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Act on Insurance Activities, with Amendments

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Passage through Althingi. Legislative bill.

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Chapter I Scope. Operating practices.

ARTICLE 1 *Scope*

The purpose of this Act is to ensure that insurance undertakings are operated in a sound and proper manner, guided by the interest of the insured, policyholders, shareholders and the national economy as a whole.

This Act applies to insurance activities. Activities falling within the scope of this Act shall be subject to operating licence. For the purposes of this Act, insurance activities means non-life and personal direct insurance activities and reinsurance activities of all types.

ARTICLE 2 The following entities may carry on insurance activities in Iceland:

1. public limited-liability companies which have received an operating licence in Iceland pursuant to Article 26;
2. insurance undertakings headquartered in another Member State which have received an operating licence in their home State, cf. Articles 66 and 67;
3. European undertakings, as provided for in Act No. 26/2004, which have received an operating licence in a Member State, cf. Articles 66 and 67;
4. insurance undertakings headquartered in a non-Member State which obtain a licence to operate branches in Iceland, cf. Article 73.

Insurance undertakings according to paragraph 1(1) shall be governed by the provisions of the Act regarding Public Limited Liability Companies, and European undertakings according to paragraph 1(3) shall be governed by the provisions of the Act on European Companies, save as otherwise resulting from the provisions of the present Act. Captive direct insurance or reinsurance undertakings must be public limited liability companies.

Undertakings established by special legislation for the purpose of carrying on insurance activities may carry on such activities in legally mandated forms of enterprise, provided they are subject to the same operating environment as other undertakings, and comply with the provisions of Chapter II. The same shall apply to foreign insurance undertakings which obtain a licence to operate insurance activities in Iceland.

ARTICLE 3 *Distinction from other activities*

The Act shall not apply to the retirement funds, pension funds and sickness funds of particular occupational classes, professional groups and enterprises, nor to the State Social Security Institute, the Unemployment Insurance Fund, or similar institutions operated under special legislation, except insofar as such entities may handle insurance activities.

The Act shall not apply to reinsurance activities which are conducted by official entities, or which are fully guaranteed by an official entity, when the activities, for reasons of substantial public interest, provide reinsurance cover which would otherwise be unobtainable or hard to obtain.

ARTICLE 4 This Act shall apply to groups of undertakings when the parent undertaking is an insurance undertaking. The Financial Supervisory Authority may decide that the provisions of the Act concerning groups of undertakings shall apply to the links between a non-insurance undertaking and insurance undertakings when the former would be considered to be a parent undertaking under the present Act were it to carry on insurance activities.

The Financial Supervisory Authority may also decide that the Act shall cover undertakings not considered to be groups of undertakings when significant links exist among them. In such case, the undertakings shall appoint one of their number the parent undertaking.

In assessing whether control exists over an undertaking, the rights of a parent undertaking and its subsidiary or subsidiaries shall be combined.

ARTICLE 5 No one may, for commercial purposes, encourage an insurance risk situated in Iceland, cf. Article 10, to be directly insured by entities other than insurance undertakings which have received an operating licence from the Financial Supervisory Authority or on operating licence from the supervisory authority in another Member State.

Reinsurance cover for direct insurance risk, cf. paragraph 1, may be provided by a reinsurance undertaking pursuant to points 1-4 of Article 2(1). Reinsurance cover for direct insurance risk, cf. paragraph 1, may only be provided by a reinsurance undertaking in a third country if a cooperative agreement is in place with a supervisory authority in the home State of the reinsurance undertaking in question

regarding mutual supervision of reinsurance undertakings recognised by the Financial Supervisory Authority. The provisions of the first and second sentences shall not apply to retrocession.

The Financial Supervisory Authority may, given special circumstances, authorise exemptions from a prohibition pursuant to paragraph 1 and paragraph 2(2).

ARTICLE 6 Insurance activities and ancillary activities, as provided for in Article 13 and which insurance undertakings are permitted to pursue, shall be run in accordance with good business practice and custom in the insurance business, and with a view to the interest of policyholders and the insured. Insurance undertakings shall be operated in a sound and prudent manner.

Should the Financial Supervisory Authority deem the activities of a regulated entity not to be in compliance with the provisions of paragraph 1, it may issue instructions to remedy what has gone awry. Should the instructions of the Financial Supervisory Authority fail to be followed, it may impose sanctions pursuant to Chapter XIII, or resort to the remedies authorised by the Act on Official Supervision of Financial Operations.

ARTICLE 7 Entities other than those holding a licence to operate insurance activities may not have names capable of indicating or implying that they carry on insurance activities, nor may they publicly communicate anything, in print or otherwise, which could be taken to mean that they conduct insurance activities.

An insurance undertaking's name shall appear clearly in all its communications, including advertisements.

Chapter II. Definition of terms. Distinction from other activities.

ARTICLE 8 *Definition of terms*

For the purposes of this Act, an insurance undertaking's establishment shall mean:

1. the undertaking's headquarters according to its Articles of Association;
2. a branch;
3. an office under the direction of the personnel of a foreign insurance undertaking;
4. the location of an individual empowered to act as the agent of a foreign insurance undertaking.

When a foreign insurance undertaking operates in Iceland as discussed in points 3 and 4 of paragraph 1, the undertaking shall be deemed to have activities in Iceland equivalent to a branch, and the undertaking must comply with the conditions of Chapter IX pertaining to such activities. The same shall apply to the activities of domestic insurance undertakings abroad, cf. Chapter X.

ARTICLE 9 For the purposes of this Act, the following definitions shall apply:

1. '*Member State*' means a State which is party to the Agreement on the European Economic Area, party to the Convention establishing the European Free Trade Association, or the Faroe Islands;
2. '*Member State where services are provided*' means a Member State where an insurance undertaking or a branch in another Member State insures risks which are situated there, cf. Article 10, without having an establishment there;
3. '*mixed holding company in the insurance sector*' means an undertaking which is neither an insurance undertaking, a holding company in the insurance sector, nor a mixed financial holding company, where at least one subsidiary is an insurance undertaking;
4. '*mixed financial holding company*' means a non-regulated parent undertaking which, together with its subsidiaries, at least one of which is regulated and has its headquarters in a Member State, and other entities, constitutes a financial conglomerate;
5. '*captive reinsurance undertaking*' means a reinsurance undertaking either owned by a financial undertaking, other than an insurance undertaking or a reinsurance undertaking, or a group of insurance or reinsurance undertakings falling under Directive 98/78/EC, on the supplementary supervision of insurance undertakings in an insurance group, or owned by a non-financial undertaking, the purpose of which is to provide reinsurance cover exclusively for the risks of an undertaking or undertakings to which it belongs or the risks of an undertaking or undertakings of the group of which the captive reinsurance undertaking is a member;
6. '*captive insurance undertaking*' means an insurance undertaking either owned by a financial undertaking, other than an insurance or a reinsurance undertaking or a group of insurance or reinsurance undertakings falling under Directive 98/78/EC, on the supplementary supervision of insurance undertakings in an insurance group, or owned by a non-financial undertaking, the purpose of which is to provide direct insurance cover exclusively for the risks of an undertaking or undertakings to which it belongs or the risks of an undertaking or undertakings of the group of which the captive insurance undertaking is a member;
7. '*subsidiary*' means an undertaking which is controlled by a parent undertaking; the subsidiary of a subsidiary shall also be deemed to be a subsidiary of the parent undertaking;
8. '*supervisory authority*' means the entity which, pursuant to the law of the State concerned, supervises insurance undertakings and insurance activities; in Iceland: the Financial Supervisory Authority;
9. '*holding company in the insurance sector*' means an undertaking the principal business of which is to own shares in subsidiaries which are either exclusively or mainly insurance undertakings;
10. '*reinsurance activities*' means the activity consisting in accepting risks ceded by an insurance undertaking or by another reinsurance undertaking. In the case of the association of underwriters known as Lloyd's, reinsurance activities also means the activity consisting in accepting risks ceded by a member of Lloyd's, or by an insurance undertaking or a reinsurance undertaking neither of which are members of the association of underwriters known as Lloyd's;

11. '*special purpose vehicle*' means an undertaking, whatever its form of enterprise, other than an insurance undertaking in business, which assumes risk from insurance undertakings and which fully covers its exposure to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of those who have bought the debt securities or who have participated in the financing are subordinated to the reinsurance liabilities of the vehicle;

12. '*group of undertakings*' means the combination of a parent undertaking and a subsidiary or subsidiaries;

13. '*financial conglomerate*' means a group of undertakings, or undertakings which are closely linked, where a regulated entity heads the group and at least one entity within the group operates in the insurance sector and another entity operates in the financial sector, and where the activities on a consolidated basis and/or the aggregate activity in the insurance sector, on the one hand, and the corresponding activity in the financial sector, on the other hand, are each considered significant according to rules established by the Financial Supervisory Authority. If no regulated entity heads a group, the business of which is mainly carried on within the financial or insurance sector, as defined in rules established by the Financial Supervisory Authority, the group shall be considered a financial conglomerate. Each subgroup satisfying the conditions of the opening sentence of the definition shall be regarded as a financial conglomerate;

14. '*direct insurance activities*' means the business of insuring consumer insurance risk;

15. '*host State*' means a Member State where an insurance undertaking headquartered in another Member State has a branch or provides services without an establishment;

16. '*home State*' means a Member State where the headquarters of an insurance undertaking or other regulated entity are situated and its operating licence is issued;

17. '*affiliate*' means an undertaking, not a subsidiary, in which another undertaking and its subsidiaries own a significant holding or with which they have formed a permanent relationship for the purpose of influencing its operation; an undertaking shall be considered to own a significant holding if it and its subsidiaries own at least a 20% holding in another undertaking;

18. '*life assurance*' means activity in the field of direct insurance involving life assurance, accident insurance and sickness insurance (personal insurance);

19. '*parent undertaking*' means an undertaking which controls another undertaking;

20. '*close links*' means the links of an insurance undertaking with:

a. other undertakings in a group of undertakings to which the insurance undertaking belongs;

b. the owners of a qualifying holding in the insurance undertaking, amounting to a minimum holding, however, of at least 20%;

c. the owners of a qualifying holding in the parent undertaking of an insurance undertaking, amounting to a minimum holding, however, of at least 20%;

d. undertakings in which the insurance undertaking owns a qualifying holding, amounting to a minimum holding, however, of at least 20%;

e. undertakings in which the insurance undertaking owns a qualifying holding and in which a group of undertakings to which the insurance undertaking belongs owns a qualifying holding, amounting to a minimum combined holding, however, of at least 20%;

f. natural persons or undertakings which are permanently linked to the same person through a control relationship;

21. '*consumer*' means a natural or legal person who is covered by insurance or who has a special interest at stake in respect of direct insurance;

22. '*regulated market*' means a market for financial instruments as defined in the Act on Stock Exchanges;

23. '*large exposures*' means insurance classes specifically relating to business operations and major enterprises. Insurance classes as provided for under points 4, 5, 6, 7, 11, 12, 14 and 15 of Article 21(1) shall be considered large exposures. Non-life insurance for large undertakings in the insurance classes of points 3, 8, 9, 10, 13 and 16 shall also be considered large exposures;

24. '*large undertakings*' means undertakings fulfilling at least two of the following conditions:

a. their balance sheet total is a minimum of EUR 6 200 000,

b. their annual turnover is a minimum of EUR 12 800 000, and

c. their man-years during the financial year are at least 250.

If an undertaking forms part of a group of undertakings, the group shall be considered as a whole, based on its consolidated accounts. The Financial Supervisory Authority may allow trade associations, joint projects or enterprises which temporarily form a group to be regarded as a single undertaking;

25. '*finite reinsurance*' means reinsurance under which the direct maximum loss potential, quantified as the maximum economic risk arising from the transfer of a significant underwriting risk linked with both a loss occurrence and the timing of the underwriting risk transfer, exceeds the premium over the lifetime of the contract by a limited, yet significant amount, together with at least one of the following two features:

a. a clear and substantive assessment of the time value of money;

b. contractual provisions to achieve, in the long term, balance between the economic experience of the parties in the course of achieving the aimed-for risk transfer.

26. *'insurance undertaking'* means an undertaking carrying on regulated direct insurance activities, whether non-life or life assurance, and a reinsurance undertaking, unless it is clear that provisions apply to direct insurance undertakings only.

27. *'insurance salesman'* means an employee working for and under the responsibility of an insurance broker, insurance agent or an insurance undertaking.

28. *'qualifying holding'* means a direct or indirect holding in an undertaking, representing 10% or more of the capital or of the voting rights, or other holding which enables the exercise of a significant influence over the management of the undertaking concerned. By indirect holding is meant that a party and those with whom it acts in concert have acquired or exercise control over a qualifying holding within the meaning of the Act. Parties shall be considered to act in concert if they have entered into an agreement to the effect that one or more of them should together control or attain a qualifying holding in an undertaking, whether the agreement is formal or informal, written, oral or otherwise. Parties shall, however, always be considered to act in concert if the following links exist, unless the opposite is demonstrated:

a. Married couples, parties who are registered or co-habiting partners, and the minor children of the parties.

b. Links between parties which, directly or indirectly, involve control by one party of the other, or if two or more undertakings are directly or indirectly under the control of the same party. Links between parties as provided in subsections (a), (c) and (d) shall be taken into account. An undertaking, its parent undertaking, subsidiaries and affiliated undertakings, as well as their owners, shall as a rule be deemed to act in concert. Undertakings directly or indirectly controlled by the above-mentioned undertakings or the owners thereof shall also be deemed to act in concert unless otherwise demonstrated.

c. Undertakings in which a party directly or indirectly owns a significant holding, i.e., where the party directly or indirectly owns at least 20% of the voting rights in the undertaking concerned. Links between parties as provided in subsections (a), (b) and (d) shall be taken into account.

d. Links between an undertaking and its Board Members and between an undertaking and its Managing Director.

29. *'control'*

a. means that an undertaking (the parent undertaking) controls the majority of votes in another undertaking, or

b. owns holdings in another undertaking and has the right to appoint or dismiss the majority of the Board or executives, or

c. owns holdings in another undertaking and has the right to exercise a decisive influence on its activities on the basis of the undertaking's Articles of Association or based on contracts concluded with it, or

d. owns holdings in another undertaking and controls the majority of votes in the undertaking on the basis of an agreement with other shareholders or other owners, or

e. owns holdings in another undertaking and holds a dominant position in it, or

f. comparable links between a natural or legal person and an undertaking, which will result, in the estimation of the Financial Supervisory Authority, in actual influence on its activities;

30. *'third country'* means a country which is not a Member State as defined in this Article.

Amounts in euro according to this Act shall be converted into the working currency of an insurance undertaking based on the selling rate of the euro against the currency in question at the end of October 31st of the preceding year.

ARTICLE 10 For the purposes of this Act, the State where a direct insurance risk is situated shall be:

a. for property insurance: the State in which the insured property is situated when insuring structures, or when insuring structures together with chattels in the same insurance contract;

b. for motor vehicle insurance: the State in which the motor vehicle is registered;

c. for travel insurance: the State where the policyholder purchased the insurance, provided its period of validity is no longer than four months;

d. for other non-life insurance: the State where the policyholder is habitually present, or, in the case of a legal person, the Member State where the address primarily connected with the insurance contract is situated;

e. for personal insurance: the state where the obligation arose, i.e. where the policyholder is habitually present or, in the case of a legal person, the State where the address primarily connected with the insurance contract is situated (where activities are pursued).

ARTICLE 11 *Distinction from other activities*

An insurance undertaking may not operate any activities other than insurance activities, save as otherwise resulting from the provisions of Article 13.

An insurance undertaking shall be considered to operate an activity other than insurance activities if it controls, either alone or together with another insurance undertaking, an undertaking which carries on activities other than insurance activities. In the case of a group of undertakings, or an insurance undertaking directly or indirectly operationally linked with other undertakings, and where the parent undertaking is not an insurance undertaking, the insurance undertakings shall in this connection be regarded as a single undertaking.

Notwithstanding the provisions of the paragraphs 1 and 2, an insurance undertaking may operate a commercial bank or other financial activity in a separate undertaking, provided the activity is subject to an operating licence and the supervision of a public authority.

An insurance undertaking may not assume liabilities other than insurance. It may not assume liabilities unconnected with the normal business of an insurance undertaking.

ARTICLE 12 Life assurance activities may not be carried on together with other insurance activities. A life assurance undertaking may, however, be granted an operating licence for sickness and accident insurance.

ARTICLE 13 Ancillary activities.

An insurance undertaking may carry on the following ancillary activities:

1. acting as agent for insurance undertakings which have a licence to operate in Iceland, and for other undertakings subject to the supervision of the Financial Supervisory Authority or other public entities;
2. building, owning and operating real estate as an element of long-term investment for a return on the undertaking's assets, in compliance with rules established by its Board of Directors and confirmed by the Financial Supervisory Authority;
3. buying and selling debt securities and other financial instruments, and lending in compliance with rules established by its Board and confirmed by the Financial Supervisory Authority. This provision shall not apply to financial instruments which are registered on a regulated market where investments are made for a return on the undertaking's assets.
4. claims handling and loss prevention activities;
5. operation and management of funds which are connected with or analogous to insurance activities;
6. other management directly resulting from and in normal connection with insurance activities.

Activities provided for in point 5 of paragraph 1 shall be subject to licensing by the Financial Supervisory Authority. The Financial Supervisory Authority may decide that activities covered by point 5 shall be operated by an independent undertaking.

Chapter III. Establishing an insurance undertaking.

ARTICLE 14 *Establishing an insurance undertaking*

Save as specified in this Chapter, the provisions of Chapter II of the Act respecting Public Limited Companies, No. 2/1995, as amended, shall apply to the establishment of an insurance undertaking.

ARTICLE 15 *Memorandum of Association*

An insurance undertaking's Memorandum of Association shall set out the following:

1. the names and addresses of the founders;
2. the amount to be paid for each share in the undertaking;
3. any time limit that may be given for subscribing to shares and to pay for them;
4. rules on the payment of share capital;
5. any decisions to the effect that founders or others are to enjoy special rights or benefits within the undertaking;
6. any decisions to conclude agreements with the founders or other parties which would represent substantial financial obligations on behalf of the undertaking;
7. any decisions to the effect that the undertaking shall accept assets not paid for with shares in the undertaking;
8. When an establishment meeting shall be held and how it shall be called, unless the provisions of the Act respecting Public Limited Companies indicate that this meeting be held without being specifically called;
9. whether the undertaking shall bear the cost of establishment and, if so, how high such cost may be. This cost may not exceed 5% of subscribed share capital, after deducting public expenditure and appraisal cost, cf. Article 16. The Financial Supervisory Authority may grant exemptions from the maximum cost of establishment. The founders may not be remunerated for the establishment.

The Memorandum of Association shall specify any particulars necessary and material to enable the monetary value of any non-cash assets the undertaking intends to accept to be assessed.

If the undertaking is established with a view to taking over the insurance activities or insurance portfolio of another insurance undertaking, this shall be mentioned in the Memorandum of Association, also stating whether a draft agreement has been prepared on the transfer of the insurance portfolio, and whether the review of the Financial Supervisory Authority has been made available, cf. Chapter XI.

Documents containing important matters not included in the Memorandum of Association shall be affixed to it and considered an integral part of the Memorandum.

Any agreements on issues addressed in the Memorandum of Association but not approved upon its adoption shall be void as far as the undertaking is concerned.

ARTICLE 16 Shares shall be paid for in cash.

The Financial Supervisory Authority may grant authorisation for other means of payment, provided an appraisal approved by the Financial Supervisory Authority is available.

Should the Financial Supervisory Authority see reason to expect the value of contributions to have changed since the time the appraisal was carried out and the establishment meeting held, it may require a declaration of the value by appraisers or a new appraisal.

ARTICLE 17 In addition to the provisions of the Act regarding Public Limited Companies concerning a public limited company's Articles of Association, the following shall be specified in an insurance undertaking's Articles of Association:

1. how profits are to be disposed of and how deficits are to be met;
2. allocation of dividends and bonuses;
3. how the assets of the undertaking may be disposed of and how its assets shall be dealt with upon the winding up of the undertaking.

Chapter IV Operating licence.

ARTICLE 18 *The entity granting operating licences*

The Financial Supervisory Authority shall grant operating licences pursuant to this Act. An insurance undertaking may commence operation once it receives an operating licence from the Financial Supervisory Authority.

The Financial Supervisory Authority shall consult with the supervisory authorities in the Member State concerned when assessing an application for an operating licence from an insurance undertaking which is:

- a. a subsidiary of a financial or insurance undertaking with an operating licence in another Member State;
- b. a subsidiary of the parent undertaking of a financial or insurance undertaking with an operating licence in another Member State, or
- c. controlled by a party, a natural or legal person, holding a dominant position in a financial or insurance undertaking in another Member State.

Consultation pursuant to paragraph 2 shall, *inter alia*, cover information on the eligibility of shareholders and management, cf. Articles 43 and 54(3).

Consultation pursuant to paragraph 2 shall furthermore apply to on-going supervision of compliance with operating conditions.

ARTICLE 19 *Application*

An application for an operating licence shall be in writing, and shall be sent to the Financial Supervisory Authority within six months of the date of the Memorandum of Association. The following documentation and information shall accompany the application:

1. the name of the undertaking and its form of enterprise;
2. a certified copy of the Articles of Association and the minutes of the establishment meeting from the Book of Minutes;
3. a list of the founders and share capital and confirmation that this is paid-up; which entities own qualifying holdings in the undertaking and how large; and an explanatory report on any other close links the undertaking has;
4. draft Articles of Association for ratification;
5. the insurance classes or sub-classes for which application for a licence is being made, cf. Articles 21, 22 and 23 if proposed reinsurance activities are concerned;
6. if applicable, a list of additional activities which the undertaking plans to carry on, cf. Article 13;
7. a special operating plan, cf. Article 25;
8. confirmation that the undertaking fulfils the provisions of Article 34 concerning minimum amounts;
9. the basis for calculating premiums, premium reserves, bonus allocation, surrender values, and paid-up life assurance policies; rules on the information life assurance policyholders must provide pursuant to the provisions of Chapter XIII of the Act on Insurance Contracts, No. 30/2004, and analogous documentation, as applicable, on health insurance operated on a technical basis, when applying for an operating licence pursuant to Article 22;
10. insurance terms for legally compulsory insurance and information on the types of personal insurance the undertaking plans to offer.
11. confirmation of membership in International Motor Insurance in Iceland (Alþjóðlegar bifreiðatryggingar á Íslandi sf.) and of participation in the operation of a compensation body and an information centre if applying for a licence pursuant to Article 21 (1) (10). Information shall also be provided on claims representatives in other Member States.

In evaluating an application for an operating licence for personal insurance, care shall be taken that the basis of calculation is prudent, but fair toward life assurance policyholders and beneficiaries. The same shall apply to rules on bonuses and the allocation of profits, the rules for which shall be clear and precise. The assumed interest-rate for premiums and premium reserves, as well as the cost margin and safety margin, shall be determined with a view to considerations of prudence. Premiums for new insurance policies shall suffice to enable the undertaking to meet its commitments without requiring a special increase in equity capital.

The provisions of this Article shall govern applications for operating licences for special purpose vehicles, for reinsurance, and for finite reinsurance, insofar as applicable.

ARTICLE 20 *Operating licence for a special purpose vehicle*

A special purpose vehicle may operate in Iceland if it has obtained an operating license from the Financial Supervisory Authority, cf. the provisions of Article 19, provided such vehicle complies with the conditions of rules established by the Financial Supervisory Authority. In the Financial Supervisory Authority rules, conditions shall set out regarding the following:

1. scope of operating licence;
2. legally mandated conditions for inclusion in all contracts issued;

3. eligibility of those operating a special purpose vehicle;
4. eligibility requirements for shareholders or the owners of qualifying holdings;
5. administrative and accounting methods, internal control systems and risk management requirements;
6. accounting, prudential and statistical information;
7. solvency margin.

Should the Financial Supervisory Authority see reason to impose further conditions for the vehicle's operation, these shall be set out in the operating licence.

ARTICLE 21 *Operating licence for non-life insurance*

An operating licence for direct insurance other than life assurance (non-life insurance) shall be limited to specific insurance classes or sub-classes thereof according to the following list:

1. accident insurance (accidents, industrial injuries and occupational diseases):
 - a. fixed pecuniary benefits;
 - b. benefits according to assessment of the consequences due to a loss;
 - c. fixed pecuniary benefits/benefits according to assessment of the consequences due to a loss;
 - d. injury to passengers;
2. sickness insurance (illness, loss of health):
 - a. fixed pecuniary benefits;
 - b. benefits according to assessment of the consequences due to a loss;
 - c. fixed pecuniary benefits/benefits according to assessment of the consequences due to a loss;
3. vehicle own-damage insurance: property loss, including total loss of:
 - a. motorised land vehicles other than railway rolling stock;
 - b. land vehicles other than motorised vehicles;
4. railway rolling-stock insurance: property loss, including total loss of railway rolling stock;
5. aviation hull insurance: property loss, including total loss of aircraft;
6. marine and inland water hull and machinery insurance: property loss, including total loss of:
 - a. marine vessels,
 - b. lake vessels,
 - c. river and canal vessels;
7. cargo insurance: property damage, including total loss of cargo and baggage in transport, regardless of the means of transport;
8. property insurance (fire and natural forces): property loss, including total loss, other than according to 3, 4, 5, 6 and 7, due to:
 - a. fire,
 - b. explosion,
 - c. storm,
 - d. natural forces other than storm,
 - e. nuclear energy,
 - f. land subsidence;
9. other property insurance: property loss, including total loss, other than as listed in classes 3, 4, 5, 6 and 7, and not included in class 8, including loss due to hail, frost or events such as theft, etc.;
10. motor vehicle liability: liability arising from the use of motor vehicles, including operator liability;
11. aircraft liability: liability arising from the use of aircraft, including operator liability;
12. marine and inland water liability: liability arising from the use of ships, vessels or boats on the sea, lakes, rivers or canals, including operator liability.
13. general liability: liability of all kinds, other than listed under classes 10, 11 and 12;
14. credit insurance:
 - a. general bankruptcy;
 - b. export credit;

- c. instalment credit;
- d. credit secured by collateral;
- e. agricultural credit;
- 15. suretyship insurance:
 - a. direct suretyship;
 - b. indirect suretyship;
- 16. financial insurance (financial loss):
 - a. unemployment;
 - b. loss of income (general);
 - c. storm;
 - d. loss of gains;
 - e. long-term general expense;
 - f. unforeseeable trading expense;
 - g. loss of market value;
 - h. loss of rent or comparable revenue;
 - i. other indirect trading loss;
 - j. other financial (non-trading) loss;
 - k. other forms of financial loss.
- 17. legal assistance insurance: legal assistance and cost of litigation;
- 18. assistance to travellers: assistance to persons in difficulties while travelling away from their home or normal residence.

The risks included in a specific class may not be included in any other class except in the instances stated in paragraph 3.

An operating licence may be granted jointly for the following classes of non-life insurance, cf. paragraph 1:

1. accident and sickness insurance according to points 1 and 2;
2. vehicle and cargo insurance according to points 1(d), 3, 7 and 10;
3. marine and cargo insurance according to points 1(d), 4, 6, 7 and 12;
4. aviation and cargo insurance according to points 1(d), 5, 7 and 11;
5. property insurance according to points 8 and 9;
6. liability insurance according to points 10, 11, 12 and 13;
7. credit and suretyship insurance according to points 14 and 15;
8. direct insurance according to points 1-18;

An insurance undertaking obtaining an operating licence for classes of direct insurance as provided for in paragraphs 1 and 2 (principal risk) may include an ancillary class (additional risk) without special authorisation when:

1. the ancillary risk is connected with the principal risk;
2. the ancillary risk is connected with the valuables which are insured as the principal risk;
3. the ancillary risk is covered under the insurance contract covering the principal risk.

The risks included in the classes according to points 14, 15 and 17 of paragraph 1 may not, however, be regarded as ancillary classes to other insurance classes, with the exception that risks in the class of point 17 may be regarded as an ancillary class to the class of point 18 when the conditions of paragraph 1 are fulfilled and the principal risk is exclusively connected with assistance provided to individuals in difficulty while travelling away from their home or far from their normal residence. The insurance class of point 17 may also be an ancillary class where the risk or dispute is connected with the use of ships and boats.

Provision for how to safeguard the interest of policyholders in disputes with the insurance undertaking itself shall be made in a government Regulation on legal assistance insurance.

Article 22 *Operating licence for personal insurance*

An operating licence for life assurance and sickness insurance, as well as related accident and sickness insurance, shall be limited to specific insurance classes or sub-classes thereof according to the following list:

1. Life assurance on death and survival without investment risk:
 - a. assurance on survival to a stipulated age only;

- b. assurance on death only;
 - c. assurance on survival to a stipulated age or on an earlier death;
 - d. life assurance with return of premiums;
 - e. annuities;
 - f. supplementary benefits for personal injury, including incapacity for employment;
 - g. supplementary benefits for death due to an accident;
 - h. supplementary benefits for disability resulting from accident or sickness.
- 2. couples' and children's assurance:
 - a. life assurance in connection with marrying or registered partnership;
 - b. children's life assurance in connection with birth;
 - 3. life assurance on death and survival with investment risk:
 - a. assurance on survival to a stipulated age only;
 - b. assurance on death only;
 - c. assurance on survival to a stipulated age or on an earlier death;
 - d. life assurance with return of premiums;
 - e. annuities;
 - 4. permanent health insurance not subject to cancellation;
 - 5. other life assurance where risk based on life span is included.

ARTICLE 23 *Operating licence for reinsurance.*

An operating licence for reinsurance activities, cf. the provisions of Article 19, shall be granted for non-life reinsurance activities, personal insurance reinsurance or reinsurance activities of all kinds, according to the application.

ARTICLE 24 *Operational licence for finite reinsurance.*

Should an entity plan to take up finite reinsurance activities in Iceland, cf. the provisions of Article 19, the Financial Supervisory Authority shall establish rules concerning such activities. Such rules shall contain provisions concerning:

- 1. legally mandated conditions for inclusion in all contracts issued;
- 2. sound administrative and book-keeping methods, adequate internal control mechanisms and risk management requirements;
- 3. accounting, prudential and statistical information requirements;
- 4. technical provisions to be adequate, reliable and objective;
- 5. assets covering technical provisions;
- 6. solvency margin and minimum solvency margin in respect of the activities.

ARTICLE 25 *Operating plan for an insurance undertaking*

The plan of proposed activities which is to accompany an application for an operating licence shall set out the following:

- 1. a report of re-insurance cover and the maximum liability the undertaking intends to bear for its own account without reinsurance in each insurance class;
- 2. assets that are to be in place at the undertaking in order to comply with requirements for minimum amounts pursuant to Article 34;
- 3. an estimate, with supporting evidence, of the cost of establishing the business and how this is to be financed;
- 4. the undertaking's projected financial status according to forecast year-end balance sheets for the first three accounting years, together with projected annual income and expenses;
- 5. a plan for how the undertaking intends to meet its commitments and fulfil solvency margin requirements for the first three full financial years.

If applying for an operating licence for credit insurance as provided for in Article 21(1)(14), then in addition to the documentation provided for in paragraph 1, an account must be provided of the rules to be followed in assessing the undertaking's unsettled liabilities due to credit insurance contracts, i.e., the technical provisions, and the assets intended to cover these.

ARTICLE 26 *Granting operating licences*

The Financial Supervisory Authority shall notify applicants for operating licences of its decision in writing as promptly as possible, and no later than three months following the receipt of a fully complete application. The Financial Supervisory Authority must notify an applicant when an application is considered to be satisfactory.

Operating licences must indicate which insurance activities the undertaking may operate.

An operating licence may be granted for individual direct insurance classes pursuant to Article 21 or 22, for specific insurance sub-classes thereof, or for insurance classes jointly pursuant to Article 21(2). An operating licence granted for a particular direct insurance class shall also be valid for ancillary classes in another class if the conditions of Article 21(3) are fulfilled.

Announcements of operating licenses for insurance undertakings shall be made public by the Financial Supervisory Authority.

When considering the application of a subsidiary directly or indirectly owned by entities resident outside the European Economic Area, the Financial Supervisory Authority may allow itself more time than the period specified in paragraph 1.

ARTICLE 27 *Refusal of an operating licence*

If, in the estimation of the Financial Supervisory Authority, an application does not fulfil the requirements of the present Act, the Authority shall refuse to grant an operating licence.

Should the Financial Supervisory Authority consider the undertaking's Board of Directors or Managing Director to lack the competence to run the undertaking or to ensure its sound and prudent operation adequately, or if their track record is such that there are grounds to suppose this will not become so, the operating licence may be refused. The same shall apply if the owners of qualifying holdings in the undertaking are deemed unable to adequately ensure sound and prudent operation. If the undertaking is closely linked with others, an operating licence shall be granted only if such connections will not hinder the supervision of the undertaking's activities. If third country legislation applies to those parties with whom an insurance undertaking has close links, hindering supervision of the undertaking's activities, an operating licence shall be refused, as shall also be the case if difficulties in enforcing said legislation are likely to render supervision difficult. If the actual headquarters of the undertaking are not in Iceland, the operating licence shall be refused.

The Financial Supervisory Authority refusal of an application must be accompanied by the grounds and communicated to the applicant within three months of the receipt of a fully complete application. A refusal must in all cases, however, be received by the applicant within 12 months of the receipt of an application.

ARTICLE 28 *New classes of insurance*

An insurance undertaking which has obtained an operating licence in Iceland and proposes to take up another class or subclass of insurance, or intends to substantially change its activities, must apply to the Financial Supervisory Authority for a licence for the new activity, and must send documentation as applicable under Articles 19-23 and as necessary to enable the Authority to assess the application.

If the undertaking fulfils the conditions concerning solvency margin and minimum amounts, taking into account the new activity, and if the application is approved in other respects, the Financial Supervisory Authority shall grant a licence for the new activity.

Any amendments to an insurance undertaking's Articles of Association must be sent to the Financial Supervisory Authority within a week of their adoption. If the Financial Supervisory Authority has no comment to make on the amendments, the undertaking shall, within two months, send to the Authority a dated copy of its complete Articles of Association, incorporating the amendments adopted.

ARTICLE 29 *Headquarters.*

An insurance undertaking which has obtained an operating licence pursuant to Article 26 must have its headquarters in Iceland.

ARTICLE 30 *Register of Insurance Companies.*

The Financial Supervisory Authority shall make public a record, the Register of Insurance Companies, of all undertakings which have received operating licences in Iceland. Information shall also be recorded and made public on branches which hold operating licenses in Iceland, and on those providing services in Iceland without an establishment.

Operating licences and licences for new activities shall be entered in the Register of Insurance Companies forthwith. A decision to take up new classes of insurance or to significantly change activities shall not become effective until entered in the Register of Insurance Companies.

The following shall be entered in the Register of Insurance Companies, insofar as may be applicable:

1. the date of the Memorandum of Association, the minutes of the establishment meeting, and the Articles of Association;
2. the name, form of enterprise, operational area, domicile and legal venue;
3. the field of activity and purpose;
4. the date of the operating licence and a list of the insurance classes and sub-classes which the undertaking is licensed to operate and of ancillary activities, cf. Article 13;
5. subscribed and paid-up share capital and own equity. The names of persons who have a qualifying holding in the undertaking and the amount thereof;
6. the Board of Directors and alternates, auditors and actuaries;
7. the names of those authorised to obligate the undertaking;
8. the name and address of an establishment of a foreign insurance undertaking, cf. Article 8, which has a branch in Iceland or which provides services, and the name and location of its representative in Iceland, who can obligate the undertaking and appear on its behalf, as well as, where appropriate, the person who handles the settlement of vehicle liability insurance claims;
9. the date of transfer/take-over of insurance portfolios, together with a list of insurance sub-classes transferred/taken over;

10. the date of appointment of any Resolution Board, the persons sitting on such Resolution Board, the date of operating licence revocation, the date of the winding-up of the undertaking, and its date of removal from the Register of Insurance Companies;

All changes concerning matters to be reported to the Register of Insurance Companies shall, as promptly as possible, and no later than within one month's time, be communicated to the Register, along with documentation verifying their adoption and legal validity. Notification shall be in a format deemed adequate by the Financial Supervisory Authority.

Should notifications to the Register of Insurance Companies fail to satisfy the provisions of law or the undertaking's Articles of Association, or if decisions are not taken in the manner provided for by law or in the undertaking's Articles of Association, registration shall be refused. Written notification shall be made of any refusal and the grounds therefor.

An updated Register of Insurance Companies shall be accessible at any given time on the home page of the Financial Supervisory Authority. Also to be published there, in addition to those insurance undertakings which have received authorisation for insurance activities in Iceland, is information on the Member State branches and insurance undertakings providing services in Iceland. Furthermore, information on the transfer and take-over of insurance portfolios shall be made public in the Register.

Chapter V. Financial basis.

ARTICLE 31 *Solvency margin*

The following amounts shall constitute the basis for the calculation of an insurance undertaking's solvency margin:

1. paid-up share capital, less the undertaking's own shares;
2. reserves which are not intended to meet the undertaking's liabilities or which are classified as the equalisation reserves and unallocated provisions for bonuses and rebates of a life assurance undertaking;
3. the profit or loss brought forward after deduction of dividends to be paid;
4. preferential share capital and subordinated loan capital for which binding agreements exist under which they rank after all non-subordinate liabilities and are not to be repaid until those liabilities have been settled upon the bankruptcy or winding-up of an insurance undertaking. Subordinated loan capital shall also fulfil the following conditions:
 - a. the loan must be fully paid-up and debited to the undertaking's accounts;
 - b. for loans with a fixed maturity, the original maturity must be at least five years. No later than one year before the repayment date, the insurance undertaking must submit to the Financial Supervisory Authority for its approval a plan demonstrating an adequate solvency margin at maturity, unless the outstanding balance of the loan has been gradually reduced in proportion to the solvency margin over a period of at least five years preceding the agreed repayment date. If the insurance undertaking applies for early repayment of such loans, the Financial Supervisory Authority may authorise this, provided the solvency margin will not fall below the required minimum level;
 - c. loans the maturity of which is not fixed must be repayable only subject to five years' notice, unless the loans are no longer counted toward the solvency margin, or unless the prior consent of the Financial Supervisory Authority is specifically required for early repayment. In such event the insurance undertaking must request such consent at least six months before the date of the proposed repayment, specifying the estimated solvency margin and the minimum solvency margin both before and after the repayment. Repayment shall be authorised only if the insurance undertaking's solvency margin will not fall below the minimum solvency margin;
 - d. the loan agreement must not include clauses providing for repayment before maturity, unless the insurance undertaking will be wound up;
 - e. the consent of the Financial Supervisory Authority is required for any amendment of loan agreements.

Amounts under this point may not exceed 50 % of the lower of the minimum solvency margin and the total solvency margin. Of this; the sum of subordinated loans with a fixed maturity and the total amount of preferential share capital may not exceed 25%;

5. debt securities with no specified maturity date, and other instruments, such as preferential share capital not falling under point 4, if the contracts fulfil the following conditions:
 - a. the instruments may not be repaid on the initiative of the bearer, and not without the consent of the Financial Supervisory Authority;
 - b. by contract, the insurance undertaking may defer the payment of interest.
 - c. claims on the insurance undertaking pursuant to the present point shall rank entirely after all non-subordinated claims;
 - d. at the time of issuance of the securities, it shall be documented that the outstanding balance and unpaid interest may be used to absorb losses, thus enabling the insurance undertaking continue in business;
 - e. only paid-up amounts may be taken into account.

The combined total of the amount under this point and the amount under point 4 may not exceed 50 % of the lesser of the minimum solvency margin, or the total solvency margin, should this be less;

6. one half of the unpaid share capital, provided the paid-up capital amounts to at least 25 % of the total funds. This amount may not exceed 50 % of the minimum solvency margin, or of the total solvency margin, should this be less.
7. hidden reserves arising from the undervaluation of assets, provided these are of a permanent nature;
8. the portion of mathematical provisions in direct life assurance or life reinsurance, with or without Zillmerisation. Where Zillmerising is not practised or where, if practised, the loading for the cost of life assurance acquisition is less than the loading for life assurance acquisition costs included in the premium, the calculation of the solvency margin may include the difference between non-

Zillmerised or partially Zillmerised mathematical provisions and mathematical provisions Zillmerised with acquisition costs in full as in the premium calculation basis. The figure entered toward the solvency margin pursuant to this point may in no case, however, exceed 3.5 % of the difference between life assurance amounts and the combined mathematical provisions for life assurance policies for which Zillmerising is possible. This difference shall be reduced by the amount of any undepreciated acquisition costs entered as an asset;

9. any necessary depreciation and write-downs, including intangible assets. Should it be necessary to depreciate or write down asset items beyond what is done on the balance sheet, the solvency margin shall be reduced accordingly. Account shall be taken, *inter alia*, of off-balance-sheet items;

10. any reduction in claims outstanding due to their present valuation. However, no deduction needs to be made from the solvency margin due to the present valuation of accident and sickness insurance claims, nor due to annuities in other insurance classes;

11. a. a holding in an affiliate owned by the insurance undertaking in insurance undertakings, holding companies in the insurance sector, financial undertakings or undertakings in the financial sector;

b. items listed in points 4 and 5 of the present paragraph and owned by an insurance undertaking by virtue of its holdings in undertakings referred to in item (a) above.

The solvency margin of an insurance undertaking shall be calculated by adding any amounts according to points 1–5 of paragraph 1 and subtracting any amounts according to points 9–11 of paragraph 1. Amounts according to points 6–8 of paragraph 1 may be added to the above-mentioned amounts if the Financial Supervisory Authority has acceded to the insurance undertaking's reasoned request to that effect. If the solvency margin is likely at some point in the next three years to fall below the solvency margin as calculated according to points 1–11 of paragraph 1, the solvency margin shall in addition be reduced by the difference between the elements listed above and the lowest solvency margin projected for the next three years. When investment in the shares of another financial undertaking, an undertaking related to the financial sector, an insurance undertaking, or in a holding company in the insurance sector is a temporary measure and is intended as financial assistance in the course of the reorganisation or rescue of the undertaking concerned, the Financial Supervisory Authority may grant an exemption from the provisions of this paragraph regarding the subtraction of items pursuant to paragraph 1(11)(a) and 1(11)(b).

For assessing the capital base, insurance undertakings may use the methods provided for in the Financial Supervisory Authority's rules on additional supervision of financial conglomerates instead of deducting any elements according to paragraphs 1(11)(a) and 1(11)(b) from the solvency margin pursuant to paragraph 2. A consolidated method may be employed if the Financial Supervisory Authority deems risk management and internal control on a consolidated basis to be satisfactory. Insurance undertakings which either form part of an insurance group or a financial conglomerate, and which are subject to additional supervision, need not subtract items according to paragraphs 1(11)(a) and 1(11)(b) pursuant to paragraph 2. If an insurance undertaking plans to change the method of assessing solvency margin elements, it shall notify the Financial Supervisory Authority thereof, and shall specifically explain the change in its annual accounts.

An insurance undertaking's adjusted solvency margin shall be its solvency margin according to paragraph 2, less any amounts that have come into existence by counting the same assets, directly or indirectly, from more than one entity, as well as all assets arising out of reciprocal financing. Account shall be taken of all subsidiaries and affiliates of the insurance undertaking, holding companies in the insurance sector, mixed holding companies in the insurance sector, undertakings which own holdings in the insurance undertaking, and other subsidiaries and affiliates of such undertakings.

If an insurance undertaking is the subsidiary of another insurance undertaking or of a holding company in the insurance sector, the parent undertaking's adjusted solvency margin shall be calculated according to the provisions of the present Article, in addition to calculating the undertaking's solvency margin. For the calculation, all affiliates of the parent undertaking shall be taken into account.

More detailed provision shall be made for the calculation of the adjusted solvency margin in rules established by the Financial Supervisory Authority. These may also specify exemptions from the obligation to calculate the adjusted solvency margin. Should the calculation cover undertakings in other States, the cooperation of supervisory authorities shall be governed by international treaties to which Iceland is party and cooperative agreements entered into by the Financial Supervisory Authority on the basis thereof.

The provisions of this Article shall also apply to financial conglomerates. The calculation of the adjusted solvency margin of financial conglomerates shall be governed by rules established by the Financial Supervisory Authority.

ARTICLE 32 *The minimum solvency margin of a non-life insurance undertaking*

The solvency margin of an insurance undertaking pursuing non-life insurance activities shall at all times amount to at least the higher of the amounts according to the following calculation, which shall be referred to as the undertaking's minimum solvency margin, cf., however, Article 34:

1. In calculating the minimum solvency margin on the basis of premiums, the higher of the following two amounts shall be used: the premiums written and the earned premiums according to the profit and loss account. The calculation shall be based on premiums less refunds and cancellations, but without deducting the portion of re-insurers. Premiums in respect of the classes of points 11, 12 and 13 of Article 21(1) shall be increased by 50 %. The same shall hold true for reinsurance in these classes.

The amount calculated according to paragraph 1 of the present point shall be divided into two portions, so that the first portion extends up to EUR 50 000 000, and the second comprises the excess. This amount shall change annually in the manner described in Article 34(4). The sum of 18 % of the former portion and 16 % of any excess shall be calculated. The result so obtained shall then be multiplied by the ratio between the amount of claims remaining to be borne by the reinsurance undertaking after deduction of amounts recoverable under retrocession over the last three financial years and the gross amount of claims for the last three financial years as per the profit-and-loss account; yet in no case by a number less than 0.5. In calculating the claims to be borne by the reinsurance undertaking, it may, subject to the agreement of the Financial Supervisory Authority, deduct claims against special purpose vehicles.

2. When calculating the minimum solvency margin based on claims, the calculation shall be based on the average burden of claims for the past three financial years, net of any assets and rights acquired by the undertaking through take-over, but without deduction of the portion of re-insurers. Before the average is calculated, claims in the classes of points 11, 12 and 13 of Article 21(1) shall be increased by 50%. The same shall hold for reinsurance claims in the same classes.

The amount calculated according paragraph 1 of the present point shall be divided into two, so that the first portion extends up to EUR 35 000 000 and the second comprises the excess. This amount shall change annually in the manner described in Article 34(4). The sum of 26 % of the former portion and 23 % of any excess shall be calculated. The result so obtained shall then be multiplied by the ratio between the amount of claims remaining to be borne by the reinsurance after deduction of amounts recoverable under retrocession and undertaking over the last three financial years and the gross claims for the last three financial years as per the profit-and-loss account; yet in no case by a number less than 0.5. In calculating the claims to be borne by the reinsurance undertaking, it may, subject to the agreement of the Financial Supervisory Authority, deduct claims against special purpose vehicles.

In calculations pursuant to paragraph 1, the reference period shall be the preceding seven financial years, instead of three, if the undertaking mainly pursues direct insurance or reinsurance activities involving storm, hail, frost or credit insurance.

Subject to the approval of the Financial Supervisory Authority, an insurance undertaking may use statistical methods to allocate between years premiums, claims, changes in claims outstanding and rights taken over. If the minimum solvency margin proves lower than it was the financial year before, it shall not be reduced further than by a percentage corresponding to the relative drop between the same years in claims outstanding to be borne by the undertaking.

In direct sickness insurance or sickness reinsurance operated on a technical basis of calculation, premium-based calculations shall use 6% or 5.33% of paid premiums, instead of 18% or 16%, and claims-based calculations shall use 8.67% or 7.67% of mean claim amounts over the past three years, instead of 26% or 33%, when calculating on the basis of claims and the direct insurance or the reinsured direct insurance risk fulfils the following conditions:

1. premiums are calculated according to actuarial methods;
2. the technical provisions take into account, among other things, increasing age;

In a Regulation, provision may be made for how to take account of ancillary activities as provided for in Article 13 in the calculation of the minimum solvency margin.

ARTICLE 33 *The minimum solvency margin of a life assurance undertaking*

The solvency margin of an insurance undertaking which carries on life assurance activities shall at all times amount to at least the total of the amounts according to points 1–6 below, which sum shall be referred to as the undertaking's minimum solvency margin, cf., however, Article 34:

1. The contribution of life assurance on death and survival without investment risk according to Article 22 (1) shall be the sum of the calculation results of points a, b, and c below:
 - a. Of the life assurance provisions in direct insurance according to a technical basis, without deduction of the re-insurers' portion, but plus life assurance provisions due to life reinsurance acceptances, 4% shall be calculated. This amount shall be multiplied by the ratio between the life assurance provisions less the reinsurers' portion and the total amount of life assurance provisions, as this ratio was during the previous financial year; this ratio may, however, in no case be less than 0.85.
 - b. Of the aggregate portion of life assurance amounts for death risks for which the life assurance undertaking bears the risk vis-à-vis the insured at the end of the financial year, 0.3% shall be calculated without any deductions as regards the reinsurers' portion. This amount shall be multiplied by the ratio of total life assurance amount, less the re-insurers' portion, and the total of life assurance amounts, as the ratio was during the previous financial year; this ratio may, however, in no case be less than 0.5. If temporary assurance on death is involved, with a period of validity of three years or less, the coefficient in paragraph 1 shall be 0.1% instead of 0.3%, and 0.15% if the period of validity is over three years but no more than five years.
 - c. The method of Article 32 shall be used to calculate the solvency margin requirement for additional insurance falling under points f–h of Article 22(1).
2. The contribution of couples' and children's life assurance according to Article 22 (2) shall be calculated as in point 1 of the present paragraph.
3. The share of life assurance on death and survival with investment risk according to Article 22 (3) shall be the sum of the amounts according to the following:
 - a. if the life assurance undertaking bears investment risk, a 4 % fraction of the technical provisions for direct insurance shall be calculated according to point 1(a);
 - b. if the cost share of premiums is fixed for a period of at least five years without the life assurance undertaking bearing any investment risk, a 1 % fraction of the technical provisions shall be calculated according to point 1(a);
 - c. if the life assurance undertaking does not bear investment risk, and the cost share of premiums is not fixed for a period of at least five years, 25 % of the previous financial year's office and administrative cost pertaining to the conduct of such business shall be calculated;
 - d. for death risk, the ratio of life assurance amounts shall be calculated according to point 1(b);
4. the contribution of permanent health insurance not subject to cancellation, according to Article 22(4), is the sum of two terms, which are determined, on the one hand, by the technical provisions, cf. point 1(a), and, on the other hand, by the minimum solvency

margin as calculated according to Article 32. The requirement of paragraph 4(2) of that Article may be waived, however, in the case of group insurance;

5. the contribution of other life assurance, according to Article 22(5), to the minimum solvency margin shall be determined by rules established by the Financial Supervisory Authority;
6. the contribution of accident and sickness insurance according to Article 21(1)(1–2) shall be determined according to Article 32.

In a Regulation, provision may be made for how to take account of ancillary activities, as provided for in Article 13, in the calculation of the minimum solvency margin.

ARTICLE 34 Notwithstanding the provisions of Articles 32 and 33, an insurance undertaking's minimum solvency margin may at no time be less than EUR 3 000 000. If the insurance undertaking exclusively carries on activities pursuant to points 1–9 or 16–18 of Article 21 (1), its minimum solvency margin may be no lower than EUR 2 000 000.

For captive reinsurance undertakings, the amount pursuant to paragraph 1 shall be EUR 1 000 000.

Notwithstanding the provisions of paragraph 1, the minimum solvency margin of an insurance undertaking pursuing direct insurance and reinsurance activities shall be EUR 3 000 000 if any one of the following conditions is met:

1. the portion of the earned premiums consisting of reinsurance premiums amounts to at least 10%;
2. the earned premiums for reinsurance amount to at least EUR 50 000 000;
3. the portion of the technical provisions relating to reinsurance amounts to at least 10% of the total technical provisions;

Amounts provided for in paragraphs 1–3 shall change on 31 December each year in accordance with changes since March 20 each year in the Harmonized Index of Consumer Prices (HICP) for the Member States of the European Economic Area relative to a value of 111.2. Amounts shall not change, however, if the increase since the last change amounts to a ratio less than 5%.

A minimum of one third of the minimum solvency margin, not, however, to be a lower amount than stated in paragraph 1, shall consist of the solvency margin elements provided for in points 1–5 of Article 31(1). Subject to the consent of the Financial Supervisory Authority, solvency margin elements provided for in point 7 of Article 31(1) may also be included therein.

Upon the establishment of an insurance undertaking, and for as long as the undertaking is operating on the basis of an operating plan which has been submitted, cf. Article 25 or Article 86, the required minimum solvency margin shall be calculated on the basis of that plan and its revision, should its premises undergo change.

ARTICLE 35 The equalisation reserve for credit insurance, whether direct or reinsurance, shall correspond to the amount set aside to meet fluctuations in the undertaking's claims from one year to another, as well as uncertainty regarding final settlement amounts relative to their estimate at the time when claims outstanding were determined. Returns on the equalisation reserve may not be disposed of.

When premiums written from direct insurance or reinsurance involving credit insurance exceed 4% of an undertaking's aggregate premiums written or EUR 2.5 000 000 or more, a contribution toward forming the equalisation reserve shall be debited annually in this insurance class. Each financial year, this debit shall amount to 75 % of any operating surplus arising from such insurance, up to a maximum of 12 % of the premiums written within the insurance class. Contributions shall cease once the equalisation reserve has reached 150 % of the highest annual amount of premiums written during the previous five financial years.

ARTICLE 36 *Technical provisions*

Technical provisions must be so valued that they correspond to the insurance undertaking's unsettled total liabilities resulting from insurance contracts concluded. More detailed provisions on the valuation of technical provisions shall be established in a government Regulation on the annual accounts and consolidated annual accounts of insurance undertakings.

An insurance undertaking shall, in addition to fulfilling, at all times, the solvency margin requirements pursuant to the present Act, ensure that at all times specifically identified assets are in place to cover technical provisions. The assets shall be selected taking into account security, return on investment and market conditions, and the undertaking shall ensure the diversification of the assets. The risk represented by the assets intended to cover technical provisions shall be assessed case by case, in particular with regard to their diversification, so as to limit the weighting of individual asset types and asset elements. The risk involved in a specific type of investment shall be taken into account, and the amounts for covering technical provisions limited accordingly.

Technical provisions falling to the share of reinsurers shall be based on claims against Member State reinsurers who have obtained an operating licence in accordance with the present Act. The Financial Supervisory Authority may, upon application by an insurance undertaking, grant an exemption from this requirement and establish rules specifying the cases in which such exemption shall be granted.

Upon request, life assurance undertakings shall provide information on the bases and methods used in the calculation of the technical provisions, including provisions for bonuses.

More detailed provisions shall be laid down in a government Regulation¹⁾ concerning the types of assets which may be included when covering an insurance undertaking's technical provision and equalisation reserves, their combination and weighting.

¹⁾Rg. 777/2010.

ARTICLE 37 A direct insurance undertaking shall choose assets to cover technical provisions with regard to exchange rate risk, in order to reduce its effects to the extent possible. It may invest in another currency assets to cover up to 20% of its underwriting liabilities, which are in a specific currency.

A reinsurance undertaking shall ensure that at all times, assets are in place which are specifically identified to cover the technical provisions and the equalisation reserves, and which are chosen taking into account the following rules:

1. the assets shall be chosen with regard to the business operated by the reinsurance undertaking, in particular the nature, amount and duration of the expected claims payments, and shall ensure sufficient quantity, liquidity, security, quality, profitability and matching of its investments;
2. the reinsurance undertaking shall ensure that the assets are diversified and adequately spread and enable the undertaking to respond adequately to changing economic circumstances, in particular developments in the financial markets and real estate markets or major catastrophic events. The undertaking shall assess the impact of irregular market circumstances on its assets and shall diversify the assets in such a way as to reduce such impact;
3. investment in assets which are not admitted to trading on a regulated securities market shall in any event be kept to prudent levels;
4. investment in derivative instruments shall be possible insofar as they contribute to a reduction of investment risks or facilitate efficient portfolio management. They shall be valued on a prudent basis, taking into account the underlying assets, and included in the valuation of the institution's assets. The undertaking shall also avoid excessive risk exposure to a single counterparty and to other derivative operations;
5. the assets shall be sufficiently diversified in such a way as to avoid excessive reliance on any one particular asset, issuer or group of undertakings and accumulations of risk in the portfolio as a whole. Investments in assets issued by the same issuer or by issuers belonging to the same group shall not expose the undertaking to excessive risk concentration.

The Financial Supervisory Authority shall establish rules on the conditions under which claims against special purpose vehicles may be counted as assets covering technical provisions.

An insurance undertaking shall be free to invest assets not needed to cover technical provisions, considerations of prudence having been taken into account and the requirements for the undertaking's adequate solvency margin having been satisfied.

If an insurance undertaking pursues both direct insurance and reinsurance activities, and if it fulfils one of the conditions of Article 34(3), the provisions of paragraph 2 shall apply concerning assets to cover technical provisions corresponding to reinsurance activities. Such assets shall be kept separate from assets to cover technical provisions corresponding to direct insurance, and any transfer between the two shall be prohibited.

ARTICLE 38 The Board of Directors of an insurance undertaking which has obtained an operating licence in Iceland must ensure that the undertaking has at its disposal sufficient expert knowledge to assess and calculate the undertaking's technical provisions and to handle actuarial calculations and checks for the undertaking. The Financial Supervisory Authority may require a party with expert knowledge in this field to be engaged by an insurance undertaking, should it deem such knowledge to be insufficient at the undertaking.

ARTICLE 39 A life assurance undertaking must secure the services of an actuary or a specialist with comparable knowledge who shall be in charge of the necessary actuarial calculations and checks for the undertaking. Only persons approved by the Financial Supervisory Authority may undertake such tasks for a life assurance undertaking.

A life assurance undertaking's actuary shall calculate the undertaking's technical provisions (life assurance provisions). He/she shall monitor adherence to the basis of calculation for premiums, premium reserve and allocation of bonuses, and compliance with established rules for determining surrender value and the amounts of optional life assurances. The same applies to sickness and health insurance operated on a technical basis.

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

Should an actuary become aware in the course of his/her work that a life assurance undertaking for whom he/she works is not in compliance with established rules concerning the above-mentioned aspects, he/she shall notify the Financial Supervisory Authority thereof without delay. The Financial Supervisory Authority may require from a life assurance undertaking's actuary such information as is necessary for supervision of the life assurance undertaking's premium basis, life assurance provisions and financial situation.

ARTICLE 40 An insurance undertaking shall at all times maintain an overview of the assets intended to cover its technical provisions and equalisation reserve. In making investment policy and developing internal control and risk management, the provisions of Articles 36 and 37 shall be followed. Information on assets to cover technical provisions shall be sent to the Financial Supervisory Authority quarterly, and at other times should the Financial Supervisory Authority see reason thereto.

Notwithstanding the provisions of paragraph 1, the Financial Supervisory Authority may decide that an insurance undertaking's disclosure of assets to cover technical provisions shall as a general rule be sent in annually if the undertaking's solvency margin substantially exceeds the minimum solvency margin, and the undertaking's activities are limited to specialised insurance activities.

Chapter VI Qualifying holdings. Shares. Lending.

ARTICLE 41 *Notification to the Financial Supervisory Authority*

A party intending to acquire, alone or in concert with others, a qualifying holding in an insurance undertaking, shall notify the Financial Supervisory Authority in advance of its intentions. The same applies if a party, alone or in concert with others, intends to increase its holdings so that the qualifying holding exceeds 20%, 25%, 33% or 50%, or if it increases to such a point that the insurance undertaking will be considered his subsidiary.

The written notification to the Financial Supervisory Authority shall be accompanied by information on the following:

1. the name and address of the party intending to acquire or increase a qualifying holding;
2. the name of the insurance undertaking which is the target of the investment;
3. the size of the holding or voting rights forming the target of the investment;
4. any plans for changes in the pursuits of the insurance undertaking
5. the financing of the investment;
6. the financial position of the party intending to acquire or increase a qualifying holding;
7. the proposed business ties of the party intending to acquire or increase a qualifying holding to the insurance undertaking concerned;
8. the financial experience of the party intending to acquire or increase a qualifying holding;
9. the ownership, service on the Board of Directors, or other participation by the party intending to acquire or increase a qualifying holding in the business activities of a legal person;
10. any penal sanctions judicially imposed on the party intending to acquire or increase a qualifying holding, and whether the person concerned is subject to criminal investigation;
11. any close links of the party intending to acquire or increase a qualifying holding with other legal persons.

ARTICLE 42 *Confirmation by the Financial Supervisory Authority*

No later than two business days from the receipt of a notification pursuant to Article 41, the Financial Supervisory Authority shall confirm its receipt. If the Financial Supervisory Authority considers more detailed information than listed in Article 41(2) to be needed from the party intending to acquire or increase a qualifying holding, the Authority may require such information from the party concerned. Such a demand shall be made no later than fifty business days from the receipt of the notification. The Financial Supervisory Authority shall have sixty days to assess whether it considers the party intending to acquire or increase a qualifying holding to be eligible to exercise the holding. If additional information is requested from the party concerned, cf. the second sentence of the present paragraph, then any wait for the information shall be added to that number of days, not, however, to exceed twenty business days.

If the party intending to acquire or increase a qualifying holding is a legal person, the information pursuant to Article 41(2) shall apply to the legal person itself, the Members of its Board, its Managing Director, and the natural and legal persons owning qualifying holdings in the legal person. In such case, information on the legal person's auditor shall furthermore be disclosed. Such information shall be supported by documentation as appropriate.

The Financial Supervisory Authority may grant exemptions from the submission of information pursuant to Article 41(2) if the legal person lacks the means to obtain it or if the party intending to acquire or increase a qualifying holding is subject to official financial regulation in another State, and similar information can be obtained from the supervisory authority of that State.

ARTICLE 43 *Criteria*

The Financial Supervisory Authority shall evaluate whether the party intending to acquire or increase a qualifying holding is eligible to own the holding in view of the sound and prudent operation of an insurance undertaking. In assessing the eligibility of the person concerned, the Financial Supervisory Authority shall, *inter alia*, take account of the following:

1. the reputation of the party intending to acquire or increase a qualifying holding;
2. the reputation and experience of the person who will direct the insurance undertaking should the proposed acquisition or increase in holdings take place;
3. the financial strength of the party intending to acquire or increase a qualifying holding in the insurance undertaking, particularly in view of the business pursued by the insurance undertaking;
4. whether ownership by the party intending to acquire or increase a qualifying holding will create a danger of conflicts of interest in the financial market;
5. the size of the holding or voting rights in which the party intending to acquire or increase a qualifying holding intends to invest;
6. whether the ownership by the party intending to acquire or increase a qualifying holding will render the supervision of the insurance undertaking in question difficult. In making this assessment, consideration shall, *inter alia*, be given to any earlier dealings of the party intending to acquire or increase a qualifying holding with the Financial Supervisory Authority or other public authorities; to whether any close links between the party intending to acquire or increase a qualifying holding and natural or legal persons could, in the estimation of the Financial Supervisory Authority, be a hindrance to its exercise of its normal supervisory efforts; and whether the legislation applicable to the party intending to acquire or increase a qualifying holding will hinder proper supervision;
7. whether there are grounds to suppose that ownership by the party proposing to acquire or increase a qualifying holding will lead to money laundering or terrorist financing or that it could increase the likelihood of such conduct being tolerated within the insurance undertaking in question;
8. whether the party intending to acquire or increase a qualifying holding has provided the Financial Supervisory Authority with the information requested, along with accompanying documentation, and whether such information has proved correct;
9. any penal sanctions judicially imposed on the party intending to acquire or increase a qualifying holding, and whether the person concerned is subject to criminal investigation.

ARTICLE 44 *Evaluation and notification by the Financial Supervisory Authority*

Should the Financial Supervisory Authority consider a party intending to acquire or increase a qualifying holding to be ineligible to exercise the holding, the party concerned must be so notified. The Financial Supervisory Authority must provide to the party concerned grounds for its conclusion. Should the Financial Supervisory Authority consider the eligibility of a party intending to acquire or increase a qualifying holding to be in doubt, it may, however, impose conditions for the investment in question not to be rejected, including that the party concerned take steps in order to limit any detrimental influence of his/her ownership; that the exercise of the holding be delegated to a special holding company not handling any other business; or that the party appoint as its representatives on the Board of Directors individuals found eligible by the Financial Supervisory Authority. Such conditions shall be set out in the Financial Supervisory Authority's confirmation to the party intending to acquire or increase a qualifying holding stating that the Financial Supervisory Authority does not oppose the planned investment.

The Financial Supervisory Authority's decision shall be in writing, and shall be communicated to the party intending to acquire or increase a qualifying holding not later than two business days after the decision became available. Should the Financial Supervisory Authority's decision fail to be reached within the time limit provided for in Article 42(1), the Financial Supervisory Authority shall be deemed to have no comment to make on the plans of the party intending to acquire or increase a qualifying holding in the insurance undertaking in question. Should the Financial Supervisory Authority impose conditions for the party intending to acquire or increase a qualifying holding to be permitted to exercise the holding, such conditions being set out in a notification addressed to the party, the party must confirm that it will comply with the Authority's conditions.

If the party intending to acquire or increase a qualifying holding has not undertaken the investments of which it had notified the Financial Supervisory Authority within six months from the time its decision became available, it shall notify the Financial Supervisory Authority anew of its proposed investment. The provisions of Articles 41–43 shall in that case apply to such notification and to the Financial Supervisory Authority's response thereto.

If the party intending to acquire or increase a qualifying holding is an insurance undertaking or a financial undertaking holding an operating licence in another Member State, or is the parent undertaking of such party, or is a natural or legal person exercising control over such party, and if the undertaking in which this party intends to acquire a qualifying holding would become its subsidiary or come under its control following the acquisition of such qualifying holding, the Financial Supervisory Authority shall consult with the appropriate supervisory authorities in accordance with Article 18, before its decision is made known.

ARTICLE 45 *A party's notification not sent*

In the case where a party intending to acquire or increase a qualifying holding fails to notify the Financial Supervisory Authority of its proposed acquisition or increase of a qualifying holding, despite its duty to do so pursuant to Article 41, the voting rights attached to the shares exceeding its former holding shall become void. The Financial Supervisory Authority may require the party concerned to submit notification pursuant to Article 41. Procedure shall in other respects be subject to Articles 42 – 44. If the Financial Supervisory Authority does not object to the acquisition or increase in qualifying holding by the party concerned, the party shall acquire voting rights in proportion to its holdings. If notification from the party concerned is not received within four weeks from the time that the Financial Supervisory Authority called for notification, the Authority may require such party to sell the portion of the holding exceeding its prior holdings. The Financial Supervisory Authority shall set a deadline for so doing, which shall be a minimum of two months. If such holding is not sold within the time given, the Financial Supervisory Authority may resort to sanctions in the form of daily fines pursuant to the Act on Official Supervision of Financial Operations.

ARTICLE 46 *Acquisition of a holding by an ineligible party*

If a party acquires or increases a qualifying holding even though the Financial Supervisory Authority has found such party ineligible to acquire or increase its holdings, its voting rights in excess of the minimum constituting a qualifying holding shall become void. The party concerned must sell that part of the holding which is in excess of the permissible limit and which was the subject of the Financial Supervisory Authority's decision. The Financial Supervisory Authority shall set a deadline for so doing, which shall be a minimum of two months. If the holding is not sold within the time given, the Financial Supervisory Authority may resort to daily fines pursuant to the Act on Official Supervision of Financial Operations. The party will recover its former voting rights following the sale.

ARTICLE 47 *Restrictions on the exercise of a holding pending the deadline*

The purchase of a qualifying holding shall not become effective vis-à-vis the insurance undertaking in question until the Financial Supervisory Authority's decision pursuant to Article 44 is available. As long as the Financial Supervisory Authority has not communicated its decision, or the time limit pursuant to Article 42 is not yet up, the party intending to acquire or increase a qualifying holding may not participate in decisions on fundamental changes in the financial position, asset structure, operation, business activities and internal working procedures, save with the Financial Supervisory Authority's specific consent.

ARTICLE 48 *Notification by an owner of a change of hands*

Should the owner of a qualifying holding intend to reduce its shareholding or voting rights to such an extent that the owner will no longer own a qualifying holding, the owner shall notify the Financial Supervisory Authority in advance, indicating what its holding will become. Should the holding fall below 20%, 25%, 33%, 50%, or decrease to the extent where the insurance undertaking ceases to be a subsidiary of the party concerned, notification thereof must also be given. The same applies if the proportional holding or voting rights decrease as a result of an increase in share capital.

ARTICLE 49 *Notification by an insurance undertaking of a change of hands*

When holdings of share capital in an insurance undertaking exceed or fall below the limits stated in Article 41, its Board of Directors shall notify the Financial Supervisory Authority thereof without undue delay.

ARTICLE 50 *Obligation to provide information*

The Financial Supervisory Authority may require documentation and information of any type from natural or legal persons owning or exercising holdings in an insurance undertaking in order to weigh assess their eligibility to exercise a qualifying holding pursuant to this Article. The Financial Supervisory Authority may require the same information from natural persons or legal persons who have sold a holding or acted as an intermediary in a transaction involving a holding. Statutory confidentiality provisions shall not limit the obligation to provide information and access to data.

At least once a year, an insurance undertaking shall notify the Financial Supervisory Authority of the shareholders owning qualifying holdings therein, and of the share held by each.

ARTICLE 51 *Beneficial owner*

If, in the opinion of the Financial Supervisory Authority, the identity of the beneficial owner or prospective beneficial owner of a qualifying holding is in doubt, the Authority shall inform the party concerned as well as the insurance undertaking that the Authority finds the party in question ineligible to exercise the holding.

ARTICLE 52 *Measures relating to a qualifying holding*

Should the state of a party owning a qualifying holding in an insurance undertaking be such, or should it so exercise its holding as to be, in the estimation of the Financial Supervisory Authority, detrimental to the undertaking's sound and prudent operation, the Authority may take the following measures:

1. decide that such holding not entail voting rights;
2. instruct the insurance undertaking in question to take measures to mitigate the shareholder's detrimental influence;
3. instruct the insurance undertaking's Board of Directors to call a shareholders' meeting where the conduct of the shareholder is to be addressed. A representative of the Financial Supervisory Authority shall be free to attend such meeting and to speak there.

In evaluating whether to take measures pursuant to paragraph 1, account shall be taken of the matters listed in Article 43. Furthermore, special account shall be taken of whether the position or conduct of the party in question is liable to lessen public confidence in the insurance undertaking concerned should it become publicly known.

The Financial Supervisory Authority may concurrently take more than one of the measures specified in paragraph 1 if this is felt to be necessary.

Should the Financial Supervisory Authority deem any close links to hinder the supervision of an insurance undertaking's activities, it shall request that such links be severed immediately, unless it finds other measures sufficient.

ARTICLE 53 *Shares. Lending.*

An insurance undertaking itself may never own more than 10% of its own shares. Shares owned by the insurance undertaking itself shall not confer voting rights.

An insurance undertaking may not engage in lending secured by collateral consisting of stock or debt securities issued by itself. The same applies to other contracts if the underlying exposure is to own shares.

If new shares may be paid for through debt set-off or by means other than cash payment upon an increase of share capital, rules pertaining thereto shall be set out in the shareholders' meeting decision on the increase, the provisions of Article 16 applying insofar as applicable. Any decision that payment for new shares may be made by means of debt set-off must be approved by the Financial Supervisory Authority.

Any decisions to reduce an insurance undertaking's share capital shall be subject to the approval of the Financial Supervisory Authority.

Chapter VII Board of Directors. Auditing and accounts.

ARTICLE 54 *Board of Directors*

The Board of Directors of an insurance undertaking which has obtained an operating licence in Iceland shall be elected at the annual general meeting as provided for in the undertaking's Articles of Association, and shall consist of at least three persons. An equal number of alternates shall be elected. The Board shall generally supervise the compliance of the undertaking's activities with the law and with its Articles of Association, including supervising the undertaking's accounting and disposal of funds. The Board shall establish rules, which shall be confirmed by the Financial Supervisory Authority, on internal control, internal audit, investment activities, lending, and transactions involving linked entities. The Board, together with the Managing Director, are responsible for ensuring that the undertaking's structure and internal controls are satisfactory, and that the undertaking can submit the information required for the supervision of its activities. The Financial Supervisory Authority may establish general rules on internal control arrangements at insurance undertakings.

The Board shall adopt its own rules of procedure, providing in more detail for the performance of the Board's tasks. These rules shall in particular address the Board's latitude to take decisions on individual business transactions, the implementation of rules on special eligibility for Board Members, the Board's handling of information on individual customers, the service of Board Members on the boards of subsidiaries and affiliates, and the implementation of rules on handling business brought up by Board Members. These rules shall be sent to the Financial Supervisory Authority.

Members of the Board shall be resident in a Member State or in a State which is a member of the Organisation for Economic Co-operation and Development (OECD). The Managing Director shall be a resident of a Member State. The Financial Supervisory Authority may grant exemptions from the residence requirements. Members of the Board and the Managing Director shall be legally competent to manage their own affairs, shall have an unblemished reputation and may not, during the last five years, have been

declared bankrupt. They may not, in connection with the operation of business, have been adjudged guilty in a court of law within the preceding ten years of any act punishable under the General Penal Code, the Competition Law, the Act respecting Public Limited Companies, the Act respecting Private Limited Companies, the Accounting Act, the Act on Annual Accounts, the Act on Bankruptcy, etc., and the provisions of the Act on the Withholding of Public Levies at Source, as well as special legislation applicable to entities subject to official supervision of financial activities.

Members of the Board and Managing Directors shall be financially independent, and shall have completed a university degree relevant to their work. The Financial Supervisory Authority may grant exemptions from the educational requirements of the first sentence on the basis of the experience and knowledge of the person in question. Members of the Board and Managing Directors shall also possess sufficient knowledge and work experience to enable them to discharge the duties of their office properly, including knowledge of the business activities engaged in by the insurance undertaking in question. They may not have exhibited in their earlier work any conduct which gives occasion to doubt their ability to organise sound and prudent operations, or that they will abuse their position or cause detriment to the undertaking. The Financial Supervisory Authority shall establish rules on the financial independence of Board Members and Managing Directors and on how to conduct the assessment of eligibility.

Members of the Board of an insurance undertaking or other regulated party may not serve on the Board of another insurance undertaking or an undertaking with close links to such, nor serve as the employees, legal counsel, auditors or actuaries of another insurance undertaking or undertakings with close links thereto. The employees of an insurance undertaking are not permitted to sit on the board of the insurance undertaking in question.

Notwithstanding the provisions of paragraph 5, a Board Member or employee of an insurance undertaking may accept a seat on the Board of Directors of another insurance undertaking, an insurance undertaking or financial conglomerate if the undertaking in question is partly or wholly owned by the insurance undertaking or is an undertaking partly or wholly owned by an undertaking exercising control over the insurance undertaking. The same applies to the legal counsel of a parent undertaking. Service on a Board of Directors pursuant to the present paragraph shall be subject to the condition that such service will not, in the estimation of the Financial Supervisory Authority, give rise to a risk conflict of interest in the financial market. In this context, consideration should be given, among other things, to the parties' holdings and the links of the undertaking in question with other entities in the financial market, as well as whether such links could be detrimental to the sound and prudent operation of the insurance undertaking.

The chairman of the Board of Directors of an insurance undertaking may not take on duties for the undertaking other than those considered to constitute a normal part of his work as chairman, with the exception of special tasks entrusted to him by the Board.

The Board shall call annual general meetings. Should a general meeting which is to be held in accordance with statutory law, the Articles of Association or the decision of an annual general meeting fail to be called, the Financial Supervisory Authority shall call the meeting upon the demand of a Board Member, the Managing Director, an auditor or a party holding voting rights at an annual general meeting. The Financial Supervisory Authority shall appoint a meeting chair, to whom the Board shall provide a list of parties holding voting rights, the Book of Minutes of annual general meetings, and the book of auditors' records. The undertaking shall defray the cost of the annual general meeting.

Should Board Members or Managing Directors receive commissions or other remuneration from insurance which the undertaking takes over or cedes, due to participation in agency or brokerage activities or due to any financial interest in such activity, the Financial Supervisory Authority must be sent notification thereof.

The Board of a parent undertaking shall notify the Financial Supervisory Authority when a group of undertakings is formed or an insurance undertaking gains control of another undertaking. Substantial changes in the structure of a group of undertakings shall also be communicated when these take effect.

The Board of an insurance undertaking shall establish a guidelines on the securities trading of the undertaking, its Board Members and employees.

The Board and Managing Director shall alert the Financial Supervisory Authority without delay should they have knowledge of matters of potentially decisive significance for the undertaking's ability to continue as a going concern;

ARTICLE 55 *Bonus systems. Severance agreements.*

Taking into account an insurance undertaking's comprehensive income over the longer term, the underlying risk, and the cost of capital, the insurance undertaking may grant stock options or bonus payments in accordance with rules established by the Financial Supervisory Authority. Rights acquired by employees under a bonus system shall be charged to the accounts each year to the extent that accounting rules will permit, and shall be specifically accounted for in the notes to the annual accounts.

An insurance undertaking may not enter into a severance agreement with a Managing Director or another key employee unless the undertaking returned a profit over the last three consecutive years of his/her term of employment. A severance agreement within the meaning of this Article refers to any type of agreement made between a Managing Director or key employee, on the one hand, and an insurance undertaking, on the other hand, which may confer upon a person ending his/her employment benefits or rights in excess of traditional wage payments during a period of notice.

If an undertaking has returned a profit over the last three consecutive years, severance agreements may be concluded with the persons specified in paragraph 2. Such agreements shall take the form of direct wage payments and shall not have a term of more than 12 months following termination of employment. The provisions of the present Article shall apply to severance agreements which have been concluded prior to the entry into force of this Act, but which have not been activated.

Severance agreements shall be specifically accounted for in the notes to the annual accounts. Further provisions on the conditions and implementation of severance agreements may be established in a government Regulation.

ARTICLE 56 *Annual accounts*

Annual accounts shall be compiled for each financial year. The annual accounts shall include a profit and loss account, a balance sheet, a statement of cash flow, explanatory notes, and information on off-balance sheet items. A report shall also be compiled by the board, which, together with the annual accounts, shall form an integral whole. The financial year for an insurance undertaking shall be the calendar year. The annual accounts must present a clear picture of the financial position and operating performance of the insurance undertaking, and must be compiled in accordance with international accounting standards, cf. Chapter VIII of the Act on Annual Accounts.

The annual accounts and the report of the Board of Directors must be endorsed by the Board and the Managing Director. Should a Board Member or the Managing Director have any objections to make, the person concerned shall sign with a reservation and explain in the Board's report the substance of the reservation.

The annual accounts, together with the report of the Board of Directors, shall be available at the place of business of the insurance undertaking following its approval by the annual general meeting.

Should the annual accounts of an insurance undertaking fail to be in compliance with the law, the Financial Supervisory Authority may demand that the accounts be amended, and that they be discussed anew at a shareholder's meeting, in which case the undertaking shall be given a suitable deadline. The Financial Supervisory Authority shall make public the main conclusions of the annual accounts.

More detailed provisions on the form and content of annual accounts and on consolidated accounts may be established in a government Regulation.

ARTICLE 57 *Auditing and accounts*

An insurance undertaking's annual accounts shall be audited by an auditor. The annual general meeting shall elect auditors or an audit firm in accordance with the undertaking's Articles of Association. If an insurance undertaking is a part of a group of undertakings, the same auditor shall audit the entire group. In the case of an undertaking of the type referred to in Article 13 (2), the Financial Supervisory Authority may require at least one auditor to be shared by all the undertakings. An auditor or audit firm pursuant to the second sentence may not exercise other functions for the insurance undertaking.

An auditor may not be a member of the Board, be the insurance undertaking's employee, or perform work for its benefit in any capacity other than auditing. He/She may not be indebted to the undertaking, either as a debtor or guarantor, and the same applies to his/her spouse.

The undertaking's auditor shall have the right to attend Board and shareholders' meetings of the undertaking and shall have the duty to attend the annual general meeting.

An auditor or audit firm shall be elected at the annual general meeting for a five-year term. The same auditor or audit firm may not be elected until five years have elapsed since the end of his/her term pursuant to paragraph 1. Notwithstanding the provisions of the first sentence, an insurance undertaking can dismiss an auditor or audit firm before the end of his/her five year electoral term, subject to the opinion of the Public Auditors' Oversight Board.

ARTICLE 58 An insurance undertaking's auditors must provide the Financial Supervisory Authority with such information on the conduct and conclusions of audits as it may request. They also have a duty to alert the Financial Supervisory Authority without delay should they, in carrying out their work for the undertaking or for those with whom the undertaking has close links, become aware of:

- a. matters of material significance concerning the undertaking's operation, including shortcomings in the undertaking's internal control procedures;
- b. probable breaches of the legislation governing the undertaking's operation;
- c. matters of potentially decisive significance for the undertaking's ability to continue as a going concern;
- d. observations or reservations to the audit opinion of the annual accounts.

Information provided by an auditor to the Financial Supervisory Authority pursuant to the provisions of this Article shall not be considered a breach of legally or contractually mandated confidentiality.

ARTICLE 59 An insurance undertaking which has obtained an operating licence in Iceland must, within 10 days of signature and within three months from the end of the financial year, send the Financial Supervisory Authority the undertaking's audited and signed annual accounts. The Financial Supervisory Authority shall establish more detailed rules on the documentation of business operations which is to accompany the annual accounts and which is needed to carry out supervision in pursuance of this Act.

ARTICLE 60 If an insurance undertaking which has obtained an operating licence in Iceland operates a branch or provides services abroad, it shall, within three months from the end of the financial year, provide the Financial Supervisory Authority with information on the amount of premiums, claim costs and agency commissions without deducting the re-insurers' portion, with a breakdown by the individual States and activities where a branch is operated or services provided. A breakdown by insurance classes shall also be done in accordance with more detailed rules laid down by the Financial Supervisory Authority. This information on activities in Member States shall be sent annually to the host State supervisory authorities concerned.

The Financial Supervisory Authority shall collect comparable information on the activities of foreign insurance undertakings in Iceland from the supervisory authorities in the home States concerned.

ARTICLE 61 Only the following may be allocated as dividends: profit, as indicated by the approved annual accounts for the last financial year, profit brought forward from previous years and free reserves less unallocated deficit, as well as assets which, in accordance with law and the Articles of Association, are to be placed in special reserves, provided it is clear that the undertaking fulfils the required minimum solvency margin requirements, that care has been taken to set aside adequate funds for the undertaking's technical provisions, and that the applicable rules on valuation of the undertaking's assets and their depreciation have been followed.

Chapter VIII: Monitoring.

ARTICLE 62 The Financial Supervisory Authority shall supervise entities carrying on activities subject to the provisions of the present Act and the branches of any foreign insurance undertakings which have obtained operating licences in Iceland. Such monitoring shall be governed by the present Act and by the Act on Official Supervision of Financial Operations.

If the Financial Supervisory Authority believes that activities according to this Act are being carried out without the requisite licences, it can demand from the parties concerned data and information necessary to determine whether this is the case. The Financial Supervisory Authority can demand the immediate cessation of such activities. The Financial Supervisory Authority can also make public the names of parties who are believed to offer services without the licences required.

ARTICLE 63 The Financial Supervisory Authority shall annually investigate the solvency margin and minimum solvency margin of insurance undertakings based on their annual accounts from the previous year and on other necessary documentation and information on their activities. The adjusted solvency margin and minimum solvency margin of insurance undertakings and their parent undertakings shall also be investigated if applicable. The Financial Supervisory Authority may turn to subsidiaries or affiliates of the insurance undertaking, to undertakings which control or own holdings in the insurance undertaking, and to the subsidiaries and affiliates of such undertakings, in order to obtain the necessary documentation if the insurance undertakings itself has failed to duly submit them to the Financial Supervisory Authority. The undertaking in question must comply with any request for such documentation forthwith. Whether holdings are direct or indirect makes no difference. The documentation may be verified through on-site spot checks, either at the insurance undertaking itself or at other undertakings in the same group of undertakings. Based on the results of its investigation, the Financial Supervisory Authority may reduce solvency margin elements from the insurance undertaking's valuation, particularly when their market price has fallen or is subject to uncertainty. The influence of reinsurance on the calculation of the minimum solvency margin according to Articles 32 and 33 may also be reduced if the reinsurance cover has undergone material change since the period used for reference in the calculation of the minimum solvency margin, or if an insignificant insurance risk is transferred to reinsurers. The Financial Supervisory Authority shall assess whether the requirements of Articles 31–34, as applicable, are fulfilled. Account being taken of Articles 32–34, the Financial Supervisory Authority may require a higher minimum solvency margin in special cases when it deems the interest of policyholders to be jeopardised by the deteriorating financial situation of the undertaking or of the owners of a qualifying holding therein. If the Financial Supervisory Authority has any comment to make, it shall notify the undertaking thereof. Should special measures need to be taken as a result, the provisions of Chapter XII shall apply.

The Financial Supervisory Authority shall annually assess the technical provisions of insurance undertakings, *inter alia*, whether sufficient account has been taken of valuation uncertainty by means of a necessary margin, and whether requirements on assets set aside to cover technical provisions have been satisfied, cf. Articles 36 and 37. In the documentation accompanying the annual accounts submitted to the Financial Supervisory Authority, insurance undertakings shall explain how their technical provisions are determined and which assets are specified to cover them. The Financial Supervisory Authority may lay down general rules concerning the assessment of technical provisions and which documentation must be included in this connection, in addition to the annual accounts.

The Financial Supervisory Authority shall monitor an insurance undertaking's business dealings with its subsidiaries and affiliates, with undertakings which control or own holdings in the insurance undertaking, and with other subsidiaries and affiliates of such undertakings. Furthermore, the Financial Supervisory Authority shall monitor an insurance undertaking's dealings with individuals owning holdings of 20% or more in the above-mentioned undertakings. Special attention shall be paid to monitoring loans, guarantees and off-balance-sheet items, balance sheet items potentially forming part of the solvency margin, investments, re-insurance dealings and cost-sharing contracts.

Insurance undertakings shall have in place appropriate risk management procedures, internal control mechanisms involving reliable disclosure, and accounting procedures to analyse, quantify and direct business in accordance with paragraph 3. Insurance undertakings shall annually provide the Financial Supervisory Authority with a report on such business, and on the procedures and systems in use, according to its more detailed specification. Where the business dealings involve enterprises or individuals in other States, cooperation between supervisory authorities shall be as provided for in international agreements to which Iceland is party and in cooperation agreements concluded by the Financial Supervisory Authority on the basis thereof.

If an insurance undertaking is authorised by the Register of Annual Accounts to keep its books and compile its annual accounts in a foreign currency, it shall send to the Financial Supervisory Authority information on financial matters, cf. Article 59, converted into ISK.

The Financial Supervisory Authority may demand documentation or information of any kind from subsidiaries or affiliates or from other parties considered to have close links with an insurance undertaking, provided the Financial Supervisory Authority considers the information necessary for its supervision of the insurance undertaking in question.

ARTICLE 64 The Financial Supervisory Authority shall monitor the compliance of financial conglomerates with the provisions of the present Act. The Financial Supervisory Authority shall establish detailed rules on the definition of financial conglomerates and their supervision. The Financial Supervisory Authority may also establish general rules on the internal control arrangements of financial conglomerates. The Financial Supervisory Authority may, at the request of supervisory authorities in another state, verify information from parties in Iceland subject to supervision of financial conglomerates. The supervisory authorities concerned may participate in efforts to verify such information.

ARTICLE 65 The Financial Supervisory Authority shall, insofar as possible, monitor the terms of insurance offered in Iceland, making sure that these comply with the laws in effect in Iceland and are in accordance with good business practice. Should the Financial Supervisory Authority deem this not to be the case, it shall require such clauses to be amended or voided. The Financial Supervisory Authority must be sent the terms of any legally compulsory insurance, as well as any amendments thereto, before it is offered on the insurance market.

The Financial Supervisory Authority shall monitor the insurance premium basis with a view to congruity between the premiums offered in Iceland and the inherent risks of insurance business plus normal operating expenses. Adequate documentation on the calculation basis of life assurance and health insurance, as well as any amendments thereto, shall be sent to the Financial Supervisory Authority before these insurance classes are offered on the insurance market.

Undertakings obtaining an operating licence pursuant to Article 73 shall send to the Financial Supervisory Authority information pursuant to paragraphs 1 and 2, in addition to the terms and premium bases of other insurance sub-classes.

The Financial Supervisory Authority shall monitor the business practices of insurance undertakings which have received an operating licence in Iceland, their sales activities and settlement of claims. Furthermore, the Financial Supervisory Authority shall monitor the operating arrangements, accounting, internal control and risk management of insurance undertakings. The Financial Supervisory Authority shall make such investigations of insurance undertakings as it deems necessary to this end. It shall furthermore monitor these aspects of Member State insurance undertakings which are authorised, on the basis of an operating licence in their home State, to offer insurance in Iceland, and shall submit comments to the undertaking concerned or to the home State supervisory authorities if necessary to remedy whatever the Financial Supervisory Authority considers to have gone awry.

Chapter IX. Foreign insurance undertaking activities in Iceland.

ARTICLE 66 *Foreign insurance undertakings with headquarters in a Member State*

Foreign insurance undertakings which are headquartered in a Member State and which have obtained an operating licence from the supervisory authorities concerned may establish a branch in Iceland, provided they are authorised for insurance activities in the same insurance classes and sub-classes in their home State.

Should a direct insurance undertaking make a request to establish a branch in Iceland, cf. Article 8, the Financial Supervisory Authority shall obtain the following information and documentation from the supervisory authority in its home State:

1. a plan for the proposed activities and structure of the branch in Iceland, and confirmation that the undertaking has an operating licence in those insurance classes and sub-classes which it proposes to offer in Iceland;
2. the address of the branch where the undertaking's appointed representative is located, where documentation may be obtained on the activities, and where all communication shall be sent;
3. the name of the appointed branch representative, who is authorised to obligate the undertaking vis-à-vis third parties, and to appear on its behalf before Icelandic courts;
4. confirmation of membership in International Motor Insurance in Iceland (Alþjóðlegar bifreiðatryggingar á Íslandi sf.) and of participation in the operation of a compensation body and an information centre pursuant to the Road Traffic Act if applying for a licence pursuant to Article 21 (1) (10). Information shall also be provided on claims representatives in each Member State outside Iceland;
5. a certificate from the supervisory authority to the effect that the requirements concerning solvency margin for the undertaking's operations as a whole are fulfilled, together with any comment on the proposed activities;
6. The terms of any legally compulsory insurance which the branch proposes to pursue in Iceland and, where applicable, the technical basis of life assurance and health insurance.

Before a branch of a direct insurance undertaking takes up operation in Iceland, the Financial Supervisory Authority shall inform the supervisory authority of the home State of any general requirements which are to apply to the branch's insurance activities in Iceland, and of provisions concerning the public interest.

The Financial Supervisory Authority shall, within two months of receiving the above documentation, announce that the undertaking may establish the branch, whereupon it may commence operation.

The undertaking must communicate to the Financial Supervisory Authority in writing any changes concerning points 1-4 and 6 of paragraph 2 at least one month in advance.

ARTICLE 67 *Foreign insurance undertakings which are headquartered in a Member State and which have obtained an operating licence from the supervisory authorities may provide services in Iceland without an establishment, provided they are authorised to carry on insurance activities in the same classes of insurance and sub-classes in their home State.*

Should a direct insurance undertaking make a request to provide services in Iceland without an establishment, the Financial Supervisory Authority shall obtain the following information and documentation from the supervisory authorities in its home State:

1. a certificate from the supervisory authority that the requirements concerning solvency margin for the undertaking's operations as a whole are fulfilled;
2. lists of the insurance classes and sub-classes which the undertaking is licensed to pursue;
3. a list of the types of risk the undertaking proposes to insure in Iceland;
4. confirmation of membership in International Motor Insurance in Iceland (Alþjóðlegar bifreiðatryggingar á Íslandi sf.) and of participation in the operation of a compensation body and an information centre pursuant to the Road Traffic Act if applying for a licence pursuant to Article 21 (1) (10). Information shall also be provided on claims representatives in each Member State outside Iceland;
5. examples of the terms of compulsory insurance which the undertaking proposes to pursue in Iceland and, where applicable, the technical basis of life assurance and health insurance.

The undertaking may provide services in Iceland once the Financial Supervisory Authority has announced that all the documentation provided for in paragraph 2 have been received by the Authority.

The undertaking must communicate to the Financial Supervisory Authority in writing any changes concerning points 2.–5 of Article 2 at least one month in advance.

An undertaking which offers services without an establishment, as provided for in Article 21(1)(10), shall ensure that those entitled to benefits resulting from damage in Iceland are not in a less fortunate position than others due to the lack of an establishment. The representative referred to in point 4 of paragraph 2 shall obtain all necessary documentation relating to the loss and shall have full authorisation to pay benefits and appear on behalf of the undertaking in Iceland. He/She must also provide the competent entities in Iceland with information as to whether legally mandated vehicle insurance has been provided and its period of validity.

ARTICLE 68 Supervisory authorities of Member States, or representatives they appoint, may, after having notified the Financial Supervisory Authority thereof, conduct such on-site investigations of insurance undertakings, to which they have granted operating licences and which carry on operations in Iceland, as necessary for the enforcement of legally mandated supervision of the operations in Iceland of branches of undertakings in Member States. The Financial Supervisory Authority may participate in such investigations. Costs incurred as a result shall be defrayed by the supervisory authorities of the Home State.

ARTICLE 69 The Financial Supervisory Authority shall provide the supervisory authorities of the home States concerned with information on the activities of branches in Iceland, so that they can make an overall assessment of the solvency margin of insurance undertakings operating in Iceland which are under their supervision.

The Financial Supervisory Authority may take any measures necessary to safeguard the interests of policyholders and insured, should the undertaking fail to fulfil the conditions required concerning the solvency margin and the technical provisions. It shall, when necessary, take measures to prohibit the undertaking from disposing freely of assets located in Iceland or to impose restrictions in accordance with the provisions of the laws applicable thereto, after consulting the supervisory authorities of the home State if possible.

The Financial Supervisory Authority may prohibit a foreign insurance undertaking which operates a branch or provides services in Iceland from remaining in business if it grossly and repeatedly violates the provisions of this Act or Regulations issued pursuant thereto. or the provisions of other Acts applicable to financial activities, and if it has not been possible by means of demands or through action pursuant to the present Act to have what has gone awry remedied.

ARTICLE 70 If an insurance undertaking which has a branch or offers services in Iceland makes a request to transfer its insurance portfolio, in whole or in part, to another undertaking with an establishment in the European Economic Area, the supervisory authorities of the home State of the former may authorise the transfer of the portfolio after receiving confirmation from the supervisory authorities of the home State of the latter that the required solvency margin requirements will be fulfilled following the acquisition of the portfolio and after consultation with the Financial Supervisory Authority. Where the insurance risk is situated in Iceland, the approval of the Financial Supervisory Authority shall always be required for the transfer to take place. The provisions of Article 82(2) shall apply to public notices concerning insurance portfolio transfers when the insurance risk is situated in Iceland.

The rights and obligations of policyholders, the insured and others pursuant to insurance contracts shall be governed by Article 82(4).

The Financial Supervisory Authority shall provide its opinion within three months of receiving the request for transfer; otherwise, it shall be deemed to take a positive view of the transfer.

ARTICLE 71 Should the supervisory authorities of its home State revoke the operating licence of an undertaking which has a branch or provides services in Iceland, the Financial Supervisory Authority shall, upon receiving notification thereof, take appropriate measures to prevent the undertaking from entering into any further insurance contracts in Iceland. It shall cooperate with the supervisory authorities concerned in order to safeguard, as far as possible, the interests of policyholders and the insured; if necessary, the provisions of Article 69 on restrictions to or prohibition of the free disposal of assets shall apply.

ARTICLE 72 An insurance undertaking which operates a branch or provides services in Iceland shall notify the Register of Insurance Companies of any changes to the particulars provided for in Article 30, insofar as applicable. If a new plan of operation, as provided for in Article 25, is compiled, this shall also be forwarded.

The Financial Supervisory Authority may require that all documentation which must be sent to the Authority in relation to activities in Iceland be provided in Icelandic translation by a certified translator.

ARTICLE 73 *Foreign insurance undertakings in Iceland with headquarters outside the European Economic Area*

Foreign insurance undertakings headquartered in a non-Member State, which hold operating licences for insurance activities in their home country, can obtain authorisation from the Financial Supervisory Authority to operate business activities in a branch in Iceland in accordance with this Act, provided Icelandic insurance undertakings enjoy rights no less favourable in their home country.

Before insurance undertakings headquartered in a non-Member State are granted operating licences in Iceland, the parties to the Agreement Establishing a European Economic Area shall liaise on the granting of the authorisation.

The undertaking must be registered in Iceland and must appoint one general agent, approved by the Financial Supervisory Authority who shall represent it in questions concerning its activities and be authorised to obligate the undertaking concerning its activities in Iceland. He/She must be a resident of Iceland, be legally competent to manage his/her own affairs, have an unblemished reputation and may not, during the last five years, have been declared bankrupt nor, in connection with business operations, been adjudged guilty of an act punishable under the General Penal Code or the Act respecting Public Limited Companies, the Act respecting Private Limited Companies, the Accounting Act, the Act on Annual Accounts, the Act on Bankruptcy, or the Act on the Withholding of Public Levies at Source, nor under legislation on insurance activities.

For matters relating to its activities in Iceland, the undertaking shall have its legal venue in Iceland and may be sued in Icelandic courts for the satisfaction of claims arising from those activities.

Accounting records and other documentation concerning the branch's activities shall be kept at the branch itself.

An agreement with one or more third countries may be concluded whereby regulatory provisions other than those set forth in this Act will apply to the branch's activities, provided the insured are ensured sufficient and comparable protection. Such agreements may not grant to branches of undertakings headquartered outside the European Economic Area conditions more lenient than for branches of insurance undertakings headquartered there. Other Member States shall be consulted concerning agreements of such kind and shall be provided with information thereon prior to their conclusion.

ARTICLE 74 Applications for an operating licence and registration in the Register of Insurance Companies shall be sent to the Financial Supervisory Authority accompanied by documentation as provided for in Articles 19-25 insofar as applicable and as necessary to enable the Financial Supervisory Authority to evaluate the application. Samples of the insurance terms and premium basis in the insurance classes which the undertaking proposes to pursue in Iceland shall also accompany the application.

The undertaking must fulfil the requirements of Chapter V on financial basis, based on its activities in Iceland as applicable; its solvency margin shall, however, never be less than half of the relevant amount provided for in Article 34. The undertaking must have in Iceland funds amounting to one-half the amount provided for in Article 34 or one-third of the minimum solvency margin, whichever is higher, while assets in excess of this and up to its minimum solvency margin shall be kept in a Member State. Common supervision by one Member State of all branches of the undertaking in Member States may replace the method described in the present paragraph; supervisory procedures shall be in accordance with the cooperative agreement of the Member States. In such case the provisions of Article 68 concerning supervision of the solvency margin of the branches shall apply as appropriate.

An amount corresponding to one-fourth of the minimum required in Article 34 shall be put up as an initial deposit and kept in a location approved by the Financial Supervisory Authority. The deposit may be used only to ensure that the undertaking can meet its obligations under insurance contracts concluded in Iceland. Individual insured parties or other insurance contract beneficiaries may not demand enforcement of payment beyond such limits as the Financial Supervisory Authority deems not to prejudice the rights of other insured for satisfaction of the undertaking's underwriting liabilities.

The undertaking shall invest in Iceland assets corresponding to its technical provisions due to activities in Iceland, as these stand in accordance with computation and assessment rules which apply in Iceland.

Before making a final decision thereupon, the Financial Supervisory Authority shall disclose to the appropriate supervisory authorities in Member States and to the EFTA Surveillance Authority of any application by a subsidiary of a parent undertaking headquartered in a third country for an operating licence in Iceland, and if parties acquire, directly or indirectly, a holding in an insurance undertaking which has an operating licence in Iceland, so that the latter becomes the subsidiary of the former.

ARTICLE 75 The general agent shall send to the Financial Supervisory Authority the annual accounts of the foreign undertaking, as well as the annual accounts for its activities in Iceland, no later than one month after their adoption, along with the annual report, with the endorsement of the Board of Directors and an audit report. The annual accounts for activities in Iceland shall be received no later than four months after the end of each financial year. The requisite documentation according to the rules laid down by the Financial Supervisory Authority shall accompany it, including the documentation provided for in Articles 36 and 37 on assets intended to cover the technical provisions. The provisions of Chapter VII shall apply as applicable to the branch.

The general agent shall notify the Financial Supervisory Authority without delay and in writing should the supervisory authorities in the undertaking's home State make comment on its activities, if a moratorium on payments has been decided upon, if a decision has been taken to wind up the undertaking, or if its estate has been subjected to bankruptcy proceedings.

ARTICLE 76 If the undertaking violates legislation on insurance activities or neglects the its duties thereunder in such a way that the interests of policyholders and the insured are jeopardised, the Financial Supervisory Authority shall give the undertaking a specific time limit for taking the necessary remedial measures. If satisfactory measures have not been taken within this time limit and the Financial Supervisory Authority deems the interests of policyholders and insured to be jeopardised, the Authority may appoint a new general agent to conclude any transactions and settlements connected with the undertaking's activities in Iceland. For such purposes he/she shall be authorised to dispose of the undertaking's assets in Iceland to the extent permitted by the Financial Supervisory Authority.

The provisions of Chapters XI and XII shall apply, insofar as applicable, to the branch.

ARTICLE 77 The Financial Supervisory Authority may revoke the undertaking's operating licence if the undertaking no longer satisfies the requirements for an operating licence or grossly neglects its duties under this Act.

When a licence is revoked, the Financial Supervisory Authority shall decide whether to make an attempt to transfer the insurance portfolio to one or more insurance undertakings carrying on insurance activities in Iceland, or whether the undertaking shall by other means attempt to discharge its liabilities arising from insurance contracts entered into. When life assurance activities are being carried on, the Financial Supervisory Authority may decide that the life assurance portfolio be put under special management, cf. Article 92.

Upon the revocation of an undertaking's operating licence, the Financial Supervisory Authority may limit or prohibit the undertaking's control of its funds and assets.

ARTICLE 78 The undertaking shall be struck from the Register of Insurance Companies if it loses its operating licence pursuant to Article 77, provided its dealings and the settlement of its liabilities in Iceland are fully concluded.

Should an undertaking communicate its request to terminate its business activities in Iceland and for its establishment to be removed from the Register of Insurance Companies, this shall be done only if the Financial Supervisory Authority considers further operation of the establishment not to be necessary due to obligations for which it is responsible. The same shall apply if the undertaking has no general agent in Iceland and none has been appointed within the time limit set by the Financial Supervisory Authority. The Authority can in such case appoint a general agent in accordance with the provisions of Article 76.

The deposit set aside pursuant to Article 74 may be released only once the undertaking's operating licence has been revoked and the undertaking can demonstrate that it has satisfied all its liabilities in Iceland, or that adequate collateral for its liabilities has, in the opinion of the Financial Supervisory Authority, been provided.

Chapter X Foreign activities of insurance undertakings licensed in Iceland

ARTICLE 79 A direct insurance undertaking which has obtained an operating licence in Iceland and makes a request to operate a branch in another Member State shall communicate this to the Financial Supervisory Authority and submit the following documentation:

1. the name and address of the branch where the undertaking's appointed representative is located;
2. the name of the appointed branch representative, who shall be authorised to obligate the undertaking towards third parties and to appear on its behalf before the Member State's courts;
3. a plan of the branch's proposed activities and structure;
4. a list of the insurance classes and sub-classes which the undertaking plans to operate;
5. when the operation of activities provided for in Article 21(1)(10) is planned, a declaration that the undertaking is member of a national bureau and, if applicable, a special guarantee fund, in the Member State concerned.

If the Financial Supervisory Authority has no comment to make concerning the proposed activity, financial situation or the eligibility and professional expertise of the management or the appointed branch representative, the Financial Supervisory Authority shall, within three months of receiving all the above-listed documentation, send the supervisory authorities of the host State the documentation, together with a certificate attesting that the undertaking fulfils the requirements for solvency margin as provided for in Article 31–34, as applicable. The undertaking shall also send notice that the said documentation has been sent.

The Financial Supervisory Authority may refrain from forwarding the documentation provided for in paragraphs 1 and 2 if it has reason to doubt that the operational structure or financial situation is satisfactory as a basis for the proposed activity. A notice to the effect that the above-mentioned documentation will not be forwarded to the supervisory authority of the Member State in question shall be sent to the undertaking within three months and the grounds specified in writing.

The undertaking may establish the branch and commence activity once notification has been received from the supervisory authorities of the host State or, if no such notification has been received, two months after all documentation provided for in paragraph 1 and 2 has been received by them.

The undertaking must communicate any changes to items in paragraph 1 to the Financial Supervisory Authority and the supervisory authorities in the State where the branch is taking up activities in writing at least one month in advance.

ARTICLE 80 Should a direct insurance undertaking which has obtained an operating licence in Iceland wish to provide services in another Member State without having an establishment there, the undertaking must notify the Financial Supervisory Authority thereof, together with information on which classes or sub-classes of insurance it proposes to provide services. The Financial Supervisory Authority shall, within one month, send the supervisory authority of the Member State concerned the following documentation, at the same time notifying the undertaking that the information has been sent.

1. a certificate that the solvency margin for the undertaking's total activities is satisfactory;
2. a list of the insurance classes and sub-classes which the undertaking is licensed to operate;
3. a list of the insurance classes and sub-classes which the undertaking plans to operate in the Member State;
4. a declaration that the undertaking is a member of a national bureau and, if applicable, of a special guarantee fund in the Member State concerned, if planning to offer services as provided for in Article 21(1)(10); and the name and address of a special representative who handles settlement of claims in that sub-class.

The undertaking may provide services once it has received notification that the information provided for in paragraph 1 has been sent and confirmation of its receipt.

If the Financial Supervisory Authority does not send the above-listed information within the prescribed time, it shall inform the undertaking of the reasons within the same time period.

The undertaking must inform the Financial Supervisory Authority of any changes in writing at least one month in advance.

ARTICLE 81 If a direct insurance undertaking which has obtained an operating licence in Iceland proposes to commence activities in a state outside the European Economic Area, it shall notify the Financial Supervisory Authority thereof in advance, together with a description of the proposed activities and other information requested and deemed necessary by the Financial Supervisory Authority.

The provisions of Articles 79 and 80 shall also apply to direct insurance undertakings headquartered outside the European Economic Area which have obtained a licence to operate a branch in Iceland and propose to take up activity in a Member State. The Financial Supervisory Authority may, however, allow itself a longer period of time to deal with such cases than specified there. It shall consult with the supervisory authorities of Member States before adopting a position on the application.

Chapter XI Transfer of portfolio Mergers between undertakings

ARTICLE 82 *Transfer*

Should an insurance undertaking which has obtained an operating licence in Iceland make a request to transfer its insurance portfolio in whole or in part to another undertaking which has also obtained an operating licence in Iceland, both undertakings must send the

Financial Supervisory Authority an application for transfer, along with a draft agreement between the undertakings and any documentation the Authority considers necessary. The Financial Supervisory Authority shall examine the application, having regard to the interests of both undertakings and whether there is reason to expect that the transfer could be detrimental to policyholders, the undertakings' insured, and others who have a special interest at stake.

Should the Financial Supervisory Authority consider that authorisation for the transfer should be refused, the undertakings shall be notified thereof without delay. Otherwise, in case of insurance risk situated in Iceland, cf. Article 10, the Financial Supervisory Authority shall make public a notice concerning the request for transfer and call for written comment from policyholders, insured persons, and others who have a special interest at stake, within a specified time limit which shall not be shorter than one month.

The Financial Supervisory Authority shall grant permission for the transfer, once the time limit referred to in paragraph 2 has expired, if it deems, having regard for the comments submitted, that the transfer request should be acceded to.

The rights and obligations of policyholders, insured and others under insurance contracts shall automatically retain their validity after the transfer. Policyholders may cancel their insurance contracts with the undertaking as of the date the transfer of the insurance portfolio takes place if they send written notice of the cancellation within one month of the transfer date.

ARTICLE 83 The Financial Supervisory Authority may authorise an insurance undertaking which has obtained an operating licence in Iceland and so requests, to transfer its insurance portfolio in Iceland in whole or in part to another undertaking with an establishment in the another Member State if the supervisory authorities of the home State of the undertaking accepting the portfolio confirm that the required solvency margin requirements are satisfied, taking into account the transferred portfolio. The supervisory authorities in the Member State where the insurance risk is situated, cf. Article 10, must always give their consent for the transfer. The provisions of Article 82 shall apply to the transfer.

The Financial Supervisory Authority may also authorise a branch of an insurance undertaking headquartered in a non-Member State, which has an operating licence in Iceland, to transfer its insurance portfolio in Iceland, in whole or in part, to another an insurance undertaking, in which case the provisions of Article 82 shall also apply to the transfer.

Transfers relating to the portfolios of insurance undertakings headquartered in another Member State with branches or providing services in Iceland shall be governed by the provisions of Article 70.

ARTICLE 84 *Mergers*

If insurance undertakings which have obtained an operating licence in Iceland request that a merger be effected through the acquisition of one or more insurance undertakings by means of their dissolution, in such manner that all the assets and liabilities will be transferred completely without liquidation proceedings, all the insurance undertakings involved must send the Financial Supervisory Authority an application for transfer, together with a draft agreement between the insurance undertakings on the merger and whatever documentation the Authority considers necessary. The same shall apply if two or more insurance undertakings request that a merger be effected through the establishment of a new an insurance undertaking, with the dissolution of the insurance undertakings without liquidation proceedings, in such manner that all the assets and liabilities will be transferred to the new undertaking. Authorisation for the transfer of insurance portfolios, cf. Article 82, must be granted for such merger to take place.

The provisions of paragraph 1 shall also apply to undertakings according to Article 13 which make a request to transfer their assets and liabilities entirely to an insurance undertaking without liquidation proceedings.

A merger, either by acquisition or through the establishment of a new undertaking, may be authorised even if one or more of the insurance undertakings which are acquired or which are to be dissolved undergo liquidation proceedings, provided that this option be open only to undertakings which have not yet begun distributing their assets to their owners.

ARTICLE 85 The draft merger agreement, which must accompany an application, shall specify, *inter alia*, how payment is to be made for shares in insurance undertakings which terminate their insurance activities, when shares potentially used as payment shall convey rights to dividends and other privileges, what rights shareholders of an undertaking terminating its activities acquire in the undertaking taking over its assets and liabilities, and any other measures which may involve alterations in the rights of shareholders. It shall also state whether Board Members or Managing Directors shall enjoy any specific benefits and, in such case, which.

Certified financial statements shall be submitted, listing the assets and liabilities of each undertaking on the date of the proposed merger, along with the joint initial balance following the merger; the statements may not be more than six months old when the decision is taken to effect the merger. The Financial Supervisory Authority may however, authorise the use of the undertakings' annual financial statements from the preceding financial year-end.

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

The Financial Supervisory Authority shall grant an authorisation for the merger. The operating licences of the undertaking or insurance undertakings ceasing insurance activities shall be revoked as of the date specified by the Financial Supervisory Authority, and the undertaking or insurance undertakings shall be struck from the Register of Insurance Companies.

Chapter XII. Special measures.

ARTICLE 86 *Measures relating to insufficient solvency margin*

If an insurance undertaking which has obtained an operating licence in Iceland fails to satisfy minimum requirements for solvency margin according to its annual financial statement, or at any other time, the undertaking must immediately draw up a plan for when and how this objective will be achieved; such plan must be submitted to the Financial Supervisory Authority, which shall decide whether the measures to be taken are deemed adequate. Such a plan shall cover a period of time of at least the following three financial years, and shall include, *inter alia*:

1. estimated operating costs, including the cost of the current senior management, and commissions;
2. a detailed plan of income and expenditures in direct insurance, in reinsurance the undertaking may take on, and relating to its reinsurance cover.
3. a forecast balance sheet;
4. an explanatory report on financial resources intended to meet underwriting liabilities and the minimum solvency margin;
5. the planned reinsurance cover

While such a plan is in effect, a certificate of solvency margin relating to plans for activities abroad, cf. Article 79(1) and Article 80(1), should neither be issued nor should the undertaking be authorised to receive insurance portfolios, cf. Article 70(1) and Article 82(1).

If an insurance undertaking's solvency margin is less than one-third of the required amount, or is less than the minimum amount specified for the activities operated by the undertaking, cf. Article 34, whichever is higher, then the plan pursuant to paragraph 1 shall aim to set right the undertaking's finances within a short period of time, for which the Financial Supervisory Authority shall set for the undertaking a definite deadline.

If an undertaking's technical provisions are, in the estimation of the Financial Supervisory Authority, underestimated in the annual accounts or at some other point in time, or if its financial situation has otherwise deteriorated in such a way that the requisite solvency margin requirements fail to be satisfied, appropriate measures shall similarly be taken.

If technical provisions are underestimated, the underestimated amount shall reduce the solvency margin.

If the adjusted solvency margin of an insurance undertaking or its parent undertaking is less than the minimum solvency margin pursuant to Articles 32–34 plus the share of the minimum solvency margin of all holding insurance undertakings and subsidiaries which are insurance undertakings, the undertaking must immediately draw up a plan for when and how this objective will be achieved; such plan must be submitted to the Financial Supervisory Authority, which shall decide whether the measures to be taken are deemed adequate. The minimum solvency margin of holding insurance undertakings and subsidiaries shall be calculated according to the Articles referenced, even though other rules may apply in their home State.

Should the Financial Supervisory Authority consider the finances of an insurance undertaking to be such that the rights of policyholders, the insured, or others who have a special interest at stake are endangered, it may require a plan as if the solvency margin were insufficient, cf. paragraph 1.

The Financial Supervisory Authority may restrict or prohibit an insurance undertaking which has obtained an operating licence in Iceland from disposing of its assets and property if such action forms part of an effort to turn around its finances, cf. paragraphs 1–5. The Financial Supervisory Authority may also restrict or prohibit the issuance of new insurance certificates. A decision to such effect must be communicated to the supervisory authorities of Member States as appropriate.

If the undertaking is operating in accordance with a plan pursuant to Article 25 or pursuant to paragraph 1 of the present Article, and if the undertaking's financial situation has deteriorated relative to that plan, the Financial Supervisory Authority shall decide on necessary measures and require a new three-year operating plan be submitted if necessary.

ARTICLE 87 *Financial reorganisation*

By the financial reorganisation of an insurance undertaking is meant a measure involving the intervention of a court of law and intended to safeguard or rehabilitate the financial position of an insurance undertaking, impacting the rights of parties other than the insurance undertaking itself. Such measures include a moratorium on payments and composition with creditors.

The Act on Bankruptcy, etc., No. 21/1991, shall apply to an insurance undertaking's authorisation for a moratorium on payments and for seeking a composition with creditors, save as otherwise provided in the present Act.

The court shall ensure that the Financial Supervisory Authority is immediately informed of any request submitted by an insurance undertaking for an authorisation of a moratorium on payments or to seek composition with creditors. The Financial Supervisory Authority shall notify the supervisory authorities of other Member States if an insurance undertaking is granted authorisation for a moratorium on payments or to seek composition with creditors.

The ruling of a court in another Member State on the financial reorganisation of an insurance undertaking headquartered in that Member State shall apply to the insurance undertaking's branches in Iceland.

Notice shall be given to creditors on a decision on a licence granting an insurance undertaking a moratorium or authorising it to seek composition with creditors in accordance with the provisions of Articles 13 and 44 of the Act on Bankruptcy, etc.

An announcement pursuant to paragraph 5 to policyholders, the insured, and others who have a claim against an insurance undertaking arising from insurance contracts, and who are domiciled, normally resident or headquartered in another Member State, shall specifically state how a decision authorising a moratorium on payments or the seeking of composition with creditors will affect the insurance contract, and information on their rights and obligations. Such announcement shall be in the language of the State where the person concerned is domiciled, has a normal place of residence or headquarters.

A creditor who is has a domicile, a normal residence or headquarters in another Member State may lodge a claim pursuant to Article 45 of the Act on Bankruptcy, etc., in the language of that State. The heading of the lodgement of claim shall, however, be in Icelandic.

The authorisation for a branch of an insurance undertaking headquartered in a non-Member State for a payment moratorium or to seek composition with creditors shall be governed by Icelandic law. If the undertaking has branches in more than one Member State, each branch shall be regarded as an independent legal person. The supervisory authorities shall, however, coordinate their efforts, and the same shall apply to the debtors' moratorium assistants and composition agents.

ARTICLE 88 Icelandic law shall govern the financial reorganisation of an insurance undertaking unless otherwise laid down in the present Article.

Employment contracts shall be governed by the law of the State applicable to the employment contract and the employment relationship.

Contracts for the use or purchase of immovable property shall be governed by the law of the State where the immovable property is located.

The rights of an insurance undertaking in respect of immovable property, a ship or an aeroplane shall be governed by the law of the State where public registration has taken place.

An insurance undertaking's authorisation for a moratorium on payments or to seek composition with creditors shall not affect the rights of the proprietors of rights in rem relating to property rights which are situated in another Member State at the time the authorisation is granted. Icelandic law shall apply, however, to the rights and obligations of parties subject to official supervision in Iceland.

In the case where an insurance undertaking has purchased a property with a reservation of title, the insurance undertaking's authorisation for a payment moratorium or to seek composition with creditors shall not affect the seller's rights based on the reservation if the property is situated in another Member State. The insurance undertaking's authorisation for a moratorium on payments or to seek composition with creditors shall not affect the insurance undertaking's sale of an asset if delivery has already taken place and if the asset was in another Member State at the time the authorisation was granted.

Notwithstanding the provisions of paragraphs 5 and 6, the provisions of Chapter III of the Act on Contracts, Agency and Void Legal Instruments No. 7/1936, may be applied to void legal instruments, unless not permitted by the law of the host State.

If an insurance undertaking has sold an immovable property, a ship or an aircraft subject to public registration or negotiable securities or other securities on a regulated market after authorisation has been obtained for a moratorium on payments or to seek composition with creditors, the law of the State where the property is situated or where the public registration has taken place shall govern the legal validity of the legal instrument.

The effects of an insurance undertaking's authorisation for a payment moratorium or to seek composition with creditors on a lawsuit concerning property or other rights of which an insurance undertaking has been divested shall be governed by the law of the Member State where the suit was brought.

The remedies available to a debtor's moratorium assistant and a composition agent under Icelandic law shall also be theirs in other Member States. The application of such remedies in another Member State shall, however, be governed by the laws of that Member State as applicable.

ARTICLE 89 *Revocation of an operating licence*

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

If satisfactory measures have not been taken within the time limit set the Financial Supervisory Authority may revoke the undertaking's operating licence. The Financial Supervisory Authority may, however, extend the time limit if it considers it likely that the measures already taken by the undertaking will result in the requisite improvements within a short time.

An operating licence may also be revoked if an undertaking fails to utilise it within twelve months of the date of issue, or if business activities have been suspended for six months or longer.

ARTICLE 90 The Financial Supervisory Authority shall revoke the operating licence of an insurance undertaking if the undertaking has not taken the necessary measures to set right its financial situation, if the undertaking no longer fulfils the requirements for an operating licence, or if it grossly neglects its obligations under the legislation on insurance activities, thus jeopardising the interests of its policyholders and the insured.

Revocation of an operating licence must always be supported by detailed grounds and communicated in writing to the undertaking concerned.

Should the Financial Supervisory Authority revoke an operating licence it must notify the supervisory authorities of the Member States, which must take appropriate measures to prevent the undertaking from assuming new undertaking liabilities within their jurisdiction, in a branch office or through providing services there.

The Financial Supervisory Authority shall, with a view to protecting the interests of policyholders and insured and in consultation with other supervisory authorities concerned, restrict as necessary the free disposal of the undertaking's assets if the technical provisions have been underestimated, requirements for solvency margin are not satisfied and there is a danger of the undertaking's financial situation deteriorating if no action is taken.

ARTICLE 91 *Winding up*

If the operating licence of an insurance undertaking is withdrawn, the Financial Supervisory Authority shall appoint for the undertaking a three-person Resolution Board. The Resolution Board shall assume all the powers of the undertaking's Board, which shall subsequently have no authority. The Resolution Board shall immediately call a meeting of shareholders and inform them of the situation.

The Financial Supervisory Authority shall, after consulting the Resolution Board, decide whether the undertaking shall seek to transfer its insurance portfolio to one or more other insurance undertakings, or whether the undertaking shall make an attempt to conclude its settlement by other means. The Financial Supervisory Authority may, in the case of a life assurance undertaking, decide that the life assurance portfolio shall be handled separately as provided for in Article 92.

The Resolution Board shall, in consultation with the Financial Supervisory Authority, decide whether to petition for bankruptcy for the undertaking or whether it should remain in business. The Financial Supervisory Authority may restrict or prohibit disposal by the undertaking of its assets, and may require the undertaking to be declared bankrupt should it deem it likely that the interests of policyholders and the insured will otherwise be jeopardised.

Remuneration to the Resolution Board and costs incurred by it shall be paid from the assets of the insurance undertaking concerned as a claim in advance of the order of priority. The same shall apply to costs arising from demand of the Financial Supervisory Authority for bankruptcy proceedings. The Financial Supervisory Authority and the Resolution Board shall be exempt from the provisions of Article 67(2) of Act No. 21/1991 on Bankruptcy, etc., concerning a deposit to guarantee a specific amount to cover costs.

ARTICLE 92 If a Resolution Board is appointed for an undertaking which pursues life assurance activities and it is decided that its life assurance portfolio be handled separately, the Financial Supervisory Authority shall immediately take custody of the assets set aside to cover technical provisions, have the provisions recalculated and the value of the assets assessed. The settlement of payable and reported life assurance claims shall be completed according to the rules in effect prior to the appointment of the Resolution Board. Life assurance claims which are not yet due for payment may be paid to the extent deemed defensible by the Financial Supervisory Authority in view of the undertaking's equity status. Surrenders are not allowed except as settlement of loans secured by life assurance policies.

Immediately upon the completion of the revaluation provided for in paragraph 1, the Financial Supervisory Authority shall seek other life assurance insurance undertakings willing to take over the life assurance portfolio and technical provisions. The Financial Supervisory Authority shall evaluate any offers made and choose that which it deems most advantageous for the insured. The Financial Supervisory Authority shall publicly announce the main features of the bid it has chosen, at the same time seeking comment from policyholders and insured parties, to be received by the Authority in writing within one month of the publishing of the announcement. Once any comments have been received, the Financial Supervisory Authority may transfer the portfolio to the life assurance undertaking the Financial Supervisory Authority had chosen, together with assets to cover the technical provisions, provided the recipient thereupon assumes all obligations arising from the life assurances.

Those policyholders or insured who have submitted comments and are unwilling to agree to the transfer shall be entitled to a repayment of the value of their life assurance insofar as can be covered by their relative assets.

Should no bids be received for the life assurance portfolio, or none which the Financial Supervisory Authority is willing to recommend, the assets of the insured shall be paid to them in direct proportion to the value of their life assurance policies.

ARTICLE 93 Should it be decided to petition for bankruptcy proceedings for a life assurance undertaking, the Act on Bankruptcy, etc., No. 21/1991 shall apply, unless otherwise provided in the present Act.

The provisions of Article 92, on separate handling of the life assurance portfolio, shall apply, and the Financial Supervisory Authority may demand from the bankruptcy estate any documentation necessary to conclude its settlement and disposal. In addition to a public notice pursuant to Article 92(2), the Financial Supervisory Authority shall inform policyholders, the insured, and others who have a claim against an insurance undertaking arising from insurance contracts and are domiciled, normally resident or headquartered in another Member State, of the proposed insurance portfolio transfer. Such notice shall be in the language of the State where the person concerned is domiciled, normally resident or headquartered. If special handling of the life assurance portfolio has been decided upon before the submission of a petition for bankruptcy, this shall not affect actions pursuant to the present Article and Article 92.

Upon of a life assurance undertaking's bankruptcy proceedings, assets set aside to cover technical provisions shall neither be included in the assets of the bankruptcy estate nor shall the technical provisions be included in its liabilities. In case of failure to complete payment of a life assurance claim with the assets set aside to cover the technical provisions, the life assurance claim on the undertaking's bankruptcy estate will be governed by Article 94(11).

The court shall ensure that the Financial Supervisory Authority is informed forthwith of any demand submitted for a life assurance undertaking be subjected to bankruptcy proceedings. The Financial Supervisory Authority shall notify other Member State supervisory authorities if the estate of such undertaking has been subjected to bankruptcy proceedings.

A court ruling in another Member State to the effect that the estate of a life assurance undertaking headquartered in that State shall be subjected to bankruptcy proceedings covers the branches of such undertaking in Iceland.

A life assurance undertaking's authorisation for a moratorium on payments or to seek composition with creditors shall not preclude a petition to initiate bankruptcy proceedings for the undertaking.

When a life assurance undertaking's estate has been received for bankruptcy proceedings, the Financial Supervisory Authority, having received the information from the Resolution Board pursuant to Article 91, shall publicly announce a decision to appoint a Resolution Board, an invitation to lodge claims for the bankruptcy proceedings, and shall publicly provide information on which law governs the bankruptcy proceedings. An extract of the announcement must also be published in the Official Journal of the European Union.

The Resolution Board shall notify any creditor who is domiciled, has a normal place of residence or headquarters in another Member State of a life assurance undertaking's bankruptcy proceedings. The heading of the announcement shall be: Invitation to lodge a claim for bankruptcy proceedings, time limit for lodgement of claim, in the languages of all the Member States.

The Resolution Board's notice pursuant to paragraph 8 to policyholders, insured persons and others having a claim against the undertaking arising from life assurance contracts and who are domiciled, normally resident or headquartered in another Member State, shall specifically state how a ruling to open bankruptcy proceedings will affect life assurance contracts, and information on their rights

and obligations. Such announcement shall be in the language of the State where the person concerned is domiciled, normally resident or headquartered.

A creditor domiciled, normally resident or headquartered in a Member State different from that of the undertaking may submit a lodgement of claim in the language of that State. The title of the lodgement of claim shall, however, be in Icelandic.

The supervisory authorities of Member States may request information on the bankruptcy proceedings of an insurance undertaking from the Financial Supervisory Authority.

Bankruptcy proceedings of the branches of a life assurance undertaking headquartered in a non-Member State shall be governed by Icelandic law. If the undertaking has branches in more than one Member State, each branch shall be regarded as an independent legal person. The supervisory authorities shall, however, coordinate their actions, and the same holds true of the Resolution Board.

ARTICLE 94 If a decision is taken to petition for bankruptcy for an insurance undertaking which operates activities other than life assurance, the Act on Bankruptcy, etc., shall apply unless otherwise provided in the present Act.

The court shall ensure that the Financial Supervisory Authority is notified immediately of any demand that has come forward for an insurance undertaking to be subjected to bankruptcy proceedings. The Financial Supervisory Authority shall notify the supervisory authorities of other Member States if the estate of an insurance undertaking has been subjected to bankruptcy proceedings.

A court ruling in another Member State subjecting the estate of a non-life insurance undertaking headquartered in that State to bankruptcy proceedings shall also cover any branches of such undertaking in Iceland.

An insurance undertaking's authorisation for a moratorium on payments or composition with creditors shall not preclude a petition for the undertaking to be subjected to bankruptcy proceedings.

The Financial Supervisory Authority shall, as soon as the estate has been received for bankruptcy proceedings, assess whether the interests of the policy holders and the insured would be best served by transferring the insurance portfolio, in whole or in part, to another or other insurance undertakings.

If an offer is made which the Financial Supervisory Authority deems advantageous for policyholders and the insured, the Authority shall put forward a proposal on transferring the portfolio and shall make public the main substance of such agreement. It shall also call for comment from policyholders and insured, which must be received in writing within one month of the publication of the announcement. The Financial Supervisory Authority shall at the same time inform policyholders, the insured and others, who have a claim against an insurance undertaking arising from insurance contracts and who are domiciled, normally resident or headquartered in another Member State, of the proposed insurance portfolio transfer. Such notice shall be in the language of the State where the person concerned is domiciled, normally resident or headquartered. Having taken into consideration any comment, the Financial Supervisory Authority shall, upon the expiration of the time limit, decide whether the proposed transfer of the portfolios is feasible.

When an insurance undertaking's estate has been subjected to bankruptcy proceedings, the Financial Supervisory Authority shall, upon receipt of information from the Resolution Board pursuant to Article 91, publicly announce a decision on the appointment of a Resolution Board, an invitation to lodge claims for the bankruptcy proceedings, and information on the law governing the bankruptcy proceedings. An extract of the notice must also be published in the Official Journal of the European Union.

The Resolution Board must inform a creditor who is domiciled, normally resident or headquartered in another Member State of any bankruptcy proceedings an insurance undertaking is subject to. The heading of the announcement shall be: Invitation to lodge a claim for bankruptcy proceedings, time limit for lodgement of claim, in the languages of all the Member States.

The Resolution Board's notice pursuant to paragraph 8 to policyholders, insured persons and others having a claim against the undertaking arising from insurance contracts and who are domiciled, normally resident or headquartered in another Member State, shall specifically state how a ruling to open bankruptcy proceedings will affect the insurance contract, and information on their rights and obligations. Such announcement shall be in the language of the State where the person concerned is domiciled, normally resident or headquartered.

A creditor who is domiciled, normally resident or headquartered in a Member State different from that of the insurance undertaking may submit lodgement of claim in the language of that State. The title of the statement of claim shall, however, be in Icelandic.

Insurance claims on the bankruptcy estate of an insurance undertaking shall rank immediately ahead of claims provided for in Article 113 of the Act on Bankruptcy, etc.

The supervisory authorities of Member States may request information on the treatment of an insurance undertaking's bankruptcy estate from the Financial Supervisory Authority.

The bankruptcy proceedings of the branch of an insurance undertaking headquartered in non-Member States shall be governed by Icelandic law. If the undertaking has branches in more than one Member State, each branch shall be regarded as an independent legal person. The supervisory authorities shall, however, coordinate their actions, and the same holds true of the Resolution Board.

ARTICLE 95 Icelandic law shall govern the bankruptcy proceedings of an insurance undertaking unless otherwise laid down in the present Article.

Employment contracts shall be governed by the law of the State applicable to the employment contract and the employment relationship.

Contracts for the use or purchase of immovable property shall be governed by the law of the State where the immovable property is located.

The rights of an insurance undertaking in respect of immovable property, a ship or an aeroplane shall be governed by the law of the State where public registration has taken place.

A ruling subjecting an insurance undertaking's estate to bankruptcy proceedings shall not affect the rights of the proprietors of rights in rem relating to assets which were situated in another Member State at the time of the ruling. Icelandic law shall apply, however, to the rights and obligations of parties subject to official supervision in Iceland.

If an insurance undertaking has acquired an asset with a reservation of title, a ruling subjecting the insurance undertaking's estate to bankruptcy proceedings shall not affect seller's rights based on the reservation of title if the asset is situated in another Member State. An insurance undertaking's bankruptcy shall not affect the insurance undertaking's sale of an asset if delivery has already taken place and if the asset was in another Member State at the time of the bankruptcy ruling.

Notwithstanding the provisions of paragraphs 5 and 6, the provisions of Chapter III of the Act on on Contracts, Agency and Void Legal Instruments No. 7/1936, or the provisions of Chapter XX of the Act on Bankruptcy, etc., No. 21/1991, may be applied unless not permitted by the law of the host State.

If an insurance undertaking has sold an immovable property, a ship or an aircraft subject to public registration, or negotiable securities or other securities on a regulated market after a ruling to subject the insurance undertaking's estate to bankruptcy proceedings, the law of the State where the property is situated or where the public registration has taken place shall govern the legal validity of the legal instrument.

The effects of a ruling to subject the estate of an insurance undertaking to bankruptcy proceedings on a lawsuit concerning an asset or other rights surrendered by the insurance undertaking shall be governed by the law of the Member State where the suit was brought.

Remedies available to the Resolution Board under Icelandic law shall also be available to it in other Member States. When applying such remedies in another Member State, the RB shall, however, comply with the law of that Member State as applicable.

ARTICLE 96 When a decision is taken on voluntary winding-up in accordance with the Articles of Association of an insurance undertaking which has obtained an operating licence in Iceland, the undertaking shall submit to the Financial Supervisory Authority a report of its residual liabilities and how it intends to settle these.

The Financial Supervisory Authority shall evaluate and decide whether the interests of policyholders and insured are deemed best served by the transfer of the insurance portfolio to another or other undertakings and, in cases where a life assurance portfolio is involved, whether that portfolio shall be handled separately, cf. Article 92.

The provisions of Articles 93–95 apply to the voluntary winding-up of insurance undertakings as applicable.

Chapter XIII. Sanctions.

ARTICLE 97 *Administrative fines*

The Financial Supervisory Authority may impose administrative fines on any party violating:

1. the second sentence of Article 1(2) concerning activities subject to operating licence;
2. Article 5 on where risk located in Iceland may be directly insured and reinsured;
3. Article 6(1) on good business practice and custom in the insurance business;
4. Article 6(2) on the Financial Supervisory Authority's instructions to remedy whatever has gone awry;
5. Article 7 on authorisation to have a name indicating insurance activities;
6. Articles 11–13 on authorisation of operations;
7. Article 28(1) on applying for the Financial Supervisory Authority's authorisation if an insurance undertaking proposes to take up another class or subclass of insurance, or intends to substantially change its activities;
8. Article 28(3) to the effect that any amendments to an insurance undertaking's Articles of Association must be sent to the Financial Supervisory Authority for its approval within a week of their adoption;
9. Article 30(4) to the effect that all changes concerning matters of which the Register of Insurance Companies is to be notified shall be communicated to the Register as promptly as possible, and no later than within one month's time;
10. Article 36(2) on assets to cover technical provisions;
11. Article 38 on the Board's responsibility to ensure the availability of sufficient expert knowledge to assess and calculate the undertaking's technical provisions;
12. Article 39(4)(1) on an actuary's duty to report to the Financial Supervisory Authority;
13. Article 41 on notification of a qualifying holding;
14. Article 46 on the acquisition of a qualifying holding by an ineligible party;
15. Article 47 on restrictions on the exercise of a holding;
16. Article 48 on notification by an owner;
17. Article 49 on notification by an insurance undertaking;
18. Article 50 on providing information;
19. Article 53(1) on the maximum level of own shares;
20. Article 53(2) on lending secured by own stock as collateral;

21. Article 54(3–5) to the effect that a Board Member not inform the Financial Supervisory Authority of his/her eligibility to serve on the Board;
22. Article 54(6) to the effect that a Board Member not acquire authorisation from the Financial Supervisory Authority to sit on the Board;
23. Article 54(7) on a prohibition against a working chairman of the Board;
24. Article 54(9) on the notification duty concerning the remuneration of Board Members or the Managing Director;
25. Article 54(10) on the notification duty concerning the formation of a group of undertakings or control over another undertaking, and of substantial changes in a group's structure;
26. Article 54(11) on establishing operational procedures;
27. Article 54(12) on the duty of the Board and Managing Director of an insurance undertaking to alert the Financial Supervisory Authority of matters of decisive significance for the undertaking's ability to continue as a going concern;
28. Article 58 on an auditor's duty to notify the Financial Supervisory Authority;
29. Article 59 to the effect that the Financial Supervisory Authority shall be sent the annual accounts and accompanying documentation;
30. Article 60(1) on the duty to inform of business activities abroad;
31. Article 61 on the allocation of dividends;
32. Article 63(4) concerning reporting on dealings with linked parties;
33. Article 65(1–3) on sending in the terms of insurance and the calculation basis of life assurance and health insurance;
34. Article 70(1) on the requirement for Financial Supervisory Authority approval of any portfolio transfer;
35. Article 74(4) on the investment of the funds of an insurance undertaking headquartered outside the European Economic Area;
36. Article 75 on submitting annual accounts and the notification duty of an insurance undertaking headquartered in a state outside the European Economic Area;
37. Article 78(2) on the termination of the business activities of an insurance undertaking headquartered in a state outside the European Economic Area;
38. Article 78(3) on the release of the guarantee funds of an insurance undertaking headquartered in a state outside the European Economic Area;
39. Article 79(1) and 79(5) on the authorisation of insurance undertakings holding an operating licence in Iceland to open branches in another Member State of the European Economic Area;
40. Article 80(1) and 80(4) on the authorisation of insurance undertakings holding an operating licence in Iceland to provide services in another Member State of the European Economic Area;
41. Article 81 on the authorisation of insurance undertakings licensed to operate in Iceland to commence business activities in a state outside the European Economic Area;
42. Article 82(1)(1) on an application for insurance portfolio transfer;
43. Articles 84–85 on mergers;
44. Article 96(1) on the submission of a report to the Financial Supervisory Authority relating to a decision of voluntary winding-up;
45. Settlement between the Financial Supervisory Authority and an entity, cf. Article 98;

Furthermore, the Financial Supervisory Authority may impose administrative fines on any person grossly or repeatedly violating the provisions of Article 6(1) concerning good business practice and custom in the insurance business;

Fines imposed on natural persons may range from ISK 10 000 to 20 000 000. Fines imposed on legal persons may range from ISK 100 000 to 50 000 000. In determining fines, account shall be taken, *inter alia*, of the seriousness of the violation, the duration of the violation, the willingness of the offender to cooperate, and whether the violation is a repeated offence. Decisions on administrative fines shall be made by the Board of the Financial Supervisory Authority and they are enforceable by law. Fines shall accrue to the State Treasury, net of the cost of collection. If administrative fines are not paid within one month from the decision of the Financial Supervisory Authority, penalty interests shall be charged. The determination and calculation of penalty interests shall be pursuant to the Act on Interest Rates and Price Indexation.

Administrative fines shall be imposed irrespective of whether the infringement was committed with intent or through negligence.

ARTICLE 98 *Settlement*

If the party has violated the provisions of this Act, or Financial Supervisory Authority decisions based thereon, the Financial Supervisory Authority may negotiate a settlement with the consent of the party concerned, provided the violation is not a major violation subject to criminal penalties. The settlement is binding for the party once he/she has consented to it and confirmed its content with his/her signature. The Financial Supervisory Authority shall establish further rules on the implementation of the provision.

ARTICLE 99 In a case which involves a natural person and may be concluded with the imposition of an administrative fine or the filing of a complaint with the police, said person has the right, if there is reasonable suspicion that this person has violated the law, to refuse to answer any questions or surrender any documents or articles, unless the possibility that this could affect the outcome of a case brought against him can be excluded. The Financial Supervisory Authority shall advise the suspect of this right.

ARTICLE 100 The authorisation of the Financial Supervisory Authority to impose administrative fines pursuant to this Act expires once five years have passed since said conduct was abandoned.

The time limit pursuant to paragraph 1 is interrupted when the Financial Supervisory Authority notifies the party of the onset of an investigation of the alleged violation. The interruption of a time limit shall have legal effect vis-à-vis everyone involved in the violation.

ARTICLE 101 Fines or imprisonment.

Violating the provisions listed below shall be punishable by fines or imprisonment of up to two years, unless subject to greater punishment under other legislation:

1. Article 1(2)(2) concerning activities subject to licence;
2. Article 6(1) on good business practice and custom in the insurance business;
3. Article 6(2) concerning non-compliance with the instructions of the Financial Supervisory Authority to remedy what has gone awry;
4. Article 30(4) to the effect that all changes concerning matters of which the Register of Insurance Companies is to be notified shall, as promptly as possible, and no later than within one month's time;
5. Article 36(2) concerning assets representing technical provisions;
6. Article 39(4)(1) on an actuary's duty to report to the Financial Supervisory Authority;
7. Article 41 on not notifying the Financial Supervisory Authority;
8. Article 46 on the acquisition of a qualifying holding by an ineligible party;
9. Article 47 on restrictions on the exercise of a holding;
10. Article 50 on the duty to provide information;
11. Article 53(1) on a maximum level of own shares;
12. Article 53(2) on lending secured with collateral in own shares;
13. Article 56 (1–3) on annual accounts;
14. Article 57(2) on auditor eligibility;
15. Article 58 on the duty of auditors to report to the Financial Supervisory Authority;
16. Article 61 on the allocation of dividends;
17. Article 78(2) on the termination of the business operations of an insurance undertaking headquartered in a country outside the European Economic Area;
18. Article 78(3) on the release of the guarantee fund of an insurance undertaking headquartered in a country outside the European Economic Area;
19. paragraphs 1 and 6 of Article 86 on measures relating to insufficient solvency margin.

Furthermore, the same penalty applies to knowingly providing wrong or misleading information on the state of an insurance undertaking or other matters concerning it, publicly or to the Financial Supervisory Authority, to other public entities or to customers.

ARTICLE 102 Any violation of this Act which is punishable by fines or imprisonment shall be punishable whether committed with intent or through negligence.

A court judgement may be obtained in order to confiscate any direct or indirect profit made as a result of a violation of the provisions of this Act punishable by a fine or imprisonment.

An attempted violation of the provisions of this Act or complicity in such violations is punishable as stipulated in the General Penal Code.

ARTICLE 103 Violations of this Act shall be subject to criminal investigation only if preceded by a complaint by the Financial Supervisory Authority to the police;

If an alleged violation of this Act is subject to both administrative fines and penalties, the Financial Supervisory Authority shall weigh whether to file a complaint with the police or conclude the case through an administrative decision made by the Financial Supervisory Authority. If a major violation has taken place, the Financial Supervisory Authority shall file a complaint with the police. A violation is considered major if a considerable amount of money is involved, the act was exceptionally reprehensible, or it was carried out under aggravating circumstances. Furthermore, the Financial Supervisory Authority may at any stage of the investigation refer a violation of this Act for public investigation. Consistency shall be maintained in the resolution of equivalent cases.

Any complaint made by the Financial Supervisory Authority shall be accompanied by a copy of the evidence on which the suspicion is based. The provisions of Chapters IV–VII of the Administrative Procedures Act shall not apply to the decision of the Financial Supervisory Authority to file a complaint with the police.

The Financial Supervisory Authority may provide the police and the public prosecutor's office with information and evidence obtained in relation to the violations specified in paragraph 2. The Financial Supervisory Authority is authorised to participate in operations of the police regarding an investigation of violations specified in paragraph 2.

The police and the public prosecutor's office may provide the Financial Supervisory Authority with information and evidence obtained by them in relation to violations specified in paragraph 2. The police may participate in operations carried out by the Financial Supervisory Authority regarding an investigation of infringements specified in paragraph 2.

Should the public prosecutor consider grounds to be lacking to initiate legal proceedings for the supposed punishable conduct which is also subject to administrative sanctions, the prosecutor may send or refer the case back to the Financial Supervisory Authority for consideration and decision.

Chapter XIV Miscellaneous provisions. Entry into force

ARTICLE 104 The Minister may issue Regulations on the matters addressed in this Act.

ARTICLE 105 Introduction

With this Act, the following Directives of the European Union are or have been implemented: 64/225/EEC, 72/166/EEC, 73/239/EEC, 73/240/EEC, 74/165/EEC, 77/92/EEC, 78/473/EEC, 78/660/EEC, 79/267/EEC, 81/76/EEC, 83/349/EEC, 84/5/EEC, 87/344/EEC, 88/357/EEC, 90/232/EEC, 90/619/EEC, 91/674/EEC, 92/48/EEC, 92/49/EEC, 92/96/EEC, 98/78/EC, 2000/12/EC, 2000/26/EC, 2001/17/EC, 2001/24/EC, 2002/13/EC, 2002/87/EC, 2002/92/EC, 2005/14/EC, 2005/68/EC, 2007/44/EC.

ARTICLE 106 This Act shall enter into force immediately.

Transitional Provision

I. Insurance undertakings which, as of 10 December 2007, had ceased to underwrite new insurance liabilities, their sole business being to handle older reinsurance contracts, shall be exempt from the provisions of Article 34. Notwithstanding the provisions of Article 40, insurance undertakings falling under Article 34 shall annually send the Financial Supervisory Authority a statement of assets to cover technical provisions. The Financial Supervisory Authority shall communicate to other Member States the identity of the insurance undertakings in question. Should an insurance undertaking resume the issuance of new insurance contracts, the undertaking will no longer fall under this provision.

The provisions of Article 54(5) to the effect that Members of the Board may not sit on the board of another insurance undertaking or entities linked thereto, nor be the employees, legal counsel, auditors or actuaries of another insurance undertaking or linked undertakings, shall take effect at the first general meeting of the insurance undertaking following the adoption of the present Act.

Those insurance undertakings which do not, upon the entry into force of this Act, fulfil the provisions of Article 34(1) concerning the minimum amount of the minimum solvency margin shall have until 31 December 2010 to do so. Up until such time, the minimum solvency margin shall, however, at no time be less than 255 000 000 ISK.

II. Notwithstanding Article 56 of this Act, an auditor or audit firm which has provided services to an insurance undertaking for three years or less before the entry into force of this Act may provide that undertaking with services for five years from its entry into force. If services have been provided for more than three years before the entry into force of this Act, the auditor or audit firm may provide services to an insurance undertaking for three years following the entry into force of this Act.