



Latvia



Country Guides: Insurance

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The main sources of insurance regulation in Latvia are laws passed by Saeima (the Latvian Parliament), regulations issued by the Cabinet of Ministers and the regulations issued by the supervisory authority — the Financial and Capital Market Commission. Regulations of the Cabinet of Ministers and the FCMC are issued on the basis of authorisation laid down in the law and address the issues in more detail than the law itself. In the case of discrepancies, the provisions of the law prevail over such regulations. The main legislative acts governing the insurance sector:

- The Law on Insurance Contract.
- The Law on Insurance Companies and Supervision Thereof.
- The Reinsurance Law.
- The Insurance and Reinsurance Intermediaries Law.
- The Compulsory Civil Liability Insurance of Owners of Motor Vehicles Law.

The FCMC has published lists of the general good provisions for both insurers and insurance intermediaries intending to provide insurance services in Latvia under the freedom of establishment or freedom to provide services:

1. For insurers:
 - Conditions Attached to Operations by Way of the Freedom of Establishment in Latvia.
 - Conditions Attached to Operations by Way of the Freedom to Provide Services in Latvia.
2. For insurance intermediaries:
 - Conditions Attached to Operations of Insurance and Reinsurance Intermediaries by Way of the Freedom of Establishment and Freedom to Provide Services in Latvia.

Insurance

The Law on Insurance Companies and Supervision Thereof is the regulation that sets the framework for operation of life insurers and non-life insurers in Latvia.

Licensing

In Latvia, as in many other countries, only properly licensed entities are entitled to offer insurance services, i.e., insurers incorporated in Latvia, Latvian branches of insurers incorporated outside the European Economic Area, as well as insurers from EEA that operate in Latvia on the basis of the freedom of establishment or the freedom of providing services. In Latvia insurers are allowed to use the services of only those insurance intermediaries that are entitled to provide insurance mediation, i.e., are properly licensed.

Just as in all other member states, an insurer is allowed to provide insurance in classes of insurance indicated in its licence. In addition, under Latvian law, non-life insurers are precluded from providing life insurance and life insurers are precluded from providing other types of insurance than life insurance. The law, however, allows a life insurer to provide accident and health insurance, subject to receiving a corresponding licence from the FCMC. The Law on Insurance Companies and Supervision Thereof lays down the general licensing requirements which are specified in more detail by the FCMC regulation.

Requirements for insurer's management

Only a person who has sufficient expertise and education, as well as not less than three years relevant experience and good reputation, can become a member of the management board or supervisory board of a Latvian insurer, a head of internal audit department or chief actuary of a Latvian insurer. These requirements also apply to a person entitled to take material decisions on behalf of a Latvian insurer or on behalf of a Latvian branch of insurer incorporated outside the EEA, as well as to a manager of a Latvian branch of insurer incorporated outside the EEA. The FCMC should receive all information and documents needed for assessment of candidates at least 10 business days prior to these candidates starting to perform their tasks.

Qualified holding

Under Latvian law, a person or persons have a qualified holding if they directly or indirectly control at least 10 per cent of shares on an insurer or are able to influence the financial and operational policies of the insurer substantially. Among other requirements, such person or persons must have a good reputation and be financially stable to be able to make additional investments into the insurance company, if needed. The FCMC is entitled to request and receive information regarding the ultimate beneficiaries (natural persons) of an insurer. Legal persons involved in the identification are obligated to provide the FCMC with requested information for identification of the ultimate beneficiaries.

The person who intends to acquire a qualified holding should inform the FCMC about its intentions prior to acquisitions of qualified holding and provide the FCMC with information, as well as should obtain prior FCMC's approval to acquisition of such holding. Among other things, during the assessment process the FCMC evaluates whether acquisition of qualified holding is related to money laundering or the financing of terrorism, as well as whether such acquisition increases money laundering and terrorism financing risk. If a person or persons holding at least 10 per cent of the shares refuse to provide the FCMC with the information, then they are precluded from using voting rights arising from all shares owned by them. A person who intends to increase its qualified holding to more than the 20, 33 or 50 per cent thresholds should inform the FCMC and provide the FCMC with the information required under the law. In case the shareholding is decreased below the above indicated thresholds, the FCMC should be notified in writing in advance.

Solvency requirements

A Latvian insurer complies with the solvency requirements if its own funds are equal or exceed solvency norm, which is calculated in accordance with a formula laid down by the FCMC and cannot be lower than the minimum amount of the guarantee fund. In a limited number of circumstances listed in the law, the FCMC can impose a higher solvency norm requirement. The minimum amount of the guarantee fund is the higher of: (a) one third of solvency norm; or (b) minimum guarantee fund amount (from €2.2m up to €3.2m, depending on the classes of insurance offered by the insurer). The FCMC has laid down special regulations on calculation of own funds and solvency norm for life insurers and non-life insurers.

Technical provisions

An insurer is required to have sufficient technical provisions to perform its obligations fully and ensure stability of its financial activities. The technical provisions should be in the same currency as the insurer's obligations under the insurance and reinsurance contracts. It is a duty of the insurer to monitor the sufficiency of its technical provisions. The amount of technical provisions is calculated under a procedure laid down by the FCMC regulations.

Investments of insurers

Insurers' investments should be safe, diverse, liquid and profit making to ensure the financial stability and ensure the performance of obligations arising from insurance contracts. Insurers are required to develop procedures for making investments and these procedures should be reviewed at least once a year. The law lists assets that can be attributed to technical provisions and sets requirements for the structure of investments that constitute part of technical provisions, for example, not more than 10 per cent of technical provisions can be attributed to a single real estate and not more than 25 per cent to real estate in general.

Reporting

The accounting of an insurer, including preparation of annual reports and consolidated annual reports, should comply with the Law on Accountancy and with more detailed regulations issued by the FCMC. The chief actuary is required to prepare an actuarial report and the contents of this report are determined by the FCMC regulations.

At least once a year an insurer is required to perform critical situation analysis or stress tests to assess the impact of extraordinary and adverse situations or market conditions on insurer's ability to perform all its obligations under the insurance contracts. The FCMC should be provided with the results of such analysis and with the decision taken by the insurer's management on steps that should be taken to remedy problems identified in the analysis. An insurer is also required to provide the FCMC with a quarterly report to enable the FCMC to carry out insurer's supervision. This report also contains information needed for calculation of statistic data.

The Law on Insurance Companies and Supervision Thereof implements the following directives: [73/239/EEC](#), [73/240/EEC](#), [88/357/EEC](#) (which amended [73/239/EEC](#)), [92/49/EEC](#) (which amended [73/239/EEC](#) and [88/357/EEC](#)), [98/78/EC](#), [2000/26/EC](#) (which amended [73/239/EEC](#) and [88/357/EEC](#)), [2002/83/EC](#), [2002/87/EC](#) (which amended [73/239/EEC](#), [79/267/EEC](#), [92/49/EEC](#), [92/96/EEC](#), [93/6/EEC](#), [93/22/EEC](#), [98/78/EC](#) and [2000/12/EC](#)), [2001/17/EC](#), [91/371/EEC](#), [2005/1/EC](#) (which amended [73/239/EEC](#), [85/611/EEC](#), [91/675/EEC](#), [92/49/EEC](#), [93/6/EEC](#), [94/19/EC](#), [98/78/EC](#), [2000/12/EC](#), [2001/34/EC](#), [2002/83/EC](#) and [2002/87/EC](#)), [84/641/EEC](#) (which amended [73/239/EEC](#)), [90/618/EEC](#) (which amended [73/239/EEC](#) and [88/357/EEC](#)), [2000/64/EC](#) (which amended [85/611/EEC](#), [92/49/EEC](#), [92/96/EEC](#) and [93/22/EEC](#)), [2002/13/EEC](#) (which amended [73/239/EEC](#)), [68/151/EEC](#), [2003/58/EC](#) (which amended [68/151/EEC](#)), [2005/68/EC](#) (which amended [73/239/EEC](#), [92/49/EEC](#), [98/78/EC](#) and [2002/83/EC](#)), [2004/113/EC](#), [2007/44/EC](#) (which amended [92/49/EEC](#), [2002/83/EC](#), [2004/39/EC](#), [2005/68/EC](#) and [2006/48/EC](#)).

Reinsurance

Prior to the Reinsurance Law coming into effect, reinsurance was not a licensed activity and the number of persons who were able to provide reinsurance in Latvia was not limited; however, Latvian insurers were obligated to constantly monitor the solvency and reputation of their reinsurers. The Reinsurance Law adopted in 2008 lays down requirements for rendering reinsurance services, including starting of operations in Latvia on the basis of freedom to provide services and freedom of establishment. The Law addresses the licensing of reinsurers, sets requirements for the reinsurer's management, for acquisition of qualified holding, for outsourcing, as well as determines requirements for technical provisions and their amount. In essence, the provisions of the Reinsurance Law are similar to the provisions of the Reinsurance Directive [2005/68/EC](#). The FCMC has also developed more detailed regulations regarding specific issues, for example, the calculation of solvency norm and drafting of annual reports of reinsurers.

The Reinsurance Law implements the following directives: [68/151/EEC](#), [98/78/EC](#), [2003/58/EC](#) (which amended [68/151/EEC](#)), [2005/68/EC](#) (which amended [73/239/EEC](#) and [92/49/EEC](#), as well as amended [98/78/EC](#) and [2002/83/EC](#)) and [2007/44/EC](#) (which amended [92/49/EEC](#), [2002/83/EC](#), [2004/39/EC](#), [2005/68/EC](#) and [2006/48/EC](#)).

Currently, there are no reinsurers incorporated and licensed in Latvia.

Insurance mediation

According to the Insurance and Reinsurance Intermediaries Law, insurance mediation in Latvia is carried out by:

- Insurance brokers.
- Insurance agents — persons who pursue insurance mediation on behalf of only one insurer or several insurers belonging to the same group of companies and are entitled to collect insurance premiums.
- Tied insurance agents — persons who can pursue insurance mediation on behalf of several insurers, provided that cover offered is not provided in the same class of insurance by different insurers, and tied insurance agents are precluded from collecting insurance premiums.

The Law lays down the licensing requirements and describes the licensing procedure, as well as describes the role of professional insurance intermediary association.

This Law also addresses the duties of insurance intermediaries and their liability towards the client, for example, an insurance intermediary is required to act as diligent entrepreneur, i.e., should ensure that the mediation is provided with due professionalism and care. The insurance intermediary is required to insure its professional civil liability for minimum equivalent of €1,680,300 per year and not less than €1,120,200 per insured event, but the insurance agent can be released from this duty in case liability for his professional activities is undertaken by the insurer. Tied insurance intermediaries are not required to

insure their civil ability, because by definition a full liability for their professional activity should be undertaken by the insurer on whose behalf the tied agent has pursued mediation in respect of insurance product offered by that insurer.

The Insurance and Reinsurance Intermediaries Law implements Directive [2002/92/EC](#).

Insurance contract regulation

The Law on Insurance Contract lays down the rules applicable to insurance contracts, including their conclusion, interpretation and performance. It should be noted that insurance contracts should be drafted in Latvian, unless the policyholder has expressly indicated that he wants to enter into a contract in another language and this is properly recorded. The Law also lists information that should be indicated in all insurance contracts. It also addresses the main duties and rights of the parties to the insurance contract. Issues related to co-insurance and bringing of recourse claims are also covered under this Law. It is important to note that in case an insurance contract is entered into with a consumer the Latvian Consumer Protection Law also applies to such contract.

The Law on Insurance Contract implements the following directives: [88/357/EEC](#) (which amended [73/239/EEC](#)), [92/49/EEC](#) (which amended [73/239/EEC](#) and [88/357/EEC](#)) and [2002/83/EC](#).

MTPL

The Compulsory Civil Liability Insurance of Owners of Motor Vehicles Law was adopted to protect victims of road traffic accidents. This Law lays down the requirements applicable to entering into land vehicle owner's compulsory civil liability insurance policies and their terms, types of land vehicle owner's compulsory civil liability insurance policies, as well as deals with assessment of loss, its compensation and bringing of the recourse claim. The law also serves as a basis for creation of a guarantee fund, its management and investing of its assets. The guarantee fund was created to compensate, for example, damages caused by unidentified vehicles or vehicles that were not insured as required under the Law.

The Compulsory Civil Liability Insurance of Owners of Motor Vehicles Law implements the following directives: [72/166/EEC](#), [84/5/EEC](#), [90/232/EEC](#), [92/49/EEC](#) (which amended [73/239/EEC](#) and [88/357/EEC](#)), [2000/26/EC](#) (which amended [73/239/EEC](#) and [88/357/EEC](#)), [2005/14/EC](#) (which amended [72/166/EEC](#), [84/5/EEC](#), [88/357/EEC](#) and [90/232/EEC](#)) and [2009/103/EC](#).



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