be entitled to vote or participate in the management of the insurance undertaking on the basis of the shares acquired that way.

(2) The voting rights referred to in paragraph 1 above shall, for the period during which the holder does not enjoy any voting rights arising from the shares acquired in contravention of
Article 21 (1) or (2) hereunder, be added to the voting rights enjoyed by other shareholders of the joint-stock insurance undertaking in such proportion as their individual holdings bear to the share capital of the joint-stock insurance undertaking, so that the holder may only participate in voting on the basis of shares which constitute no breach of Article 21 (1) or (2) of this Act.

II.2.4. Board of directors of an insurance undertaking

Board of directors of a joint-stock insurance undertaking

Article 25

(1) An insurance undertaking must have at least two members who manage the operations and jointly represent the insurance undertaking.

(2) The board of directors may not authorise one of its members or the procurator to represent the insurance undertaking in an independent capacity for the overall volume of insurance business in respect of which the undertaking has obtained authorisation from the supervisory authorities to conduct insurance business.

(3) At least one member of the board of directors must have a good command of the Croatian language. At least one member of the board of directors must have permanent residence in the Republic of Croatia.

(4) The board of directors must manage the operations of an insurance undertaking in the Republic of Croatia.

Employment of members of the board of directors

Article 26

(1) Members of the board of directors of a joint-stock insurance undertaking must have full-time employment in the insurance undertaking.

(2) Any special benefit enjoyed by the members of the board of directors and other employees of the insurance undertaking which do not ensue from the Act regulating employment in the Republic of Croatia shall cease as of the date of appointment of an extraordinary administration.

Requirements for the position of a member of the board of directors

Article 27

(1) The position of the member of the board of directors of an insurance undertaking may be assumed by any person meeting the following requirements:

- the candidate has a university degree;

- the candidate has adequate professional qualifications, competence and experience needed to manage the operations of an insurance undertaking in a sound and prudent manner;
- the candidate has never held a managing position in an undertaking or any other financial institution or company against which bankruptcy proceedings have been instituted or in respect of which the authorisation to conduct business has been revoked;

- the candidate meets the requirements for the position of the member of the board of directors laid down in the Companies Act;

- the candidate is not member of a board of directors or procurator of another company.

(2) The professional qualifications and experience referred to in paragraph 1, second subparagraph of this Article shall mean experience of at least three years in managerial positions in an insurance undertaking or six years’ working experience on matters familiar to insurance undertaking business.

Approval to assume the position of a member of the board of directors

Article 28

(1) Only a person who has been granted an approval by the supervisory authorities to carry out the duties of a member of the board of directors of a joint-stock insurance undertaking may be appointed member of the board of directors of a joint-stock insurance undertaking.

(2) Application for issue of the approval referred to in paragraph 1 above shall be lodged by the supervisory board of the insurance undertaking for a term of office which shall not exceed five years.

(3) The application referred to in paragraph 2 above shall be accompanied by supporting documents proving that the candidate meets the requirements set out in Article 27 of this Act which must not be older than three months except documents referred in paragraph 1(1) and (2) of that Article. The contents of the supporting documents by means of which the candidate for the position of a member of the board of directors proves that he/she meets the requirements laid down in Article 27 of this Act shall be prescribed by the supervisory authorities.

(4) The supervisory authorities may decide that, during the decision-making procedure, the candidate for the position of the member of the board of directors be required to present his/her programme for managing the operations of the insurance undertaking.

(5) The supervisory authorities shall grant the approval referred to in paragraph 1 of this Article if it concludes, on the basis of the documents referred to in paragraph 2 of this Article and the presented programme referred to in paragraph 4 of this Article, that the candidate is eligible for the position of the member of the board of directors of the insurance undertaking.

(6) The supervisory authorities shall refuse approval if it appears from the documents at their disposal that the activities or operations carried out by the candidate or the actions that used to be performed by the candidate are likely to be detrimental to the operations of the joint-stock insurance undertaking within the meaning of the risk management rules or if the supervisory authorities assess, on the basis of the statements referred to in paragraph 4 of this Article, that the candidate will not manage the operations of the insurance undertaking in accordance with
the regulations issued under this Act or other legislation governing operations of insurance undertakings or if they establish that the candidate has produced false information in his/her application for issue of the approval or during the presentation referred to in paragraph 4.

(7) If a person has been granted approval to carry out the duties of the member of the board of directors, he/she shall, prior to the appointment to the same position with another insurance undertaking, obtain approval from the supervisory authorities. The provisions of paragraphs 4, 5 and 6 of this Article shall apply to the said approval as appropriate.

(8) If a legal person has applied for issue of an authorisation to carry on insurance business, the decision-making procedure in respect of the approval referred to in paragraph 1 of this Article shall be consolidated with the decision-making procedure with regard to the granting of the authorisation to carry on insurance business.

(9) The approval referred to in paragraph 1 of this Article shall lapse in the following cases:

- if, within six months of receipt of the approval to assume the office of the member of the board of directors, the candidate is not appointed member of the board of directors of the insurance undertaking to which the approval relates and the approval issue procedure has been consolidated with the procedure for issue of the authorisation to the insurance undertaking to carry on insurance business;

- if, within three months of receipt of the approval to assume the office of the member of the board of directors, the candidate is not appointed member of the board of directors of the insurance undertaking to which the approval relates;

- where the term of office of the member of the board of directors of the insurance undertaking has terminated, the approval shall lapse as of the date of termination of the office;

- where the member’s employment contract with the insurance undertaking has expired, the approval shall lapse as of the date of expiration of the contract.

Obligations of a member of the board of directors of an insurance undertaking

Article 29

(1) Members of the board of directors of an insurance undertaking shall ensure that the insurance undertaking operates in accordance with the provisions of this Act and the legal regulations adopted pursuant to this Act or pursuant to other legislation governing operations of insurance undertakings, as well as legal regulations adopted under such legislation.

(2) Members of the board of directors of an insurance undertaking shall ensure monitoring of the risks to which the insurance undertaking is exposed in carrying on its operations, and shall take any measure they deem necessary to manage the said risks.

(3) Members of the board of directors of an insurance undertaking shall ensure that a system of internal controls, as well as internal audit, is set up in all business areas of the insurance undertaking, and shall ensure that they operate in accordance with this Act and other legal regulations adopted by virtue of this Act.
(4) Members of the board of directors of an insurance undertaking shall ensure keeping of the insurance undertaking’s accounts and other books and business records, preparation of bookkeeping documents, valuation of bookkeeping positions, drawing up of accounting and other reports, as well as reporting to and informing the supervisory authorities pursuant to this Act and the regulations adopted pursuant to this Act.

(5) The members of the board of directors of the insurance undertaking must prescribe the manner of performance of the duties referred to in paragraphs 1 to 4 of this Article.

(6) In the event of any reappointment or termination of his/her office as member of a supervisory or management board of another legal person, a member of the board of directors of the insurance undertaking shall inform the supervisory authorities accordingly, in writing, within eight days thereof.

Notification of the supervisory board
Article 30

(1) The board of directors shall without delay notify, in writing, the supervisory board of the insurance undertaking of the following events:

1. if there is a threat to liquidity or solvency of the insurance undertaking;

2. if there is every reason to revoke the authorisation to carry on insurance business or to prohibit the carrying out of operations under individual lines of insurance;

3. if the financial standing of the insurance undertaking has changed so that the insurance undertaking is unable to retain the level of the guarantee fund referred to in Articles 98 and 99 of this Act.

(2) A member of the board of directors shall without delay notify, in writing, the supervisory board of the following:

1. appointment or termination of his/her office as member of supervisory boards of another legal persons;

2. any legal transaction on the basis of which either the member of the board of directors him/herself or his/her immediate family member has acquired, directly or indirectly, shares or holdings in a legal person on the basis of which the member of the board of directors along with his/her immediate family member(s) has a holding reaching or exceeding the qualifying holding or if their holding has been reduced to a level below the qualifying holding threshold;

3. if the approval to carry out the duties of the member of the board of directors has been withdrawn.

Withdrawal of approval to carry out duties of a member of the board of directors of an insurance undertaking
Article 31
(1) The supervisory authorities shall withdraw the approval to carry out the duties of the member of the board of directors of the insurance undertaking in the following cases:

1. if the approval was obtained by stating false information;

2. if the member of the board of directors in question commits a serious breach of the obligations of the member of the board of directors referred to in Articles 29 and 30 of this Act;

3. if the conditions laid down in the Companies Act have ceased to apply.

(2) The supervisory authorities shall consolidate both procedures if the procedure for withdrawal of the approval in respect of the member of the board of directors has been initiated as a result of violations due to which the procedure for withdrawal of the authorisation to carry on insurance business has been initiated.

(3) If the approval for performance of the duties of a member of the board of directors has been withdrawn or has lapsed because of expiration of his/her employment contract, the supervisory board of the insurance undertaking shall immediately relieve the member(s) in question of his/her or their duties and appoint (a) new member(s) of the board of directors.

II.2.5. Supervisory board of an insurance undertaking

Members of the supervisory board of an insurance undertaking
Article 32

(1) The following persons may not be appointed members of a supervisory board of an insurance undertaking:

1. a person related to legal persons in which an insurance undertaking holds more than 5% of voting rights or of their share capital;

2. a person who is member of a supervisory board or board of directors or procurator in another insurance undertaking, another financial holding company or another financial institution;

(2) Members of the supervisory board which are the representatives of the employees shall not participate in the decision-making of the supervisory board referred to in Articles 34 and 35 Paragraph 1 of this Act.

(3) The prohibition referred to in point 2 of paragraph 1 of this Article shall not apply to the persons who are members of supervisory boards, boards of directors or procurators of a dominant insurance undertaking or another dominant company in an insurance group.

Requirements for the position of a member of the supervisory board of an insurance undertaking
Article 33
(1) Only the persons who satisfy the following requirements shall be eligible for the position of a member of the supervisory board of an insurance undertaking:

1. the person who meets the requirements laid down in the Companies Act in respect of the member of the supervisory board;

2. a person who has never been a member of a board of directors of an undertaking or company that has been wound up, declared bankrupt or had extraordinary administration.

(2) The supervisory authorities may require the board of directors of an insurance undertaking to convene the general meeting of shareholders and propose that a member of the supervisory board be relieved of his/her duties where:

1. the member of the supervisory board breaches the obligations referred to in Article 35 of this Act;

2. the provisions of Article 32 of this Act have been violated;

3. the member of the supervisory board does not meet the requirements referred to in paragraph 1 of this Article.

**Competences of the supervisory board of an insurance undertaking**

**Article 34**

(1) In addition to the competences that a supervisory board has pursuant to the Companies Act, the supervisory board of an insurance undertaking shall have the following competences:

1. approves decisions of the board of directors concerning the business policy of the insurance undertaking;

2. approves decisions of the board of directors concerning the finance scheme of an insurance undertaking;

3. approves decisions of the board of directors concerning the setting-up of the internal control system;

4. approves decisions of the board of directors concerning the framework annual programme of operations of the internal audit;

5. decides on other matters stipulated by this Act.

**Obligations of members of the supervisory board of an insurance undertaking**

**Article 35**

(1) Members of the supervisory board of an insurance undertaking shall be obliged to:

1. supervise the adequacy of procedures applied and efficiency of the activities of the internal audit;
2. discuss the findings of the supervisory authorities, Tax Administration and other regulatory bodies in the course of a supervision of an insurance undertaking;

3. review annual report and other financial statements of an insurance undertaking and draw up a written report to the annual general meeting thereof;

4. explain to the general meeting of shareholders their opinion about the internal audit’s annual report and about the annual report submitted by the board of directors.

(2) Members of the supervisory board of an insurance undertaking shall be jointly liable to the insurance undertaking for any loss incurred as a result of non-compliance with their obligations referred to in paragraph 1 of this Article unless they can prove that they have performed their duties honestly and with all due care.

(3) A member of the supervisory board of an insurance undertaking shall without delay inform the supervisory authorities on the following:

1. his/her appointment and termination of office as a member of management or supervisory boards of other legal persons;

2. any legal transaction on the basis of which either the member of the supervisory board him/herself or his/her immediate family members has/have acquired, directly or indirectly, shares or holdings in a legal person on the basis of which the member of the supervisory board along with his/her immediate family members has a holding reaching or exceeding the qualifying holding or if their holding has been reduced to a level below the qualifying holding threshold.

II.3 MUTUAL INSURANCE UNDERTAKING

II.3.1 General provisions

Definition

Article 36

(1) A mutual insurance undertaking is a legal person entered in the judicial register of companies on the basis of authorisation to conduct insurance business issued by the supervisory authorities.

(2) The mutual insurance undertaking referred to in paragraph 1 above transacts the insurance business on the basis of mutuality for its members only.

(3) A mutual insurance undertaking may conduct any line of business under non-life insurance and life assurance classes, except for the lines of business referred to in Article 3 (2), points 10 to 15 of this Act.

(4) A mutual insurance undertaking is not permitted to transact reinsurance business.
(1) The company name of a mutual insurance undertaking shall contain an indication that the company in question is a mutual insurance undertaking. The words "mutual insurance undertaking" or any derivation thereof as part of the company name or abridged company name may be entered in the judicial register of companies and used in legal transactions only if the undertaking concerned has been granted the authorisation referred to in Article 36 (1).

II.3.2 Setting-up of a mutual insurance undertaking

Setting-up
Article 38

(1) A mutual insurance undertaking shall be set up subject to adoption of the articles of association and payment of initial capital by the founders who are members of the undertaking.

(2) A mutual insurance undertaking may be set up subject to minimum membership of 250 persons.

Articles of association
Article 39

(1) The articles of association of a mutual insurance undertaking shall be drawn up in the form of a notary public's document.

(2) The articles of association of a mutual insurance undertaking shall contain as follows:

1. name and head office of the undertaking;
2. the lines of insurance in which the undertaking will be active;
3. the manner and form of communications relevant to the undertaking and its members;
4. date of commencement of membership;
5. the amount of initial capital;
6. the terms and conditions, and the method of payment of the funds by the members;
7. the level of and methodology used in setting up contingency reserves;
8. the terms and conditions, and the method of appropriation of profits or offsetting losses;
9. the criteria for distribution of profits to the members;
10. the number of members of the board of directors and the supervisory board;
11. the minimum number of members participating in the general meeting who may exercise their minority rights.

(3) In addition to the cases referred to in Article 61 of this Act, the supervisory authorities shall reject the application for issue of the authorisation to carry on insurance business to a mutual insurance undertaking if the provisions of the articles of association are likely to be detrimental to the members' interests.
II.3.3 Funds of a mutual insurance undertaking

Initial capital
Article 40

(1) Initial capital of a mutual insurance undertaking must be equal at least to the amount of the costs of setting up the administrative services and the organisation for securing business and other initial costs.

(2) By way of derogation from Paragraph 1 of this Article, the initial capital of a mutual insurance undertaking shall at least be equal to the level of the capital referred to in Article 100 Paragraph 1 of this Act.

(3) Initial capital of a mutual insurance undertaking must be fully paid up in cash prior to registration of the mutual insurance undertaking in the judicial register of companies at the time it is founded.

(4) The articles of association shall lay down the terms and conditions and the method of repayment of the funds paid for the purpose of the initial capital formation. Where the articles of association provide that the funds paid for the purpose of the initial capital formation are not repayable, the articles of association must provide for the manner in which these funds will be used.

(5) The initial capital funds may be repaid out of the undertaking’s profits made in a specific financial year. The amount repaid in a certain year shall not exceed the amount allocated to form contingency reserves in the concerned year.

Funds in the accounts of members of a mutual insurance undertaking
Article 41

(1) Articles of association of a mutual insurance undertaking may provide that the funds in the accounts of members of a mutual insurance undertaking may also constitute the initial capital of the mutual insurance undertaking concerned.

(2) The funds in the accounts of members of a mutual insurance undertaking may constitute the initial capital of a mutual insurance undertaking where the articles of association provide that:
- the payments from the members' accounts are possible insofar as this does not jeopardise the capital adequacy of the undertaking or where all liabilities of the undertaking have been met on closure of winding-up proceedings;
- the mutual insurance undertaking informs the supervisory authority one month before the payment from the members' accounts of its intention to make payment, except for repayment in the case of termination of membership;
- the undertaking may not make changes to the part of the articles of association which relates to the members' accounts without prior approval of the supervisory authority.

Contributions (premiums), additional payments and contingency reserves
Article 42
(1) Articles of association shall lay down the terms and conditions and the manner in which the funds required for the operation of a mutual insurance undertaking are provided by the members. The funds required for the operation of a mutual insurance undertaking in any year of operation shall be covered by predetermined contributions (premiums) of the members.

(2) Articles of association shall lay down the terms and conditions and the method of additional payment of funds if the funds referred to in Paragraph 1 of this Article are not sufficient to cover liabilities of a mutual insurance undertaking.

(3) Additional payments of the funds must also be paid by the persons which have become members during the year, or the persons whose membership has terminated in the respective year, in proportion to the duration of their membership in that particular year. If there is a change, in the course of the financial year, in the contributions (premiums) that serve as the basis for determination of the level of additional payments, additional payments shall be calculated on the basis of the higher basis.

(4) Articles of association shall also lay down the manner of setting up the provisions used to cover operating losses (contingency reserves) and shall specify which contributions (premiums) are to be used on an annual basis for establishment of contingency reserves, along with the minimum level of such reserves.

Appropriation of profits for the year
Article 43

(1) The profits of a mutual insurance undertaking may be distributed to the members or brought forward to the next financial year to the extent that these are not required to form contingency reserves or any other provisions laid down in the articles of association;

II.3.4 Relations between a mutual insurance undertaking and its members

Membership of a mutual insurance undertaking
Article 44

(1) Membership of a mutual insurance undertaking shall be subject to conclusion of an insurance contract with the mutual insurance undertaking, acceptance of the articles of association and aliquot payment of initial capital.

Rights, obligations and responsibilities of members
Article 45

(1) The members shall not be liable for the liabilities of the mutual insurance undertaking.
(2) A member may not set off his/her liabilities for contributions and subsequent payments to the mutual insurance undertaking against his/her claims against the mutual insurance undertaking.

(3) Contributions and subsequent payments by the members, as well as the liabilities of a mutual insurance undertaking to its members may be determined by applying the same criteria.

II.3.5 Bodies of a mutual insurance undertaking

Bodies of the undertaking
Article 46

(1) The bodies of a mutual insurance undertaking shall constitute the board of directors, supervisory board and the general meeting.

Board of directors of a mutual insurance undertaking
Article 47

(1) The relevant provisions of the Companies Act and the provisions of Articles 25 to 31 of this Act shall apply mutatis mutandis to the board of directors of a mutual insurance undertaking.

Supervisory board of a mutual insurance undertaking
Article 48

(1) The supervisory board of a mutual insurance undertaking must consist of at least three members.

(2) The articles of association may provide that the supervisory board has more than three members on condition that the number of members is odd and the maximum number is twenty-one.

(3) The relevant provisions of the Companies Act which deal with shares of the members in the profits of the undertaking and the provisions of Articles 32 to 35 of this Act shall apply mutatis mutandis to the supervisory board of a mutual insurance company.

General meeting of a mutual insurance undertaking
Article 49

(1) Unless otherwise stipulated by law, the members of a mutual insurance undertaking shall exercise their rights by means of the general meeting.

(2) The general meeting may be organised as a general meeting of all members (general meeting of members) or as a general meeting of the members’ representatives who must be members themselves (general meeting of representatives). If the articles of association
stipulate that the general meeting of a mutual insurance undertaking should be organised as a general meeting of representatives, they must also specify the composition of the general meeting and the procedure for appointment of representatives.

(3) The general meeting shall decide on the issues which pursuant to law or articles of association come within exclusive authority of the general meeting. Decisions regarding management issues may be taken by the general meeting if the board of directors or supervisory board so decide.

(4) The relevant provisions of the Companies Act which deal with the general meeting of a mutual insurance undertaking shall apply mutatis mutandis to the general meeting of a mutual insurance undertaking.

II.3.6 Dissolution of a mutual insurance undertaking

Reasons for dissolution
Article 50

(1) A mutual insurance undertaking shall be dissolved:

1. upon expiry of the period for which it was founded;

2. by virtue of a resolution of the general meeting (voluntary winding-up);

3. if bankruptcy proceedings or compulsory winding-up proceedings have been initiated.

(2) A minimum of three-quarters majority of votes shall be required for the adoption of a resolution on the dissolution of the undertaking by the general meeting.

(3) For the resolution referred to in paragraph 2 of this Article to be valid, an approval of the supervisory authorities shall be required. The supervisory authorities may reject the application for issue of such approval only if, in the event of dissolution of the mutual insurance undertaking, the interests of the policyholders would not be adequately safeguarded.

Transfer of portfolio
Article 51

(1) In addition to the conditions set out in Articles 70, 71 and 72 of this Act, a transfer of portfolio shall be subject to approval by the general meeting. Unless the articles of association stipulate a higher majority, a three-quarters majority of votes shall be required for a resolution to transfer a portfolio which must be adopted by the general meeting.

(2) The supervisory authorities may refuse the application for issue of approval for the transfer of portfolio where the transfer of portfolio is likely to be detrimental to the interests of the members of the mutual insurance undertaking.

Acquisition and merger
Article 52

(1) One or several mutual insurance undertakings may be taken over by another mutual insurance undertaking (acquiring undertaking) without opening of winding-up proceedings by way of transfer of all assets of one or several undertakings (acquired undertaking) in exchange for holdings in the acquiring undertaking.

(2) Two or more mutual insurance undertakings may be merged without opening of winding-up proceedings by way of establishment of a new mutual insurance undertaking to which the assets of the merged companies are transferred in exchange for holdings in the newly-established undertaking.

(3) Acquisitions and mergers of mutual insurance undertakings shall be subject to resolutions of the general meetings of the undertakings being acquired or merged, which shall be taken by a three-quarters majority of votes.

Approval for acquisition or merger

Article 53

(1) Prior to acquisition of or merger with another mutual insurance undertaking, a mutual insurance undertaking shall obtain approval of the supervisory authorities. The relevant provisions of Articles 59 to 61 of his Act shall be applicable to the decision-making on the approval for acquisition or merger.

(2) The supervisory authorities may reject an application for issue of the approval for acquisition or merger if the competent authority, set up for the purpose of competition control, refuses to grant the application for acquisition or merger or prohibits the acquisition or merger on the basis of the Act regulating competition control.

(3) Where a new legal person is established following an acquisition or merger and this new legal person is to carry on insurance business, prior to registration of the acquisition or merger in the judicial register of companies it is necessary to be authorised by the supervisory authorities to carry on insurance activities.

(4) Where a mutual insurance undertaking is taken over by an acquiring undertaking other than a mutual insurance undertaking or where a proportion of the liabilities of the mutual insurance undertaking is assumed by the acquiring undertaking other than a mutual insurance undertaking and where the acquiring undertaking is to conduct insurance business, then the acquiring undertaking must prior to the registration in the judicial register of companies receive from the supervisory authorities authorisation to conduct insurance business.

(5) In the case referred to in paragraphs 3 and 4 above, the supervisory authorities shall consolidate the decision-making procedure concerning the approval for acquisition/merger with the decision-making procedure concerning the issue of the authorisation required to carry on insurance business.

(6) The provisions of the preceding paragraphs shall apply mutatis mutandis in the event of division of a mutual insurance undertaking.
Transfer of assets to a joint-stock insurance undertaking  
Article 54

(1) A mutual insurance undertaking may, without a prior winding-up, transfer all of its assets to a joint-stock insurance undertaking.

(2) The provisions of the Companies Act shall appropriately apply to the transfer of assets of a mutual insurance undertaking to a joint-stock insurance undertaking. The mutual insurance undertaking shall be deemed to be acquired undertaking, whereas the joint-stock insurance undertaking shall be referred to as acquiring undertaking.

(3) A three-quarters majority of votes shall be required for a resolution approving the acquisition to be adopted by the general meeting of the mutual insurance undertaking.

Transformation into a joint-stock undertaking  
Article 55

(1) A mutual insurance undertaking may be transformed into a joint-stock insurance undertaking by virtue of a resolution adopted by the general meeting. Unless otherwise specified, a three-quarters majority of votes shall be required for the resolution on transformation into a joint-stock insurance undertaking to be adopted by the general meeting.

(2) Each member may, by the end of the third day prior to the general meeting, object to the transformation by sending a registered letter.

(3) The board of directors shall, not later than at the time the general meeting is called, inform all the members of the contents of the proposed resolution on transformation in accordance with the method of notification provided for by the articles of association. The notification shall include a reference to the members' right to object as referred to in paragraph 2 of this Article and the rights ensuing from the objection lodged.

(4) Transformation shall be subject to approval by the supervisory authorities. The supervisory authorities shall refuse the application for transformation where in their opinion such transformation is likely to prejudice the interests of the members.

Resolution on transformation  
Article 56

(1) The resolution on transformation shall lay down the share capital and the amount at which shares will be issued, as well as other amendments to the articles of association necessary for the transformation. Nominal amount of the share capital must not exceed the value of the assets of the mutual insurance undertaking less its liabilities. The amount at which the shares are issued shall equal the minimum amount, as laid down in the Companies Act, at which shares may be issued.

(2) Unless otherwise provided in the resolution on transformation, the members of the mutual insurance undertaking shall participate in the share capital. Where there is no provision in the
resolution to the effect that all the members of the mutual insurance undertaking participate in
the share capital with equal holdings, a holding of an individual member shall be determined
on the basis of only one criterion or several of the following criteria:

1. the level of the sum insured;
2. the level of the contribution;
3. the level of basic coverage in the case of life assurance;
4. profit distribution criteria;
5. duration of membership.

(3) Where a holding of an individual member does not reach the minimum nominal share
value, his/her participation in the share capital shall not be taken into account. Other holdings
shall be rounded up so as to be divisible by the minimum nominal share value and so as to
divide the total share capital.

(4) If the nominal amount of a member's participation in the share capital of a joint-stock
undertaking exceeds the holding determined on the basis of paragraphs 1 and 2 of this Article,
the member shall pay the difference to the joint-stock undertaking. On the other hand, if the
nominal amount of a member's participation in the share capital of a joint-stock undertaking is
lower than the holding determined on the basis of paragraphs 1 and 2 of this Article or if a
member does not participate in the share capital of a joint-stock undertaking, the difference or
the holding must be paid to the member by the joint-stock undertaking.

Implementation of transformation
Article 57

(1) Unless otherwise specified herein, the provisions of the Companies Act shall apply
mutatis mutandis to transformation of a mutual insurance undertaking.

(2) A joint-stock insurance undertaking shall acquire legal personality as of the date of its
registration in the judicial register of companies.

(3) As of the date of registration referred to in paragraph 2 above, the members of the mutual
insurance undertaking shall become shareholders pursuant to the resolution on transformation.

(4) Any member who objects to transformation in the manner set out in Article 55 (2), shall
place his/her shares at the disposal of the undertaking.

TITLE III
CARRYING ON OF INSURANCE BUSINESS

III.1 Authorisations and approvals

Authorisations and approvals
Article 58
(1) Prior to registration in the judicial register of companies, an insurance undertaking must receive authorisation to carry on insurance business (hereinafter: authorisation to carry on insurance business) from the supervisory authorities.

(2) An insurance undertaking which takes over another insurance undertaking or another legal person must prior to registration of the acquisition in the judicial register of companies receive approval (hereinafter: approval for acquisition) from the supervisory authorities.

(3) Insurance undertakings which are merged must prior to registration of the decision on merger in the judicial register of companies receive from the supervisory authorities approval (hereinafter: approval for merger) and authorisation to conduct insurance business for a newly-established insurance undertaking. As of the date of registration of the newly-established insurance undertaking in the judicial register of companies, the insurance undertakings that have been merged shall be dissolved and their respective authorisations to conduct insurance business shall become invalid.

(4) Prior to establishing a branch abroad, an insurance undertaking shall receive authorisation from the supervisory authorities (hereinafter: authorisation to establish a branch abroad).

(5) Prior to transfer of its insurance contracts to another insurance undertaking, an insurance undertaking must receive authorisation from the supervisory authorities.

(6) For conclusion of a contract under which a considerable proportion of business is transferred to another insurance undertaking or another person, an insurance undertaking shall receive authorisation from the supervisory authorities (hereinafter: authorisation to transfer outsourced business). An insurance undertaking must receive authorisation for transfer of outsourced business and for any amendment to the contract on outsourced business whereby the subject matter of the contract is changed.

(7) The supervisory authorities shall decide on the approval referred to in paragraphs 2 and 3 of this Article at the same time when they decide on the authorisation to carry on insurance business, unless an application for issue of the approval referred to in paragraphs 2 and 3 of this Article is lodged after the acquiring insurance undertaking has obtained the authorisation to carry on insurance business.

III.2 Authorisation to carry on insurance business

Application for issue of authorisation to carry on insurance business

Article 59

(1) An application for a authorisation required to carry on insurance business shall be accompanied by:

1. a scheme of operations;

2. Articles of association of the insurance undertaking in the form of an authenticated notary public’s document;
3. a list of shareholders including personal information about them, name of the undertaking and its principal place of business, the total nominal value of shares held and the amount of respective holdings, expressed as percentage, in the share capital of the insurance undertaking;

4. the shareholders – legal persons which are holders of qualifying holdings shall submit as follows:

- an extract from the judicial register of companies or another equivalent public register;
- where the shareholder is a joint-stock undertaking, in addition to the abovementioned, an extract relating to the shareholder in question from the shareholders’ register or, in the case of bearer shares, an authenticated transcript of the notary public’s document showing the list of the persons present at the last general meeting of shareholders; where the shareholders are foreign legal persons, notarised translation of the concerned documents must be submitted;

- financial statements for the past two financial years;

5. a list of persons related to the holders of qualifying holdings along with the description of their relationship;

6. contracts on outsourced business if the insurance undertaking intends to authorise other persons to carry on certain operations.

(2) An application for issue of authorisation to carry on insurance business shall be accompanied by an opinion of a certified actuary on whether the insurance undertaking will be able to meet the capital adequacy requirements given the nature and volume of the business to be carried on.

**Taking decisions on authorisation to carry on insurance business**

**Article 60**

(1) The supervisory authorities shall decide on issue of authorisation for each class of insurance in which the insurance undertaking may write business.

(2) The supervisory authorities shall issue authorisation to carry out insurance operations in a certain insurance class if in its opinion the insurance undertaking satisfies the requirements for carrying out the operations in such insurance class.

(3) In the wording of the authorisation, the supervisory authorities shall explicitly specify the insurance operations to which the authorisation relates. If the authorisation relates to all lines of business under a certain insurance class, the supervisory authorities may in the wording of the authorisation specify that insurance class.

(4) By way of derogation from paragraphs 1 to 3 above, the supervisory authorities shall decide on issue of authorisation to write reinsurance business in respect of all lines of insurance and shall specify in the wording of the authorisation that the authorisation is valid exclusively in respect of reinsurance business.
Refusal of application for issue of authorisation to conduct insurance business

Article 61

(1) The supervisory authorities shall refuse application for issue of authorisation to conduct insurance business if:

1. the shareholders do not have the approval referred to in Article 21 (1) of this Act;

2. the members of the board of directors do not have the approval for performance of the duties of a member of the board of directors;

3. it is evident from the articles of association and other documentation that the requirements for the conduct of insurance operations as laid down in this Act or in the regulations adopted under this Act have not been met;

4. it is evident from the documents and other known circumstances that the insurance undertaking will not be capable, in terms of personnel, organisation and technical matters, to produce the volume of business projected in its scheme of operations;

5. the provisions of the articles of association of the insurance undertaking are contrary to either the provisions of this Act or the provisions of the regulations adopted under this Act;

6. the calculated premiums and technical provisions are not sufficient for a permanent and full coverage of the liabilities of the insurance undertaking under the insurance contracts in force;

7. the insurance undertaking fails to meet other requirements laid down in this Act or any regulation adopted under this Act which refer to the carrying out of insurance operations in the class of insurance to which the application for issue of authorisation relates.

8. the general and special terms and conditions of insurance are contrary to the Act regulating compulsory insurance in transportation.

Lapse of authorisation to carry on insurance business

Article 62

(1) Authorisation to carry on insurance business shall lapse:

1. if the insurance undertaking does not start its operations within six months of the date of issue of the authorisation;

2. if the insurance undertaking ceases to carry on business for more than six months;

3. as of the beginning of bankruptcy proceedings or compulsory winding-up proceedings;

4. upon closure of a regular winding-up of an insurance undertaking;

5. upon transfer of all insurance contracts to another insurance undertaking.
(2) Should any of the situations referred to in paragraph 1 above arise, the supervisory authorities shall take a decision to declare the authorisation invalid.

(3) An insurance undertaking shall not be permitted to continue writing new business in connection with the conduct of insurance operations in the following cases:

1. in the case referred to in paragraph 1, points 1 and 2 of this Article, as from the date the decision referred to in paragraph 2 of this Article is served;

2. in the case referred to in paragraph 1, point 3 of this Article, as from the date of announcement of the bankruptcy proceedings on the billboard or from the date when the decision referred to in paragraph 2 of this Article is served by virtue of which the supervisory authorities decide on the opening of compulsory winding-up proceedings;

3. in the case referred to in paragraph 1, point 4 of this Article, as from the date of receipt of the decision referred to in Article 200 (1) of this Act;

4. in the case referred to in paragraph 1, point 5 of this Article, as of the date when the insurance undertaking receives authorisation from the supervisory authorities to transfer insurance contracts.

**Scheme of operations**

**Article 63**

(1) The scheme of operations referred to in Article 59 (1), point 1 of this Act shall include particulars concerning:

1. the basic features of the business policy;
2. a forecast balance sheet;
3. a list of individual classes of insurance in which the insurance undertaking will write insurance business;
4. the calculation of the amount of the capital referred to in Article 93 of this Act and the items constituting the fund.
5. estimates of the costs of setting up the administrative services and the organisation for securing business, management expenses, as well as the financial resources intended to meet those costs and expenses;
6. the planned reinsurance programme along with tables of maximum covers for all lines of business;
7. the estimated liquidity and financial resources which will be available to cover the liabilities and ensure capital adequacy;
8. a detailed projection of expected operating results for a period of at least three years, including in particular expected premium income, expected insurance premiums and claims, expected commission expenses and other expenses, as well as estimated levels of technical provisions and other reserves.

(2) Where the scheme of operations relates to reinsurance business, it must only contain the information referred to in points 1, 4, 5 and 8 of paragraph 1 of this Article.
(3) If an insurance undertaking intends to transact insurance business in the line of business referred to in Article 3 (2), point 18 of this Act, the scheme of operations must also contain the description of funds necessary to meet the liabilities arising from this line of business.

Commencement of operations in individual lines of insurance
Article 64

(1) An insurance undertaking shall inform the supervisory authorities of the commencement or discontinuation of insurance operations in a line of insurance in respect of which the authorisation has been granted.

Extension of business to other lines of insurance
Article 65

(1) If an insurance undertaking which has received authorisation to conduct insurance business in certain lines of insurance intends to commence activities in other lines of insurance, it must obtain authorisation from the supervisory authorities to extend its business to other lines of insurance.

(2) The provisions of Articles 59 to 63 of this Act shall appropriately apply to the authorisation to extend the business to other lines.

(3) The supervisory authorities shall refuse application for issue of authorisation to extend the business to other lines of insurance in the following cases:

1. if they consider that the operations to which the application relates would be detrimental to the operations of the insurance undertaking according to the risk management rules;

2. if the insurance undertaking fails to meet other requirements for the conduct of operations in the line of insurance to which the application relates.

III.3 Certified actuary

Certified actuary
Article 66

(1) A certified actuary is a person authorised by the supervisory authorities to perform the duties of a certified actuary.

(2) The supervisory authorities shall issue authorisation for performance of the duties of the certified actuary if the applicant meets the following requirements:

1. good command of the Croatian language;
2. he/she has successfully passed examinations and/or tests of technical knowledge required for the performance of the duties of the certified actuary in accordance with the training programme of international or European actuarial associations;
3. he/she is a regular member of an actuarial association based in the Republic of Croatia which is recognised by international or European actuarial associations;
4. he/she has never been validly sentenced to imprisonment on account of commitment of a criminal act against property and the economy;
5. he/she has no past record of a revoked authorisation to perform the duties of the certified actuary.

(3) The supervisory authorities may conclude with the competent supervisory authorities from a Member State an agreement on recognition of the authorisation to perform the duties of the certified actuary.

(4) The supervisory authorities shall lay down the requirements for professional training and examination of technical knowledge needed for the performance of the duties of the certified actuary.

(5) The supervisory authorities shall revoke the authorisation to perform the duties of the certified actuary in the following cases:

1. if the authorisation obtained was based on the submission of false information;
2. if the certified actuary commits a serious violation of the rules of the actuarial profession;
3. if he/she does not meet the requirements set out in paragraph 2, points 3 and 4 of this Article.

(6) The supervisory authorities shall be obliged to inform the insurance undertaking(s) to which a certified actuary provides actuarial services of any revocation of the authorisation in respect of the actuary in question.

(7) The supervisory authorities shall oversee the work of certified actuaries. The provisions of Articles 156, 157, 158 (5), 160, 161, 164 and 165 of this Act shall apply to the overseeing of certified actuaries as appropriate.

**Appointment of a certified actuary**

**Article 67**

(1) Prior to commencement of its operations, an insurance undertaking must appoint a certified actuary.

(2) A person holding the position of a member of the board of directors or procurator in the insurance undertaking or the person who has a direct or indirect holding in the insurance undertaking in excess of 1‰ may not be appointed certified actuary.

(3) An insurance undertaking shall notify the supervisory authorities on appointment of a certified actuary within eight days of the date of appointment.

(4) If the insurance undertaking does not appoint a certified actuary within three months or appoints, for the performance of the duties of a certified actuary, a person who does not have authorisation therefore, the certified actuary shall be appointed by the competent authorities.
Duties of a certified actuary

Article 68

(1) A certified actuary must verify that premium tariffs and technical provisions are calculated in accordance with the rules and that technical provisions that are set aside are sufficient to ensure that all liabilities of the insurance undertaking under the insurance contracts are covered at all times.

(2) The board of directors shall provide the certified actuary with all the data needed to perform the duties referred to in paragraph 1 of this Article.

(3) A certified actuary must submit to the supervisory board and the board of directors, together with the opinion on the annual report referred to in Article 142 of this Act, a report on the findings of the certified actuary with regard to his/her control in the previous financial year pursuant to paragraph 1 of this Article. The report must primarily cover the reasons for issue of a favourable opinion, an opinion with a reservation or an unfavourable opinion of the certified actuary on the annual report.

(4) Where, in the course of his/her duties referred to in paragraph 1 of this Article, a certified actuary establishes that premium tariffs or technical provisions are not calculated or formed in accordance with the rules, or that these are calculated or formed in such a manner that payment of the insurance undertaking’s liabilities under the insurance contracts is questionable, he/she must forthwith inform the board of directors of the insurance undertaking. If the board of directors fails to take into consideration the certified actuary’s report in an appropriate manner, the certified actuary must immediately inform the supervisory authorities thereof.

(5) The board of directors shall take measures to bring the operations into line with the certified actuary's report.

(6) If the board of directors fails to take measures pursuant to the report referred to in Paragraph 4 of this Article, the certified actuary shall without delay inform the supervisory authority thereof.

(7) If a certified actuary ceases to perform his/her duties at the insurance undertaking, he/she must inform the supervisory authorities within eight days thereof.

Dismissal of a certified actuary

Article 69

(1) If, following appointment of a certified actuary, the supervisory authorities withdraw the authorisation from the certified actuary or where the circumstances referred to in Article 67 (2) of this Act arise in respect of the appointed person, the insurance undertaking must appoint a new certified actuary.

(2) If, in the case under paragraph 1 above, the insurance undertaking fails to appoint a new certified actuary, the supervisory authorities shall request the insurance undertaking to remedy the situation within a period not less than 60 days.
(3) If the insurance undertaking in the case referred to in paragraph 2 above fails to appoint a new certified actuary, a certified actuary shall be appointed by the supervisory authorities.

(4) Where a certified actuary is dismissed, the insurance undertaking must inform the supervisory authorities within eight days of the date of dismissal.

III.4 Transfer of insurance portfolio

Transfer of insurance portfolio

Article 70

(1) An insurance undertaking may, by virtue of a contract, transfer to another insurance undertaking (hereinafter: accepting insurance undertaking) its insurance contracts concluded in a specific class or line of insurance (hereinafter: insurance portfolio) at the same time when it transfers assets used to cover technical provisions at the value of technical provisions formed in respect of the insurance portfolio which is being transferred or assets used to cover mathematical reserve which must be formed in respect of the insurance portfolio which is the subject matter of the contract.

(2) An insurance portfolio may be transferred to the accepting insurance undertaking when the accepting insurance undertaking receives approval from the supervisory authorities to accept the insurance portfolio.

(3) Transfer of insurance contracts shall not be conditional upon approval of the insured persons.

(4) The accepting insurance undertaking shall inform the policyholders and/or insured persons about the transfer by public means of communication in the territory where the risks that are covered by the transferred insurance contracts are situated.

(5) An insurance undertaking may transfer its insurance portfolio to:

1. another insurance undertaking in the Republic of Croatia,
2. its branch or a branch of another insurance undertaking with the principal place of business in the Republic of Croatia,
3. an insurance undertaking from a Member State or its branch in the Republic of Croatia or another Member State,
4. a branch of an insurance undertaking from a third country if the principal place of business of the branch is in the Republic of Croatia,
5. a branch of an insurance undertaking from a third country if the principal place of business of the branch is in a Member State and the insurance contracts that are being transferred cover the risk situated exclusively in the concerned Member State.

(6) The transferring insurance undertaking shall transfer its insurance portfolio to the accepting insurance undertaking within three months of the date of receipt of approval from the supervisory authorities for the transfer of the portfolio.
(7) The approval for transfer of insurance portfolio shall lapse on expiry of the period referred to in paragraph 6 above.

(8) The transferring insurance undertaking shall submit to the supervisory authorities within 30 days of the date of transfer of the portfolio a proof for the transfer of the portfolio to an accepting insurance undertaking.

(9) If the transferring insurance undertaking does not comply with paragraph 8 above or if it is not evident from the submitted evidence that the portfolio has been transferred, the supervisory authorities shall take a decision declaring the approval for transfer of the portfolio invalid.

Application for issue of approval for acceptance of insurance portfolio

Article 71

An application for issue of approval for acceptance of insurance portfolio shall contain:

1. a list of insurance contracts, broken down by individual line of business, that are being transferred along with general terms and conditions of insurance for such lines of business, as well as calculations of technical provisions in respect of such lines of business;
2. a list of assets covering technical provisions or assets covering mathematical reserve including the respective values and all data which can be used to verify the calculation of these values;
3. in the case referred to in Article 70 (5), points 1, 2 and 3 of this Act, modification of the scheme of operations of the accepting insurance undertaking which is necessary for the purpose of transfer of insurance portfolio;
4. the contract concerning the transfer of insurance portfolio.

Taking decision on the approval for acceptance of insurance portfolio

Article 72

(1) The supervisory authorities shall refuse an application for issue of approval for acceptance of insurance portfolio if the value of the assets used to cover technical provisions or the assets covering mathematical reserve is lower than the level of the provisions or reserves which must be formed in respect of the insurance portfolio which is being transferred or if there are other valid grounds for the belief that the interests of the insured persons would be prejudiced by such transfer.

(2) The supervisory authorities shall also refuse the application in the event that the accepting insurance undertaking does not have authorisation to conduct insurance business in the lines of business that are the subject of the transfer or where the acceptance of the portfolio would be detrimental to the operations of the accepting insurance undertaking in accordance with the risk management rules.

(3) In the event when the transferring insurance undertaking transfers its insurance portfolio to its branch in a Member State, the supervisory authorities shall prior to issue of approval for transfer of insurance portfolio seek approval for the transfer of the insurance portfolio from the competent supervisory authorities of the Member State concerned. The absence of any
response from the competent supervisory authorities of the Member State concerned within three months of the receipt of the request shall be considered to be a tacit consent to the transfer of the insurance portfolio.

(4) In the case referred to in Article 70 (5), point 3 of this Act the supervisory authorities shall issue approval for transfer of insurance contracts only if the competent authorities of the concerned Member State certify that the accepting insurance undertaking from the Member State continues to meet the capital adequacy requirements after taking the transfer into account.

(5) If in the case referred to in paragraph 4 above the insurance covers risks situated in another Member State as well, the supervisory authorities may issue approval for transfer of insurance portfolio only if the competent supervisory authorities from that Member State submit their approval therefore. The absence of any response from the competent supervisory authorities of the Member State concerned within three months of the receipt of the request shall be considered to be a tacit consent to the transfer of the insurance portfolio.

(6) If the board of directors fails to take measures pursuant to the report referred to in Paragraph 4 of this Article, the certified actuary shall without delay inform the supervisory authority thereof.

(7) If an insurance undertaking from a third country requires for transfer of insurance portfolio of its branch in a Member State an approval of the supervisory authorities for the transfer of insurance portfolio, the supervisory authorities shall take a decision on issue of such approval.

(8) If an insurance undertaking from a Member State transfers its insurance portfolio to its branch in the Republic of Croatia, the supervisory authorities shall inform the competent supervisory authorities of the concerned Member State of any objection to such transfer within three months of the date of receipt of application for issue of approval for transfer of insurance portfolio.

(9) If the transfer of insurance portfolio of an insurance undertaking from a Member State is subject to issue of a certificate by the competent supervisory authorities within the meaning of paragraph 4 of this Article, the competent supervisory authorities shall issue an appropriate certificate or take a decision refusing the application for issue of such certificate.

(10) If an insurance undertaking from a Member State transfers its insurance portfolio to an insurance undertaking from another Member State and the insurance contracts that are being transferred also cover risks situated in the Republic of Croatia, the supervisory authorities may withhold their approval within the meaning of paragraph 5 of this Article if such transfer of insurance portfolio would prejudice the interests of the insured persons. The supervisory authorities shall take a decision to withhold the approval within three months of receipt of the information from the competent supervisory authorities of the concerned Member State about the intended transfer.

III.5 Outsourced operations

Contract concerning outsourced operations
Article 73

(1) A contract concerning outsourced operations is a contract under which an insurance undertaking transfers a considerable proportion of the business to another insurance undertaking or another person.

(2) A contract concerning outsourced operations must contain a provision stipulating that the transferring insurance undertaking is fully responsible for the operations transferred to another insurance undertaking or another person.

(3) The contract referred to in paragraph 1 of this Article shall, in particular, be deemed to be a contract whereby an insurance undertaking transfers, for indefinite or longer period of time, performance of the following operations in whole or to a considerable extent (hereinafter: outsourced operations):

1. management of the insurance undertaking’s assets covering technical provisions or mathematical reserves;
2. claims handling;
3. automatic data processing;

(4) A contract concerning outsourced operations must stipulate that the entity accepting outsourced operations is obliged to provide the insurance undertaking with the data referred to in 75 (2) of this Act, which the insurance undertaking may only use for the purpose referred to in Article 75 (2) of this Act.

Approval for outsourced operations
Article 74

(1) The supervisory authorities shall refuse to grant an approval for outsourced operations if, in view of the type and volume of outsourced operations, this is likely to be detrimental to the interests of the insured persons or if, because of outsourced operations, the exercise of control over the outsourced operations carried out by the accepting insurance undertaking would be rendered impossible or considerably hindered.

(2) The supervisory authorities may make the validity of the approval conditional upon satisfying certain conditions where this is necessary for the purpose of safeguarding the interests of the insured persons.

(3) If the supervisory authorities fail to take a decision on the application for issue of approval for outsourcing of operations within the period referred to in Article 257, the approval shall be deemed to have been granted.

Supervision of performance of outsourced operations
Article 75

(1) The provisions of this Act relating to the supervision of insurance undertakings shall appropriately apply to the supervision of the legal person which performs the outsourced operations.
(2) An insurance undertaking shall, at the request of the supervisory authorities, submit to the latter all data on the legal status, financial standing and operations of the entity with which the contract on the outsourced operations was entered into.

(3) The supervisory authorities shall withdraw the approval for outsourced operations:

1. if the situation under Article 74 (1) of this Act arises;

2. if the insurance undertaking fails to meet the conditions laid down in Article 74 (2) of this Act.

III.6 Carrying on of insurance activities outside the territory of the Republic of Croatia

Carrying on of insurance activities in a Member State

Article 76

(1) An insurance undertaking may carry on insurance activities in respect of which it has received authorisation from the competent supervisory authorities in the territory of a Member State through a branch or directly, provided it satisfies the conditions set out in the legislation of the Member State in question.

(2) An insurance undertaking shall be deemed to be carrying on insurance activities in a Member State if it concludes insurance contracts covering risks situated in the concerned Member State.

Commencement of insurance activities in a Member State

Article 77

(1) An insurance undertaking that intends to commence insurance activities in a Member State shall notify the supervisory authorities specifying the Member State in which it intends to commence insurance activities.

(2) The notification referred to in paragraph 1 above must contain a description of the activities which will be pursued, specifying the nature and volume of such activities broken down by line of insurance. The notification shall be accompanied by the modification of the scheme of operations and the certificate with the contents referred to in paragraph 2 of Article 59 of this Act.

(3) If an insurance undertaking intends to establish a branch in a Member State, the notification shall also contain:

1. the name of the persons authorised for management of the operations of the branch;
2. the address of the branch in the Member State;
3. the manner of obtaining documents about the branch.
(4) The supervisory authorities shall submit the notification referred to in paragraph 1 of this Article to the competent supervisory authorities of the Member State within 30 days at the latest and shall inform the concerned insurance undertaking accordingly.

(5) Along with the notification referred to in paragraph 4 above, the supervisory authorities shall also submit to the competent supervisory authorities of the Member State:

1. a statement to the effect that the insurance undertaking meets the prescribed capital adequacy requirements,
2. information on the lines of business for which the insurance undertaking has been granted authorisation to conduct insurance business.

(6) An insurance undertaking may commence pursuit of direct insurance activities or set up a branch in the Member State upon receipt of the notification from the supervisory authority referred to in Paragraph 4 of this Article.

(7) Failure on the part of the supervisory authority to submit to the insurance undertaking its approval within three months of the date of receipt of the notification referred to in Paragraph 1 of this Article, shall be considered as approval of the commencement of insurance activities in a Member State.

(8) By way of derogation from paragraph 4 of this Article, the supervisory authorities shall refuse an application for submission of a notification to the competent supervisory authorities of the Member State if they establish on the basis of the information at their disposal and the documents referred to in paragraphs 1, 2 and 3 of this Article and, taking into account the planned volume of business, that the insurance undertaking does not satisfy the prescribed capital adequacy requirements or if the commencement of insurance activities in the Member State would be detrimental to the operations of the insurance undertaking concerned in accordance with the risk management rules.

(9) The supervisory authorities shall prohibit the insurance undertaking from further pursuit of insurance activities in the Member State if any of the situation referred to in paragraph 7 above arises.

Change in particulars in the notification

Article 78

(1) The provisions of Article 77 of this Act shall appropriately apply in the event when an insurance undertaking, which has started insurance business in a Member State pursuant to paragraphs 6 and 7 of Article 77 of this Act, intends to extend its operations to the lines of business not specified in the notification referred to in Article 77 (1) of this Act or in the event of change in other circumstances or conditions of which the supervisory authorities have notified the competent supervisory authorities pursuant to Article 77 (4).

(2) By way of derogation from paragraph 1 above, the supervisory authorities shall forthwith notify the competent supervisory authorities of the Member State if the insurance undertaking concerned does not meet the prescribed capital adequacy requirements.
Supervision of insurance business carried on in a Member State

Article 79

(1) The supervisory authorities shall supervise a branch of an insurance undertaking in a Member State concerned or carrying on of direct insurance business in a Member State.

(2) The supervisory authorities may request from the competent supervisory authorities of the Member State in which the insurance undertaking carries on insurance business to inspect the operations of the branch of that insurance undertaking in that Member State if that is in the interest of efficiency, simplicity, speed or reduced costs of the procedure. Under the same conditions the supervisory authorities may carry out inspection of the operations which is normally carried out by the competent supervisory authorities of the Member State concerned.

(3) If an insurance undertaking continues to carry on insurance business in a Member State after it has been warned by the competent supervisory authorities of the Member State that it is violating the regulations of that Member State, the supervisory authorities shall take supervisory measures pursuant to this Act.

(4) The supervisory authorities shall without delay notify the supervisory authorities of the Member State concerned on the measures being taken.

(5) If the supervisory authorities withdraw authorisation to conduct insurance business from the insurance undertaking, they shall forthwith notify the competent supervisory authorities of the Member States in which the insurance undertaking carries on insurance business.

Reporting on insurance activities carried on in Member States

Article 80

(1) An insurance undertaking which carries on insurance activities in a Member State shall report to the supervisory authorities on the insurance activities it carries on in a specific Member State separately for the insurance activities carried on through a branch and for the direct insurance activities.

(2) The report referred to in paragraph 1 above shall include particulars about the level of insurance premiums, claims and commissions, without deduction of reinsurance.

(3) The supervisory authorities shall prescribe detailed contents of the reports, the manner of reporting and reporting deadlines.

(4) The supervisory authorities shall at the request of the competent supervisory authorities of the Member State concerned submit to the latter the particulars set out in the report referred to in paragraph 1 of this Article.

Conduct of insurance operations in a third country

Article 81

(1) An insurance undertaking is permitted to conduct insurance operations in a third country through a branch, provided it complies with the legislation of the country in question.
(2) For establishment of a branch in a third country, an insurance undertaking shall obtain authorisation from the supervisory authorities.

(3) The supervisory authorities may refuse to grant the authorisation for establishment of a branch in a third country where, taking into account the legislation of the country in which an insurance undertaking intends to establish a branch, it may be reasonably assumed that the exercise of supervision pursuant to the provisions of this Act is likely to be difficult.

III.7 Free provision of insurance services by insurance undertakings from Member States

Insurance undertakings from Member States

Article 82

(1) An insurance undertaking that has the right to carry on insurance business in specific lines of insurance in a Member State may also carry on insurance business in these lines of insurance in the territory of the Republic of Croatia either directly or through a branch.

(2) The insurance undertaking referred to in paragraph 1 above or its branch in the territory of the Republic of Croatia shall be governed by Article 13, Articles 89 to 91 and Article 258 of this Act.

Commencement of insurance business

Article 83

(1) An insurance undertaking from a Member State may commence insurance business in the territory of the Republic of Croatia if the competent supervisory authorities of the Member State in question:

1. notify the supervisory authorities of the information referred to in Article 77 (1), (2) and (3) of this Act which has been submitted to them by the insurance undertaking from that Member State;
2. make a statement to the effect that the insurance undertaking from the Member State in question possesses the required capital.

(2) A branch of an insurance undertaking from a Member State may start insurance business in the Republic of Croatia on expiry of a period of three months from the date when the supervisory authorities receive the notification from the competent supervisory authorities of the Member State referred to in paragraph 1 of this Article.

(3) By way of derogation from paragraph 2 above, where it is necessary, in order to safeguard public interest, to lay down additional requirements for the conduct of insurance business through a branch, the supervisory authorities shall notify the competent supervisory authorities of the concerned Member State accordingly.
In the case referred to in paragraph 3 above, a branch of an insurance undertaking from a Member State may start insurance activities once it receives notice from the supervisory authorities.

An insurance undertaking from a Member State which intends to carry on direct insurance business in the Republic of Croatia may start business on the day when it receives notice from the competent authorities of the Member State concerned that they have forwarded the information referred to in paragraph 1 of this Article to the supervisory authorities.

Paragraphs 1 to 4 of this Article shall apply to any change in the lines of insurance in which a branch of an insurance undertaking from a Member State carries on insurance activities as appropriate.

An insurance undertaking from a Member State shall cease to carry on insurance business in the Republic of Croatia if any of the following situations arises:

1. the competent supervisory authorities of the Member State in question have reached the conclusion that the insurance undertaking from the Member State concerned does not possess the prescribed capital to continue to carry on insurance activities;
2. the authorisation to conduct insurance business has lapsed;
3. the branch of the insurance undertaking from the Member State concerned does not satisfy the requirements referred to in paragraphs 2 to 4 of this Article.

By way of derogation from paragraph 1 of this Article, an insurance undertaking from a Member State may commence compulsory insurance business in the field of transportation only if it submits to the supervisory authorities evidence in the form of a document issued by the Croatian Insurance Bureau certifying that it is member of the Bureau and that it meets the requirements laid down by the Act on Compulsory Insurance in Transportation.

By way of derogation from paragraph 1 of this Article, an insurance undertaking from a Member State may commence compulsory insurance business in the field of transportation only if it communicates its general and special terms and conditions of insurance to the supervisory authorities.

Where the supervisory authorities establish that the terms and conditions of insurance referred to in paragraph 9 above are not in accordance with the legislation in force, they shall take any measure necessary to ensure that the insurance undertaking from the Member State in question modifies the terms and conditions and brings them into line with the legislation.

If the insurance undertaking from the Member State does not comply with the measure referred to in paragraph 10 above within the period stipulated by that measure, the supervisory authorities shall inform the competent supervisory body of the insurance undertaking in question thereof.

The supervisory authorities shall be authorised to request that the information be submitted in the Croatian language.

Supervision of insurance operations carried out by an insurance undertaking from a Member State
Article 84

(1) Supervision of an insurance undertaking from a Member State which carries on insurance business in the territory of the Republic of Croatia shall be exercised by the competent supervisory authorities of the Member State in question.

(2) The competent supervisory authorities of the Member State in question may examine in the territory of the Republic of Croatia the operations of the insurance undertaking from the Member State concerned.

(3) In the case referred to in paragraph 1 of this Article, the competent supervisory authorities shall have the same powers as the supervisory authorities under Articles 183 to 189 of this Act.

(4) On request of the competent supervisory authorities of the Member State the supervisory authorities shall conduct supervision of the operations of the branch of the insurance undertaking from the Member State in the territory of the Republic of Croatia.

(5) By way of derogation from the preceding paragraphs, the supervisory authorities shall be responsible for examination of the operations of insurance undertakings from Member States in the territory of the Republic of Croatia pursuant to Articles 183 to 189 of this Act for the purpose of supervising the operations pursuant to Article 82 (2) of this Act.

Supervisory measures in respect of an insurance undertaking from a Member State

Article 85

(1) The supervisory authorities shall take a decision to eliminate any irregularity or breach of the legislation if an insurance undertaking from a Member State violates in the territory of the Republic of Croatia any provision of Article 82 (2) of this Act.

(2) If an insurance undertaking from a Member State does not comply with the decision referred to in paragraph 1 within the period stipulated therein, the supervisory authorities shall inform the competent supervisory authorities from that Member State accordingly.

(3) If the conditions set out in Article 161 (2) of this Act are satisfied, the supervisory authorities may impose an additional measure on the insurance undertaking on account of irregularities or breach of the legislation in the territory of the Republic of Croatia preventing it from continuing to conclude new insurance contracts.

(4) Prior to the imposing of the measure referred to in paragraph 3 above, the supervisory authorities shall inform the competent supervisory authorities of the Member State concerned accordingly.

(5) By way of derogation from paragraph 4 above, the supervisory authorities may impose on the insurance undertaking in question a temporary prohibition against conclusion of new insurance contracts without prior notification of the competent supervisory authorities of the Member State if postponement of the measure would be prejudicial to the interests of insured persons.
(6) The supervisory authorities shall without delay notify the competent supervisory authorities of the Member State concerned and the European Commission of the measure referred to in paragraph 5 above.

III.8 Conduct of insurance operations by insurance undertakings from third countries

Article 86

(1) An insurance undertaking from a third country may conduct insurance business in the Republic of Croatia through a branch only.

(2) A branch of an insurance undertaking from a third country must satisfy the following requirements:

1. the operations of the branch must be managed by two persons with the authority to represent the founders to whom the provisions of Articles 25 to 29 and Article 31 of this Act shall apply as appropriate;

2. the branch must be adequately staffed and technically equipped for the performance of the insurance operations;

3. the branch shall have adequate funds at its disposal in the form of a deposit of an amount equal in value to at least one half of the share capital prescribed in Article 19 of this Act;

4. a branch must have adequate assets in the Republic of Croatia at the level of at least one half of the capital laid down in Article 100 of this Act and must deposit the funds as a security for payment of the liabilities under the insurance contracts concluded in the territory of the Republic of Croatia or the insurance contracts covering the risks situated in the territory of the Republic of Croatia at the level of one fourth of the capital of the branch (hereinafter: security deposit). The excess of the branch's own resources over the guarantee fund, whichever is higher, shall be deposited in a transaction account opened with a financial institution having its head office in the Republic of Croatia.

(3) The provisions of this Act under Titles "Risk management", "Confidential data", "Business books and reports" hereunder, and the provisions of any other regulation adopted pursuant to this Act shall apply to a branch of an insurance undertaking from a third country as appropriate.

(4) The provisions of Title "Supervision of insurance undertakings" hereunder shall apply to the supervision of a branch established in the Republic of Croatia as appropriate.

Authorisation to establish a branch

Article 87

(1) An insurance undertaking from a third country may establish a branch in the territory of the Republic of Croatia, provided that it receives an authorisation from the supervisory authorities.
(2) An application for issue of the authorisation for the establishment of a branch shall be accompanied by:

1. the memorandum of association;

2. an extract from the judicial register of companies or other comparable register in the country where the parent insurance undertaking has its head office;

3. Articles of association and/or internal regulations of the parent insurance undertaking;

4. audited annual financial statements of the parent insurance undertaking for the past three years;

5. if the extract referred to in point 2 does not show the information about the owners of the parent insurance undertaking, then the relevant document giving an authentic record of the owners and the level of their participation in the management of the parent insurance undertaking shall be enclosed;

6. an extract from the judicial register of companies or other comparable register in the country where the parent insurance undertaking has its head office for the legal persons who have a holding in excess of 10% entitling them to the corresponding participation in the management of the parent insurance undertaking;

7. a scheme of operations with the contents as set out in Article 63 of this Act;

8. a statement to the effect that the branch will keep and file, in its principal place of business, all the records relating to the business transacted by the branch;

9. a proof of capital adequacy and security deposit;

10. the documents on the basis of which it is possible to establish whether the branch in question is capable of providing the services referred to in the application for issue of authorisation in terms of staff, technical equipment and organisation.

(3) In the wording of the authorisation to establish a branch of an insurance undertaking from a third country, the supervisory authorities shall lay down the manner in which the security deposit is to be provided.

(4) The provisions of Articles 59 to 61 of this Act shall appropriately apply to decision-making concerning the issue of the authorisation to establish a branch of an insurance undertaking from a third country.

(5) The supervisory authority shall refuse the application for issue of authorisation for establishment of a branch of an insurance undertaking from a third country where:

1. taking into account the legislation of the country in which such insurance undertaking has its head office or taking into account the practice of that country in respect of application and enforcement of that legislation, the exercise of supervision pursuant to this Act could be frustrated or made difficult, or

2. taking into account the legislation of that country, insurance undertakings with head office in the Republic of Croatia would be prevented from carrying on insurance business in
that country or from carrying on insurance business under the same terms as those accorded to the insurance undertakings from that country.

(6) On an exceptional basis, the provisions of Paragraph 5 of this Article shall not apply to decision-making concerning the issue of a branch of an insurance undertaking from a third country which has its head office in a member state of the World Trade Organisation (WTO).

**Special provisions for a branch of an insurance undertaking from the Swiss Confederation**

**Article 88**

(1) Special provisions of this Act which relate to insurance undertakings from the Swiss Confederation or their branches in the Republic of Croatia shall apply to non-life insurance only.

(2) The following provisions shall not apply to a branch of an insurance undertaking from the Swiss Confederation in the Republic of Croatia:
- the provisions of Article 61, Paragraph 1, Item 6 of this Act where the provisions of Article 87, Paragraph 4 of this Act are applicable,
- the provisions of Article 86, Paragraph 2, Items 3 and 4 of this Act,
- the provisions of Article 87, Paragraph 5, Item 2 of this Act.

(3) Prior to adoption of the decision to issue authorisation for establishment of a branch of an insurance undertaking from the Swiss Confederation, the supervisory authority shall notify the competent supervisory authority and request its opinion.

(4) If the competent supervisory authority does not reply within three months of the date of receipt of the notification referred to in Paragraph 3 of this Article, it will be considered as not objecting to the establishment of a branch.

(5) Prior to adoption of the decision to withdraw authorisation for establishment of a branch of an insurance undertaking from the Swiss Confederation, the supervisory authority shall notify the competent supervisory authority and request its opinion.

(6) If the supervisory authority prior to receipt of the opinion referred to in Paragraph 5 of this Article imposes a prohibition on a branch of an insurance undertaking from the Swiss Confederation against conclusion of insurance contracts, it shall without delay notify the competent supervisory authority thereof.

**III.9 Information provided to policyholders**

**Information provided to the policyholder at the time of conclusion of the insurance contract**

**Article 89**

(1) Before the insurance contract is concluded, an insurance undertaking shall communicate, in writing, to the policyholder:
1. the basic information about the business, legal status and organisational structure, address of the principal place of business and name of the insurance undertaking and the branch by which the contract will be concluded;
2. general terms and conditions of insurance and the law applicable to the insurance contract;
3. duration of the insurance contract;
4. the rules and conditions for any deviation from the contract;
5. level of insurance premium, method of payment of insurance premium, level of contributions, tax and other costs charged in addition to the insurance premium, and the total cost of insurance;
6. the time period which is binding for the proposer under the contract;
7. right to cancellation of or withdrawal from the contract;
8. the manner of settlement of policyholders’ disputes;
9. the supervisory authorities competent for the supervision of the insurance undertaking concerned;

(2) In the case of life assurance, the communication referred to in paragraph 1 of this Article shall also contain the following particulars concerning:

1. the base amount and criteria for participation in profits;
2. the tables of surrender values;
3. the entitlement to paid-up sum assured under the life assurance contract and any rights ensuing from such insurance contract;
4. the tax system applicable to the concerned assurance.

(3) In the case of unit-linked contracts, the insurance undertaking shall prior to conclusion of the insurance contract communicate to the policyholder, in addition to the particulars referred to in paragraphs 1 and 2 of this Article, the information about the investment fund’s prospectus and, in particular, about the structure of investments.

Information provided to the policyholder during the term of the contract

Article 90

(1) An insurance undertaking shall during the term of the contract communicate, in writing, to the policyholder:

1. any change in the business, legal status or organisational structure or address of the principal place of business or name of the insurance undertaking or the branch by which the contract will be concluded;

2. any change in the information referred to in Article 89 (1), points 2 to 6 of this Act or the information referred to in 89 (2) of this Act.

(2) In the course of the duration of the life assurance contract the insurance undertaking shall inform the policyholder, in writing and on an annual basis, of the situation concerning participation of his life assurance contracts in the profits made by the undertaking.

Contents of the communication

Article 91
(1) The wording and contents of the communication referred to in Articles 89 and 90 of this Act shall be drawn up in a clear and accurate manner in the Croatian language and shall be addressed to the policyholder or insured person.

TITLE IV
RISK MANAGEMENT

IV.1 General provisions

Risk management
Article 92

(1) An insurance undertaking shall ensure that it maintains, at all times, the capital level adequate to both the volume and the lines of insurance written, as well as to the nature of risks to which it is exposed (capital adequacy).

(2) An insurance undertaking shall operate in such a manner as to ensure that the risks to which it is exposed under a specific line or all lines of insurance never exceed the values or limits specified in this Act or in the regulations adopted under this Act.

(3) An insurance undertaking shall operate in such a manner as to be able to meet its liabilities when they fall due (liquidity principle) and to be able to meet, on an ongoing basis, all its liabilities on time (solvency principle).

IV.2 Capital of an insurance undertaking

Capital of an insurance undertaking
Article 93

(1) For the purpose of application of risk management rules, capital of an insurance undertaking (hereinafter: capital) shall be calculated in accordance with the methodology set out in the following Articles of this Title.

Calculation of capital
Article 94

In calculating capital of an insurance undertaking, account shall be taken of the items of core capital referred to in Article 95 of this Act and the items of supplementary capital referred to in Article 96 of this Act, as well as the deduction items referred to in Article 97 of this Act.

Core capital
Article 95
(1) In calculating the core capital of an insurance undertaking, account shall be taken of the following items:
1. share capital of a joint-stock insurance undertaking formed on the basis of issue of ordinary shares and paid up initial fund of a mutual insurance undertaking plus any members' accounts;
2. capital reserves not corresponding to underwriting liabilities;
3. profit brought forward after deduction of dividends to be paid.

(2) In calculating the core capital of an insurance undertaking, the following items shall be considered to be deduction items:
1. repurchased own shares,
2. investments in intangible assets,
3. loss brought forward and loss for the current year,
4. difference between discounted and undiscounted provisions for claims.

(3) By way of derogation from Paragraph 2 Item 4 of this Article, the difference between discounted and undiscounted technical provisions shall not constitute a deduction item in calculating the core capital for the insurance classes referred to in Article 3, Paragraph 2, Items 1 and 2 of this Act.

Supplementary capital

Article 96

(1) In calculating the supplementary capital of an insurance undertaking, account shall be taken of the following items:

   1. share capital formed on the basis of issue of cumulative preference shares,
   2. subordinated debt instruments,
   3. capital reserves related to cumulative preference shares,
   4. other items.

(2) Subordinated debt instruments are securities and other financial instruments which entitle the holder in the case of bankruptcy or winding-up of the issuer to payment only after claims of other creditors have been settled.

(3) Other items referred to in paragraph 1, point 4 above are as follows:

   1. value of mathematical provisions whose calculation does not take into account the insurance acquisition cost or a portion of insurance acquisition cost included in the premium calculation less mathematical provisions whose calculation allows for insurance acquisition cost included in the premium calculation. In a calculation of mathematical provisions, insurance acquisition cost shall not exceed 3.5% of the sum assured. In calculating mathematical provisions, negative values shall be set to zero;
   2. reserves arising from valuation of assets which are not of extraordinary nature.
**Deduction items in calculation of capital**  
**Article 97**

(1) In calculating the capital of an insurance undertaking, the sum of core and supplementary capital shall be reduced by the following items:

1. holdings in other insurance undertakings, reinsurance undertakings, insurance holding companies, banks, stock-broking firms, management companies and other financial institutions pursuant to Article 9 (1), provided they calculate capital adequacy in accordance with similar regulations;  
2. investments in subordinated debt instruments and other investments in the entities referred to in the preceding point, which, for the purpose of compliance with capital adequacy requirements of these entities, shall be taken into account in calculating their capital, the holding of an insurance undertaking in such entities being consistent with Article 9 (1);  
3. illiquid assets.

(2) Illiquid assets referred in paragraph 1 point 3 of this Article are: shares not listed on regulated markets and other assets which are not readily convertible into cash at the time when this is necessary in order to meet financial liabilities when they fall due.

**IV.3. Capital adequacy**

**Required solvency margin of an insurance undertaking which carries on life assurance**  
**Article 98**

(1) The capital of an insurance undertaking which carries on life assurance business shall at least be equal to the solvency margin which is calculated as laid down in paragraphs 2, 4, 5, 6 and 7 of this Article.

(2) The capital of an insurance undertaking which carries on the business referred to in Article 3 (3), points 1 and 2 of this Act shall be equal to the sum of the first and second result.

1. The first result is calculated in the following manner:

(a) Gross amount of mathematical provisions calculated as at the end of the last financial year shall be multiplied by 0.04.  
(b) The product of multiplication referred to in point 1 (a) of this paragraph shall be multiplied by the ratio of:  
- gross mathematical provisions for the last financial year minus reinsurance cessions to  
- the gross total mathematical provisions calculated as at the end of the last financial year, but this ratio shall in no case be less than 0.85.

2. The second result shall only be calculated for policies on which the capital at risk is not a negative figure in the following manner:

(a) The capital at risk as the end of the last financial year gross of reinsurance shall be multiplied by 0.003.  
(b) The product of multiplication referred to in point 2 (a) of this paragraph shall be multiplied by the ratio of:
- the total capital at risk as at the end of the last financial year retained after reinsurance cessions and retrocessions to
- the total capital at risk gross of reinsurance, but this ratio may in no case be less than 0.5.
(c) By way of derogation from point 2 (a) of this paragraph, the total amount of capital at risk for assurance on death of a maximum term of three years shall be multiplied by 0.001 or by 0.0015 for such assurance of a term of more than three years but not more than five years.

(3) Capital at risk referred to in paragraph 2, point 2 above shall mean the amount payable on death less the mathematical provisions.

(4) Solvency margin of an assurance undertaking which carries on the business referred to in Article 3 (3), point 5 of this Act shall be calculated in the following manner:
1. in so far as the assurance undertaking bears an investment risk, a 4% fraction of the technical provisions shall be multiplied by the product of multiplication referred to in paragraph 2, point 1 (b) of this Article;
2. in so far as the assurance undertaking bears no investment risk, but the allocation to cover management expenses is fixed and invariable for a period exceeding five years, a 1% fraction of the technical provisions shall be multiplied by the product of multiplication referred to in paragraph 2, point 1 (b) of this Article;
3. in so far as the assurance undertaking bears no investment risk, and the allocation to cover management expenses is not fixed and invariable, an amount equivalent to 25% of the last financial year's net administrative expenses pertaining to such business;
4. in so far as the assurance undertaking covers a death risk, a 0.3% fraction of the capital at risk shall be multiplied by the product of multiplication referred to in paragraph 2, point 2 (b) of this Article;

(5) For tontines, referred to in Article 3 (4), point 1 of this Act, the required solvency margin shall be equal to 1% of capitalized assets.

(6) For assurance with paid-up sum assured referred to in Article 3 (4), point 2 of this Act, the required solvency margin shall be equal to the result calculated in compliance with paragraph 2, point 1 of this Article.

(7) For supplementary insurances covered by Article 16 (10) of this Act, the required solvency margin shall be calculated in compliance with Article 99 of this Act.

Required solvency margin of an insurance undertaking which carries on non-life insurance
Article 99

(1) The capital of an insurance undertaking which carries on non-life insurance lines and the capital of an insurance undertaking which carries on reinsurance business shall at least be equal to the solvency margin calculated on the basis of premiums ratio or claims ratio, whichever is higher.

(2) The solvency margin on the basis of premiums shall be calculated as follows:
1. The sum of insurance premiums due in the last financial year up to HRK 375,000,000 shall be multiplied by 0.18, whereas any amount in excess of HRK 375,000,000 shall be multiplied by 0.16, whereby the premium shall constitute the amount of written premiums or the amount of earned premiums without gross of reinsurance, whichever is higher.

2. The sum of products of multiplication referred to in Item 1 of this Paragraph shall be multiplied by the ratio existing in respect of the sum of the last three financial years between: - gross amount of claims incurred (settled claims plus any change in the provision for claims) after deduction of amounts recoverable under reinsurance, and - gross amount of claims incurred (settled claims plus any change in the provision for claims).

   If the result obtained is less than 0.5 it shall be multiplied by 0.5.

3. In calculating the sum of insurance premiums in the previous financial year, the premiums or contributions in respect of the insurance classes referred to in Article 3, Paragraph 2, Items 11, 12 and 13 shall be increased by 50%.

4. In calculating the sum of insurance premiums in the previous financial year, the premiums shall also be increased by the amount of premiums accepted for all reinsurance in the last financial year.

5. From this sum there shall then be deducted the total amount of insurance premiums cancelled in the last financial year.

(3) The solvency margin on the basis of claims shall be calculated as follows:

1. The average annual amount of gross claims paid in the past three financial years, such claims constituting settled claims plus any change in the provision for claims without any deduction of claims borne by reinsurers up to the amount of HRK 262,500,000 shall be multiplied by 0.26, whereas the amount exceeding HRK 262,500,000 shall be multiplied by 0.23.

2. The sum of products of multiplication referred to in Item 1 of this Paragraph shall be multiplied by the ratio existing in respect of the sum of the last three financial years between: - gross amount of claims paid (settled claims plus any change in the provision for claims) after deduction of amounts recoverable under reinsurance and co-insurance, and - gross amount of claims paid (settled claims plus any change in the provision for claims).

3. In calculating annual gross amount of claims paid, the amount of claims paid in respect of insurance classes referred to in Article 3, Paragraph 2, Items 11, 12 and 13 shall be increased by 50%.

4. In calculating annual gross amount of claims paid, to the amount of claims paid there shall be added the amount of claims paid in respect of reinsurance and co-insurance.

(4) In calculating annual gross amount of claims paid referred to in Paragraph 3 Item 1 of this Article, it is the arithmetical average for the past three financial years that shall be taken as the reference.
(5) By way of derogation from Paragraph 4 of this Article, in the case of insurance undertakings which essentially or predominantly underwrite the risks of credit, storm, hail or frost, it is the arithmetical average for the last seven financial years that shall be taken as the reference for calculation of annual gross amount of claims paid.

(6) By way of derogation from Paragraph 1 of this Article, the required solvency margin in the case of health insurance practised on a similar technical basis to that of life assurance shall be equal to one third of the solvency margin referred to in Paragraph 1 of this Article if the following conditions are satisfied:
   a) the insurance premiums are calculated on the basis of sickness tables according to the actuarial methods;
   b) a provision is set up for increasing age;
   c) an additional premium is collected in order to set up a safety margin of an appropriate amount;
   d) the insurance undertaking may cancel the insurance contract before the end of the third year of insurance at the latest;
   e) the insurance contract provides for the possibility of increasing or reducing premiums for the duration of the insurance contract.

(7) By way of derogation from Paragraph 1 of this Article, the required solvency margin for the first year of operation of an insurance undertaking shall be calculated in accordance with Paragraph 2 of this Article.

(8) Where the required solvency margin of an insurance undertaking as calculated for the current financial year is lower than the required solvency margin of the year before, the required solvency margin shall be at least equal to the required solvency margin of the year before multiplied by the ratio of the amount of the technical provisions for claims outstanding at the end of the current financial year net of reinsurance and the amount of the technical provisions for claims outstanding at the end of the previous financial year net of reinsurance, but the ratio may in no case be higher than 1.

**Guarantee fund**

Article 100

(1) The guarantee fund shall consist of the items of the core capital referred to in Article 95 of this Act and supplementary capital referred in Article 96 Paragraph 1 of this Act subject to the approval by the supervisory authority relating to terms of calculation of supplementary capital.

(2) The guarantee fund may not be less than one third of the required solvency margin specified in Article 98 or Article 99 of this Act.

(3) By way of derogation from Paragraph 1 of this Article, the guarantee fund of an insurance undertaking may not be less than:
   - HRK 15,000,000.00 if the undertaking is active in one of the classes of non-life insurance only;
   - HRK 22,500,000.00 if the undertaking is active in all of the non-life insurance classes or one of the classes referred to in Article 3, Paragraph 2, Items 10 to 15 of this Act;
   - HRK 22,500,000.00 if the undertaking is active in life assurance;
   - HRK 22,500,000.00 if the undertaking carries on reinsurance business.
Rules relating to the method of calculation of capital and required solvency margin

Article 101

(1) The supervisory authorities shall prescribe:

1. the method and types of particular items which are taken into consideration in calculating capital adequacy;
2. the features of subordinated debt instruments referred to in Article 96 Paragraph 2 of this Act and illiquid funds referred to in Article 97 Paragraph 2 of this Act;
3. the features of the funds in the accounts of members of a mutual insurance undertaking referred to in Article 41 Paragraph 2 of this Act;
4. the rules for calculation of the required solvency margin referred to in Article 98 or Article 99 of this Act;
5. the rules and minimum standards for calculation of technical provisions for claims;
6. the types and characteristics of the assets covering technical provisions, the rules for diversification of and restrictions in respect of investment of these assets, the rules for valuation and matching of these assets;
7. the methodology for calculation of the amounts retained by insurance undertakings in the tables of maximum coverage and the methodology for calculation of probable maximum loss;
8. the method of calculation of liquidity ratio and minimum value of liquidity ratio which must be complied with by an insurance undertaking;
9. the contents of the report referred to in Article 103 of this Act, the reporting method and deadline.

IV.4 Liquidity management

Liquidity management

Article 102

(1) An insurance undertaking shall manage its financial resources and investments in such a manner as to be able, at all times, to meet its liabilities as and when they fall due.

(2) An insurance undertaking shall for the purpose of hedging against liquidity risk adopt and implement a policy of regular liquidity management, which shall include:

1. planning of expected known and potential outflows and sufficient inflow of cash;
2. regular monitoring of liquidity;
3. adoption of appropriate measures for prevention or elimination of causes of illiquidity.

(3) An insurance undertaking shall calculate the amounts of liquid funds on a daily basis.

Calculation and reporting

Article 103
(1) An insurance undertaking shall, on a regular basis, calculate or set up or draw up:

1. the amount of capital;
2. the amount of guarantee fund;
3. the required solvency margin
4. the level of technical provisions;
5. the value and types of investments that are not financed out of the risk premium;
6. the value of the assets covering technical provisions;
7. the type, spread, matching and localisation of the invested assets covering technical provisions and assets covering mathematical provisions;
8. statistical insurance data;
9. balance sheet and report on operating results.

(2) The required solvency margin for each quarter shall be calculated by reference to Articles 98 and 99 of this Act, whereby the year to be taken into account in calculating premiums and the gross amount of claims shall be the current year, whereas in calculating the total claims amount referred to in Article 99 (3) of this Act, and in calculation of the first and second result under Article 98 of this Act, the amount to be taken into account shall be the balance as at the end of the quarter.

(3) An insurance undertaking shall report to the supervisory authorities on the information referred to in paragraph 1 of this Article.

**Prohibition against distribution of profits**

**Article 104**

(1) An insurance undertaking shall not be permitted to distribute the profits in the form of dividends or interim dividends or in the form of payments based on participation in the profits of the undertaking’s board of directors, supervisory board or employees in the following cases:

1. if the capital of the insurance undertaking is lower than the required solvency margin referred to in Articles 98 and 99 of this Act;
2. if the capital of the insurance undertaking would be reduced, as a result of distribution of profits, to the level below the required solvency margin referred to in Articles 98 and 99 of this Act;
3. if the insurance undertaking cannot guarantee even the minimum liquidity ratio referred to in Article 134 (2), point 10 of this Act;
4. if the insurance undertaking would not be able to ensure, as a result of distribution of profits, even the minimum liquidity ratio laid down in Article 134 (2), point 10 of this Act;
5. if the supervisory authorities have instructed the insurance undertaking to remedy the irregular situation in relation to misrepresentation of assets or liabilities side of those balance sheet items whose true disclosure would affect the operating result of the insurance undertaking and the insurance undertaking has failed to comply with the instruction to remedy the irregular situation.

**Measures of the board of directors taken in order to secure the required solvency margin**
Article 105

(1) If, due to increased solvency margin or other reasons, the capital of an insurance undertaking is not adequate, the board of directors of the insurance undertaking shall without delay take such measures that are necessary for securing the capital, the decision-making with regard to such measures falling within the framework of their competences, or shall propose the measures which come within the competence of other bodies of the insurance undertaking.

(2) The board of directors shall notify the supervisory authorities of the measures or proposed measures as referred to in paragraph 1 above within eight days of the date these are taken.

Measures taken by the supervisory authorities

Article 106

(1) In the case that the policyholders' rights are threatened, the supervisory authorities may require the insurance undertaking to submit its financial recovery plan along with proposed measures for the next three financial years, which must contain:

1. estimates of management expenses and a comparison with the current general expenses and commissions;
2. detailed estimates of income and expenditure in respect of direct insurance business;
3. a forecast balance sheet;
4. estimates of the financial resources intended to cover the required solvency margin and all underwriting liabilities of the insurance undertaking;
5. the overall reinsurance policy.

(2) The supervisory authorities may oblige insurance undertakings to have a higher solvency margin if they consider that the policyholders' rights are threatened because the financial position of the undertaking is deteriorating. The level of this higher required solvency margin shall be based on a financial recovery plan including a proposal for the measures to be taken in the next three years.

(3) The supervisory authorities may require revaluation downwards of the elements taken into account in determining the required solvency margin of an insurance undertaking where there has been a significant change in the market value of these elements since the end of the last financial year.

(4) The supervisory authorities may require adjustment to the calculation of the solvency margin of an insurance undertaking based on reinsurance where the nature or quality of reinsurance contracts has changed significantly since the last financial year or the reinsurance contracts do not enable a balanced transfer of risks.

(5) The supervisory authorities shall prescribe a better way of safeguarding the policyholders' rights.

(6) The supervisory authorities shall refrain from issuing to an insurance undertaking the approval in accordance with Article 70 (2) of this Act and the statement in accordance with Article 77 (5), point 1 of this Act if they have required the proposal for the measures referred to in paragraph 1 of this Article.
IV.5 Technical provisions

Technical provisions
Article 107

(1) An insurance undertaking shall establish sufficient technical provisions in respect of its entire business to cover future underwriting liabilities and any losses due to risks arising from the business written.

(2) An insurance undertaking shall form the following types of technical provisions:

1. provisions for unearned premiums,
2. provisions for bonuses and rebates,
3. provisions for claims outstanding,
4. other technical provisions.

(3) An insurance undertaking may also set up equalisation reserve.

(4) By way of derogation from paragraph 3 above, an insurance undertaking shall be required to form equalisation reserve if it carries on the business referred to in Article 3 (2), point 14 of this Act.

(5) Mathematical provisions must be set up by insurance undertakings which carry on life assurance business or personal insurance lines, whose premiums are accumulated in the form of savings funds or funds used to cover risks in later years of insurance, such as personal accident insurance or health insurance which are of a long-term nature and which are subject to similar probability tables and calculations to that of life assurance.

(6) An insurance undertaking underwriting the insurance policies where the policyholder bears the investment risk shall in respect of such insurance policies set up special provisions as well.

(7) The criteria and the method for calculation of technical provisions specified in this Article shall be laid down by the supervisory authorities.

Provision for unearned premiums
Article 108

(1) Provision for unearned premiums in respect of individual lines of insurance shall be formed at the level of that portion of premiums written that relates to the insurance covers that are still in force after the end of the accounting period in respect of which the provision is set aside.

Provisions for bonuses and rebates
Article 109
(1) Provisions for bonuses and rebates shall be formed at the amount of the payments to which the policyholders are entitled, namely:

1. the right to participation in the profits made under their insurance policies or other rights under insurance contracts (bonuses); unless mathematical provision is established in respect of such insurances,
2. the right to a partial reduction in insurance premium (rebates);
3. the right to a return of a portion of insurance premium on account of an early termination of an insurance contract (cancellation).

**Provisions for claims outstanding**

Article 110

(1) The provisions for claims outstanding shall be formed at the level of estimated liabilities of an insurance undertaking under those insurance contracts where the insured event occurred before the end of the accounting period, including any expenses payable by the insurance undertaking under these insurance contracts.

(2) In addition to estimated liabilities in respect of outstanding claims, the claims provisions shall also allow for estimated liabilities in respect of incurred but not reported losses.

**Mathematical provisions**

Article 111

(1) Mathematical provisions shall be formed at the level of present value of estimated future liabilities of an insurance undertaking under the assurance contracts in force after deduction of the present estimated value of future premiums payable under such assurance contracts.

(2) Mathematical provisions shall be calculated by applying appropriate actuarial valuations that take into account all future liabilities of an insurance undertaking under individual assurance contracts, including:

1. all guaranteed benefits to which the policyholder is entitled;
2. bonuses to which policyholders are entitled, either individually or collectively, however those bonuses are described;
3. all options available to the policyholder under the terms of the contract;
4. expenses, including commissions.

(3) In selecting an actuarial valuation method, an insurance undertaking shall take into account the methods applied for valuation of assets covering mathematical provisions as appropriate.

(4) An insurance undertaking shall compute mathematical provisions separately for each assurance contract. Approximations or generalisations may only be applied if it is likely that the application of such approximations or generalisations will yield an approximately similar result to that of an individual calculation.
(5) When the policyholder is entitled, under an assurance contract, to payment of surrender value, mathematical provisions formed in respect of that contract shall not be lower than the surrender value.

(6) An insurance undertaking shall, in an annex to the annual report, make reference to the bases and methods used in calculation of mathematical provisions.

**Equalisation provision**  
**Article 112**

(1) The equalisation provision shall be set up in order to equalise fluctuations in occurrence of loss events.

(2) An insurance undertaking may set up equalisation provision in those lines of insurance in respect of which significant deviations from customary amounts of claims on an annual basis can be expected on the basis of statistical data.

(3) The equalisation provision shall be formed on the basis of a deviation of the claims ratios for the accounting period from the average claims ratio for the reference period.

**Other technical provisions**  
**Article 113**

(1) An insurance undertaking shall set aside other technical provisions with regard to the expected future liabilities and the risks of large claims arising from insurance of liability for losses due to nuclear risks or insurance of manufacturer’s liability for pharmaceutical products, earthquake insurance, flood insurance, and with regard to other liabilities and risks in respect of which it does not set up the provisions referred to in points 1 to 3 of paragraph 2 and paragraphs 3, 4 and 5 of Article 107 of this Act.

**IV.6 Assets covering technical provisions**

**General provisions**

**Assets covering technical provisions**  
**Article 114**

(1) The assets covering technical provisions are those assets of an insurance undertaking that are held for the purpose of meeting future liabilities under the policies written by the insurance undertaking and covering any losses due to the risks arising from the insurance business carried on by the insurance undertaking in respect of which the insurance undertaking is obliged to set up technical provisions.

(2) An insurance undertaking shall set aside assets covering technical provisions in accordance with the provisions of this section.
(3) In selecting the type of investment of the assets covering technical provisions, an insurance undertaking shall take account of the type of business carried on in such a way as to secure the safety, yield and marketability of investments, and shall ensure that these are diversified and adequately spread.

**Types of authorised investments of assets covering technical provisions**

**Article 115**

(1) The assets covering technical provisions, other than mathematical provisions, may be invested in:

1. securities issued by the government of the Republic of Croatia, the Croatian National Bank or the Croatian Bank for Reconstruction and Development;
2. bonds and other debt securities guaranteed by the government of the Republic of Croatia;
3. bonds and other debt securities issued by local government and self-government units in the Republic of Croatia;
4. bonds and other debt securities accompanied by a guarantee issued by local government and self-government units in the Republic of Croatia;
5. bonds and other debt securities traded on regulated securities markets in the Republic of Croatia;
6. bonds and other debt securities which are not traded on regulated securities markets if the issuer is a legal person having a head office in the Republic of Croatia;
7. shares traded on regulated securities markets in the Republic of Croatia;
8. shares which are not traded on regulated securities markets if the issuer is a legal person having a head office in the Republic of Croatia;
9. holdings in companies having a head office in the Republic of Croatia;
10. holdings in and shares of investment funds registered in the Republic of Croatia;
11. loans secured by mortgage on a real property or by transfer of ownership rights if the lien is registered in a land register in the Republic of Croatia or in a Member State, provided that the value of the loan does not exceed 60% of the market value of the real property as appraised by an expert court appraiser. In the case that one or more liens on a real property are already registered in a land register, the value of the loan may not exceed 60% of the market value of the real property after deduction of the value of any lien on the property that is already registered in a land register;
12. loans to banks having a head office in the Republic of Croatia;
13. loans secured by bank guarantees issued by banks having a head office in the Republic of Croatia;
14. loans secured by the securities referred to in points 1 to 4 of this paragraph;
15. real property and other rights in respect of real property (right of construction, right of use) if:
   - the real property is registered in a land register in the Republic of Croatia,
   - the real property is expected to yield a return or is already yielding a return,
   - the purchase price was determined on the basis of an appraisal by an expert court appraiser and
   - the real property has no mortgage or lien placed upon it;
16. deposits with banks having a head office in the Republic of Croatia;
17. assets contained in an internal fund held by the insurance undertaking.
(2) The assets covering technical provisions, other than mathematical provisions, may be invested in:

- long-term bonds and long-term debt securities issued by a Member State or an OECD Member State;
- long-term bonds or other long-term securities issued by a foreign non-governmental entity of a Member State or an OECD Member State;
- shares issued by a foreign joint-stock undertaking which are traded on regulated capital markets of Member States or OECD Member States;
- holdings in investment funds which are traded in a Member State or an OECD Member State.

(3) An insurance undertaking may also invest assets covering technical provisions in other categories of investments subject to obtaining approval from the supervisory authorities.

**Limitations on investment of assets covering technical provisions**

**Article 116**

(1) The assets covering technical provisions, other than mathematical provisions, may be invested in the securities referred to in Article 115 (1), points 1 and 2 of this Act without restriction.

(2) Investment of assets covering technical provisions, other than mathematical provisions, shall not exceed the following limits:

1. investments in the securities referred to in Article 115 (1), points 3, 4 and 5 of this Act, taken together, shall not exceed 35% of the total assets covering technical provisions;
2. investments in the bonds and other debt securities referred to in Article 115 (1), point 6 of this Act issued by the same issuer shall not exceed 1% individually or 5% combined of the total assets covering technical provisions;
3. investments in the shares referred to in Article 115 (1), point 7 of this Act, taken together, shall not exceed 25% of the total assets covering technical provisions;
4. investments in the shares referred to in Article 115 (1), point 8 of this Act and the holdings referred to in Article 115 (1), point 9 of this Act issued by the same issuer shall not exceed 1% individually or 5% combined of the total assets covering technical provisions;
5. investments in the holdings in and shares of investment funds referred to in Article 115 (1), point 10 of this Act, taken together, shall not exceed 40% of the total assets covering technical provisions;
6. investments in the loans referred to in Article 115 (1), point 11 of this Act granted to a single borrower shall not exceed 2% individually or 20% combined of the total assets covering technical provisions;
7. investments in the loans referred to in Article 115 (1), points 13 and 14 of this Act granted to a single borrower shall not exceed 2% individually or 20% combined of the total assets covering technical provisions;
8. the investments referred to in Article 115 (1), point 15 of this Act in one piece of real property or a number of pieces of real property which are close enough to each other to be considered effectively one investment shall not exceed 10% individually or 30% combined of the total assets covering technical provisions;
9. investments in the loans and deposits referred to in Article 115 (1), points 12 and 16 of this Act to and with the same bank or to and with a number of related banks shall not exceed 10% individually or 30% combined of the total assets covering technical provisions;

10. investments in the assets referred to in Article 115 (1), point 17 of this Act, taken together, shall not exceed 3% of the total assets covering technical provisions;

11. investments in the securities referred to in Article 115 (1), points 5 to 10 which are issued by the same issuer and the loans referred to in Article 115 (1), points 11 to 14 granted to a single borrower, taken together, shall not exceed 5% of the total assets covering technical provisions;

(3) The investments referred to in Article 115 (2) of this Act, taken together, shall not exceed 15% of the total assets covering technical provisions, other than mathematical provisions.

**Matching of investments**

*Article 117*

(1) An insurance undertaking shall appropriately match its investments of assets covering technical provisions, including mathematical provisions, which are exposed to risks of possible losses due to changes in interest rates, exchange rates and other market risks, with its liabilities under the insurance contracts whose level depends on the same changes.

(2) When investing the assets covering technical provisions, including mathematical provisions, an insurance undertaking shall take into account the maturity of the liabilities under individual insurance contracts.

(3) By way of derogation from paragraph 1 of this Article, an insurance undertaking shall match not less than 80% of the assets covering technical provisions, including mathematical provisions, with its liabilities under the insurance contracts whose level depends on changes in exchange rates.

**Usage of derivated financial instruments**

*Article 118*

(1) In the investment of the covering assets, insurance company can use terminal contracts, options and other derivated financial instruments, if they reduce risks specified in article 117., paragraph 1. of this Act, or if they provide more efficient portfolio management.

(2) Supervisory body proscribes the detail rules for usage of derivated financial instruments.

(3) Insurance company is obligated to report the supervisory body on usage of derivated financial instruments.

**Assets covering mathematical provisions**

*Article 119*

(1) Assets covering mathematical provisions are the assets covering the liabilities under those lines of assurance in respect of which assurance undertakings are required to form mathematical provisions.
(2) The assets covering mathematical provisions may be used only for payment of claims under the assurance contracts in respect of which mathematical provisions have been formed.

**Required coverage**

**Article 120**

(1) The required coverage shall represent mathematical provisions. For health insurance and life assurances where the policyholder bears the investment risk, the required coverage shall include, in addition to mathematical provisions, the provisions for unearned premiums, provisions for claims outstanding and provisions for bonuses and rebates.

(2) The required coverage shall be calculated separately for each line of insurance referred to in Article 121 (1) of this Act.

**Obligation to set aside assets covering mathematical reserves**

**Article 121**

(1) An insurance undertaking which carries on the lines of assurance in respect of which mathematical provisions must be formed shall set aside assets covering mathematical provisions and shall manage such assets separately from other assets.

(2) The value of the assets covering mathematical provisions shall at all times be equal to the amount of the required coverage.

(3) An insurance undertaking shall ensure that the value of the assets covering mathematical provisions is at all times at least equal to the amount of the required coverage. At the end of each quarter, the insurance undertaking shall acquire additional assets for the account of the assets covering mathematical provisions if this is necessary in order to match the value of the assets covering mathematical provisions with the amount of the required coverage.

**Types of authorised investments of assets covering mathematical provisions**

**Article 122**

(1) The assets covering mathematical provisions may be invested in:

1. securities issued by the government of the Republic of Croatia, the Croatian National Bank or the Croatian Bank for Reconstruction and Development;
2. bonds and other debt securities guaranteed by the government of the Republic of Croatia;
3. bonds and other debt securities issued by local government and self-government units in the Republic of Croatia;
4. bonds and other debt securities accompanied by a guarantee issued by local government and self-government units in the Republic of Croatia;
5. bonds and other debt securities which are traded on regulated securities markets in the Republic of Croatia;
6. shares which are traded on regulated securities markets in the Republic of Croatia;
7. holdings in and shares of investment funds registered in the Republic of Croatia;
8. advances and loans at the amount of surrender value of a policy under a life assurance contract;
9. loans to banks having a head office in the Republic of Croatia;
10. loans secured by bank guarantees issued by banks having a head office in the Republic of Croatia;
11. loans secured by the securities referred to in points 1 to 4 of this paragraph;
12. real property and other rights in respect of real property (right of construction, right of use) if:
   - the real property is registered in a land register in the Republic of Croatia,
   - the real property is expected to yield a return or is already yielding a return,
   - the purchase price was determined on the basis of an appraisal by an expert court appraiser and
   - the real property has no mortgage or lien placed upon it;
13. deposits with banks having a head office in the Republic of Croatia;
14. assets contained in an internal fund held by the insurance undertaking.

(2) The assets covering mathematical provisions may be invested in:

- long-term bonds and long-term debt securities issued by a Member State or an OECD Member State;
- long-term bonds or other long-term securities issued by a foreign non-governmental entity of a Member State or an OECD Member State;
- shares issued by a foreign joint-stock undertaking which are traded on regulated capital markets of Member States or OECD Member States;
- holdings in investment funds which are traded in a Member State or an OECD Member State.

(3) An insurance undertaking may also invest assets covering mathematical provisions in other categories of investments subject to obtaining approval from the supervisory authorities.

Limitations on investment of assets covering mathematical provisions
Article 123

(1) The assets covering mathematical provisions may be invested in the securities referred to in Article 122 (1), points 1 and 2 of this Act without restriction.

(2) Investment of assets covering mathematical provisions shall not exceed the following limits:
1. investments in the securities referred to in Article 122 (1), points 1 and 2 of this Act shall amount to at least 50% of the total assets covering mathematical provisions;
2. investments in the securities referred to in Article 122 (1), points 3, 4 and 5 of this Act, taken together, shall not exceed 35% of the total assets covering mathematical provisions;
3. investments in the shares referred to in Article 122 (1), point 6 of this Act, taken together, shall not exceed 25% of the total assets covering mathematical provisions;
4. investments in the holdings in and shares of investment funds referred to in Article 122 (1), point 7 of this Act, taken together, shall not exceed 40% of the total assets covering mathematical provisions;
5. investments in the advances and loans referred to in Article 122 (1), point 8 of this Act, taken together, shall not exceed 30% of the total assets covering mathematical provisions;
6. investments in the loans and deposits referred to in Article 122 (1), points 9 and 13 of this Act to and with the same bank or a number of related banks shall not exceed 10% individually or 30% combined of the total assets covering mathematical provisions;
7. investments in the loans referred to in Article 122 (1), points 10 and 11 of this Act granted to a single borrower shall not exceed 2% individually or 20% combined of the total assets covering mathematical provisions;
8. the investments referred to in Article 122 (1), point 12 of this Act in one piece of real property or a number of pieces of real property which are close enough to each other to be considered effectively one investment shall not exceed 10% individually or 30% combined of the total assets covering mathematical provisions;
9. investments in the assets referred to in Article 122 (1), point 14 of this Act, taken together, shall not exceed 3% the total assets covering mathematical provisions;

(3) The investments referred to in Article 122 (2) of this Act, taken together, shall not exceed 15% of the total assets covering mathematical provisions.

Special provisions relating to the insurance where the policyholder bears investment risk

Article 124

(1) An insurance undertaking may not invest assets covering mathematical provisions in a mutual or investment fund if the undertaking is related to a company managing such fund.

(2) When the rights of the policyholders under the insurance contracts are directly dependent on the value of a unit of assets of a mutual or investment fund, then the investments of the assets covering mathematical provisions formed by the insurance undertaking in respect of such assurance contracts to the maximum extent possible comprise the investments in securities which represent the units of the assets of that mutual or investment fund.

(3) When the rights of the policyholders under the assurance contracts are directly linked to the change of index of securities or other reference value, then the investments of the assets covering mathematical provisions set aside by the insurance undertaking in respect of such assurance contracts shall to the maximum extent possible comprise investments in appropriate securities whose characteristics and marketability correspond to those serving as the basis for determining the index or other reference value.

(4) The supervisory authorities shall lay down in detail the types of investments and restrictions on investments of the assets covering mathematical provisions under the lines of life assurance where the policyholder bears the investment risk and where the rights conferred on the policyholder under the assurance contract are directly linked to the value of a unit of the assets covering mathematical provisions.

Separating assets covering mathematical provisions from other assets of insurance undertakings

Article 125
(1) An insurance undertaking shall separate the assets covering mathematical provisions from its other assets in the manner laid down in the following Articles of this Act according to the type of such assets:

(2) Execution on assets covering mathematical provisions referred to in paragraph 1 above shall only be authorised for the purpose of enabling or settling the policyholder’s claims under the assurance contract in respect of which the assets covering mathematical provisions have been set aside.

(3) In the case of life assurance and those types of health insurance and personal accident insurance which are operated on similar probability tables and calculations to that of life assurance, execution on assets covering mathematical provisions shall be limited to that portion of the assets covering mathematical provisions whose value:

1. is in equal proportion to the required coverage in respect of the assurance which has given rise to the claim as the total value of the assets covering mathematical provisions bears to the required coverage for all assurance policies written by the insurance undertaking under the line of assurance in which respect the assets covering mathematical provisions have been set aside,

and

2. does not exceed the required coverage with regard to the assurance which has given rise to the claim.

Asset account for coverage of mathematical provisions

Article 126

(1) Insurance company is obligated to open an account for receiving and performing the payments involving the assets covering life insurance at the bank which is authorised for conducting the money transfers.

Separating investments in securities

Article 127

(1) An insurance undertaking which keeps securities in a custody account opened with a custodian bank shall enjoy at least the following rights:
- inspection of the balance of securities in the custody account;
- direct fulfilment of the obligation to transfer securities arising out of the deals closed for the account of the assets covering mathematical provisions by a stock-broking firm which manages the investments in securities on the basis of authorisation by the insurance undertaking under a contract concerning outsourced operations;

(2) With regard to securities which are issued in the form of certificates and which are not traded on regulated securities markets, an insurance undertaking shall authorise a bank which has authorisation to act as custodian for all transactions related to safekeeping of such securities.
(3) Paragraph 1 of this Article shall apply to the safekeeping referred to in paragraph 2 as appropriate.

(4) The Depository Agency or the custodian bank referred to in paragraphs 1 and 2 of this Article shall at the request of the supervisory authorities submit the information on the balance of the securities which are kept in custody for the account of an insurance undertaking and which relate to assets covering mathematical provisions.

**Investments in deposits at banks or loans**

*Article 128*

(1) Insurance company is obligated to conclude the agreement with the bank or with the borrower, in connection with asset investment, which is to be clearly related to the assets for mathematical provisions coverage.

(2) In case when the loan from paragraph above is secured by the bank guaranty, with the securities, or in some other way, insurance company is obligated to make sure that the subject of the insurance is booked in favour of the assets for mathematical provisions coverage.

**IV.7 Other risk management measures**

**Obligation to reinsure**

*Article 129*

(1) An insurance undertaking must reinsure that portion of the risks accepted which, according to the table of maximum covers, exceed the shares in risk compensation.

**Planned reinsurance programme**

*Article 130*

(1) An insurance undertaking shall adopt, for each financial year, a planned reinsurance programme.

(2) The planned reinsurance programme must cover:

1. calculation of risk retentions, broken down by individual line of insurance;
2. table of maximum covers drawn up on the basis of the calculations referred to in point 1 above;
3. procedures, bases and criteria for determining a probable maximum loss that is likely to arise on the occurrence of a single event arising from a certain accepted risk.

(3) In the case of calculation referred to in point 1 of paragraph 2 of this Article, an insurance undertaking shall take into account in particular:

1. the level of capital;
2. the total volume of business;
3. the amount of insurance premiums written, broken down by class and line of business;
4. shares of individual lines of insurance in the technical bases referred to in points 2 and 3 above;
5. adjustments due to deviations under individual lines of insurance.

Co-insurance
Article 131

(1) An insurance undertaking may co-insure together with one or more insurance undertakings the risks under the lines of insurance in respect of which it has received authorisation to conduct insurance business.

(2) An insurance undertaking shall not co-insure that proportion of the risks accepted that exceed its own retention determined for each individual line of insurance in accordance with the table of maximum covers referred to in Article 130 (2), point 2 of this Act.

(3) By way of derogation from paragraph 1 of this Article, an insurance undertaking may co-insure risks in the Member States of the European Union in accordance with the rules set out in Article 132 of this Act.

Co-insurance operations within the European Union
Article 132

(1) Co-insurance operations within the European Union are those operations which satisfy the following conditions:

1. two or more insurance undertakings (co-insurers) cover, each for its own part, the risk under a single contract at an overall premium and for the same period, whereby one of these undertakings is the leading insurer;
2. the risk is situated within the European Union;
3. the leading insurer is the insurance undertaking having its head office in the territory of a Member State of the European Union which is authorised to carry on the insurance business in the line of insurance to which the risk coverage relates;
4. at least one of the co-insurers participates in the contract by means of a head office or branch established in a Member State other than that of the leading insurer;
5. the leading insurer fully assumes the leader's role in co-insurance practice and in particular determines the terms and conditions of insurance and rating, and issues the policy.

(2) Co-insurance within the European Union shall be permitted in respect of insurance contracts which concern property insurance other than the insurance referred to in Article 3 (2), points 1, 2, 17 and 18 of this Act.

(3) Each insurer exposed to the risk within the meaning of paragraph 1 of this Article shall form technical provisions according to the rules fixed by the Member State where such insurer is established or, in the absence of such rules, according to customary practice in that State.
(4) By way of derogation from the preceding paragraph, the provisions for outstanding claims shall be at least equal to that determined by the leading insurer according to the rules of practice of the State where such insurer is established.

(5) Each insurer exposed to the risk within the meaning of paragraph 1 of this Article and having a head office in the Republic of Croatia shall invest the assets covering the technical provisions referred to in paragraph 3 of this Article pursuant to this Act and the legislation enacted on the basis of this Act.

Statistical insurance standards
Article 133

(1) An insurance undertaking shall keep statistical data on the insurance operations, the risks covered, insured events and claims.

(2) An insurance undertaking shall process the data referred to in paragraph 1 above by application of statistical insurance standards.

(3) Statistical insurance standards shall be prescribed by the supervisory authorities.

TITLE V
CO-OPERATION WITH SUPERVISORY AUTHORITIES

Data processing and submission of information
Article 134

(1) The supervisory authority shall be in charge of collection and processing of information concerning the facts and circumstances relevant to the performance of its supervisory tasks and responsibilities specified in this Act.

(2) The information referred to in paragraph 1 above, which is relevant to the performance of the tasks and responsibilities of the supervisory authority that are provided in this Act shall in particular be deemed to be the information about:

1. authorisations to carry on insurance business and other permits issued by the supervisory authority under this Act;
2. approvals granted by the supervisory authority;
3. branches or pursuit of direct insurance business in the Member States by insurance undertakings with head office in the Republic of Croatia;
4. branches or pursuit of direct insurance business by insurance undertakings from Member States in the territory of the Republic of Croatia;
5. branches of insurance undertakings established by insurance undertakings having their head office in the Republic of Croatia;
6. compliance with the provisions relating to risk management referred to in Titles IV of this Act and the regulations adopted on the basis of such provisions;
7. the reports referred to in Article 103 of this Act;
8. the holders of qualifying holdings referred to in Article 21 of this Act;
9. audited annual financial statements referred to in Article 151 of this Act;
10. the supervisory measures implemented pursuant to Article 159 of this Act;
11. the information collected by the supervisory authority as part of information exchange with other supervisory authorities or bodies.

(3) The supervisory authority may pass on the information referred to in paragraph 2 of this Article to:

1. competent supervisory authorities of the Member States if they require such information for the purpose of supervision of operations of insurance undertakings and if such authorities are subject to the obligation of professional secrecy to the extent laid down in Article 138 Paragraph 4) of this Act;
2. competent supervisory authorities of the Member States and foreign countries under co-operation agreements concluded with them where they require such information for the purpose of performing their supervision of insurance activities, subject to reciprocity, and provided that such authorities are bound by the obligation of professional secrecy to the extent laid down in Article 138 (4) of this Act;
3. the court of justice where such information is required by the court in a bankruptcy proceedings against an insurance undertaking;
4. the Ministry of Finance of the Republic of Croatia for the purposes of drawing up regulations, keeping statistics or pursuit of a strategy in the area of financial and fiscal system.

(4) By way of derogation from Paragraph 3 of this Act, the supervisory authority may submit the information referred to in Paragraph 2 Item 12 of this Article to other authorities or bodies only with express approval of the supervisory authority from which it has received such information.

(5) The supervisory authority shall notify the European Commission and competent supervisory authorities of the Member States of the names of persons or authorities or bodies to which the information referred to in Paragraph 2 of this Article may be submitted.

**Notification of the European Commission of refusal of a request for submission of information**

Article 135

The supervisory authority shall notify the European Commission of any refusal of a request for submission of the information referred to in Article 77 (9) of this Act.

**Notification of the European Commission of the relations with third countries**

Article 136

(1) The supervisory authority shall inform the Commission:

1. of any authorisation issued to an insurance undertaking which is a direct or indirect subsidiary of a parent undertaking which is a legal person with a head office in a third country;
2. of issue of any authorisation for acquisition of a qualifying holding on the basis of which an entity from a third country becomes a parent undertaking to an insurance undertaking;
3. of any significant difficulties encountered by insurance undertakings in carrying on their activities in third countries;

(2) The supervisory authority shall at the request of the European Commission suspend, for a period not exceeding three months, their decisions:

1. regarding an application for issue of authorisation to an insurance undertaking which is a direct or indirect subsidiary of a parent undertaking which is a legal person with a head office in the third country to which the decision of the European Commission relates;
2. regarding an application for issue of authorisation for acquisition of a qualifying holding on the basis of which an undertaking with a head office in the third country to which the decision of the European Commission relates becomes a parent undertaking to an insurance undertaking;

(3) During the period of suspension of the decision-making process pursuant to paragraph 2 of this Article, the time period for decision-making referred to in Article 217 (1) of this Act shall not run.

(4) The supervisory authority shall at the request of the European Council extend the period referred to in paragraph 2 of this Article by a period determined by the European Council.

(5) By way of exception, paragraphs 2 and 4 of this Article shall not apply to:

1. setting up of an insurance undertaking as a subsidiary which at the time of adoption of the decision referred to in paragraphs 2 and 4 of this Article has the right to pursue the insurance activities in a Member State or of a subsidiary of such insurance undertaking;
2. acquisition of a qualifying holding by an insurance undertaking which at the time of adoption of the decision referred to in paragraphs 2 and 4 of this Article has the right to pursue the insurance activities in a Member State or by a subsidiary of such insurance undertaking.

(6) The supervisory authority shall at the request of the European Commission notify the latter of any application for issue of the authorisation referred to in paragraph 1 of this Article or of any application for acquisition of a qualifying holding on the basis of which the holder of such holding from a third country would become a parent undertaking of an insurance undertaking if the European Commission requests such information for the purpose of establishing the facts relevant to the adoption of the decision pursuant to paragraphs 2 and 4 of this Article.

**TITLE VI**
**PROFESSIONAL SECRECY**

**Confidential data**

Article 137

(1) An insurance undertaking shall be obliged to treat as confidential all data, information, facts and circumstances that they have received or become aware of in the course of operations with a certain insurance undertaking or the policyholder or the insured or any other person asserting the rights under an insurance contract.
Obligation to protect confidential data
Article 138

(1) Members of the insurance undertaking’s bodies, its shareholders, employees and other persons who, in their work or provision of services for the insurance undertaking, have access to the data referred to in Article 137 of this Act may not disclose these data to third parties, use them against the interests of the insurance undertaking and its clients or enable third parties to use them.

(2) The obligation to protect personal data shall not apply in the following cases:

1. if a party agrees expressly and in writing that certain confidential data may be disclosed;
2. if the information is required to establish the facts in criminal proceedings and if presentation of this information is required or ordered in writing by the competent court;
3. in the cases provided by the Act on the Prevention of Money Laundering;
4. if such information is required to determine the legal relationship between an insurance undertaking and a policyholder or an insured person or other person asserting the rights under an insurance contract in the course of legal proceedings;
5. if such information is required in inheritance proceedings and if disclosure of this information is required or ordered in writing by the competent court;
6. if such information is required for the purpose of a seizure of property of a policyholder or other person asserting the rights under an insurance contract, and if disclosure of this information is required or ordered in writing by the competent court;
7. if such information is required by the supervisory authority or another supervisory body for the purpose of supervision carried out within the framework of its competences;
8. if such information is required by a tax authority in proceedings carried out by the latter within the framework of its competences;
9. in the cases provided by the Act on Compulsory Insurances in Transportation.

(3) The obligation to protect confidential data shall also apply to the persons referred to in paragraph 1 of this Article after they leave the insurance undertaking or after they cease to be shareholders or members of the bodies of the insurance undertaking.

(4) The supervisory authority or other authorities or bodies and courts shall be allowed to use the information gathered pursuant to paragraph 2 of this Article solely for the purposes for which these have been gathered.

Gathering, keeping and using personal data
Article 139

(1) Insurance undertakings and the Croatian Insurance Bureau shall gather, process, keep, submit and use personal data which are necessary for underwriting policies and for settling claims arising from any insurance pursuant to this Act and in accordance with the Personal Data Protection Act and other regulations relating to data protection.

(2) Insurance undertakings and the Croatian Insurance Bureau may establish, maintain and keep the following databases:
1. database of the insured persons;
2. database of loss events;
3. database for the assessment of insurance covers and loss compensation amounts.

**TITLE VII**  
**BUSINESS BOOKS AND BUSINESS REPORTS**

**General provision**  
**Article 140**

(1) An insurance undertaking shall be obliged to keep business books, draw up bookkeeping documents, value assets and liabilities and prepare financial statements pursuant to the Companies Act, Accounting Act and other regulations, and shall adhere to the accounting and financial standards and principles, and general accounting assumptions, unless otherwise specifically provided by this Act.

**Keeping of business books, records and documentation**  
**Article 141**

(1) Insurance undertaking shall organise the operations and keep on a regular basis business books, business documentation and other administrative or business records so as to enable, at any time, examination as to whether the insurance activities are conducted in accordance with the risk management rules, the regulations in force and the professional standards.

(2) An insurance undertaking shall classify accounting data and records in accordance with the chart of accounts designed for insurance undertakings.

(3) In preparing their accounting documents, insurance undertakings shall use the formats of accounting documents designed for insurance undertakings.

**Annual report**  
**Article 142**

(1) An insurance undertaking shall prepare accounting documents and an annual report.

(2) The annual report referred to in paragraph 1 above shall contain:
1. a list of persons having a holding of more than 3% of the capital of the insurance undertaking and the amount of their holdings;
2. a list of the members of the board of directors of the insurance undertaking who have a holding in the capital of the insurance undertaking and the amount of their holdings;

(3) An insurance undertaking shall submit to the supervisory authority an unaudited annual report within three months of the end of the calendar year.
(4) By way of derogation from paragraph 3 of this Article, a reinsurance undertaking shall submit to the supervisory authority an unaudited annual report within four months of the end of the calendar year.

(5) A dominant insurance undertaking in an insurance group shall prepare consolidated financial statements.

**Opinion of a certified actuary on the annual report**

Article 143

1. An insurance undertaking shall within 14 days of the date of submission of the annual report also submit to the supervisory authority a report by the certified actuary referred to in Article 68 Paragraph 3 of this Act along with the opinion of the certified actuary about fixing of premium rates and establishment of technical provisions pursuant to the provisions of this Act or pursuant to regulations adopted hereunder.

**Regulation on business books and annual report**

Article 144

1. The supervisory authority shall prescribe:
   1. the chart of accounts for insurance undertakings;
   2. the types and formats of accounting documents for insurance undertakings;

2. The supervisory authority may, for the purposes of publication, prescribe the type, form, layout and contents of the reports, as well as the time limits for their publication.

**TITLE VIII**

**INTERNAL AUDIT**

**Internal audit**

Article 145

An insurance undertaking shall set up an internal audit, which is an independent and objective function providing expert opinion and established in such a way as to add value and improve operations of an insurance undertaking.

**Tasks of internal audit**

Article 146

1. The internal audit shall perform an ongoing and comprehensive control of the insurance undertaking’s operations for the purpose of verifying whether the insurance undertaking:

   1. carries on the insurance business according to the rules and in compliance with this Act, the regulations adopted on the basis thereof, and in accordance with the internal rules regulating the operations of the insurance undertaking;
2. keeps business books, records business events on the basis of authentic bookkeeping documents, values bookkeeping items and draws up financial statements and other reports in compliance with this Act and the regulations adopted on the basis thereof, and in accordance with the internal rules regulating the operations of the insurance undertaking.

3. systematically manages the risks that arise from the business activities of the insurance undertaking in accordance with the principles of sound management including management of information technology resources and other related technologies.

(2) The internal audit shall carry out internal audits of the operations in accordance with professional principles and internal auditing standards, the code of professional ethics of internal auditors and the operating rules for internal audits, which shall be adopted by the board of directors of the insurance undertaking in agreement with the supervisory board.

(3) The internal audit shall harmonise its operating methods with the operation of external auditors of the insurance undertaking who carry out audits of annual accounts or perform special audits at the request of the supervisory authority.

**Internal audit employees**

**Article 147**

(1) An insurance undertaking shall employ, for the purpose of carrying out internal audit tasks, at least one person having the professional qualification of auditor or internal auditor acquired in accordance with the law governing auditing or in accordance with the rules and programme of the competent professional organisation in charge of professional training of internal auditors.

(2) Where the internal audit tasks are entrusted with a number of persons, one of these persons who meets the requirement set out in paragraph 1 above must be responsible for the functioning of the internal audit as a whole.

(3) Prior to entering into the employment contract with the person referred to in paragraphs 1 and 2 above, an insurance undertaking shall notify the supervisory authority of the intended appointment.

(4) By way of derogation from paragraph 1 of this Article, an insurance undertaking with a small volume of business may, subject to prior approval of the supervisory authority, entrust the internal audit tasks with one person or a number of persons who are not employed with the concerned insurance undertaking, provided that at least one person meets the requirement set out in paragraph 1 of this Article.

(5) Persons carrying out internal audit tasks may not carry out any other task in the insurance undertaking.

(6) The internal audit tasks may not be carried out by the members of the insurance undertaking’s board of directors either.
Programmes of operation of the internal audit
Article 148

(1) The tasks of the internal audit shall be planned by means of:

- a strategic programme
- an annual programme, and
- an individual audit programme.

(2) The strategic programme of operations of the internal audit shall be adopted for a three-year (five-year) period, based on risk assessment and shall be harmonised every year.

(3) The annual programme of operations of the internal audit shall be worked out on the basis of the strategic programme and shall cover:

1. business areas which are priority areas with regard to risk assessment;
2. a list of planned audits;
3. timetable of internal auditors.

(4) The strategic and annual programmes shall be proposed by the internal audit manager and adopted by the supervisory board on the basis of a prior opinion of the board of directors of the insurance undertaking.

(5) The internal audit may also be carried out by order of a member of the board of directors of the insurance undertaking.

Report on the activities of the internal audit
Article 149

(1) The internal audit shall draw up reports in accordance with the deadlines set in the operative action plan of the internal audit, but at least once in six months. The report on the activities of the internal audit shall contain:

1. a description of all audits that have been conducted;
2. assessment of the adequacy and efficiency of the operation of internal control systems and recommendations for their improvement;
3. any violation or irregularity if these are established in the course of an audit, and proposed measures for elimination of such violations and irregularities;
4. the corrective actions taken on the recommendations of the internal audit;

(2) The internal audit shall submit the reports on its activities to the board of directors and the supervisory board of the insurance undertaking.

Information to the board of directors and supervisory board of an insurance undertaking
Article 150

(1) If, during an examination of certain business segments of an insurance undertaking, the internal audit establishes certain irregularities in the operations of and violations of the risk
management rules by the insurance undertaking, because of which the insurance undertaking is threatened with illiquidity or insolvency, or the safety of either its operation or the insured persons is endangered, the internal audit shall immediately inform the board of directors and the supervisory board of the insurance undertaking thereof.

(2) If, during an examination of the operations, the internal audit establishes that the board of directors of the insurance undertaking violates the risk management rules, they shall immediately inform the supervisory board thereof.

TITLE IX
AUDITING

Audit of financial statements
Article 151

(1) Annual accounts of insurance undertakings, consolidated annual accounts of insurance groups and consolidated accounts of insurance holding companies shall be audited by certified auditors.

(2) The audit of the accounts referred to in paragraph 1 above shall be carried out by two or more natural persons authorised to audit accounts (hereinafter: certified auditors).

(3) Audit of the financial statements referred to in Paragraph 2 of this Article shall be conducted by auditing firms.

(4) An insurance undertaking shall submit to the supervisory board annual accounts, audited consolidated accounts of an insurance group and audited consolidated accounts of an insurance holding company within 15 days of the date of issue of the auditors' report on the audit of annual accounts, but not later than four months following the end of the financial year in respect of which the accounts are drawn up.

(5) The same audit company may not conduct or be engaged by the insurance undertaking to conduct an audit of accounts of an insurance undertaking if in the previous year the respective audit company generated more than a half of its total income from auditing of the accounts of that insurance undertaking.

(6) The same audit company may conduct or be engaged by the insurance undertaking to conduct a maximum of four consecutive audits of the accounts of that insurance undertaking.

(7) An audit company may not at the same time, or in the same financial year, conduct an audit of accounts of the insurance undertaking and provide consulting services to that insurance undertaking.

(8) If the same audit company conducts an audit of accounts of an insurance undertaking in contravention of any provision of paragraphs 5, 6 and 7 above, the supervisory authority shall not accept the report on the audit, conducted by the concerned audit company, of the accounts of the insurance undertaking for the respective year.
Obligations of an auditing firm
Article 152

(1) An auditing firm is obliged to give their opinion as to whether annual accounts of an insurance undertaking (consolidated and non-consolidated) are consistent with professional rules and standards.

(2) A certified auditor shall have a duty to report promptly to the supervisory authority any fact concerning an insurance undertaking of which he/she has become aware while carrying out his/her task, which is liable to:

1. constitute a material breach of the laws, regulations or administrative provisions which lay down the conditions on the basis of which an authorisation to conduct insurance activities has been issued to the insurance undertaking;
2. constitute a serious fraud or embezzlement;
3. constitute a material change in the financial result disclosed in unaudited annual accounts;
4. constitute a material breach of the insurance undertaking's internal regulations;
5. as well as any facts and circumstances which are liable to affect the further operation of the insurance undertaking.

(3) Auditing firms shall likewise have a duty to report to the supervisory authority any fact referred to in paragraph 2 above of which he/she becomes aware in the course of carrying out an audit in an undertaking having close links resulting from a control relationship with the insurance undertaking within which he/she is carrying out the audit.

(4) The disclosure by an auditing firm of any fact within the meaning of paragraphs 2 and 3 of this Article shall not constitute a breach of any restriction on disclosure of information imposed by contract or by any legislative provision and shall not involve such persons in liability of any kind which would normally be incurred in other cases.

Obligation of insurance undertaking to provide information
Article 153

(1) The board of directors of an insurance undertaking shall provide an auditor with all the necessary documents and allow him/her inspection of business books, records and computer printouts. An insurance undertaking shall allow the auditors access to business and working premises.

(2) For the purpose of carrying out audit tasks, an insurance undertaking shall make appropriate premises and resources available to the audit company. If data entry or storing has been performed by means of automatic data processing, an insurance undertaking shall be obliged, at its own expense and within a reasonable time period, to make available to the auditor the technical aids necessary for reading the documents and to provide the required number of copies of the legible permanent printouts, as appropriate.

Contents of an audit examination
Article 154
(1) In the course of an audit, a certified auditor shall primarily examine and give his/her opinion on or make assessment of:

1. balance sheet,
2. profit and loss account,
3. changes in the capital;
4. cash flow,
5. balance and movements in technical provisions,
6. balance and structure of investments of assets covering technical provisions,
7. balance and structure of investments of assets covering mathematical provisions managed by the insurance undertaking,
8. compliance with the risk management rules,
9. activities of the internal audit,
10. method of keeping business books,
11. quality of the IT system in the insurance undertaking, in accordance with the internationally accepted auditing standards for IT systems,
12. correctness and completeness of notifications and reports to the supervisory authority,

(2) In addition to the abovementioned, the supervisory authority shall prescribe a more detailed form, minimum scope and contents of the audit examination and audit report in view of the specific nature of the insurance business.

(3) The supervisory authority may require from the auditor to provide additional explanations concerning the audit he/she has carried out and concerning the audit report.

(4) If the audit examination or audit report is not performed or drawn up in compliance with paragraphs 1 and 2 of this Article, the supervisory authority shall reject the report and request that the audit examination be carried out by another certified auditor of another audit company at the expense of the insurance undertaking.

**Publishing of a summary of the audited annual report**

Article 155

(1) An insurance undertaking shall publish in the daily press or in the professional financial press a summary of the audited annual report, accompanied by the auditors' opinion and certified actuary’s opinion, within 8 days of its adoption, but not later than six months following the end of the calendar year.

(2) The supervisory authority shall prescribe a more detailed contents of the summary referred to in paragraph 1 above.

**TITLE X**

**SUPERVISION OF INSURANCE UNDERTAKINGS**

X.1 General provisions

**Supervision of insurance undertakings**

Article 156
(1) The supervisory authority shall carry out supervision of insurance undertakings for the purpose of verifying whether insurance undertakings comply with the risk management rules, other rules provided for in this Act, the regulations issued on the basis of this Act and other laws governing the activities of insurance undertakings, as well as the regulations issued on the basis of these laws.

(2) The supervisory authority shall also supervise legal persons related to an insurance undertaking if this is necessary for the supervision of the insurance undertaking’s operations.

(3) If another supervisory authority or body is competent for the supervision of a certain undertaking referred to in paragraph 2 above, the examination of operations of the undertaking concerned shall be carried out by the supervisory authority in co-operation with the competent supervisory authority or body.

(4) Supervision of an insurance undertaking’s operations may also be exercised by other institutions in accordance with the powers conferred upon them by law within the scope of their business activities.

(5) The provisions relating to the supervision of insurance undertakings shall apply to supervision of branches of third-country undertakings as appropriate.

Method of supervision
Article 157

(1) The supervisory authority shall exercise the supervision of insurance undertakings by way of:

1. monitoring, collecting and verifying reports and notifications submitted by insurance undertakings and other persons that are obliged, in accordance with the provisions of this Act and other laws, to report to the supervisory authority or notify it of particular facts and circumstances;
2. carrying out examinations of operations of insurance undertakings;
3. imposing supervisory measures in compliance with this Act.

X.2 Reporting

Regular reporting and reporting at the request of the supervisory authority
Article 158

(1) An insurance undertaking shall report to the supervisory authority on the following facts and circumstances:

1. registration of and changes in the information registered in the judicial register of companies,
2. convening of the general meeting and all the resolutions adopted by the general meeting,
3. shareholders of the insurance undertaking and acquisition of or changes in the qualifying holdings referred to in Article 21 of this Act;
4. appointment and dismissal of the members of the board of directors;
5. dismissal of a certified actuary;
6. changes in the conduct of internal audits;
7. planned opening, relocation, closing or temporary cessation of operations of a branch or representative office, or changes in the types of operations performed by a branch;
8. investments on the basis of which the insurance undertaking has acquired, directly or indirectly, a qualifying holding in another legal person, and on any further investment in that legal person;
9. significant changes in the capital structure;
10. discontinuation of activities in a specific line of insurance.

(2) An insurance undertaking shall notify the supervisory authority of the technical basis used in calculating premium rates, exclusively for the purpose of verifying whether they are consistent with actuarial principles.

(3) The board of directors of an insurance undertaking shall immediately notify the supervisory authority of the following events:

1. if there has been an immediate threat to liquidity or solvency of the insurance undertaking;
2. if there are valid grounds for lapse or withdrawal of the authorisation to carry on insurance business;
3. if the financial position of the insurance undertaking changes to such an extent that the insurance undertaking no longer maintains the solvency margin specified in Articles 98 and 99 of this Act.

(4) An insurance undertaking shall submit, at the request of the supervisory authority, the reports and information on all issues relevant to the exercise of supervision or performance of other responsibilities and tasks by the supervisory authority.

(5) The supervisory authority shall prescribe a more detailed contents of the reports referred to in paragraphs 1 and 2 of this Article, as well as the manner and time limits for reporting and notification.

**X.3 Supervisory measures**

**X.3.1 General provision**

**Supervisory measures**

*Article 159*

(1) The supervisory measures taken in respect of an insurance undertaking, in accordance with this Act, shall be as follows:

1. taking decision on elimination of violations and irregularities, if any;
2. imposing additional measures;
3. withdrawal of the authorisation;
4. extraordinary administration;
5. compulsory winding-up of the insurance undertaking;
6. taking decision on the reasons for opening of bankruptcy proceedings with regard to an insurance undertaking;
7. submission of proposal to institute misdemeanour proceedings.

**X.3.2 Elimination of violations and irregularities**

**Decision on elimination of violations and irregularities**

**Article 160**

(1) The supervisory authority shall issue a decision on elimination of violations and irregularities if it establishes in the course of supervision of an insurance undertaking that:

1. a member of the board of directors does not have the approval referred to in Article 28 of this Act;
2. an insurance undertaking does not fulfil the conditions for carrying on insurance business;
3. an insurance undertaking pursues the activities which are forbidden under this Act;
4. an insurance undertaking violates the risk management rules;
5. an insurance undertaking violates the rules for keeping of business books and those concerning the annual report, internal audit, or audit of annual accounts;
6. an insurance undertaking breaches the obligation of reporting and notification;
7. an insurance undertaking violates the rules concerning appointment of a certified actuary;
8. an insurance undertaking violates other provisions of this Act, or the regulations issued on the basis of this Act or other laws governing the operation of insurance undertakings.

(2) By virtue of the decision referred to in paragraph 1 above the supervisory authority shall prescribe the time limit for the elimination of violations and irregularities.

**Report on elimination of violations and irregularities**

**Article 161**

(1) An insurance undertaking shall, within the time limit determined in Article 160 (2) of this Act, eliminate the violations and irregularities that have been established and submit to the supervisory authority within the same time limit, unless otherwise explicitly provided in the relevant regulation, a report describing the measures taken to eliminate the violations and irregularities. Any document or other evidence showing that the identified violations and irregularities have been eliminated shall be enclosed with the report.

(2) If the report referred to in paragraph 1 above and the enclosed evidence show that the violations and irregularities have been eliminated, the supervisory authority shall issue a regulation in which it shall certify that the violations and irregularities have been eliminated. The supervisory authority may, prior to taking a decision, carry out another examination of the operations to the extent necessary to check whether the violations and irregularities have been eliminated. In carrying out another examination, the provisions of Article 186 of this Act shall apply.
(3) If the report is incomplete, or the report and the enclosed evidence do not prove that the identified violations and irregularities have been eliminated, the supervisory authority shall, by virtue of a decision, order the insurance undertaking to complete the report and shall set a deadline for the completion.

(4) The supervisory authority shall issue the decision referred to in paragraphs 2 and 3 of this Article within 30 days of the receipt of the report on the elimination of violations and irregularities, failing that, the violations and irregularities shall be deemed to have been eliminated.

(5) If the regulation imposes additional measures set out in Article 162 below, the provisions of this Article relating to elimination of violations and irregularities and to the report on elimination of violations and irregularities shall also apply to implementation of additional measures, as well as to notification of the implementation of additional measures.

Additional measures for implementation of risk management rules
Article 162

(1) If, in exercising supervision, the supervisory authority establishes that an insurance undertaking seriously violates risk management rules, it may, by virtue of a decision on elimination of violations and irregularities, also impose the following additional measures:

1. order the board of directors of the insurance undertaking to adopt an action plan to ensure the guarantee fund of the insurance undertaking;
2. order the board of directors of the insurance undertaking and the supervisory board to convene a general meeting of shareholders and to propose appropriate resolutions, such as:
   - to increase the core capital of the insurance undertaking;
   - to increase the core capital against the profits;
3. prohibit the insurance undertaking from concluding new insurance contracts in specific individual or all classes of insurance;
4. prohibit the insurance undertaking from making particular types of payments or from making payments to particular persons;
5. prohibit the insurance undertaking from making transactions with certain shareholders, members of the board of directors, members of the supervisory board, related undertakings or investment funds managed by a fund management company which is an entity related to the insurance undertaking;
6. order the board of directors of the insurance undertaking to adopt or implement appropriate measures for the purpose of:
   - improving risk management procedures;
   - changing the scope of activities of the insurance undertaking;
   - restriction on the granting of loans;
   - improving the procedures for collection of overdue receivables;
   - correct valuation of balance-sheet and off-balance-sheet items;
   - improving the IT system;
   - improving the internal controls and internal auditing procedures;
   - or any other measure necessary for the implementation of risk management rules;
7. prohibit or impose a restriction on the insurance undertaking concerning use of assets covering technical provisions and assets covering mathematical provisions managed by the insurance undertaking.

(2) The insurance undertaking shall be deemed to be seriously violating risk management rules if:

1. it fails to reach the solvency margin referred to in Articles 98 or 99 of this Act, or to implement the measures referred to in Article 105 of this Act, or if it fails to maintain the minimum liquidity ratio;
2. it fails to organise its operations or keep business books, business documents, and other administrative and business records in a manner which, at any time, allows for verification as to whether it operates in compliance with the risk management rules;
3. it fails to adopt measures and establish the rules for the adequate valuation of balance-sheet and off-balance-sheet items, or if it values these items in contravention of this Act or the regulations issued on the basis thereof;
4. it performs activities which are prohibited under this Act;
5. it violates the provisions of Articles 114 to 128 of this Act;
6. it pays out dividends in contravention of the provisions of Article 104 of this Act;
7. it frequently breaches the obligations of timely and correct reporting prescribed by this Act or by the regulations issued on the basis thereof;
8. it enters into fictitious transactions for the purpose of incorrect reporting of the financial position of the insurance undertaking;
9. it performs other operations which may jeopardise its liquidity or solvency;

(3) The supervisory authority shall instruct the supervisory board of the insurance undertaking to dismiss a member of the board of directors and appoint a new member to the board of directors if:

1. the insurance undertaking fails to act in accordance with the provision on the elimination of violations and irregularities, or
2. the board of directors of the insurance undertaking fails to implement the additional measures referred to in paragraph 1 of this Article which have been imposed by the supervisory authority; or
3. if the insurance undertaking constantly breaches its obligation of timely and correct reporting or notification of the supervisory authority, or if it obstructs the supervision exercised by the supervisory authority in any other way.

X.4 Withdrawal of the authorisation

Reasons for withdrawal of the authorisation to carry on insurance business

Article 163

(1) The supervisory authority shall withdraw an authorisation granted to an insurance undertaking to carry on insurance business in the following cases:

1. if the authorisation was obtained by providing false data;
2. if an additional measure was imposed on the insurance undertaking, as defined in the Article 162 (3) of this Act, and the supervisory board of the insurance undertaking failed to dismiss a member or several members of the board of directors and to appoint the new ones within the time limit determined for the implementation of the additional measure, or if the newly appointed members of the board of directors failed to ensure, within two months of their appointment, the elimination of such irregular situation or implementation of the additional measures referred to in Article 162 (3) of this Act, which were imposed on account of these violations and irregularities.

(2) By way of derogation from paragraph 1 above, the supervisory authority shall withdraw the authorisation to carry on insurance business only in respect of certain classes of insurance if the reasons set out in paragraph 1 above refer only to the insurance business in those classes of insurance.

**Conditional withdrawal of authorisation**
Article 164

(1) By issuing the authorisation withdrawal decision, the supervisory authority may also decide that the authorisation will not be withdrawn, provided that the insurance undertaking does not commit, within a period determined by the supervisory authority which, however, may not be shorter than six months, another violation or irregularity on account of which the authorisation is being withdrawn.

(2) When the supervisory authority imposes the measure of a conditional withdrawal of authorisation, it may decide that it will withdraw the authorisation if the insurance undertaking, within the stipulated time limit, fails to eliminate the violations and irregularities or fails to implement additional measures, which was the reason for the measure of conditional withdrawal of authorisation. The time limit for fulfilment of these obligations shall be determined by the supervisory authority, such time limit to fall within the trial period.

**Revocation of the conditional withdrawal of authorisation**
Article 165

(1) The supervisory authority shall revoke the conditional withdrawal of authorisation and shall definitely withdraw the authorisation if, during the trial period, the insurance undertaking commits new violations and irregularities because of which the authorisation is to be withdrawn, or if it fails to fulfil the additional conditions specified in Article 164 (2) of this Act.

**X.5 Extraordinary administration**

**Decision on extraordinary administration**
Article 166

(1) The supervisory authority shall issue a decision on extraordinary administration in the following cases:
1. if the insurance undertaking has been ordered to implement the additional measures referred to in Article 162 (1) and (3) of this Act, and the insurance undertaking has neither begun implementing nor has implemented additional measures within the time limits set for the implementation of these measures;
2. if the insurance undertaking, despite the implementation of additional measures, has not reached the solvency margin as defined in Articles 98 and 99 of this Act;
3. if continuance of the operations of the insurance undertaking could jeopardise its liquidity or solvency or security of the persons insured.

(2) By virtue of the decision on extraordinary administration, the supervisory authority shall determine the term of office of the extraordinary administration, which may not exceed one year.

**Members of extraordinary administration**

**Article 167**

(1) By virtue of the decision on extraordinary administration, the supervisory authority shall appoint two or more extraordinary administrators, who shall be members of the extraordinary administration of an insurance undertaking, and shall define the types and scope of duties performed by an individual extraordinary administrator.

**Entry in the judicial register of companies**

**Article 168**

(1) The adoption of the decision on extraordinary administration shall be entered in the judicial register of companies. At the same time, an appropriate change in the names of the persons authorised to represent the insurance undertaking shall also be recorded.

(2) The proposal for the entry of the information referred to in paragraph 1 above shall be made by the extraordinary administration within three days of the receipt of the decision. The decision of the supervisory authority on extraordinary administration shall be enclosed with the proposal.

**Legal effects of extraordinary administration**

**Article 169**

(1) During the term of office of the extraordinary administration, the competences of the supervisory board shall be transferred to the supervisory authority.

(2) Notwithstanding the provision of paragraph 1 of this Article, the supervisory authority shall be entitled to give instructions to the extraordinary administrator with respect to management of the insurance undertaking, which shall be binding.

(3) The provisions of this Act relating to a member of the board of directors shall also apply to an extraordinary administrator, unless otherwise specified in the instructions referred to in paragraph 2 above.
(4) As of the date of issue of the decision on extraordinary administration, all the responsibilities and competences of the members of the board of directors and of the supervisory board of the insurance undertaking, as well as the competences of the general meeting, shall terminate, except for the competences referred to in Article 172 of this Act.

**Powers conferred on the extraordinary administration during its term of office**

**Article 170**

(1) The members of the board of directors shall be obliged to immediately allow the extraordinary administration access to all business records and other documents of the insurance undertaking, and to prepare a report on the handover of duties.

(2) The members of the board of directors of the insurance undertaking shall, upon request, provide the extraordinary administration or an individual extraordinary administrator with all the explanations or additional reports on the operations of the insurance undertaking.

(3) The extraordinary administrators shall be entitled to dismiss a person who obstructs their work and, as appropriate, ask for the assistance of the competent authorities in charge of internal affairs.

**Reports of the extraordinary administration**

**Article 171**

(1) The extraordinary administration shall, at least every three months, prepare and submit to the supervisory authority a report on the financial position and operating conditions of the insurance undertaking under extraordinary administration.

(2) Within nine months of the appointment of the extraordinary administration, the extraordinary administration shall prepare and submit to the supervisory authority a report on the financial position and operating conditions of the insurance undertaking under extraordinary administration, together with an evaluation of the insurance undertaking's stability and of the prospects for further operation, which shall include:

1. an evaluation and the consequences of the acceptance of losses of the insurance undertaking by its shareholders;
2. the possibilities of allocation and spread of other losses of the insurance undertaking;
3. any contingent expenditure which may have impact on the liabilities of the insurance undertaking;
4. an evaluation of possible measures for elimination of financial difficulties of the insurance undertaking, including the transfer of insurance contracts along with an assessment of costs arising from the implementation of these measures;
5. an assessment of the conditions for the compulsory winding-up or bankruptcy of the insurance undertaking.

**Increase in the core capital for the purpose of ensuring the financial stability of an insurance undertaking**
Article 172

(1) If the supervisory authority assesses, on the basis of the report of the extraordinary administration referred to Article 171 of this Act, that, for the purpose of ensuring the minimum capital of the insurance undertaking, or for the purpose of eliminating the causes of illiquidity or insolvency of the insurance undertaking, the share capital of the insurance undertaking should be increased by means of new capital contribution, it shall order the extraordinary administration to convene a general meeting of shareholders of the insurance undertaking and propose adoption of the decision on such an increase in the share capital.

(2) The extraordinary administration shall call the general meeting of shareholders for the purpose of deciding on the increase in the share capital in compliance with paragraph 1 above not later than eight days following the receipt of the order by the supervisory authority referred to in paragraph 1 above.

(3) In the invitation for the general meeting of shareholders, the attention of shareholders must be drawn to the legal consequences referred to in Article 205 (1), point 2 of this Act.

Evaluation of the results of the extraordinary administration

Article 173

(1) The supervisory authority shall, at least once in three months, evaluate the results of the extraordinary administration.

(2) The supervisory authority shall accept the final evaluation of the extraordinary administration’s results not later than three months following the receipt of the report referred to in Article 171 (2) of this Act.

(3) If the supervisory authority assesses that the financial position of the insurance undertaking improved during the term of office of the extraordinary administration to such an extent that the insurance undertaking reached the solvency margin referred to in Articles 98 and 99 of this Act and that it is capable of meeting its commitments on time, the supervisory authority shall issue a decision on termination of the extraordinary administration and on dismissal of the extraordinary administrators.

(4) If the supervisory authority estimates that during the term of office of the extraordinary administration the financial position of the insurance undertaking did not improve to such an extent as to reach the solvency margin referred to in Articles 98 and 99 of this Act or to be capable of fulfilling its commitments on time, it shall issue a decision on opening of winding-up proceedings or on determination of reasons for opening of bankruptcy proceedings.

(5) In the case referred to in paragraph 4 above, the supervisory authority may also take a decision on extension of the term of office of the extraordinary administration by a maximum period of six months if the reasons for opening of bankruptcy proceedings with regard to the insurance undertaking do not exist and if the supervisory authority assesses that the insurance undertaking will be able to reach, within the next six months, the solvency margin referred to in Articles 98 and 99 of this Act.
TITLE XI
SUPERVISION OF AN INSURANCE GROUP

Supplementary supervision
Article 174

(1) Supervision of insurance undertakings constituting an insurance group shall also be performed by the supervisory authority to the extent provided for in this Title.

(2) The supervisory authority shall also supervise insurance holding companies, mixed-activity insurance holding companies and entities in which the insurance undertaking participates or which participate in the insurance undertaking, and whose head office is in the Republic of Croatia, a Member State or a third country.

Insurance group
Article 175

(1) Pursuant to this Act, an insurance group shall mean a group of undertakings in which an insurance undertaking or an insurance holding company or a financial holding company with a head office in the Republic of Croatia is a parent undertaking (hereinafter: parent insurance undertaking, insurance holding company or financial holding company) which exercises a dominant influence over one or more insurance undertakings with a head office in the Republic of Croatia, a Member State or a third country (hereinafter: subsidiary insurance undertakings).

(2) An insurance undertaking or insurance holding company or financial holding company shall be deemed to be a parent undertaking of the insurance undertaking within the meaning of paragraph 1 above if:

1. it holds a participation pursuant to Article 9 (1) of this Act, or
2. it has a majority of voting rights in another undertaking, or
3. it has a right to appoint or dismiss the majority of the members of the board of directors or supervisory board of another undertaking, or
4. it has a right to exercise a controlling influence over another undertaking on the basis of entrepreneurial contract or on another legal basis, or
5. the majority of the members of the board of directors or supervisory board of that undertaking, who performed that function in the previous financial year and still perform it for the purpose of preparing consolidated reports, were appointed exclusively for the purpose of exercising the voting rights of the parent undertaking, or
6. it is a shareholder or partner in another undertaking and if, based on the agreement with other shareholders or partners of that undertaking, it controls a majority of voting rights in that undertaking.

(3) An insurance group shall also exist in the case when an insurance holding company or a financial holding company, whose head office is in a Member State, is a parent undertaking, in either of the ways described under paragraph 2 above, exercising a dominant influence over at least one insurance undertaking having a head office in the Republic of Croatia.
(4) By way of derogation from paragraph 2 of this Article, an insurance undertaking with a head office in the Republic of Croatia which is at the same time a subsidiary undertaking of another insurance undertaking with a head office in the Republic of Croatia shall not be deemed to be a dominant insurance undertaking in an insurance group.

**Terms relating to an insurance group**

**Article 176**

(1) A financial holding company shall be a legal person:

1. which is not an insurance undertaking,
2. which controls at least one insurance undertaking, and
3. whose principal activity is acquisition or ownership of qualifying holdings or provision of other financial services.

(2) An insurance holding company shall be a legal person:

1. which is not an insurance undertaking, and
2. which controls exclusively or mainly insurance or reinsurance undertakings, whereby the criterion for determining whether a subsidiary undertaking is mainly controlled by a parent undertaking shall not be the number of subsidiaries, but the amount of capital, the book value of the holding, and other economic criteria.

**Obligations of an insurance undertaking in an insurance group**

**Article 177**

(1) Insurance undertakings constituting an insurance group shall be obliged to inform the parent insurance undertaking, insurance holding company or financial holding company of all data and information which it requires in order to fulfil its obligations to the supervisory authority or to another supervisory authority in relation to the supervision of the insurance group.

(2) The parent undertaking in an insurance group shall be responsible for fulfilment of the obligations of the insurance group as a whole.

(3) The supervisory authority may require the information needed for the purpose of supervision from related undertakings of the insurance undertaking, participating undertakings in the insurance undertaking and related undertakings of a participating undertaking in the insurance undertaking if the parent insurance undertaking has failed to produce such information upon the request of the supervisory authority.

(4) Insurance undertakings constituting an insurance group shall make sure that appropriate internal control procedures are in place in order to verify accuracy of data and information referred to in paragraph 1 of this Article.

**Reporting on intra-group transactions**

**Article 178**
(1) In order to ensure supervision as to whether business transactions within an insurance group are performed under normal market conditions, an insurance undertaking in an insurance group shall report to the supervisory authority on all significant intra-group transactions agreed or made between an insurance undertaking and the following entities:

1. legal persons controlled by the insurance undertaking,
2. legal persons controlling the insurance undertaking,
3. legal persons controlled by the legal persons referred to in point 2 of this paragraph,
4. natural persons participating in:
   - insurance undertakings or legal persons in which the insurance undertaking participates,
   - legal persons participating in the insurance undertaking,
   - legal persons participating in the legal persons referred to in the second indent of this point.

(2) The following transactions shall be deemed to be significant as referred to in paragraph 1 of this Article:

1. loans and credits,
2. guarantees and other transactions resulting in off-balance-sheet liabilities,
3. legal transactions relating to investments in securities, other financial instruments or real property,
4. other legal transactions influencing significantly the calculation of adjusted capital requirements,
5. reinsurance operations,
6. cost sharing agreements.

(3) The supervisory authority may, in order to verify the accuracy of data relating to the transactions within the insurance group, examine the transactions performed by the entities referred to in paragraph 1 of this Article.

Risk management in an insurance group
Article 179

(1) The parent insurance undertaking in an insurance group shall also be obliged to calculate adjusted capital requirements and prepare annual reports on the adjusted capital requirements.
(2) A subsidiary insurance undertaking and a subsidiary insurance holding company shall be obliged to submit to the parent insurance undertaking in an insurance group all data required by the latter to calculate the adjusted capital requirements.
(3) The parent insurance undertaking in an insurance group shall be obliged to report to the supervisory authority on the adjusted capital requirements.
(4) The provisions of Title IX of this Act relating to the auditing of annual report of an insurance undertaking shall apply, as appropriate, to the auditing of annual report on the adjusted capital requirements of the parent insurance undertaking in an insurance group.

Reporting to the supervisory authority and
data disclosure
Article 180
(1) An insurance undertaking shall be obliged to regularly notify the supervisory authority of any fact or circumstance which would be relevant for establishing whether the entity in question is an insurance group within the meaning of this Act.

(2) An insurance undertaking in an insurance group shall be obliged to prepare a special annex to the annual report disclosing the data on subsidiary and parent undertakings in the insurance group.

**Regulation on the supervision of an insurance group**

**Article 181**

The supervisory authority shall prescribe:

1. a detailed contents of the reports referred to in Article 178 (1) of this Act, as well as time limits and the method of reporting;
2. the method of calculating adjusted capital requirements for parent insurance undertakings referred to in Article 179 (1) of this Act and the detailed contents of the reports referred to in Article 179 (3) and Article 180 (1) of this Act, as well as time limits and the method of reporting.

**TITLE XII**

**SUPERVISION**

**XII.1 Supervision**

**Authorised persons**

**Article 182**

(1) An examination of the operations of an insurance undertaking shall be conducted by an employee of the supervisory authority who shall be authorised by the director of the supervisory authority for the conduct of the examination.

(2) The director of the supervisory authority may, for the purpose of carrying out specific tasks in connection with the examination of the operations, also authorise a certified auditor or another qualified person.

(3) In carrying out the tasks related to the examination of the operations, the persons referred to in paragraph 2 above who are authorised for performance of specific tasks by the director of the supervisory authority shall have the same competences as authorised person of the supervisory authority.

**Scope of examination**

**Article 183**

(1) An insurance undertaking shall allow an authorised person access to all business books, files and other documents for the purpose of examination.
(2) An insurance undertaking shall, on request of the supervisory authority, deliver computer print-outs or copies of records or of other business books and documents.

(3) The members of the board of directors and employees of an insurance undertaking shall, on request of an authorised person, provide the latter with the reports and information on all business matters relevant to the exercise of the supervision.

(4) An authorised person may also examine related undertakings of the insurance undertaking if it is necessary in order to gain a more detailed insight into the operations of the insurance undertaking.

**Reports and information**

*Article 184*

(1) The supervisory authority may require the subject of supervision to provide information on all business matters that are of importance, with regard to the object of a specific supervisory task, for its assessment as to whether the subject of supervision complies with the provisions of this Act or regulations adopted on the basis thereof.

(2) The supervisory authority may also request the reports and information referred to in paragraph 1 of this Article from the members of the board of directors of the subject of supervision, as well as from its employees.

(3) The supervisory authority may require the persons referred to in paragraph 2 above to draw up a written report on the business matters referred to in paragraph 1 of this Article within a time limit which shall not be less than three days or may invite them to make an oral statement about these matters.

**Examination of business activities**

*Article 185*

(1) The subject of supervision shall, on request of an authorised employee of the supervisory authority, enable to the latter an examination of the operations at the head office of the subject of supervision, as well as at other premises at which the subject of supervision or another person authorised by it carries on the business activities in respect of which the supervisory authority exercises the supervision.

(2) The subject of supervision shall, on request of an authorised employee of the supervisory authority, make it possible for the latter to inspect business books, documents and administrative or business records to the extent necessary to perform a specific supervisory task or to the extent stipulated by the law governing a specific supervision.

(3) The subject of supervision shall, on request of an authorised employee of the supervisory authority, deliver to the latter computer print-outs or copies of business books, documents and administrative or business records.
(4) The supervisory authority shall make its examination of the operations in such a manner as not to impede more than is absolutely necessary a normal course of operations of the subject of supervision in accordance with the purpose of a specific supervisory task.

**Request for examination of business activities**

Article 186

(1) A request for examination of business activities of the subject of supervision shall be delivered to the latter at least eight days prior to the beginning of the examination.

(2) By way of derogation from paragraph 1 above, an authorised person may hand over the request for examination of business activities at the beginning of the examination if there is no other way to achieve the purpose of a particular supervisory task.

(3) The request for examination of business activities must include the object of the supervision.

(4) The request for examination of business activities must also include information about the legal situation that may arise if the subject of supervision does not act in accordance with the request for examination of business activities or if it does not enable the supervisory authority to carry out its examination in the manner specified in Article 185 of this Act.

(5) The supervisory authority may in the course of an examination of business activities supplement the request for examination of business activities. A supplement to the request for examination of business activities shall be governed by paragraphs 3 and 4 of this Article.

**Conditions for conduct of an examination**

Article 187

(1) The subject of supervision shall place at the disposal of authorised employees of the supervisory authority adequate premises where they can carry out their examination of business activities without disturbance or presence of other people.

**Conditions for examination of computerised books and records**

Article 188

(1) The subject of supervision which processes or keeps business books and other records by means of a computer system shall, on request of an authorised employee of the supervisory authority, provide adequate technical aids for overview of business books and records and verification of certain automatically processed data.

(2) The subject of supervision shall deliver to the supervisory authority the documents which show a complete description of the operation of the respective computer system. The documents must also show any sub-system and files of the computer system. Such documents shall enable an inspection of:

1. the computer program;
2. the procedures within the scope of the computer program;
3. the controls which ensure a correct and reliable data processing;
4. the controls which prevent an unauthorised addition, alteration or erasure of stored computer entries.

(3) Any alteration to the computer programs referred to in paragraph 1 of this Article shall be documented in chronological order of the alterations, including the dates of alteration. The documents must also show any alteration to the form of files.

**Order for elimination of irregularities**

*Article 189*

(1) When the supervisory authority establishes, in the course of its supervisory task, non-compliance with this Act or any regulation issued on the basis thereof or with any other legislative provision governing operations of insurance undertakings, it shall order the subject of supervision to eliminate the irregularities or to take or not to take certain actions (hereinafter: elimination of irregularities).

**Contents of the order**

*Article 190*

(1) The order must contain:

1. an exact description of the provisions of the Act which are not complied with;
2. the time limit within which the subject of supervision must remedy the situation and submit a report on the elimination of that irregular situation;
3. the manner of elimination of the irregularities in the case when the supervisory authority orders the subject of supervision to eliminate the irregularities in a specific way;
4. documents or evidence showing that the irregularities have been eliminated in the case when the supervisory authority orders the subject of supervision to produce specific documents or other evidence.

**Submission of a report by a certified auditor on elimination of irregularities**

*Article 191*

(1) When the supervisory authority establishes an irregularity in keeping of business books or administrative or other records of an insurance undertaking or establishes more serious irregularities in the management of the insurance undertaking, it may issue an order and instruct the insurance undertaking to submit a report showing that the irregularities have been eliminated accompanied by a favourable opinion of a certified auditor.

**Objection against the order**

*Article 192*

(1) The subject of supervision has the right to lodge an objection against the order within eight days.
(2) If the holder of the right lodges an objection in due time, the time limit for elimination of irregularities set in the order shall be extended by the period of time from the date of lodgement of the objection to the date of delivery of the decision on the objection.

(3) By way of derogation from paragraph 2 above, the supervisory authority shall determine, by virtue of the order, that the objection shall not suspend the execution in the case when it is not possible to delay execution of the order because of the nature of the irregularity.

(4) The supervisory authority shall decide on any objection raised within 15 days of the receipt of the objection.

Reasons for an objection
Article 193

(1) An objection against the order shall be permitted for the following reasons:

1. if the order was issued by the person who is not authorised for issuing orders;
2. if the irregularity whose elimination has been ordered does not exist;
3. if the action or failure to act, which was the reason for the issue of the order, does not have a character of irregularity;
4. if execution of the order is not possible or is not possible to execute it in the manner specified by the order;
5. if execution of the order would cause an action which is contrary to the binding regulations;
6. if the elimination of irregularities has been ordered to an entity which does not fall within the scope of competences of the supervisory authority;
7. if the order reflects a wrong or incomplete picture of the actual situation.

Contents of an objection
Article 194

(1) An objection shall contain:

1. a reference to the order against which it is raised;
2. a statement to the effect that the order is being contested in full or in a certain part, and the reasons for the objection;
3. other information which must be included in any request.

(2) In its objection, the subject of supervision may state the facts showing that the irregularities, whose elimination has been ordered, do not exist and shall produce relevant proof thereof. If the subject of supervision refers in its statement to certain documents, it shall enclose these documents with the objection.

(3) If the subject of supervision does not enclose the documents with the objection, that situation shall not be governed by the provisions on incomplete applications, but in taking a decision on this matter the supervisory authority shall take into account only the evidence which is enclosed with the statement.
(4) Upon expiry of the time limit for raising objections, the subject of supervision shall not be entitled to state new facts or produce new evidence.

Verification of an order
Article 195

(1) The supervisory authority shall verify that part of an order which is contested by means of an objection and shall verify it within the framework of the reasons stated and explained in the objection.

Taking a decision on an objection
Article 196

(1) Any objection against an order issued by the supervisory authority shall be decided upon by the supervisory authority.

(2) When taking a decision on an objection, the supervisory authority may reject or refuse the objection or alter or cancel the order.

(3) The supervisory authority shall reject an objection if the objection is not permitted or if the supervisory authority establishes that the objection was raised by a person who is not entitled to make objections.

(4) If the supervisory authority establishes that the reason for raising an objection is justified, it will either alter or cancel the respective order.

(5) When taking a decision on an objection, the supervisory authority may not alter the respective order to the detriment of the subject of supervision.

Report on elimination of violations and irregularities
Article 197

(1) The subject of supervision shall, within the time limit set out in the order issued by the supervisory authority, eliminate the irregularities that have been established and submit to the supervisory authority a report describing the measures taken to eliminate the irregularities. The report shall be accompanied by documents and other evidence showing that the identified irregularities have been eliminated.

(2) In the case referred to in Article 191 of this Act, the subject of supervision shall enclose with the report on elimination of irregularities a report by a certified auditor as well.

(3) If the report referred to in paragraph 1 of this Article and the enclosed evidence or the report referred to in paragraph 2 above show that the irregular situation has been remedied, the supervisory authority shall issue a decision in which it shall state that the irregularities established by the respective order have been eliminated.
(4) If the order imposes additional measures, the provisions of this Article relating to elimination of irregularities and to the report on elimination of irregularities shall also apply to implementation of these additional measures, as well as to notification of the implementation of such additional measures.

TITLE XIII
SUPERVISION OF OTHER PERSONS

General provisions
Article 198

(1) The supervisory authority shall also exercise supervision of other persons which carry on, in addition to other activities or as the only activity:

1. insurance business without an authorisation to conduct insurance business granted by the supervisory authority;
2. insurance intermediation business without an authorisation to conduct insurance intermediation business granted by the supervisory authority.

Supervisory measures
Article 199

(1) If the supervisory authority, on the basis of the information at its disposal, establishes that a person carries on insurance business or insurance intermediation business without an authorisation to conduct that business granted by the supervisory authority, that person shall be ordered to stop carrying on that business.

(2) In the case referred to in Article 1 above, the supervisory authority may make a prior examination of business books and other records of the person concerned and collect evidence in order to establish whether the person concerned carries on the insurance business or the insurance intermediation business.

TITLE XIV
WINDING-UP OF AN INSURANCE UNDERTAKING

XIV.1 Voluntary winding-up of a joint-stock insurance undertaking

Resolution of the general meeting on opening of winding-up proceedings
Article 200

(1) The general meeting of shareholders of an insurance undertaking may adopt a resolution on dissolution of the insurance undertaking.
(2) The general meeting of shareholders of an insurance undertaking which has a branch in another Member State may adopt the resolution referred to in paragraph 1 after it has received opinion of the supervisory authority.

(3) The supervisory authority shall deliver its opinion within 30 days.

(4) In the case that the supervisory authority does not deliver its opinion within the time limit specified in the preceding paragraph, the general meeting of shareholders of the insurance undertaking may, upon expiry of that time limit, accept the resolution on dissolution of the joint-stock insurance undertaking.

(5) Except as otherwise provided in this section, the provisions of the Companies Act on winding-up of a joint-stock company by virtue of a resolution of the general meeting of shareholders shall apply to the winding-up of the insurance undertaking by virtue of the resolution referred to in paragraph 1 of this Article.

(6) The relevant provisions of this section shall also apply in the case when a joint-stock insurance undertaking accepts a resolution to change the activities of the insurance undertaking in such a way that the insurance undertaking ceases to carry on insurance business.

Liquidator of an insurance undertaking
Article 201

(1) Only a natural person meeting the requirements for the appointment of the member of the board of directors of an insurance undertaking referred to in Article 27 of this Act may be appointed as a liquidator of an insurance undertaking.

Restrictions to the authorisation to carry on insurance business
Article 202

(1) The board of directors shall notify the supervisory authority of the resolution referred to in Article 200 (1) of this Act the next business day after the date the resolution is adopted.

(2) On the basis of the notification referred to in paragraph 1 above, the supervisory authority shall take a decision to:

1. restrict the validity of the authorisation to carry on insurance business to the activities required for the conduct of winding-up proceedings concerning an insurance undertaking;
2. determine to what extent the risk management rules shall apply to an insurance undertaking in winding-up proceedings;

(3) After the winding-up proceedings have been opened, the insurance undertaking concerned may continue to conduct only the insurance activities specified in the decision referred to in paragraph 2 of this Article.
(4) If the decision referred to in paragraph 2 of this Article relates to an insurance undertaking having a branch in a Member State, the supervisory authority shall, prior to issue of the decision notify the competent supervisory authority of that Member State.

(5) The notification referred to in paragraph 4 above shall include the legal consequences and actual effects of the adopted decision.

(6) Where, for the purpose of safeguarding the interests of the clients of an insurance undertaking or other public interests, it is not possible to delay adoption of the decision referred to in paragraph 4 of this Article, the supervisory authority shall notify the competent supervisory authority immediately after the decision is adopted.

Renewal of authorisation to carry on insurance business

Article 203

(1) Should the general meeting of an insurance undertaking decide that the insurance undertaking should continue its operations, the insurance undertaking may resume insurance business only subject to renewal of the authorisation granted by the supervisory authority.

(2) The application for the registration in the judicial register of companies of the decision referred to in paragraph 1 above shall be accompanied by the new authorisation issued by the supervisory authority.

XIV.2 Voluntary winding-up of a mutual insurance undertaking

Winding-up of a mutual insurance undertaking

Article 204

(1) Winding-up proceedings concerning a mutual insurance undertaking shall be conducted on the basis of a valid resolution of the general meeting on dissolution of the undertaking.

(2) Unless otherwise ensuing from this Act or from the purpose of the winding-up, in the course of the winding-up proceedings, the mutual insurance undertaking shall be subject to the same regulations which were applicable prior to the opening of the winding-up proceedings.

(3) During the winding-up proceedings, the mutual insurance undertaking shall not be permitted to either write new business or expand or renew the existing business.

(4) The funds paid for the purpose of initial capital formation may not be repaid until all other liabilities of the undertaking have been paid, including the liabilities to the members under the insurance contracts.

(5) The assets remaining after the liabilities have been paid shall be distributed to the persons who were members of the mutual insurance undertaking at the time the resolution on dissolution of the undertaking was adopted. The distribution shall be subject to the criteria laid down in the articles of association for distribution of profits to members.
(6) The provisions relating to the board of directors of a mutual insurance undertaking shall apply to the liquidators, as appropriate.

(7) Except as otherwise provided in the preceding paragraphs, the provisions of this Act that relate to winding-up of a joint-stock insurance undertaking shall apply to voluntary winding-up, as appropriate.

XIV.3 Compulsory winding-up of an insurance undertaking

Reasons for opening of compulsory winding-up proceedings

Article 205

(1) The supervisory authority shall adopt a decision on opening of compulsory winding-up proceedings in the following cases:
1. if, on the basis of the report referred to in Article 171 (2) of this Act, it assesses that, during the term of office of the extraordinary administration, the financial position did not improve to such an extent that the insurance undertaking reaches the solvency margin as defined in Articles 98 and 99 of this Act and that there are no reasons for opening of bankruptcy proceedings;
2. if the general meeting of shareholders rejects the proposed resolution referred to in Article 171 (1) of this Act or if the first sale of shares on the basis of a resolution adopted by the general meeting of shareholders upon the proposal referred to in Article 171 (1) of this Act is not successful;
3. if an authorisation to carry on insurance business has been withdrawn from an insurance undertaking;
4. if an authorisation to carry on insurance business has lapsed, and the insurance undertaking concerned fails to implement reorganisation measures or initiate dissolution procedure or to re-apply for authorisation to carry on insurance business within three months of the receipt of the decision referred to in Article 62 (2) of this Act;
5. if an authorisation to perform the function of a member of the board of directors has been withdrawn on the basis of a valid decision, or if a member has been dismissed, or if a member of the board of directors ceases to perform the function of the member of the board of directors for more than six months, and the supervisory authority has failed to appoint a new member of the board of directors within a period of three months, in compliance with this Act, as a result of which the insurance undertaking does not have at least two members of the board of directors.

(2) The supervisory authority shall issue a decision on opening of compulsory winding up proceedings within eight days and this period shall run:
1. in the case under paragraph 1, point 1 of this Article, from the date of expiry of the time limit for receipt of the final report on the evaluation of the extraordinary administration’s results, as defined in Article 173 (2) of this Act;
2. in the case under paragraph 1, point 2 of this Article, from the day when the general meeting of shareholders rejected the proposed resolution referred to in Article 172 (1) of this Act or from the date of expiry of the time limit for subscription and payment of shares on the basis of the unsuccessful first sale;
3. in the case under paragraph 1, point 3 of this Article, from the date of issue of the decision on the authorisation withdrawal;
4. in the case under paragraph 1, point 4 of this Article, from the expiry of a three-month period for appointment of a new member of the board of directors.

**Compulsory winding-up of a branch of a third-country insurance undertaking**

**Article 206**

(1) The supervisory authority shall, prior to adoption of a decision on opening of compulsory winding-up proceedings with regard to a branch of a third-country insurance undertaking, notify all competent authorities of the Member States in which the insurance undertaking concerned has branches.

(2) The notification referred to in paragraph 1 above shall include the information about legal consequences and actual effects of such proceedings.

(3) By way of derogation from paragraph 1 of this Article, where, for the purpose of safeguarding the interests of the insured persons, it is not possible to delay the opening of the compulsory winding-up proceedings, the supervisory authority shall notify the competent supervisory authority immediately after the decision is adopted.

(4) In the course of the compulsory winding-up proceedings referred to in paragraph 1 of this Article, the supervisory authority shall coordinate its actions with the actions of the competent supervisory authorities of other Member States.

(5) In the course of the compulsory winding-up proceedings referred to in paragraph 1 of this Article, the liquidators shall coordinate their actions.

**Information to competent supervisory authorities of the Member States on opening of compulsory winding-up proceedings**

**Article 207**

(1) Compulsory winding-up proceedings with regard to an insurance undertaking with a head office in the Republic of Croatia, which has a branch in another Member State shall fall within exclusive competence of the supervisory authority.

(2) The supervisory authority shall inform without delay the competent supervisory authority of the Member State concerned on issue of any decision to open compulsory winding-up proceedings with regard to the insurance undertaking referred to in paragraph 1 above.

(3) Compulsory winding-up proceedings concerning an insurance undertaking with a head office in the Republic of Croatia, which has a branch in another Member State shall be governed by legislative provisions of the Republic of Croatia.

**Effectiveness of a decision to open compulsory winding-up proceedings**

**Article 208**

(1) A decision to open compulsory winding-up proceedings with regard to an insurance undertaking from a Member State which has a branch in the Republic of Croatia, which is
issued by the competent supervisory authority of the Member State concerned and which has equivalent legal effect to that on dissolution of an insurance undertaking pursuant to this Act, shall be directly applicable in the territory of the Republic of Croatia and the Member State without a special recognition and enforcement procedure.

**Publication of a summary of a decision to open compulsory winding-up proceedings in the Official Journal of the European Union**

Article 209

(1) The supervisory authority shall publicly announce a decision to open compulsory winding-up proceedings with regard to an insurance undertaking which has a head office in the Republic of Croatia and a branch in another Member State, and shall publish a summary of the decision in the Official Journal of the European Union.

(2) The published summary referred to in paragraph 1 above must contain:

1. the name and address of the authority which shall conduct the compulsory winding-up proceedings;
2. the law applicable to the conduct of compulsory winding-up proceedings;
3. the names of liquidators;
4. the time limit for notification of claims and legal consequences of a failure on the part of the creditor to notify claims.

(3) The supervisory authority shall prescribe the form and a detailed contents of the published summary of the decision to open compulsory winding-up proceedings.

**Information to known creditors of opening of compulsory winding-up proceedings**

Article 210

(1) When a decision is taken to open compulsory winding-up proceedings with regard to an insurance undertaking which has a head office in the Republic of Croatia and a branch in a Member State, the liquidator shall inform, by written notice, all known creditors of the insurance undertaking who have their normal place of residence, domicile or head office in the territory of Member States thereof.

(2) The notice must contain:

- the name and address of the authority which will conduct the compulsory winding-up proceedings and of the authority to which the claims are to be notified;
- the time limit for notification of claims and legal consequences of a failure on the part of the creditor to notify claims;
- the rights and duties of creditors in the course of compulsory winding-up proceedings, in particular, the indication as to whether creditors whose claims are preferential or secured in rem need to lodge their claims;
- the effects of the opening of winding-up proceedings on the insurance contracts, in particular, the date on which the insurance contracts will cease to produce effects and the rights and duties of insured persons and the insurer with regard to the contracts in question;
(3) The supervisory authority shall prescribe the form and a detailed contents of the notice referred to in paragraph 1 of this Article.

**Notification of claims by creditors**  
**Article 211**

(1) A creditor shall notify his claims against the liquidation estate in the official language of the Member State in which the creditor has his normal place of residence, domicile or head office and shall for that purpose use a special form.

(2) The supervisory authority shall prescribe the form and contents of the form used for notification of creditors’ claims.

**Provisions applicable to bankruptcy proceedings**  
**Article 212**

(1) In the case of opening of bankruptcy proceedings concerning an insurance undertaking which has a branch in a Member State, Articles 207, 209, 211 and 213 of this Act shall apply mutatis mutandis.

(2) A summary of a decision to open bankruptcy proceedings shall be published in the Official Journal of the European Union.

**Liquidator**  
**Article 213**

(1) By virtue of a decision to open compulsory winding-up proceedings, the supervisory authority shall appoint two or more liquidators and define the type and scope of tasks to be performed by an individual liquidator.

**Legal consequences of compulsory winding-up**  
**Article 214**

(1) As of the date of issue of the decision on compulsory winding-up, all responsibilities and powers of the members of the board of directors and supervisory board of the insurance undertaking, as well as the powers of the general meeting shall terminate, except for the competences under Article 215 of this Act.

(2) In the course of compulsory winding-up proceedings, the competences of the supervisory board of the insurance undertaking and those of the general meeting, except for the competences under Article 215 of this Act, shall be transferred to the supervisory authority.

**Compulsory winding-up proceedings**  
**Article 215**
(1) Unless otherwise provided for in this subsection, the provisions of the Companies Act shall apply to compulsory winding-up proceedings, as appropriate.

Prohibition against writing new business
Article 216

(1) In the course of compulsory winding-up proceedings, an insurance undertaking may not write any new business except for that which is necessary for the realisation of assets in liquidation and that necessary for the transfer of insurance contracts to another insurance undertaking.

Occurrence of the reasons for bankruptcy
Article 217

(1) If the liquidators have established that the assets of the insurance undertaking do not suffice for settlement of all claims of all the creditors of the insurance undertaking, or that the insurance undertaking does not have sufficient liquid assets for settlement of the claims of creditors as and when they fall due, they shall immediately notify the supervisory authority thereof.

TITLE XV
BANKRUPTCY

XV.1 Common provisions

Prohibition against compulsory settlement
Article 218

(1) Compulsory settlement proceedings may not be opened with regard to an insurance undertaking.

Provisions applicable to bankruptcy proceedings
Article 219

(1) Unless otherwise provided by law, the provisions of the Bankruptcy Act shall apply to the bankruptcy proceedings with regard to an insurance undertaking.

Reasons for bankruptcy
Article 220

(1) The supervisory authority shall issue a decision on laying down the conditions for opening of bankruptcy proceedings in the following cases:

1. if, on the basis of the report referred to in Article 171 (2) of this Act, it assesses that the financial position did not improve during the term of office of extraordinary administration,
and that the insurance undertaking is not able to meet its current liabilities that have fallen due;
2. if, in exercising supervision of the insurance undertaking, it establishes that the assets of the insurance undertaking are insufficient for settlement of all claims of the insurance undertaking's creditors.

Opening of bankruptcy proceedings
Article 221

(1) The supervisory authority shall submit to the competent court a proposal for opening of bankruptcy proceedings on the first working day following issue of a written decision on laying down the conditions for opening of bankruptcy proceedings. The proposal shall be accompanied by the decision on laying down the conditions for opening of bankruptcy proceedings.

(2) The court shall issue, within three working days of the submission of the proposal referred to in paragraph 1 above, a resolution on opening of bankruptcy proceedings, without re-examination of the reasons for opening of bankruptcy proceedings.

(3) No appeal shall be possible against the resolution on opening of bankruptcy proceedings referred to in paragraph 2 of this Act.

Receiver
Article 222

(1) The receiver shall be appointed by the court upon proposal of the supervisory authority. The supervisory authority may propose as a receiver only a person who meets the requirements for the position of a receiver.

(2) In the event of occurrence of reasons for dismissal of the receiver, the court shall, prior to deciding on his/her dismissal, notify the supervisory authority of the reasons for dismissal and invite it to make a statement regarding these reasons within a period not less than three and not more than eight days.

Announcement of the opening of bankruptcy proceedings
Article 223

(1) The notice of the opening of bankruptcy proceedings with regard to an insurance undertaking shall, in addition to the information which must be contained in the notice in accordance with the Bankruptcy Act, also include:

1. a notice to the insured persons regarding the legal effects of the opening of bankruptcy proceedings with regard to an insurance undertaking, as referred in Article 224 of this Act;
2. the name, surname and address of the representative of the insured person, if one has been appointed.
Termination of insurance contracts
Article 224

(1) The insurance contracts concluded by the insurance undertaking shall cease to produce effects as of expiry of the thirtieth day following publication of the notice about opening of bankruptcy proceedings with regard to an insurance undertaking in the Official Gazette.

Opinion of the supervisory authority
Article 225

(1) When the court, pursuant to the Bankruptcy Act, decides on the disposal of bankruptcy estate in the bankruptcy proceedings with regard to an insurance undertaking, it shall also obtain an opinion of the supervisory authority.

(2) The provisions of the Bankruptcy Act shall apply to the opinion of the supervisory authority referred to in paragraph 1 of this Act, as appropriate.

Information to the supervisory authority
Article 226

(1) The court shall deliver to the supervisory authority a copy of the receiver’s report on the conduct of bankruptcy proceedings.

Preferential payment of claims arising from insurance contracts
Article 227

(1) Claims arising from insurance contracts shall be paid from the general bankruptcy estate as bankruptcy proceedings expense before payments are made to the creditors in accordance with the Bankruptcy Act.

(2) The claims referred to in paragraph 1 of this Article shall be paid in the following order:

1. the insurance claims referred to in Article 229 (2) of this Act, at the amount of the obligatory cover in respect of the insurance class giving rise to the claim, which could not be paid out of the assets covering mathematical provisions;
2. the claims referred to in Article 229 (4) of this Act which could not be paid out of the assets covering mathematical provisions;
3. claims arising from non-life insurance and other insurance classes in respect of which mathematical provisions are not formed, relating to compensation of losses resulting from the events that occurred prior to the opening of bankruptcy proceedings;
4. claims arising from non-life insurance and other insurance classes in respect of which mathematical provisions are not formed, relating to return of a portion of the insurance premium paid for the period after termination of the insurance.

XV.2 Special provisions relating to the settlement of claims arising from those lines of insurance in respect of which
mathematical provisions are formed

Applicable provisions

Article 228

(1) The provisions of this section shall apply to life assurance, as well as accident and health insurance, which are operated on similar probability tables and calculations to that of life assurance.

(2) As of the date of opening of bankruptcy proceedings with regard to an insurance undertaking, the insurance contracts referred to in paragraph 1 above shall terminate.

Right to separate payment against the assets covering mathematical provisions

Article 229

(1) As of the date of opening of bankruptcy proceedings, the claimants under the classes of insurance referred to in Article 228 of this Act shall acquire a separate right to payment against the assets covering mathematical provisions as a settlement of their claims arising from these classes of insurance.

(2) Claimants under life assurance, as well as under accident and health insurances which, as far as the liabilities of the insurance undertaking are concerned, are subject to life assurance rules, shall be entitled to payment against the assets covering mathematical provisions before payment of other claims under certain lines of life assurance which are paid against the assets covering mathematical provisions, at an amount corresponding to the obligatory cover under the assurance from which the claim arises.

(3) If the assets covering mathematical provisions are not sufficient for the payment of the claims referred to in paragraph 2 of this Article in full, the claims concerned shall be paid at the amount which is in equal proportion to the obligatory cover in respect of the class of insurance from which the claim arises as the total value of assets covering mathematical provisions bears to the obligatory cover for all insurances underwritten by the insurance undertaking in that class of insurance in respect of which mathematical provisions were established.

(4) Other insurance claims referred to in Article 251 of this Act shall be paid against the assets covering mathematical provisions which remain after payment of the claims referred to in paragraph 2 of this Article.

(5) If the assets covering mathematical provisions are not sufficient for the payment of other claims referred to in paragraph 4 in full, the claims concerned shall be paid proportionally against the assets covering mathematical provisions.

(6) The balance as at the date of opening of bankruptcy proceedings shall be relevant for determining the amount of the claims and the total amount of the obligatory cover.

Segregated cash account in bankruptcy proceedings
Article 230

(1) In addition to the general account of the bankruptcy debtor, the receiver shall open a segregated cash account for the assets covering mathematical provisions, which shall be kept with an organisation handling payment transactions.

(2) A receiver shall manage the overall transactions in cash obtained from the realisation of the assets covering mathematical provisions through a segregated cash account for the assets covering mathematical provisions.

(3) Every order for payment from the segregated cash account for the assets covering mathematical provisions shall be authorised by both the receiver and the representative of the creditors under life assurance.

Representative of creditors under life assurance

Article 231

(1) By virtue of a decision on opening of bankruptcy proceedings, the bankruptcy court shall appoint, for the purpose of safeguarding the claimants under the assurances referred to in Article 229 (1) of this Act and upon proposal of the supervisory authority, a representative of creditors under life assurance.

(2) Only a person who meets the requirements for the position of a receiver and who has adequate technical knowledge in the field of insurance business may be appointed as a representative of creditors under life assurance.

(3) The receiver shall give to the representative of creditors under life assurance access to business books, documents and other records to the extent necessary for establishment of the volume of the assets covering mathematical provisions, enable him to notify claims of the creditors and to exercise other authorities conferred on the representative of creditors under life assurance pursuant to this Act.

(4) Where the provisions of the Bankruptcy Act provide that it is necessary to obtain opinion of the creditors committee, it shall be necessary to obtain opinion of the representative of creditors under life assurance as well.

(5) The fee payable to the representative of creditors under life assurance, as well as his authorities and obligations shall be governed by the regulations applicable to a receiver, as appropriate.

Notification and verification of claims

Article 232

(1) The time limit for notification of the claims referred to in Article 229 (1) of this Act shall be three months following the publication of a notice of opening of bankruptcy proceedings in the Official Gazette.

(2) The representative of creditors under life assurance shall be obliged, in the name and for the account of the claimants, to notify the claims referred to in Article 229 (1) of this Act, and
to inform the claimants of the notification. The claimants may also notify their claims themselves.

(3) The claims notified by the representative of creditors under life assurance shall be deemed to be ascertained in bankruptcy proceedings with regard to an insurance undertaking, and the provisions of the Bankruptcy Act concerning verification of claims shall not apply to them.

(4) Where a claim is notified by both the representative of creditors under life assurance and the claimant, only that part of the claim notified by the claimant that exceeds the claim notified, on behalf and for the account of the claimant, by the representative of the creditors under life assurance shall be taken into account and verified.

**TITLE XVI**
**INSURANCE MEDIATION BUSINESS**

**XVI.1 Insurance representation business**

**Insurance representation business**

Article 233

(1) Insurance representation business is the activity of introducing, proposing or carrying out work preparatory to the conclusion of insurance contracts on behalf and for the account of one or more insurance undertakings in the case of insurance products which are not in competition.

**Insurance agent**

Article 234

(1) An insurance agent is a natural person authorised by the supervisory authority to carry out insurance representation business.

(2) The activities of an insurance agent are the activities of introducing, proposing or carrying out work preparatory to the conclusion of insurance contracts on behalf and for the account of one or more insurance undertakings in the case of insurance products which are not in competition.

(3) The insurance agent referred to in paragraph 1 of this Article may carry out the insurance agency activities only on the basis of employment or another legal relationship with an insurance undertaking, an insurance agency or an insurance representation trade.

(4) By way of derogation from paragraph 3 of this Article, an employee of an insurance or reinsurance undertaking who is acting under the responsibility of the insurance or reinsurance undertaking shall not be considered as insurance agent.

(5) An insurance agent may not collect insurance premiums or other amounts from a policyholder.
**Insurance agency**

**Article 235**

1. An insurance agency is a legal person with a head office in the Republic of Croatia providing, as a commercial activity, insurance representation services, which has received authorisation from the supervisory authority to take up and pursue insurance representation activities.

2. An insurance agency may not be registered in the judicial register before it receives the authorisation referred to in paragraph 1 above.

3. An insurance agency may be established under the Companies Act as a joint-stock company or a limited liability company.

4. Only the agency which has received the authorisation referred to in Article 252 of this Act may register and use in legal transactions the words “insurance representation business” or a derivation thereof in a company name or abridged company name.

**Insurance representation trade**

**Article 236**

1. Insurance representation trade is a commercial activity conducted by a natural person – entrepreneur (tradesman) having a permanent residence in the Republic of Croatia, who provides insurance representation services and who has received authorisation from the supervisory authority to carry on insurance representation business.

2. An insurance representation trade may not be registered in the trade register before the authorisation referred to in paragraph 1 above is received.

3. An insurance representation trade may be established under the Crafts Act.

4. The provisions of this Act relating to an insurance agency shall also apply to an insurance representation trade, except for the provisions of Article 235 and Article 252 (3), point 1.

**Professional indemnity insurance of an insurance agency**

**Article 237**

1. An insurance agency which carries out insurance representation activities for several insurance undertakings shall hold a professional indemnity insurance policy or some other comparable guarantee against liability arising from professional negligence for at least HRK 7,500,000 applying to each claim and in aggregate HRK 11,250,000 per year for all claims.

**Obligations of an insurance agent and the responsibility of an insurance undertaking**

**Article 238**
(1) An insurance agency and an insurance undertaking shall be responsible for actions of an insurance agent.

(2) An insurance agent may carry out only those activities for which he/she is empowered.

**Limitations on insurance agents' powers**

Article 239

(1) If an insurance agent's authority is limited to a certain territory, the agent shall be empowered to take the legal actions referred to in Article 234 of this Act only in respect of the insurances which relate to the property located in that territory or persons resident in that particular territory.

(2) If an insurance agent's powers are limited in such a manner that the agent is not empowered to take all legal actions referred to in Article 234 of this Act or in the manner described in paragraph 1 above, the limitation of the powers shall have no effect in relation to the policyholder.

**XVI.2 Insurance brokerage business**

**Insurance brokerage business**

Article 240

(1) Insurance brokerage business is the activity of introducing, proposing or carrying out work preparatory to the conclusion of insurance or reinsurance contracts and providing assistance in exercising rights under insurance contracts, in particular in settlement of claims notified to an insurance undertaking.

**Insurance broker**

Article 241

(1) An insurance broker is a natural person who has received authorisation from the supervisory authority to carry out insurance brokerage activities.

(2) Insurance brokerage activities are the activities involving negotiations with an insurance undertaking in order to enable a prospective policyholder, in accordance with his/her requirements or needs, to conclude an insurance or reinsurance contract.

(3) In addition to the activities referred to in paragraph 2 of this Article, the insurance brokerage activities shall also be considered to be the activities relating to work preparatory to the conclusion of insurance or reinsurance contracts and assistance in exercising rights under insurance or reinsurance contracts, in particular in settlement of claims notified to an insurance or reinsurance undertaking.

(4) Assistance in exercising rights under insurance or reinsurance contracts, in particular in settlement of claims notified to an insurance or reinsurance undertaking may be provided only by the persons referred to in paragraph 1 of this Article and by the persons who are permitted to provide such services under other laws that regulate pursuit of their activities.
The insurance broker referred to in paragraph 1 of this Article may carry out insurance brokerage activities only on the basis of employment with an insurance brokerage company.

**Insurance brokerage company**

**Article 242**

(1) An insurance brokerage company is a legal person with a head office in the Republic of Croatia providing, as a commercial activity, insurance brokerage services, which has received authorisation from the supervisory authority to take up and pursue insurance brokerage activities.

(2) An insurance brokerage company may not be entered in the judicial register before it receives the authorisation referred to in paragraph 1 above.

(3) An insurance brokerage company may be established under the Companies Act as a joint-stock company or a limited liability company.

(4) Only the company which has received the authorisation referred to in Article 254 of this Act may register and use in legal transactions the words “insurance brokerage business” or a derivation thereof in a company name or abridged company name.

**Professional indemnity insurance of an insurance brokerage company**

**Article 243**

(1) An insurance brokerage company shall hold professional indemnity insurance or some other comparable guarantee against liability arising from professional negligence for at least HRK 7,500,000 applying to each claim and in aggregate HRK 11,250,000 per year for all claims.

**Obligations of insurance brokers**

**Article 244**

(1) The insurance brokers shall be obliged to take up and pursue their activities in such a manner as to safeguard the interests of the policyholders or persons insured.

(2) In order to fulfil the obligation referred to in paragraph 1 above, an insurance broker shall be obliged to:

1. make an appropriate risk analysis and set out underlying principles of the required insurance cover;
2. provide a written explanation as to the reason for selecting the respective insurer or reinsurer and inform the insurer or reinsurer concerned of the amount of commission determined for conclusion of an insurance or reinsurance contract;
3. provide mediation services, on behalf of the policyholder, in effecting the insurance contract in compliance with the requirements of the policyholder, in view of the insurance
cover, whereby this obligation may be limited only to specific insurance services, if the insurance broker has explicitly informed the policyholder thereof;
4. inform the insurance undertaking that a policyholder is seeking an insurance offer for the purpose of conclusion of an insurance contract;
5. deliver to the policyholder the insurance policy and other documents related to the insurance contract;
6. check the content of the insurance policy;
7. provide assistance to the policyholder or to the person insured during the term of validity of the insurance contract, both prior to and after the occurrence of the insured event, and, in particular, make sure that legal actions which are of importance for retaining and exercising the rights arising from the insurance contract are taken by the policyholder or the person insured within the time limits prescribed for taking such legal actions;
8. constantly check the insurance contracts concluded by the policyholder through his/her mediation, and prepare proposals for modifications to these insurance contracts for the purpose of providing a better protection.

Safeguarding of the interests of the clients
Article 245

(1) In carrying out insurance brokerage activities, an insurance broker shall safeguard the interests of policyholders and/or persons insured.

(2) An insurance broker shall, in carrying on insurance mediation activities, safeguard the interests of the insurance undertaking which are binding, before or after conclusion of the insurance contract, on the policyholder. In carrying out work preparatory to the conclusion of insurance contracts, an insurance broker shall inform insurance undertakings of any risk of which he/she is aware or of which he/she must have been aware.

(3) An insurance broker shall explain to the policyholder all legal and economic ties with a certain insurance undertaking which may have influence on preferences of the insurance broker in fulfilling the obligations to the policyholder.

Prohibition against mediation business
Article 246

(1) An insurance broker may not provide mediation services in concluding a contract with an insurance undertaking, if conclusion of such a contract would be a breach of Article 3 of this Act.

Exemptions applying in carrying on of insurance mediation business
Article 247

The provisions of this Title shall not apply to the persons who carry out insurance representation or insurance brokerage activities but not for insurance agencies or insurance brokerage companies if all the following conditions are met:

1. the insurance contract only requires knowledge of the insurance cover that is provided;
2. the insurance contract is not a life assurance contract;

3. the insurance contract does not cover any liability risks;

4. the principal professional activity of the person is other than representation and insurance mediation;

5. the insurance is complementary to the product or service, where such insurance covers:
   - the risk of breakdown, loss of or damage to goods;
   - damage to or loss of damage and other risks linked to the travel booked with a travel agency, and the insurance covers life assurance or liability risks, provided that the cover is ancillary to the main cover for the risks linked to that travel;

6. the amount of the annual premium does not exceed HRK 3,750 and the total duration of the insurance contract, including any renewals, does not exceed five years.

XVI.3 Authorisation to provide insurance mediation services

Authorisation to provide services of insurance agents

Article 248

(1) Only natural persons who have obtained authorisation to take up and pursue the activities of insurance agents may provide such services in the capacity of an insurance agent.

(2) The supervisory authority shall grant the authorisation to provide insurance mediation services in the capacity of an insurance agent to the person who meets the following requirements:

1. he/she has successfully passed the examination of professional knowledge necessary for providing insurance mediation services in the capacity of an insurance agent;
2. he/she has a good command of the Croatian language;
3. he/she has at least secondary school qualification;
4. he/she has never been sentenced or investigated for criminal offences in the field of white-collar crime.

(3) The supervisory authority shall withdraw the authorisation to provide insurance mediation services in the capacity of an insurance agent if:

1. the authorisation was obtained on the basis of a statement of false data;
2. a final non-suspended prison sentence of more than three months was imposed on an insurance agent for a criminal offence in the field of white-collar crime;
3. an insurance agent violates the provisions of this Act;
4. an insurance agent seriously violates the code of good business practice and rules of the profession.
Authorisation to provide services of insurance brokers
Article 249

(1) Only natural persons who have obtained authorisation to take up and pursue the activities of insurance brokers may provide such services in the capacity of an insurance broker.

(2) The supervisory authority shall grant the authorisation to provide insurance mediation services in the capacity of an insurance broker to the person who meets the following requirements:

1. he/she has successfully passed the examination of professional knowledge necessary for providing insurance mediation services in the capacity of an insurance broker;
2. he/she has a good command of the Croatian language;
3. he/she has at least university degree;
4. he/she has a minimum of one-year experience in the field of insurance;
5. he/she has never been sentenced or investigated for criminal offences in the field of white-collar crime.

(3) The supervisory authority shall withdraw the authorisation to provide insurance mediation services in the capacity of an insurance broker if:

1. the authorisation was obtained on the basis of a statement of false data;
2. a final non-suspended prison sentence of more than three months was imposed on an insurance broker for a criminal offence in the field of white-collar crime;
3. an insurance broker violates the provisions of this Act;
4. an insurance broker seriously violates the code of good business practice and rules of the profession.

XVI.4 Taking up and pursuit of insurance mediation activities

Taking up and pursuit of insurance representation activities
Article 250

(1) The insurance representation activities may be taken up and pursued by:

1. an insurance agency with a head office in the Republic of Croatia in possession of an authorisation to conduct insurance representation business issued by the supervisory authority;
2. an insurance representation trade established in the Republic of Croatia, which has received authorisation from the supervisory authority to conduct insurance representation business;
3. an insurance agency from a Member State which, pursuant to this Act, has the right to carry on insurance representation business in the territory of the Republic of Croatia either directly or through a branch.

(2) An insurance agency shall carry on insurance representation business as an exclusive activity.

(3) The insurance agency referred to in paragraph 1 of this Article may not carry on insurance brokerage business.
(4) By way of derogation from paragraph 1 of this Article, the insurance representation activity may be conducted by banks as well, provided that they have obtained authorisation for provision of such services from the Croatian National Bank. The Croatian National Bank shall issue an authorisation on the basis of a prior approval of the supervisory authority.

(5) The supervisory authority must issue the approval referred to in paragraph 4 above within 60 days of the date of receipt of an application. The absence of any approval within that period from the supervisory authority shall be considered equivalent to a favourable opinion or tacit consent.

(6) The insurance representation business on the basis of employment with a bank may only be conducted by the persons who have received from the supervisory authority an authorisation to conduct insurance representation business referred to in Article 248 of this Act.

Carrying on of insurance representation activities at vehicle roadworthiness test garages
Article 251

(1) Only those insurance agencies which receive authorisation, issued by the supervisory authority, to conduct insurance representation business may carry on such business at vehicle roadworthiness test garages.

(2) Article 252 shall apply to the issue of the authorisation referred to in paragraph 1 above.

(3) A vehicle roadworthiness test garage, within the meaning of this Act, means a real property or several real properties which are adjacent to each other and all linked together so that they form a unity in which an authorised person carries out vehicle roadworthiness test and registration.

(4) A natural or legal person who is the owner or who enjoys other rights in rem in respect of a vehicle roadworthiness test garage referred to in paragraph 3 above shall ensure that the insurance agency referred to in paragraph 1 of this Article has adequate space at the garage to carry on insurance representation activities.

(5) If the person referred to in paragraph 4 above does not ensure the space for the conduct of insurance representation activities referred to in paragraph 4 above, carrying on of insurance representation activities at the vehicle roadworthiness test garage referred to in paragraph 3 of this Article shall not be permitted.

(6) An insurance agency shall carry on insurance representation business referred to in paragraph 1 of this Article under the conditions that are the same for all interested insurance undertakings.

(7) Prohibition on carrying out work preparatory to the conclusion of insurance contracts in the case of insurance products which are in competition referred in Article 233 and Article 234 (2) of this Act shall not apply on insurance representation business and insurance agents of insurance agencies.
(8) An insurance agency may carry on insurance representation business referred to in paragraph 1 of this Article only in the lines of insurance referred to in Article 3 (2), points 1 and 10 of this Act.

(9) The supervisory authority shall prescribe technical and organisational conditions for the conduct of insurance representation activities referred to in paragraphs 1 and 4 of this Article.

Authorisation to carry on insurance representation business

Article 252

(1) An insurance agency shall, prior to its registration in the judicial register obtain authorisation from the supervisory authority to carry on insurance representation business.

(2) The supervisory authority shall issue an authorisation to carry on insurance representation business at the request of the founder.

(3) The applicant shall enclose with his application for issue of the authorisation to carry on insurance representation business appropriate proofs that the following conditions are satisfied:

1. the core capital paid in cash amounts to a minimum of HRK 100,000;
2. at least one insurance agent will be employed full time on the basis of an employment contract, and he/she will be the responsible person at the agency;
3. the insurance agency concerned is not a related undertaking of an insurance undertaking, reinsurance undertaking or another insurance agency.

(4) The supervisory authority shall withdraw the authorisation to carry on insurance representation business in the following cases:

1. if the authorisation was obtained on the basis of a statement of false data;
2. if the insurance agency or insurance agent employed with the insurance agency seriously violates the provisions of Article 256 of this Act;
3. if insurance agency doesn’t have professional indemnity insurance referred in Article 237 of this Act,
4. if insurance agency permanently breaks its obligation of reporting,
5. if the conditions set out in paragraph 3 of this Article have ceased to apply.

(5) The authorisation for providing insurance representation services shall lapse:

1. if the insurance agency fails to start its operations within 6 months following the issue of the authorisation;
2. if the insurance agency ceases to carry on insurance representation business for more than 6 months;
3. on opening of bankruptcy proceedings or compulsory winding-up proceedings;
4. upon completion of voluntary winding-up proceedings.

(6) If any of the reasons referred to in paragraph 5 of this Article occurs, the supervisory authority shall take a decision to the effect that the authorisation has lapsed.
Carrying on of insurance brokerage activities

Article 253

(1) The insurance brokerage activities may be taken up and pursued by:

1. an insurance brokerage company with a head office in the Republic of Croatia in possession of an authorisation to conduct insurance brokerage business issued by the supervisory authority;
2. an insurance brokerage company from a Member State which, pursuant to this Act, has the right to carry on insurance brokerage business in the territory of the Republic of Croatia either directly or through a branch.

(2) An insurance brokerage company shall carry on insurance brokerage business as an exclusive activity.

(3) The insurance brokerage company referred to in paragraph 1 of this Article may not carry on insurance representation business.

Authorisation to carry on insurance brokerage business

Article 254

(1) An insurance brokerage company shall, prior to its entry in the judicial register obtain authorisation from the supervisory authority to carry on insurance brokerage business.

(2) The supervisory authority shall issue an authorisation to carry on insurance brokerage business at the request of the founder.

(3) The applicant shall enclose with his application for issue of the authorisation to carry on insurance brokerage business appropriate proofs that the following conditions are satisfied:

1. the core capital paid in cash amounts to a minimum of HRK 200,000;
2. at least two insurance brokers will be employed full time on the basis of an employment contract, and at least one of them will be the responsible person at the company;
3. the insurance brokerage company concerned is not a related undertaking of an insurance undertaking, reinsurance undertaking, another insurance brokerage company or an insurance agency.

(4) The supervisory authority shall withdraw the authorisation to carry on insurance brokerage business in the following cases:

1. if the authorisation was obtained on the basis of a statement of false data;
2. if an insurance brokerage company or insurance broker, working for the insurance brokerage company, seriously violates the provisions of Articles 244 and 256 of this Act;
3. if an insurance brokerage company does not hold professional indemnity policy pursuant to Article 245 of this Act;
4. if an insurance brokerage company repeatedly violates the reporting requirements.
5. if the conditions set out in paragraph 3 of this Article have ceased to apply.
(5) The authorisation to carry on insurance brokerage business shall lapse:

1. if the insurance brokerage company fails to start its operations within 6 months following the issue of the authorisation,
2. if the insurance brokerage company ceases to carry on insurance brokerage business for more than 6 months;
3. on opening of bankruptcy proceedings or compulsory winding-up proceedings,
4. upon completion of voluntary winding-up proceedings.

(6) If any of the reasons referred to in paragraph 5 of this Article occurs, the supervisory authority shall take a decision to the effect that the authorisation has lapsed.

**Acquisition and merger**

**Article 255**

(1) An insurance agency or an insurance brokerage company which takes over another insurance agency or an insurance brokerage company shall, prior to entry in the judicial register of the decision on the takeover obtain approval for the takeover from the supervisory authority.

(2) Insurance agencies and insurance brokerage companies that are to be merged shall, prior to entry in the judicial register of the decision on the merger obtain from the supervisory authority approval for the merger and authorisation to conduct insurance representation or insurance brokerage business for a newly established insurance agency or insurance brokerage company.

(3) With effect from the date of entry of a newly established insurance agency or insurance brokerage company in the judicial register, the insurance agencies or insurance brokerage companies that are merged shall be dissolved and their authorisations to conduct insurance representation or insurance brokerage business shall lapse.

**Information requirements for insurance intermediaries**

**Article 256**

(1) Prior to the conclusion of any insurance or reinsurance contract and upon amendment or renewal thereof, an insurance agent or broker shall provide the policyholder with the following information:

1. his/her identity and address;
2. the register in which he/she has been included and the means for verifying that he has been registered;
3. the insurance agency or insurance brokerage company at which he/she works;
4. whether he/she him/herself or the insurance agency or insurance brokerage company at which he works has a holding representing more than 10% of the voting rights or of the capital in a given insurance or reinsurance undertaking;
5. whether a given insurance or reinsurance undertaking or a related undertaking of a given insurance or reinsurance undertaking has a holding, direct or indirect, representing more than 10% of the voting rights or of the capital in the insurance intermediary;
6. the procedures for out-of-court settlement of disputes between the policyholders or persons insured or customers and insurance undertakings or insurance service providers and the internal procedures for settlement of complaints of customers referred to in Article 273 of this Act;

(2) The insurance intermediary is obliged to make the analysis referred to in Article 244 (2), point 1 of this Act on the basis of a sufficiently large number of insurance contracts available on the market, to enable him/her to make recommendations, in accordance with professional criteria, as to which insurance contract would be adequate to meet the policyholder’s needs.

(3) Prior to the conclusion of any contract, the insurance intermediary shall specify, on the basis of information provided by the policyholder or the insured, the demands and the needs of that policyholder or insured, as well as the underlying reasons for any advice given to the policyholder or insured concerning the given insurance contract.

(4) The information referred to in paragraphs 1, 2 and 3 of this Article need not be given when the insurance intermediary mediates in the insurance of large risks referred to in Article 3(6) of this Act, nor in the case of mediation in the reinsurance.

Form of information provided by insurance intermediaries
Article 257

(1) The information to be provided to the policyholder in accordance with Article 256 shall be communicated:

1. on paper or on any other durable medium available and accessible to the policyholder;
2. in a clear and accurate manner, comprehensible to the policyholder;
3. in the Croatian language, unless otherwise agreed;

(2) By way of derogation from paragraph 1 above, the information may be provided orally where the policyholder requests it, or where immediate cover is necessary.

(3) In the cases referred to in paragraph 2 above, the information shall be provided in accordance with paragraph 1 immediately after the conclusion of the insurance contract.

Obligation of an insurance undertaking
Article 258

(1) An insurance undertaking shall not enable that the insurance representation or insurance brokerage business is carried on by the persons other than persons referred to in Articles 250 and 253 of this Act.

Commission
Article 259

(1) An insurance agency or insurance agent shall not be entitled to request payment of commission or any other payment from a policyholder or from the insured.
(2) An insurance brokerage company or insurance broker shall not be entitled to request payment of commission or any other payment from a policyholder or from the insured, unless otherwise explicitly agreed in writing with the policyholder by virtue of a contract.

(3) An insurance brokerage company or broker is entitled to commission from the date on which the insurance contract takes effect.

(4) If it’s in the contract with the policyholder referred in paragraph 2 of this Article explicitly agreed in writing that insurance brokerage company or broker is entitled to commission or any other payment, an insurance brokerage company or broker doesn’t have the right to require the commission or any other payment upon the insurance or reinsurance contracts in which it or he/she has mediated.

(5) An insurance brokerage company or insurance broker may not subsequently agree on modifications to the method of calculation and the level of commission for the concluded insurance or reinsurance contracts in which it or he/she has mediated.

### Reporting

**Article 260**

(1) An insurance agency or insurance brokerage company shall also report to the supervisory authority on:

1. any modifications to data entered in the judicial register of insurance intermediaries;
2. structure and volume of insurance representation or insurance brokerage business provided in a particular year, broken down by insurance undertaking;
3. compliance with the obligations referred to in Article 237 or 243 of this Act.

### Register of insurance intermediaries

**Article 261**

(1) The supervisory authority shall keep the register of:

1. insurance agencies authorised, pursuant to this Act, to carry on insurance representation business in the territory of the Republic of Croatia;
2. insurance brokerage companies authorised, pursuant to this Act, to carry on insurance representation business in the territory of the Republic of Croatia;
3. insurance agents;
4. insurance brokers.

(2) The registers referred to in paragraph 1 above shall be public.

(3) The registers of insurance agencies and insurance brokerage companies shall contain the information about the persons authorised for insurance mediation.
Supervision
Article 262

(1) Supervision of insurance agents and insurance brokers, as well as insurance agencies and insurance brokerage companies shall be exercised by the supervisory authority.

(2) The provisions of this Act relating to supervision of insurance undertakings shall apply, as appropriate, to the supervision referred to in paragraph 1 of this Article.

Regulation on insurance intermediaries
Article 263

(1) The supervisory authority shall prescribe in more detail:

1. the conditions for obtaining and examining the professional knowledge required for the obtaining of the authorisation to carry on the insurance representation business referred to in Article 248 or the insurance brokerage business referred to in Article 249 of this Act;
2. the form and content of the reports referred to in Article 260 of this Act, as well as the time limits and method of reporting;
3. the form and content of and the rules for the method of keeping the registers referred to in Article 261 of this Act.

Insurance agencies and insurance brokerage companies from the Member States
Article 264

(1) An insurance agency or insurance brokerage company from a Member State is a legal person with its head office in the Member State which has obtained authorisation from the competent supervisory authority to carry on insurance representation or brokerage business.

(2) An insurance agency or insurance brokerage company from a Member State may carry on the insurance representation or insurance brokerage business respectively in the territory of the Republic of Croatia either directly or through a branch.

(3) The insurance agencies and insurance brokerage companies referred to in paragraph 1 shall be governed by the provisions of Articles 233 to 250, 256 and 260 of this Act regarding the activities conducted by such insurance agencies and insurance brokerage companies in the territory of the Republic of Croatia.

Carrying out of insurance mediation activities in a Member State
Article 265

(1) An insurance agency or an insurance brokerage company may carry out insurance representation or insurance brokerage activities for which it has received authorisation from the supervisory authority, directly or through a branch, if it meets the requirements laid down by the national provisions of that Member State.
(2) An insurance agency or insurance brokerage company intending to carry on insurance representation or brokerage business in a Member State for the first time shall inform the supervisory authority thereof.

(3) Within a period of one month after the notification referred to in paragraph 2 above, the supervisory authority shall inform the competent supervisory authority of the Member State wishing to be notified and shall inform the insurance agency or insurance brokerage company concerned.

(4) The insurance agency or insurance brokerage company may start the insurance representation or brokerage business in another Member State one month after the date on which it was informed by the supervisory authority of the notification referred to in paragraph 3 above. The insurance agency or insurance brokerage company may start the insurance representation or brokerage business immediately if the competent supervisory authority of the Member State does not request the information referred to in paragraph 2 of this Article.

(5) The provisions of this Article shall apply to insurance mediation activities in a Member State as appropriate.

Commencement of insurance mediation activities
Article 266

(1) The insurance agency or insurance brokerage company referred to in Article 264(1) of this Act which intends to carry out insurance representation or insurance brokerage activities in the Republic of Croatia shall inform the supervisory authority of the state in which it has its registered office accordingly.

(2) The supervisory authority referred to in paragraph 1 above shall inform the supervisory authority of the Republic of Croatia within a period of one month after the notification referred to in paragraph 1 above.

(3) The insurance agency or insurance brokerage company referred to in Article 264(1) of this Act may start the insurance representation or brokerage business in the Republic of Croatia one month after the date on which it was informed by the supervisory authority of the notification referred to in paragraph 2 above.

(4) The provisions of this Article shall apply to the activities of insurance agents and insurance brokers in the Republic of Croatia as appropriate.

(5) The competent authorities of the Member States shall exchange information on insurance agents, insurance brokers, insurance agencies and insurance brokerage companies, in particular if they have been subject to a sanction or a measure due to non-compliance with national provisions of the state in which they carry out the insurance mediation activities.

TITLE XVII
CUSTOMER PROTECTION

Customer
Article 267

(1) In terms of the provisions of this Act, “customer” shall imply any natural person who has rights and obligations under the insurance contract referred to in Article 3 of this Act, as well as the beneficiary of insurance mediation services.

Customer complaints

Article 268

(1) If a customer believes that an insurance undertaking does not adhere to the conditions set out in the insurance contract, he/she may address a complaint against such actions to the following entities:

1. the appropriate organisational unit of the insurance undertaking,
2. the internal audit of the insurance undertaking,
3. the consumer protection association or society,
4. the competent branch office of a regional unit of the State Inspector's Office, or
5. other competent authorities.

(2) The supervisory authority shall be authorised, within the framework of its supervisory competences over the insurance undertakings, to examine whether an individual insurance undertaking observes good business practices and professional rules.

Application of the special law

Article 269

(1) Except as provided in Articles 267 and 268 of this Act, protection of rights of customers of an insurance undertaking (natural persons) shall be carried out pursuant to a special law regulating protection of consumers, whereby it is necessary to act in accordance with the provisions of this Act which relate to the obligation of professional secrecy.

TITLE XVIII
INSURANCE AND REINSURANCE POOLS

Article 270

(1) Two or more insurance undertakings may establish an insurance or reinsurance pool for the purpose of carrying on insurance or reinsurance business that covers the large risks of liability claims for losses and/or damages arising from nuclear energy or other large claims.

(2) Unless otherwise provided for by this Article, the provisions of the Act regulating the establishment of economic interest associations shall apply to insurance or reinsurance pools.

(3) The provisions of Title III and Titles V to XIII of this Act, excluding the provisions of Article 134 (1) of this Act, shall apply, as appropriate, to insurance and reinsurance pools.
TITLE XIX
CROATIAN INSURANCE BUREAU

General provision
Article 271

(1) The Croatian Insurance Bureau is a legal person which in legal transactions with third parties represents an association of insurance undertakings having their head offices in the Republic of Croatia.

(2) The bodies of the Croatian Insurance Bureau are the assembly, board of management and the managing director.

(3) The members of the assembly of the Croatian Insurance Bureau shall be appointed by insurance undertakings which are members of the Croatian Insurance Bureau.

(4) The articles of association of the Croatian Insurance Bureau shall lay down the activity and the way of financing.

(5) The activity of the Croatian Insurance Bureau shall be financed by insurance undertakings as members of the Croatian Insurance Bureau.

Activities of the Croatian Insurance Bureau
Article 272

(1) The Croatian Insurance Bureau carries out, in favour of insurance undertakings having their head offices in the Republic of Croatia, the activities specified in this Act, the Act on Compulsory Insurance in Transportation and other national provisions, namely:

- the activities of the National Green Card Bureau and other activities envisaged under the international agreements on insurance against third-party liability of motor vehicle owners;
- introduction and representation of insurance undertakings in international organisations;
- the activities related to insurance terms and conditions and premium rates of compulsory insurances;
- the activities relating to the management of the capital;
- the activities related to keeping of insurance statistics;
- the activities related to the settlement of claims of policyholders or other injured parties;
- the activities related to the out-of-court settlement of disputes between the persons insured or policyholders or customers and the insurance undertaking or insurance service provider;

(2) The Croatian Insurance Bureau shall prescribe the manner in which the activities referred to in paragraph 1 above shall be carried out.

(3) The Croatian Insurance Bureau shall set up and maintain a computer system for processing of statistical data on insurance activities.

(4) The Croatian Insurance Bureau shall also perform other duties of general and common interest for the insurance industry.
Settlement of customer disputes
Article 273

(1) Insurance undertakings shall set up appropriate procedures for the out-of-court settlement of disputes between the persons insured or policyholders or customers and insurance undertakings or insurance service providers.

(2) The insurance undertaking shall publish information on the arrangements for out-of-court settlement of disputes as a part of the insurance terms and conditions.

(3) Insurance undertakings shall set up internal procedures for the settlement of complaints of the persons insured.

Supervision
Article 274

(1) The supervisory authority exercises supervision of the operations of the Croatian Insurance Bureau.

TITLE XX
ASSOCIATION OF INSURERS

Article 275

(1) Insurance undertakings may form an association of insurers, established as an economic interest association or organised as some other form of association of economic operators.

(2) Insurance undertakings may not enter into any written or oral agreement with other insurance undertakings or insurance associations or reinsurance associations that may limit the principles of free market economy or fair competition in the insurance field.

(3) In order to meet the provisions of paragraph 2 above, the association of insurers shall submit to the supervisory authority its articles of association, all agreements and other relevant documents.

(4) The provisions of this Title shall apply to insurance agencies and insurance brokerage companies as appropriate.

TITLE XXI
THE LAW APPLICABLE TO AN INSURANCE CONTRACT

Applicable provisions
Article 276
(1) The provisions of this Title shall apply to determination of the law applicable to the insurance contracts containing an international component when the insurance in question covers the risks located in the Republic of Croatia or a Member State.

(2) Unless otherwise provided in this Title, the determination of the law which applies to the insurance contracts referred to in paragraph 1 above shall be subject to the provisions of the general law regulating the law applicable to international relations.

(3) The provisions of this Title shall not apply to reinsurance contracts.

Relevant legal provisions of the foreign law

Article 277

(1) Where the provisions of this Title refer to the foreign law, only the relevant legal provisions of that law which regulate the substance of a legal relationship shall be taken into consideration rather than the provisions of that law that make reference to another law.

(2) Where a certain state whose applicable law covers several parts in which different provisions referred to in paragraph 1 above apply, within the meaning of this Title each part of that state shall constitute an independent state.

The foreign law which is in contravention of the binding provisions

Article 278

(1) The provisions of this Title do not exclude application of this Act or other laws which regulate, in a compulsory manner, the substance of a legal relationship on the basis of an insurance contract, without regard for the law that is applicable.

Autonomy of the parties in selection of the law applicable to property insurances

Article 279

(1) In the case of an insurance contract in respect of property insurance, applicable shall be the law chosen by the parties to the contract, if the choice of the law is in compliance with Article 280 of this Act.

Restriction on the autonomy of the parties in selection of the law applicable to property insurances

Article 280

(1) If the person insured is established in the Republic of Croatia and the property insurance covers the risks located in the Republic of Croatia, the insurance contract shall be governed by the law of the Republic of Croatia.

(2) If the person insured is established in a Member State and the property insurance covers the risks located in that Member State, the parties may choose the law of another state if the law of the Member State offers the possibility of choosing another law.
(3) If the person insured is established in a Member State and the property insurance covers the risks located in the Republic of Croatia, the parties may choose, as the law applicable to the insurance contract, the law of either the Republic of Croatia or the Member State in which the person insured has a head office or residence, except where the law of that Member State does not offer the possibility of choosing another law.

(4) If the person insured is established in the Republic of Croatia and the property insurance covers the risks located in a Member State, the parties may choose, as the law applicable to the insurance contract, the law of either the Republic of Croatia or the law of the Member State in which the risks covered by the insurance are located, except where the law of that Member State does not offer the possibility of choosing another law.

(5) If the property insurance covers the risks associated with performance of economic activities of the person insured and the insurance covers the risks in several Member States or in the Republic of Croatia and in at least one Member State, the parties may choose, as the law applicable to the insurance contract, the law of any Member State in which the risks covered by the insurance are located, or the law of the Republic of Croatia, except where the law of at least one of the Member States in which the risks covered by the insurance are located does not offer the possibility of choosing another law.

(6) By way of derogation from paragraphs 1 to 5 of this Article the parties may, as regards the insurance contract covering the large risks referred to in Article 3(6) of this Act choose the law of any Member State.

The law applicable to property insurance where the parties have not chosen a particular law
Article 281

(1) Where the parties have not chosen, with regard to an insurance contract concerning property insurance, a particular law to be applicable to that contract, or where they have chosen a law which is in contravention of Article 280 of this Act, the following shall be applicable to the insurance contract:

1. the law of the Member State in which the risks covered by the insurance are located if the person insured is established in that state;
2. in other cases, the law of the state which is most closely related to the insurance in question.

(2) The law of the state referred to in paragraph 1 of this Article shall be deemed to be the law of the state in which the risks covered by the insurance were located at the time of conclusion of the insurance contract.

The law applicable to life assurance
Article 282
(1) If the person assured has permanent residence in the Republic of Croatia, the life assurance contract shall be governed by the law of the Republic of Croatia.

(2) If the person assured has permanent residence in a Member State, the life assurance contract shall be governed by the law of that Member State.

(3) By way of derogation from paragraph 1 or paragraph 2 of this Article, the parties may choose, in respect of the assurance contract, the law of the state of which the assured is a citizen.

(4) By way of derogation from paragraph 2 of this Article, the parties may choose the law of another state if the law of the Member State in which the assured has permanent residence offers the possibility of choosing another law.

(6) The policyholder may inform the Insurer of his/her intention to give up a life assurance contract within 30 days of receipt of the notice of conclusion of the contract from the Insurer and in that case the policyholder shall not incur the obligations arising from the contract.

**TITLE XXII**

**PENAL PROVISIONS**

**Violations by insurance undertakings**

**Article 283**

(1) In case of misdemeanour, a fine from HRK 750,000 to HRK 1,500,000 shall be imposed on an insurance undertaking if:

1. contrary to Article 16 Paragraph 1 of this Act, it carries on other activities in addition to insurance business;
2. it carries on insurance business in the lines of insurance in respect of which it has not obtained from the supervisory authority the authorisation to carry on insurance business pursuant to Article 60 Paragraph 1 of this Act;
3. it fails to appoint the certified actuary pursuant to Articles 66 and 67 of this Act;
4. it starts insurance business or establishes a branch in a third country without having obtained authorisation from the supervisory authority referred to in Article 81 Paragraph 2 of this Act;
5. it does not invest assets covering technical provisions pursuant to Articles 114 to 117 of this Act or pursuant to regulations adopted hereunder;
6. it fails to form or manage the assets covering mathematical provisions pursuant to Articles 119 to 121 of this Act or pursuant to regulations adopted hereunder;
7. it reinsures, in contravention of Article 129 of this Act, that portion of accepted risks insured which, according to the tables of maximum coverage, do not exceed its risk retention level;
8. it does not keep its business books or value bookkeeping items or draw up bookkeeping documents and accounting statements pursuant to Articles 140 to 143 of this Act or regulations adopted under Article 144 of this Act;
9. it fails to set up an internal audit function in accordance with Articles 145 to 150 of this Act;
10. it fails to submit all the data and information to a financial holding company or insurance holding company or parent insurance undertaking in an insurance group pursuant to Article 177 Paragraph 1 of this Act;
11. it fails to report to the supervisory authority on operations in the insurance group in accordance with Article 178 of this Act or regulations adopted hereunder.

(2) In case of the misdemeanour specified in Paragraph 1 of this Article, a fine from HRK 20,000 to HRK 80,000 shall also be imposed on the responsible person of the insurance undertaking.

Article 284

(1) In case of misdemeanour, a fine from HRK 75,000 to HRK 150,000 shall be imposed on the insurance undertaking if:
1. it fails to notify the supervisory authority of dismissal of the certified actuary pursuant to Article 69 Paragraph 4 of this Act;
2. it fails to submit to the supervisory authority an unaudited annual report within the time limit set out in Article 142 Paragraph 3 of this Act;
3. it fails to submit to the supervisory authority audited financial statements pursuant to Article 151 Paragraph 4 of this Act;
4. it fails to enable an authorised person to conduct supervision and examine the operations pursuant to Article 157 and Articles 183 to 188 of this Act;
5. it fails to report to the supervisory authority pursuant to Article 158 of this Act or regulations adopted hereunder;
6. it fails to inform the supervisory authority of important activities within the insurance group pursuant to Article 178 of this Act;
7. it fails to inform the supervisory authority pursuant to Article 180 of this Act of all facts and circumstances relevant to the assessment as to whether the insurance group in question corresponds to the insurance group as defined in this Act;
8. if it enables the persons other than those referred to in Articles 250 and 253 of this Act to carry out insurance representation or brokerage activities.

(2) In case of the misdemeanour specified in Paragraph 1 of this Article, a fine from HRK 5,000 to HRK 10,000 shall also be imposed on the responsible person of the insurance undertaking.

Violations by a member of the board of directors or the supervisory board

Article 285

(1) In case of misdemeanour, a fine from HRK 5,000 to HRK 25,000 shall be imposed on a member of the board of directors of the insurance undertaking if:
1. he/she fails to fulfil the obligations of a member of the board of directors of an insurance undertaking pursuant to Article 29 of this Act;
2. he/she fails to immediately notify the supervisory authority pursuant to Article 158 Paragraph 3 of this Act.
In case of misdemeanour, a fine from HRK 20,000 to HRK 80,000 shall be imposed on a member of the supervisory board of the insurance undertaking who fails to immediately notify the supervisory authority pursuant to Article 35 Paragraph 3 of this Act.

Violations by insurance agencies and insurance agents
Article 286.

(1) In case of misdemeanour, a fine from HRK 150,000 to HRK 250,000 shall be imposed on an insurance agency if:
1. it does not hold a professional indemnity policy pursuant to Article 237 of this Act;
2. it provides assistance in exercising rights under an insurance or reinsurance contract, in particular in settlement of claims notified to the insurance undertaking in contravention of Article 241 Paragraph 4 of this Act;
3. it does not carry on the insurance representation business as the only activity pursuant to Article 250 Paragraph 3 of this Act;
4. it carries on insurance brokerage business in contravention of Article 250 Paragraph 3 of this Act;
5. it takes over or merges with another insurance agency in contravention of Article 255 Paragraph 1 or 2 of this Act;
6. it requests or collects payment of commission or any other charge from the policyholder or person insured in contravention of Article 259 Paragraph 1 of this Act;
7. it fails to report to the supervisory authority pursuant to Article 260 of this Act, within time limits and in the manner determined by law or regulation adopted under Article 263, Item 3 of this Act.

(2) In case of the misdemeanours specified in Paragraph 1 of this Article, a fine from HRK 15,000 to HRK 50,000 shall also be imposed on the responsible person of the insurance agency.

(3) In case of misdemeanour, a fine from HRK 5,000 to HRK 25,000 shall be imposed on an insurance agent if:
1. he/she carries on his/her activities in contravention of Article 238 Paragraph 2 of this Act;
2. he/she provides assistance in exercising rights under insurance or reinsurance contracts, in particular in settlement of claims notified to the insurance undertaking in contravention of Article 241 Paragraph 4 of this Act;
3. he/she does not have authorisation issued by the supervisory authority to carry on insurance representation business pursuant to Article 248 Paragraph 1 of this Act;
4. he/she does not represent or misrepresents to the policyholder the information referred to in Article 256 Paragraph 1 of this Act or represents the said information in a form contrary to Article 257 of this Act;
5. he/she requests or collects payment of commission or any other charge from the policyholder or the person insured contrary to Article 259 Paragraph 1 of this Act.

Violations by insurance brokerage companies and insurance brokers
Article 287
(1) In case of misdemeanour, a fine from HRK 150,000 to HRK 250,000 shall be imposed on an insurance brokerage company if:
1. it does not hold a professional indemnity policy pursuant to Article 243 of this Act;
2. it does not carry on insurance brokerage business as the only activity in accordance with Article 253 Paragraph 2 of this Act;
3. it carries on insurance brokerage business contrary to Article 253 Paragraph 3 of this Act;
4. it takes over or merges with another insurance brokerage company contrary to Article 255 Paragraph 1 or 2 of this Act;
5. requests or collects payment of commission or any other charge from the policyholder or person insured contrary to Article 259 Paragraph 2 of this Act;
6. it subsequently agrees, contrary to Article 259 Paragraph 4 of this Act, upon change in the method of calculation or in the level of commission under insurance or reinsurance contracts that have been concluded through its mediation;
7. it does not report to the supervisory authority in accordance with Article 260 of this Act, within time limits and in the manner specified by law or regulation adopted under Article 263 Paragraph 3 of this Act;
8. it does not notify the supervisory authority prior to commencement of insurance representation or brokerage business in the Member State pursuant to Article 265 Paragraph 2 of this Act.

(2) In case of misdemeanour, a fine from HRK 20,000 to HRK 80,000 shall be imposed on an insurance broker who does not fulfil his/her obligations in accordance with Articles 244 and 256 of this Act.

(3) In case of the misdemeanours specified in Paragraphs 1 and 2 of this Article, a fine from HRK 15,000 to HRK 50,000 shall also be imposed on the responsible person of the insurance brokerage company.

(4) In case of misdemeanour, a fine from HRK 5,000 to HRK 25,000 shall be imposed on an insurance broker if:
1. he/she does not fulfil his/her obligations in accordance with Article 244 of this Act;
2. in carrying out insurance brokerage activities, he/she acts contrary to Article 245 Paragraph 1 of this Act;
3. in carrying out work preparatory to the conclusion of insurance contracts, he/she fails to notify the insurance undertaking of all the risks of which he/she is aware in accordance with Article 245 Paragraph 2 of this Act;
4. he/she mediates in conclusion of insurance contracts contrary to Article 269 of this Act;
5. he/she does not have authorisation issued by the supervisory authority to carry on insurance brokerage business pursuant to Article 249 Paragraph 1 of this Act;
6. he/she fails to submit or submits false information referred to in Article 256 Paragraph 1 of this Act or submits the said information in a form contrary to Article 257 of this Act;
7. he/she fails to make analysis in accordance with Article 256 Paragraph 2 of this Act;
8. he/she requests or collects payment of commission or any other charge from the policyholder or person insured contrary to Article 259 Paragraph 2 of this Act;
9. he/she subsequently agrees, contrary to Article 259 Paragraph 4 of this Act, upon change in the method of calculation or in the level of commission under insurance or reinsurance contracts that have been concluded through his/her mediation;
10. he/she commits any violation specified in Paragraph 1 or 2 of this Article.
Violations of an insurance group

Article 288

(1) In case of misdemeanour, a fine from HRK 75,000 to HRK 150,000 shall be imposed on a financial holding company, insurance holding company or the parent insurance undertaking in an insurance group if it fails to prepare the reports on the adjusted capital requirements or fails to report to the supervisory authority on adjusted capital requirements pursuant to Article 179 of this Act or pursuant to the provisions of the law or regulations adopted under Article 181 of this Act.

(2) In case of the misdemeanour referred to in Paragraph 1 of this Article, a fine from HRK 5,000 to HRK 25,000 shall also be imposed on the responsible person of financial holding company, insurance holding company or the parent insurance undertaking in an insurance group.

Violations by other persons

Article 289

(1) In case of misdemeanour, a fine from HRK 75,000 to HRK 750,000 shall be imposed on a legal entity if it:
1. carries on insurance business contrary to Article 7 of this Act;
2. provides assistance in exercising rights under insurance or reinsurance contracts, in particular in settlement of claims notified to the insurance undertaking, contrary to Article 241 Paragraph 4 of this Act;
3. carries out insurance representation or brokerage activities contrary to Articles 250, 251 and 253 of this Act.

(2) In case of the misdemeanours specified in Paragraph 1 of this Article, a fine from HRK 5,000 to HRK 25,000 shall also be imposed on the responsible person of the legal entity concerned.

(3) In case of misdemeanour, a fine from HRK 20,000 to HRK 80,000 shall be imposed on a natural person if he/she:
1. carries on insurance business contrary to Article 7 of this Act;
2. provides assistance in exercising rights under insurance or reinsurance contracts, in particular in settlement of claims notified to the insurance undertaking, contrary to Article 241 Paragraph 4 of this Act;
3. provides insurance mediation services contrary to Articles 248 and 249 of this Act;
4. carries out insurance representation activities on the basis of employment with a bank, contrary to Article 250 Paragraph 6 of this Act;
5. carries out insurance representation activities contrary to Article 251 of this Act.

Violations by an audit company

Article 290
Violations by a certified actuary
Article 291

In case of misdemeanour, a fine from HRK 20,000 to HRK 80,000 shall be imposed on a certified actuary if he/she:
1. fails to immediately notify the board of directors of an insurance undertaking pursuant to Article 68 Paragraph 4 of this Act;
2. fails to notify the supervisory authority pursuant to Article 68 Paragraph 6 and 7 of this Act.

Violations by the extraordinary administrator
Article 292

In case of a violation, a fine from HRK 20,000 to HRK 80,000 shall be imposed on the extraordinary administrator if he/she:
1. fails to submit to the supervisory authority a report on the financial position and operating conditions of the insurance undertaking under extraordinary administration within three months of his/her appointment, pursuant to Article 171 Paragraph 1 of this Act;
2. fails to submit to the supervisory authority a report on the financial position and operating conditions of the insurance undertaking under extraordinary administration within nine months of his/her appointment, pursuant to Article 171 Paragraph 2 of this Act;
3. fails to call the general meeting of shareholders of the insurance undertaking pursuant to Article 172 Paragraph 1 of this Act or fails to announce the call for the general meeting of shareholders for the purpose of deciding on increase in share capital within eight days at the latest of receipt of an order issued by the supervisory authority, pursuant to Article 172 Paragraph 2 of this Act.

Violations regarding the obligation to protect confidential data
Article 293

(1) A misdemeanour fine from HRK 75,000 to HRK 750,000 shall be imposed on an insurance undertaking that violates the obligation to protect confidential data pursuant to Article 138 of this Act.

(2) In the case of the misdemeanour referred to in Paragraph 1 of , a fine from HRK 5,000 to HRK 25,000 shall also be imposed on the responsible person of the insurance undertaking.

(3) A misdemeanour fine from HRK 20,000 to HRK 80,000 shall be imposed on a natural person who violates the obligation to protect confidential data pursuant to Article 138 of this Act.

TITLE XXIII
TRANSITIONAL AND FINAL PROVISIONS

Insurance of property and persons
Article 294

(1) Until the date when the Republic of Croatia becomes a full member of the European Union, the persons established in the Republic of Croatia may insure property and persons only with the insurance undertaking referred to in Article 6 (1), point 1 of this Act or the branch of a third-country insurance undertaking referred to in Article 6 (1), point 2 of this Act.

(2) The Government of the Republic of Croatia shall prescribe which property and persons, and under what conditions, may, by way of derogation from paragraph 1 above, be insured or co-insured with an insurance undertaking or a branch of an insurance undertaking whose head office is not in the Republic of Croatia.

Harmonisation of insurance undertakings
Article 295

(1) Insurance undertakings which, on the date of entry into force of this Act, possess an authorisation to conduct insurance business and are entered in the judicial register of companies shall continue to operate as insurance undertakings pursuant to this Act in the lines of insurance specified in the existing authorisation.

(2) Within a period of one year of the date of entry into force of this Act, the insurance undertakings referred to in paragraph 1 above are obliged to bring into line:

(a) their insurance operations with Articles 3 and 16 of this Act;
(b) their share capital with Article 19 of this Act;
(c) their shares with Article 20 (1), (2) and (3) of this Act;
(d) their board of directors with Article 25 of this Act;
(e) the members of the supervisory board of the undertaking with Articles 32 and 33 of this Act;
(f) their operations with other provisions of this Act unless the provisions of this Act provide for a longer harmonisation period.

(3) The insurance undertaking referred to in paragraph 1 of this Article is obliged, within a period of one month of the date of expiration of the time limit set out in paragraph 2 of this Article submit to the supervisory authority a report on the harmonisation in accordance with paragraph 2 of this Article. The report shall be accompanied by:

(a) the insurance undertaking’s articles of association in the form of a notary public’s document;
(b) a list of shareholders, including personal information, and the name and address of the head office, the total nominal amount of the shares and the amount of holdings, expressed as a percentage of the share capital of the insurance undertaking;
(c) in the case of shareholders – legal persons which are holders of qualifying holdings:

- an extract from the judicial register of companies or another comparable public register;
- where the shareholder is a joint-stock undertaking, in addition to the aforementioned information, an extract from the shareholder register which relates to the shareholder concerned, or, if the shares are made out in the name of the bearer, a notarised transcript of the list of shareholders present at the last general meeting of shareholders; in the case of shareholders which are foreign legal persons, a notarised translation of the documents must be enclosed;
- financial statements for the past two financial years;

(d) a list of persons related to the holders of qualifying holdings along with a description of the manner of their relationship.

(4) The insurance undertaking referred to in paragraph 1 of this Article is obliged, within a period of six months of the date of entry into force of this Act to:

(a) appoint a certified actuary pursuant to Article 67 of this Act;
(b) set up the internal audit pursuant to Article 145 of this Act;
(c) adopt a programme of the activities of the internal audit referred to in Article 148 of this Act.

(5) The insurance undertaking referred to in paragraph 1 of this Article is obliged, within a period of one month of the date of expiration of the time limit referred to in paragraph 4 of this Article submit to the supervisory authority a report on harmonisation pursuant to paragraph 4 of this Article.

(6) If the reports referred to in paragraphs 3 and 5 of this Article and the enclosed supporting documents show that the insurance undertaking has brought its operations into line with paragraphs 2 and 4 of this Article, the supervisory authority shall issue the authorisation to carry on insurance business in accordance with Article 60 of this Act.

(7) If the insurance undertaking referred to in paragraph 1 of this Article does not comply with paragraphs 2 to 5 of this Article, the supervisory authority may withdraw the authorisation from the insurance undertaking and open the compulsory winding-up proceedings in accordance with the provisions of this Act.

Harmonisation of insurance undertakings which carry on non-life insurance and life assurance business

Article 296

(1) By way of derogation from Article 295 (2) of this Act, the insurance undertakings which on the date of entry into force of this Act carry on, on the basis of an existing authorisation, life assurance and non-life insurance business, are not obliged to harmonise their operations with Article 16 (2) of this Act.

(2) An insurance/assurance undertaking which carries on insurance/assurance business in accordance with paragraph 1 above is obliged to:

(a) keep business books and draw up financial statements separately for the life assurance class and non-life insurance class;
(b) calculate the capital of the undertaking in accordance with Article 93 of this Act separately for the life assurance class and non-life insurance class;

(3) In the case that an insurance undertaking which carries on life assurance or non-life insurance business does not meet the capital requirements as specified in Article 98 Paragraph 1 or Article 99 Paragraph 1 of this Act, the insurance undertaking concerned may transfer the capital in excess of the required level in respect of a certain insurance class to another insurance class.

(4) An insurance undertaking shall take a decision on the transfer referred to in paragraph 3 of this Article.

(5) An insurance undertaking shall, prior to taking the decision on the transfer referred to in paragraph 4 above, obtain an approval from the supervisory authority.

(6) With effect from the date when the Republic of Croatia becomes a full member of the European Union, insurance undertakings may invest the assets covering technical provisions in the Member States and OECD Member States, and such investments may be in the types of investment referred to in Article 115 (1) of this Act subject to the restrictions on the assets covering technical provisions under Article 116 (1) and (2) of this Act, and the provisions of Article 115 (2) and 116 (3) of this Act shall therefore be repealed.

(7) With effect from the date when the Republic of Croatia becomes a full member of the European Union, insurance undertakings may invest the assets covering technical provisions in the Member States and OECD Member States, and such investments may be in the types of investment referred to in Article 122 (1) of this Act subject to the restrictions on the assets covering technical provisions under Article 123 (1) and (2) of this Act, and the provisions of Article 122 (2) and 123 (3) of this Act shall therefore be repealed.

Harmonisation of insurance agencies

Article 297

(1) An insurance agency which on the date of entry into force of this Act possesses the authorisation to conduct insurance representation business and is entered in the judicial register is obliged to bring its operations into line with this Act within six months of the date of entry into force of this Act, unless a longer time limit is provided by the provisions of this Article.

(2) The insurance agency referred to in paragraph 1 above shall within six months of the date of entry into force of this Act submit an application for issue of an authorisation by the supervisory authority to carry on insurance representation business pursuant to Article 252 of this Act.

(3) If the insurance agency referred to in paragraph 1 of this Article does not comply with paragraph 2 of this Article, the supervisory authority may withdraw from the insurance agency the authorisation to carry on insurance representation business and open winding-up proceedings in accordance with the provisions of this Act.
(4) The insurance agency referred to in paragraph 1 of this Article shall within a period of one year of the date of entry into force of this Act ensure that it holds a professional indemnity insurance policy or some other comparable guarantee:

(a) by 1 January 2007, for at least HRK 1,500,000 applying to each claim, and in aggregate HRK 2,000,000 per year for all claims;
(b) by 1 January 2009, for at least HRK 2,500,000 applying to each claim, and in aggregate HRK 3,000,000 per year for all claims;
(c) by 1 January 2011, for at least HRK 3,500,000 applying to each claim, and in aggregate HRK 6,000,000 per year for all claims;

(5) Paragraphs 1, 2, 3 and 4 of this Article shall also apply to insurance representation trades which on the date of entry into force of this Act possess authorisation to conduct insurance representation business and are registered in the crafts register.

**Harmonisation of insurance brokerage companies**

Article 298

(1) An insurance brokerage company which on the date of entry into force of this Act possesses the authorisation to conduct insurance brokerage business and is entered in the judicial register is obliged to bring its operations into line with this Act within six months of the date of entry into force of this Act, unless a longer time limit is provided by the provisions of this Article.

(2) The insurance brokerage company referred to in paragraph 1 above shall within six months of the date of entry into force of this Act submit an application for issue of an authorisation by the supervisory authority to carry on insurance brokerage business pursuant to Article 254 of this Act.

(3) If the insurance brokerage company referred to in paragraph 1 of this Article does not comply with paragraph 2 of this Article, the supervisory authority may withdraw from the insurance brokerage company the authorisation to carry on insurance brokerage business and open winding-up proceedings in accordance with the provisions of this Act.

(4) The insurance brokerage company referred to in paragraph 1 of this Article shall within a period of one year of the date of entry into force of this Act ensure that it holds a professional indemnity insurance policy or some other comparable guarantee:

(a) by 1 January 2007, for at least HRK 1,500,000 applying to each claim, and in aggregate HRK 2,000,000 per year for all claims;
(b) by 1 January 2009, for at least HRK 2,500,000 applying to each claim, and in aggregate HRK 3,000,000 per year for all claims;
(c) by 1 January 2011, for at least HRK 3,500,000 applying to each claim, and in aggregate HRK 6,000,000 per year for all claims;

**Insurance agents and insurance brokers**

Article 299
(1) The persons who on the date of entry into force of this Act possess authorisation to carry on insurance representation or insurance brokerage business issued by the Finance Minister shall within six months of the date of entry into force of this Act submit application to the supervisory authority for issue of authorisation to carry on insurance representation or insurance brokerage business. The applicant shall enclose with the application a proof of a clean police record or any other national equivalent in relation to serious offences linked to white-collar crime, or a proof that he/she is not under investigation.

(2) The supervisory authority shall, on the basis of the authorisation to carry on insurance representation or insurance brokerage business issued by the Finance Minister, issue to the person referred to in paragraph 1 above the authorisation to carry on insurance representation business referred to in Article 248 of this Act or the authorisation to carry on insurance brokerage business referred to in Article 249 of this Act.

**Certified actuaries**

**Article 300**

(1) The persons who on the date of entry into force of this Act possess authorisation to act in the capacity of a certified actuary, issued by the Finance Minister, shall be deemed to be authorised by the supervisory authority to act in the capacity of a certified actuary in accordance with Article 66 of this Act.

**Solvency margin of an insurance undertaking**

**Article 301**

(1) The insurance undertakings referred to in Article 295 (1) of this Act shall by 31 December 2010 bring their operations into line with Articles 98 and 99 of this Act.

(2) Solvency margin of an insurance undertaking which carries on insurance business in the life assurance class shall be calculated in accordance with Article 98 of this Act by applying the following ratios:

1. gross amount of the mathematical provisions referred to in Article 98 (2), point 1 (a) shall be multiplied by:
   - 0.036 – by 31 December 2006;
   - 0.037 – by 31 December 2007;
   - 0.038 – by 31 December 2008;
   - 0.039 – by 31 December 2009;

2. the amount of the capital at risk referred to in Article 98 (2), point 2 (a) shall be multiplied by:
   - 0.001 – by 31 December 2006;
   - 0.0015 – by 31 December 2007;
   - 0.002 – by 31 December 2008;
   - 0.0025 – by 31 December 2009;

(3) The capital of the insurance undertaking which carries on non-life insurance business shall be calculated in accordance with Article 99 of this Act by applying the following ratios:
1. the total amount of insurance premiums referred to in Article 99 (2), point 1 shall be multiplied as follows:
- the amounts up to HRK 375,000,000 shall be multiplied by 0.14, and the amounts exceeding HRK 375,000,000 shall be multiplied by 0.13 – by 31 December 2006;
- the amounts up to HRK 375,000,000 shall be multiplied by 0.15, and the amounts exceeding HRK 375,000,000 shall be multiplied by 0.135 – by 31 December 2007;
- the amounts up to HRK 375,000,000 shall be multiplied by 0.16, and the amounts exceeding HRK 375,000,000 shall be multiplied by 0.14 – by 31 December 2008;
- the amounts up to HRK 375,000,000 shall be multiplied by 0.17, and the amounts exceeding HRK 375,000,000 shall be multiplied by 0.15 – by 31 December 2009;

2. the average annual gross amount of claims referred to in Article 99 (3), point 1 shall be multiplied as follows:
- the amounts up to HRK 262,500,000 shall be multiplied by 0.22, and the amounts exceeding HRK 262,500,000 shall be multiplied by 0.21 – by 31 December 2006;
- the amounts up to HRK 262,500,000 shall be multiplied by 0.23, and the amounts exceeding HRK 262,500,000 shall be multiplied by 0.215 – by 31 December 2007;
- the amounts up to HRK 262,500,000 shall be multiplied by 0.24, and the amounts exceeding HRK 262,500,000 shall be multiplied by 0.22 – by 31 December 2008;
- the amounts up to HRK 262,500,000 shall be multiplied by 0.25, and the amounts exceeding HRK 262,500,000 shall be multiplied by 0.225 – by 31 December 2009;

(4) The supervisory authority may grant to an insurance undertaking, at its request, an extension to the harmonisation period by two years.

**Procedures**

**Article 302**

(1) All procedures for obtaining approvals, consents and authorisations, which are initiated prior to the date of entry into force of this Act and which fall within the scope of responsibility of the supervisory authority shall be completed in accordance with the provisions of this Act.

(2) The bankruptcy and winding-up proceedings with regard to insurance undertakings, insurance agencies or insurance brokerage companies which are opened in accordance with the provisions of the Bankruptcy Act and the Companies Act shall be completed in accordance with the provisions of the said Acts.

**Adoption of regulations**

**Article 303**

(1) The supervisory authority shall bring into force the regulations by virtue of the powers conferred upon it hereunder within six months of the date of entry into force of this Act.

(2) Pending entry into force of the regulations referred to in paragraph 1 above, the subordinate legislation adopted under the Insurance Act (Official Gazette 46/97 –
consolidated version, 116/99 and 11/02) and the Act on Mediation and Representation in Insurance (Official Gazette 27/99) shall apply, unless they are in conflict with this Act.

Repeal
Article 304

(1) With effect from the date of entry into force of this Act, the Insurance Act (Official Gazette Nos. 46/97 – consolidated text, 116/99 and 11/02) and the Act on Mediation and Representation in Insurance (Official Gazette No. 27/99) shall be repealed.

Article 305

(1) With effect from the date when the Republic of Croatia becomes a full member of the European Union, the provisions of Article 21 (4) and (5), Article 70 (5), points 3 and 5, Article 72 (3) to (10), Articles 76 to 80, Articles 82 to 85, Article 131 (3), Articles 132, 135, 136, Article 175 (3), Article 200 (2) to (4), Article 202 (4) to (6), Articles 206 to 212, Article 250 (1), point 3, Article 253 (1), point 2, Articles 264 to 266 and Articles 276 to 282 shall become applicable.

(2) Pending entry into force of the provisions under paragraph 1 of this Article:

1. the provisions of Article 81 of this Act shall apply to carrying on of insurance business by insurance undertakings in the Member States;
2. the provisions of Articles 86 and 87 of this Act shall apply to carrying on of insurance business by insurance undertakings in the Republic of Croatia;
3. the provisions of Article 134 (3), point 2 of this Act shall apply to submission of information to supervisory authorities of the Member States;
4. the carrying on of insurance representation and insurance brokerage business by insurance agencies and insurance brokerage companies of the Member States shall be governed by the provisions of Articles 252 and 254 of this Act respectively.

Entry into force
Article 306

(1) This Act will be published in the Official Gazette and shall enter into force on 1 January 2006.