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Text consolidated by Tulkošanas un terminoloģijas centrs (Translation and Terminology Centre) with amending laws of:

1 July 2000;

1 January 2003.

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*<sup>1</sup> has adopted and the President has proclaimed the following Law:

## **On Insurance Contracts**

### **Chapter I General Provisions**

#### **Section 1. Terms Used in this Law**

The following terms are used in this Law:

1) insurance benefits – amount of money specified in an insurance contract for which amount valuable property or interests are insured against losses or damage, in personal insurance life, health or physical state of a person is insured and in the civil liability insurance – the amount of liability.

2) insurable interest – interest not to suffer damages upon the occurrence of insurance risk;

3) insurance compensation – insurance amount, a part thereof or other amount of money to be paid or services to be provided for the insurable event in compliance with an insurance contract;

4) insurable event – an event related through causal relationship to insurance risk with the occurrence of which payment of insurance compensation is provided in compliance with an insurance contract;

5) insurance contract – agreement between an insurer and policyholder by which the policyholder undertakes a duty to pay insurance premiums in the manner, time periods and amount specified in the contract, as well as to meet other duties specified in the contract, and the insurer undertakes a duty to pay out the insurance compensation to the person indicated in the contract upon the occurrence of the insurable event.

6) policyholder – a legal or natural person who enters into an insurance contract for the benefit of himself or herself or of another person;

7) insurance object:

a) in insurance against losses and damages - valuable property or interests;

b) in civil liability insurance - civil liability of a person, and

c) in personal insurance – life, health or physical state of a person;

8) insurance application – a document specified by an insurer which a policyholder submits to the insurer in order to inform the latter regarding the insurance object, facts and circumstances which are necessary for assessing insurance risk.

9) insurance policy – a document which verifies the entering into of an insurance contract and includes the provisions of the insurance contract, as well as all amendments and additions to this contract upon which the insurer and policyholder have agreed during the term of operation of the insurance contract;

10) insurance against losses and damages – insurance of valuable property or interests and the amount of the insurance compensation to be paid depends on the amount of loss caused to the insured.

11) insurance premium – insurance payment specified in the insurance policy;

12) insured person – a legal or natural person who has the insurable interest and for the benefit of whom the insurance contract has been entered into:

a) in insurance against losses and damages – a person indicated in an insurance policy for whom the payment of insurance compensation is provided in cases of losses or damages,

b) in the civil liability insurance – a person indicated in an insurance policy whose civil liability is insured, and

c) in personal insurance – a person indicated in an insurance policy for the life, health or physical state of whom the insurance contract has been concluded;

13) insurance risk – an event provided for by the insurance policy, independent of the will of an insured person, the occurrence of which is possible in future;

14) [1 January 2003];

15) liability limit – the maximum amount of money to be paid in civil liability insurance;

16) civil liability insurance – insuring the civil liability of a person from the losses caused to third parties as the result of action or failure to act of a person;

17) Gratuities (bonuses) – the increase in the insurance amount of life insurance and the reduction of insurance premiums depending upon the results of financial activities of the insurance company;

18) beneficiary – a person in personal insurance to whom the insurance compensation is to be paid in compliance with the insurance contract;

19) co-insurance – agreement of several insurers to insure the same insurance object within the framework of a single insurance contract;

20) personal insurance – insurance of the life, health or physical state of the person;

21) third person – a person in the civil liability insurance for whom the payment of the insurance compensation is provided; and

22) repurchase amount – amount of money the size of which or procedures for the calculation of which is specified in the life insurance contract and which is paid out to the policyholder if on the basis of his or her initiative the insurance contract is terminated before the end of the time period

[1 July 2002; 1 January 2003]

## **Section 2. Scope of Application of this Law**

(1) This Law applies to all insurance contracts, unless otherwise provided by law. This Law does not apply to State Social Insurance, as well as to reinsurance.

(2) When entering into an insurance contract, parties shall be entitled to agree upon the application of the relevant law of any state for the regulation of contractual relations arising from the insurance contract, unless otherwise provided for by this Law.

(3) In the insurance contract entered into, the law which the parties shall apply for the regulation of contractual relations arising from the insurance contract shall be clearly and unambiguously indicated.

(4) If the law which the parties shall apply for the regulation of contractual relations arising from an insurance contract is not indicated in the insurance contract entered into, this Law shall be used for the regulation thereof.

(5) If an insurance object related to insurance risk is located in a Member State of the European Union or state of the European Economic Area, an insurance contract must comply with the provisions of international private law and, in order to regulate the contractual relations thereof, the parties are entitled to apply:

1) the national law of the state in which the insurance object related to insurance risk is located;

2) the national law of the state in which the insurance object related to insurance risk is located, if the permanent location of the policyholder or the location of the administration of operation thereof is in the same state;

3) by choice of the parties to an insurance contract – the national law of the state in which the insurance object related to insurance risk is located, or the national law of the state in which is located the permanent place of location of the policyholder or the location of the administration of operation thereof (if the permanent location of the policyholder or location of the administration of operation thereof is in another state);

4) by choice of parties to an insurance contract – the national law of the state in which the insurance object related to insurance risk is located or the national law of the state in which the permanent place of location of the policyholder or the location of professional activities (practice) is located [if the policyholder operates in two or more states or if he or she is a self-employed person and the insurance contract includes two or more insurance risks related to the operation or profession (occupation) of the policyholder and the insurance objects related to insurance risk are located in two or more states];

5) the national law of the state the citizen (subject) of which is the policyholder (if the policyholder is a natural person permanently residing in other states); and

6) the national law of any Member State of the European Union or state of the European Economic Area, if the specified large risks referred to in the law are included in the insurance contract.

(6) In case of mandatory insurance the requirements for the relevant class of mandatory insurance specified by the regulatory enactments of the state in which this insurance is mandatory shall be included in an insurance contract.

(7) Prior to entering into an insurance contract an insurer has a duty to inform a policyholder of the law which will be applied for the regulation of contractual relations arising from the insurance contract.

*[1 January 2003]*

### **Section 3. Procedures for Resolution of Disputes**

(1) Disputes related to an insurance contract shall be resolved in accordance with the procedures prescribed by laws and other regulatory enactments.

- (2) By the agreement of the parties, disputes may be resolved by an arbitration court.
- (3) Prior to entering into an insurance contract an insurer has an obligation to inform a policyholder – natural person – of such procedures for the examination in an extrajudicial way of complaints and disputes which arise from the insurance contract.

*[1 January 2003]*

## **Chapter II**

### **Entering into Insurance Contracts**

#### **Section 4. Insurance Application and Proposal of an Insurer**

- (1) For the entering into of an insurance contract an insurer shall be entitled to request an insurance application from a policyholder.
- (2) An insurance application shall impose no obligation either on an insurer to enter into an insurance contract or to undertake duties to cover losses which the submitter of the insurance application has incurred, or on the submitter of the insurance application to undertake any duties.
- (3) If an insurer within a time period of 15 days from the date of receipt of an insurance application has failed to notify in writing the submitter of the application regarding the terms of insurance in accordance with to which the insurer is willing to enter into a contract, or the insurer has not notified of the necessity to carry out a pre-insurance inspection, it shall be considered that the insurer has refused to enter into a contract.
- (4) If an insurer sets a specified time period for the reply to the proposal thereof, an insurer shall not have the right to disclaim the offer prior to the expiry of the time period set. If the time period has not been specified, the insurer has the right to withdraw the proposal thereof, if the other party has failed to announce the acceptance or rejection of the offer within a time period of 30 days.

#### **Section 5. Initial Information regarding Insurance Risk**

- (1) By entering into a contract, a policyholder or an insured person has a duty to provide all the information regarding the circumstances the insurer has requested which information is necessary for the insurer in order to assess the probability of the occurrence of insurance risk and is important for entering into an insurance contract.
- (2) A policyholder and the insured person shall be responsible for the veracity of the information provided.
- (3) If prior to entering into a contract a policyholder or the insured person has not submitted information which has been requested in writing by an insurer, and the insurer has entered into an insurance contract, it may not use the fact of non-provision of information as a reason for the termination of the contract or amending provisions thereof, except in cases where the information has not been submitted due to bad faith or gross negligence.
- (4) A policyholder or the insured person has a duty to notify an insurer regarding other contracts in effect he or she is aware of, which pertain to the same insurance object.

## **Section 6. General and Special Provisions of Insurance Contracts**

(1) General and special provisions of an insurance contract shall be clear and comprehensible.  
(2) The place and date of entering into a contract, the date of coming into effect and term of operation of a contract, information regarding the insurer, insured person (if he or she is not simultaneously a policyholder) and policyholder, insurance risk, insurance object, benefits, insurance premium, time period and procedures for payment thereof, beneficiary of the insurance compensation, time period for the taking of a decision regarding the payment or refusal to pay of insurance compensation, provisions for termination of the contract, duties and liability of the parties for non-compliance with the provisions of the contract, procedures for settlement of disputes shall be specified in an insurance contract.

(3) Other conditions which comply with this Law and general provisions for transactions laid down in the Civil Law, as well as typical provisions of a contract which affect the interests of the policyholder or the insured person may also be included in an insurance contract.

(4) The insurer shall, during the operation of the insurance contract, notify the policyholder and the insured person (if he or she is not simultaneously also the policy holder) regarding changes to the references to contact telephones, contact addresses and contact persons and other similar information, which is necessary for the fulfilment of contractual obligations by the policyholder (insured person).

*[1 July 2000; 1 January 2003]*

### **Section 6.<sup>1</sup> Language of an Insurance Contract**

An insurance contract shall be prepared and entered into using the official language. If a policyholder wishes to enter into an insurance contract in a foreign language, such expression of intent of the policyholder must be indicated unmistakably in the insurance contract.

*[1 January 2003]*

## **Section 7. Entering into Insurance Contract and Coming into Effect thereof**

(1) An insurance contract shall be considered as entered into only pursuant a written agreement between an insurer and submitter of insurance application regarding the provisions of the insurance contract.

(2) An insurance contract enters into effect on the next day after the payment of the insurance premium or a part thereof in the manner, time period and amount specified in the insurance contract. The insurance contract may provide other procedures for coming into effect thereof.

## **Section 8. Bad Faith or Gross Negligence**

If bad faith (Section 1641 of the Civil Law) or gross negligence (Section 1645 of the Civil Law) of a policyholder or the insured person has been the cause for deception of the insurer regarding the circumstances which it must know in order to assess the probability of occurrence of insurance risk, the insurance contract shall be declared null and void from the moment it has been entered into. The insurer shall not reimburse insurance premium paid.

## **Section 9. Ordinary Negligence**

(1) If ordinary negligence (Section 1646 of the Civil Law) of a policyholder or the insured person has been the cause for deception of an insurer regarding the circumstances which it must know in order to assess the probability of occurrence of insurance risk, the insurance contract shall be in force.

(2) An insurer within a period of 15 days from the date of receiving information regarding the factual circumstances of the probability of occurrence of insurance risk shall in writing offer a policyholder to make amendments to the provisions of the insurance contract. Amendments to the provisions of the insurance contract come into effect after agreement between the parties.

(3) If a policyholder has rejected the proposal of an insurer to make amendments to the provisions of an insurance contract or 15 days have elapsed since the date of sending the proposal of the insurer, the insured person may unilaterally withdraw from the insurance contract. The insurer may exercise these rights within a period of 15 days from the date of receipt of the dismissal or before expiry of the time period of the proposal. In such case the insurer shall reimburse to the policyholder a part of the insurance premium the amount of which is determined by deducting from the insurance premium paid a sum for the terminated period of operation of the insurance contract, as well as the verifiable expenditures of the insurer related to the entering into the insurance contract which may not exceed 25 per cent of the insurance premium.

(4) If an insurer proves that it would not have entered into an insurance contract having at its disposal the information regarding the factual circumstances of the probability of occurrence of insurance risk, the insurer may terminate the insurance contract by sending a notification within a time period of 15 days from the date of receiving information regarding these circumstances. In case of termination of the insurance contract the insurer shall reimburse to the policyholder a part of insurance premium, the amount of which is determined by deducting from the insurance premium paid a sum for the terminated period of operation of the insurance contract, as well as the verifiable expenditures of the insurer related to the entering into the insurance contract which may not exceed 25 per cent of the insurance premium.

(5) If the insurer has not terminated the insurance contract or offered to a policyholder to make amendments to provisions of the insurance contract within the time period provided by law, the insurance contract shall remain in force and the insurer may not henceforth use the fact of non-notification of the probability of occurrence of insurance risk as a reason for the termination of insurance contract or amending provisions thereof.

(6) If a policyholder has permitted ordinary negligence, and the insurable event occurs, prior to the termination of the insurance contract or amendment of provisions of the insurance contract, the insurer has a duty to pay the insurance compensation in the proportion that exists between the insurance premium paid and the insurance premium which should be paid by the policyholder if he or she had notified regarding the factual circumstances of the probability of occurrence of insurance risk.

(7) If an insurer proves that it would not have entered into an insurance contract in any event if only it had been aware of the factual circumstances of the probability of occurrence of insurance risk which has appeared with the occurrence of insurable event, the insurance compensation may not exceed the insurance premium paid.

(8) If after entering into an insurance contract the circumstances which might have affected entering into the insurance contract are discovered, Sections 15 and 16 of this Law shall be applied.

## **Section 10. Absence of the Insurable Interest**

- (1) If at the time of an insurance contract entering into force, the insurable interest does not exist, the insurance contract shall not be in force from the moment of entering into thereof.
- (2) If an insurance contract has been entered into without the insurable interest or in bad faith of the policyholder or due to a gross negligence thereof, the insurer shall not reimburse the insurance premium paid by the policyholder.
- (3) In other cases an insurer shall reimburse to a policyholder a part of the insurance premium the amount of which is determined by deducting from the insurance premium paid a sum for the terminated period of operation of the insurance contract, as well as the verifiable expenditures of the insurer related to the entering into the insurance contract which may not exceed 25 per cent of the insurance premium.
- (4) If the insurable interest ceases to exist during the operation of the contract, the insurance contract shall not be in force from the date on which the insurable interest ceases to exist. The policyholder shall notify in writing the insurer regarding the absence of the insurable interest. An insurer shall reimburse to a policyholder a part of the insurance premium the amount of which is determined by deducting from the insurance premium paid a sum for the terminated period of operation of the insurance contract, as well as the verifiable expenditures of the insurer related to the entering into the insurance contract which may not exceed 25 per cent of the insurance premium
- (5) If with the occurrence of the insurable event, the insurable interest does not exist, the insurer shall reimburse to the policyholder a part of the insurance premium the amount of which is determined by deducting from the insurance premium paid a sum for the terminated period of the operation of the insurance contract, as well as the verifiable expenditures of the insurer related to the entering into the insurance contract which may not exceed 25 per cent of the insurance premium.

## **Section 11. Improbability of Occurrence of Insurance Risk**

- (1) If at the time when an insurance contract comes into force the probability of occurrence of insurance risk does not exist or the insurance risk has already occurred, the insurance contract shall not be in force from the moment of entering into thereof.
- (2) If the policyholder in the cases referred to in Paragraph one of this Section has entered into an insurance contract in bad faith or has permitted gross negligence when entering into an insurance contract, the insurer shall not reimburse the insurance premium paid by the policyholder.
- (3) In other cases an insurer shall reimburse to the policyholder a part of the insurance premium the amount of which is determined by deducting from the insurance premium paid the verifiable expenditures of the insurer related to the entering into an insurance contract which may not exceed 25 per cent of the insurance premium.
- (4) If the probability of the occurrence of the insurance risk ceases to exist during the operation of the insurance contract, the insurance contract shall not be in force from the date when the probability of the occurrence of the insurance risk ceased to exist. The insurer shall reimburse to the policyholder a part of the insurance premium the amount of which is determined by deducting from the insurance premium paid a sum for the terminated period of operation of the insurance contract, as well as the verifiable expenditures of the insurer

related to the entering into the insurance contract which may not exceed 25 per cent of the insurance premium.

## **Section 12. Exceptions**

- (1) An insurer shall not be held liable for losses caused as a result of warfare, mass riots, radioactive contamination, radioactive pollution, natural disasters and other events specified in an insurance policy, unless provided for otherwise by an insurance contract.
- (2) The losses caused as a result of wear and tear, depreciation or other similar processes shall not be insurable.
- (3) The parties to an insurance contract may in the insurance contract provides for other exceptional cases, as a result of which the losses caused thereof shall not be covered by the insurer.
- (4) The duty of an insurer is to prove any circumstances which release it from the performance of the duties referred to in the insurance contract in exceptional cases.

## **Section 13. Insurance Policy**

- (1) In an insurance policy general and special provisions of the insurance contract shall be indicated.
- (2) An insurance policy, as well as the amendments thereto shall be signed by an insurer and policyholder or authorised persons of both parties.

### **Chapter III Increase and Decrease of Probability of Occurrence of Insurance Risk**

## **Section 14. Changes in Initial Information**

- (1) During the operation of an insurance contract, except the case of a person's life assurance and health insurance, in conformity with that specified in Section 5 of this Law, the insured person or policyholder has a duty to notify in writing as soon as this is possible the insurer of all circumstances he or she is aware of which may considerably increase the probability of the occurrence of insurance risk or amount of potential losses.
- (2) Prior to entering into an insurance contract and during the operation thereof the insurer has the right in accordance with the procedures set out in the insurance contract to inspect the insurance object in order to ascertain that changes in the initial information have not occurred.  
*[1 July 2000]*

## **Section 15. Decrease of Probability of Occurrence of Insurance Risk**

- (1) An insurer shall amend the provisions of an insurance contract or renew the insurance contract, if the probability of occurrence of insurance risk or amount of the potential losses has considerably decreased and if an insured person or holder of the insurance policy has requested it in writing.
- (2) If the parties to an insurance contract cannot agree upon the new provisions of an insurance contract within a time period of 15 days from the date of submission of a written



application for amending provisions of the insurance contract due to the decrease of the probability of the occurrence of insurance risk, the holder of an insurance policy may terminate the insurance contract. In such case the insurer shall reimburse to the policyholder a part of the insurance premium the amount of which shall be determined by deducting from the insurance premium paid a sum for the terminated period of operation of the insurance contract until the moment of termination of the insurance contract, as well as the verifiable expenditures of the insurer related to the entering into the insurance contract which may not exceed 25 per cent of the insurance premium

## **Section 16. Increase of Probability of Occurrence of Insurance Risk**

(1) If the probability of the occurrence of insurance risk has increased during the operation of an insurance contract and the insurer is able to prove that being aware of this increase it would have entered into the insurance contract on other insurance terms, the insurer may within a period of 15 days of the date of discovering the increase of the probability of occurrence of the insurance risk, except in the event of life assurance and health insurance, offer to the policyholder in writing to make amendments to the provisions of the insurance contract and determine the date of coming into effect thereof.

(2) If the probability of the occurrence of insurance risk has increased during the operation of the contract and the insurer is able to prove that, being aware of this increase, it would not have entered into an insurance agreement, the insurer, except in the case of life assurance and health insurance, may terminate the insurance contract notifying in writing the policyholder thereof. In such case the insurer shall reimburse to the policyholder a part of the insurance premium the amount of which shall be determined by deducting a sum from the insurance premium paid for the terminated period of the operation of the insurance contract, as well as the verifiable expenditures of the insurer related to the entering into the insurance contract which may not exceed 25 per cent of the insurance premium.

(3) If a policyholder has rejected the amendments to the provisions of an insurance contract offered in writing by the insurer or the 15-day time period of an insurer's proposal has expired and the proposal has not been accepted, the insurer may terminate the insurance contract. The insurer may exercise these rights within a time period of 15 days from the date of receipt of rejection or the date of expiry of the time period of the proposal. In this case an insurer shall reimburse to the policyholder a part of the insurance premium the amount of which is determined by deducting from the insurance premium paid a sum for the terminated period of operation of the insurance contract, as well as the verifiable expenditures of the insurer related to the entering into the insurance contract which may not exceed 25 per cent of the insurance premium

(4) If an insurer has not terminated the operation of an insurance contract or has offered to a policyholder in writing to make amendments to the provisions of the insurance contract within the time limits provided for in this Law, it may not henceforth use the fact of non-notification of the probability of occurrence of insurance risk as a reason for the termination of insurance contract or amending the provisions thereof.

(5) If an insurable event occurs prior to the amendment of provisions of the insurance contract or prior the termination thereof and the insured person or a policyholder has fulfilled the requirements set out in Section 14 of this Law, the insurer shall pay the insurance compensation provided for in the contract.

(6) If the insurable event occurs prior to amendment of provisions of an insurance contract or prior to termination thereof and the insured person or a policyholder has not fulfilled the requirements set out in Section 14 of this Law, the insurer shall pay:

1) The insurance compensation provided for in the insurance contract – if the insured person or a policyholder is not at fault for non-notification of the fact of probability of occurrence of insurance risk; or

2) the insurance compensation provided for in the insurance contract in such ratio which exists between the insurance premium paid and the insurance premium which the policyholder should have paid if he or she had notified of the factual circumstances of the probability of occurrence of insurance risk – if reason for non-notification is ordinary negligence of the policyholder;

(7) If an insured person or a policyholder due to bad faith or gross negligence has not fulfilled the requirements specified in Section 14 of this Law, the insurer has the right not to pay the insurance compensation. In this case the insurer may terminate the insurance contract and be exempted from reimbursement of the insurance premium paid by the policyholder.

(8) If an insured person or policyholder due to bad faith or gross negligence has performed actions or permitted the absence of action which increases the probability of occurrence of insurance risk, the insurer has the right to terminate the insurance contract and not to reimburse the insurance premium paid.

## **Chapter IV.**

### **Duties of an Insured Person, Policyholder, Beneficiary and Insurer**

#### **Section 17. Mutual Duties of Policyholder and Insured**

(1) Mutual duties of a policyholder and insured, if the policyholder is not concurrently also the insured, shall be determined in conformity with this Law and the insurance contract.

(2) The duty of a policyholder shall be to inform an insured person of the fact that he or she is insured.

(3) An insured person has the right to request from the policyholder information on the insurance contract, and the policyholder shall not be entitled to refuse provision of such information.

#### **Section 18 Payment of Insurance Premiums**

(1) A policyholder shall be obliged to pay insurance premium in the manner, time periods and amount specified in the contract.

(2) An insurer shall be entitled to terminate the insurance contract in accordance with procedures prescribed in Section 19 of this Law, if the policyholder has not paid the insurance premium in conformity with the provisions of the insurance contract.

#### **Section 19. Incomplete Payment of Insurance Premium**

- (1) If counter to the provisions of an insurance contract the insurance premium has not been paid in the full amount, the insurer may suspend the operation of an insurance contract until it is paid in full amount. By suspending operation of the insurance contract, the insurer shall temporarily suspend the duties thereof.
- (2) Prior to suspension of the operation of an insurance contract the insurer shall send to a policyholder a written notification regarding partial payment of insurance premium and invite him or her to pay the unpaid insurance premium in compliance with the provisions of the insurance contract, and indicate a time period for the payment and possible consequences in case the insurance payment is not paid. The operation of an insurance contract shall be suspended on the next day after the dispatch of the written notification.
- (3) The time period for payment set in the notification sent by the insurer may not be less than 15 days from the date of dispatch of the notification.
- (4) Suspension of the operation of an insurance contract shall cease upon the moment of payment of the insurance premium indicated in the notification of the insurer.
- (5) If a policyholder fails to pay the insurance premium in due time and to the full extent specified in the notification, an insurer has the right to terminate the insurance contract and not to reimburse the insurance premium paid.
- (6) The provisions of this Section in relation to the suspension of operation of an insurance contract shall not be applicable to the insurance contracts in which the time period of payment is not specified clearly.

## **Section 20. Consequences of Suspension of Operation of Insurance Contract**

Suspension of operation of an insurance contract shall not affect the rights of an insurer to request an insurance premium or a part of it in accordance with the insurance contract. The period of suspension of the operation of an insurance contract may last up to six months from the date of the suspension of the operation of an insurance contract.

## **Section 21. Duties of Insured Person after Occurrence of Insurance Risk**

- (1) An insured person shall without delay, at the earliest opportunity notify an insurer regarding the occurrence of an insurance risk and take all appropriate measures in order to reduce the losses.
- (2) An insured person shall not oppose the insurer's request to determine and assess the amount of losses, circumstances of origin thereof, as well as submit to the insurer all the documents at his or her disposal which characterise the occurrence of insurance risk and the damages caused by it. The insured person shall also provide other information which is at his or her disposal which the insurer has requested, as well as perform other duties provided for in the insurance contract.

## **Section 22. Consequences of Non-compliance with Duties of Insured**

- (1) An insurer may refuse to pay insurance compensation if an insured person due to bad faith or gross negligence has not fulfilled one of the duties specified in Section 21 of this Law.
- (2) An insurer may reduce the insurance compensation but not more than for 50 per cent if an insured person has not fulfilled one of the duties referred to in Section 21 of this Law due to ordinary negligence.

### **Section 23. Rescue Expenditures**

- (1) An insurer shall cover all the submitted and verifiable reasonable expenditures of an insured person which have incurred due to emergency measures for reduction and elimination of damage which have been taken at the insured person's own initiative or upon request of the insurer even in those cases if these measures have not been successful.
- (2) Rescue expenditures may not exceed the amount of insurance compensation, unless otherwise provided for by the insurance contract.

### **Section 24. Duty of Insurer to Pay Insurance Compensation**

- (1) With the occurrence of an insurable event, an insurer shall pay insurance compensation to the person specified in the insurance contract.
- (2) An insurer does not have the right to:
  - 1) reject or approve a claim issued on the basis of the insurance contract without verifying the occurrence of insurance risk;
  - 2) refuse to pay insurance compensation without verifying all the available information;
  - 3) refuse to pay insurance compensation within the time period specified in the insurance contract if evidence with regard to the occurrence of insurable event is received;
  - 4) pay insurance compensation if the occurrence of insurance risk has been caused by the bad faith of a policyholder, insured person, beneficiary or a third party. In such case the insurer shall not reimburse the paid up insurance premiums.
- (3) An insurer shall have a duty to pay insurance compensation if the occurrence of insurance risk has been caused by ordinary negligence of a policyholder, insured person, beneficiary or the third party and if it does not contradict the insurance contract.
- (4) On the basis of agreement between the parties, prior to complete calculation of damages, an insurer may pay a part of the insurance compensation in the amount which neither of the parties disputes.
- (5) After the occurrence of insurance risk an insurer has the right to inspect how an insured person or policyholder has complied with the provisions of an insurance contract.
- (6) An insurer has a duty to prove any circumstances which release the insurer from the obligation to pay insurance compensation which are specified in an insurance contract.
- (7) If an insurer has taken a decision regarding a refusal to pay insurance compensation, it shall send to the policyholder and the insured person a motivated written notification regarding the refusal to pay insurance compensation.

*[1 January 2003]*

### **Section 24.<sup>1</sup> Time Period for Taking a Decision by the Insurer**

- (1) If a policyholder is a natural person, an insurer has a duty not later than within a time period of one month from the date when an application for insurance compensation is received to inform in writing the policyholder regarding additional documents which are necessary for the taking a decision regarding the payment of insurance compensation.
- (2) If a policyholder is a natural person, an insurer shall within a time period of one month from the date of receipt of all the documents specified in an insurance contract take a decision regarding the payment of insurance compensation. If an insurer is not able to comply with this

time period due to substantiated reasons, it may be extended for a time period not longer than six months from the date of receipt of an application for insurance compensation. The insurer shall send a motivated written notification of extending the time period to the person who has the right to receive insurance compensation in conformity with the entered into insurance contract.

*[1 January 2003]*

## **Chapter V**

### **Term of Operation of an Insurance Contract and Termination of Contract**

#### **Section 25. Term of Operation of an Insurance Contract**

- (1) The term of operation of an insurance contract shall be determined by agreement of the parties and it may not exceed three years.
- (2) The maximum term of operation of a life assurance and health insurance contract shall not be limited.

#### **Section 26. Termination or being Null of an Insurance Contract**

- (1) An insurance contract may be terminated before expiry of the term of operation thereof due to the following reasons:
  - 1) an insurer has fully fulfilled the obligations thereof;
  - 2) the insured natural person and beneficiary indicated in the insurance contract have died and they do not have heirs;
  - 3) the insured legal person has been liquidated and does not have a successor in interest;
  - 4) the parties have agreed upon it; or
  - 5) in other cases provided for by this Law, other laws or Cabinet regulations.
- (2) An insurance contract shall be considered null and void in all cases provided for by this Law, other legislation or Cabinet regulations.

#### **Section 27. Special Cases of Termination of an Insurance Contract**

- (1) An insurer and policyholder may terminate an insurance contract between the date of entering into an insurance contract and the date of the coming into effect thereof. The other party to the contract shall be notified of such termination of insurance contract not later than within a time period of 15 days prior to the coming into effect thereof. If an insurance contract is terminated on the initiative of a policyholder, the insurer shall reimburse to the policyholder a part of insurance compensation the amount of which is determined by deducting from the insurance premium paid the provable expenditures of the insurer related to the entering into a contract which may not exceed 25 per cent of the insurance premium. In other cases an insurer shall reimburse to a policyholder the insurance premium paid.
- (2) A policyholder may terminate a life assurance or health insurance contract every year on the day of the insurance taking effect for the first time or on the day of the annual insurance premium payment, by notifying in writing the insurer thereof not later than 15 days prior to the day referred to, unless otherwise provided for in the insurance contract. In such case the insurer shall reimburse a certain amount of money in compliance with the insurance contract.

(2<sup>1</sup>) All obligations arising from an insurance contract shall be terminated for a policyholder from the day when a notification of the termination of the contract has been sent to the insurer. The onus of proof of the fact of sending a notification regarding termination of the contract lies with the policyholder.

(3) A policyholder – natural person – has the right to terminate an individual life insurance contract within a period of 15 days from the day of entering into such contract. In such case the insurer shall reimburse all of the insurance premium paid in by the policyholder.

(4) The provisions of Paragraph three of this Section shall not apply to individual life insurance contracts the time period of operation of which is less than six months.

*[1 July 2000; 1 January 2003]*

#### **Section 28. Procedures for Termination of an Insurance Contract**

(1) If an insurance contract is terminated, the relevant party to the contract shall send a written notification of termination of the insurance contract.

(2) An insurance contract shall be terminated after 15 days from the date of dispatch of the notification.

(3) The provisions set out in Paragraphs one and three of this Section shall not be applicable in cases where this Law specifies other procedures for termination of an insurance contract.

#### **Section 29. Termination of an Insurance Contract after Occurrence of Insurable Event**

(1) If an insurance contract provides for the right to terminate the insurance contract after determination of damage caused by an insurable event or payment of insurance compensation, any of the parties to the contract may terminate the insurance contract. An insurance contract shall be terminated after 15 days from the date of sending a written notification regarding termination of the insurance contract by the relevant party to the contract..

(2) If insurance risk occurs due to bad faith of an insured person, policyholder, beneficiary or a third person, the insurance contract shall be deemed to be terminated from the moment of determination of facts referred to. In such case an insurer has the right to not to pay out the insurance compensation.

*[1 January 2003]*

#### **Section 30. Termination of an Insurance Contract in Case of Liquidation or Insolvency of Policyholder**

(1) An insurer and administrator or liquidator have the right to terminate an insurance contract by a written notification.

(2) An administrator or liquidator may terminate an insurance contract only within a time period of one month from the date of the appointment of the administrator or liquidator. An insurer may not terminate an insurance contract earlier than one month prior the date of appointment of an administrator or liquidator.

(3) In the cases of termination of an insurance contract referred to in this Section an insurer shall reimburse the premium which is determined by deducting from the insurance premium paid a part for the terminated period of operation of the insurance contract until the moment of termination of the insurance contract, as well as the provable expenditures of the insurer

related to the entering into the insurance contract, which may not exceed 25 per cent of the insurance premium.

(4) Provisions of this Section do not apply to personal insurance.

### **Section 31. Case of Death of Policyholder**

(1) If in case of the death of a policyholder succession of his or her obligations takes place, the successor of obligations shall undertake all the rights and obligations of the policyholder provided for in the contract and notify in writing the insurer thereof within a period of 15 days from the date of succession of obligations.

(2) An insurer or successor of obligations has the right to terminate the insurance contract. The successor shall within a period of 15 days from the date of succession of obligations notify the insurer in writing regarding termination of the insurance contract. The insurer within a period of 15 days from the day of discovering the succession of obligations shall in writing notify the successor of obligations regarding termination of the insurance contract.

(3) Provisions of this section do not apply to personal insurance.

### **Section 32. Prescriptive Period of Claims**

(1) Prescriptive period of claims shall begin from the moment of insurance risk occurrence.

(2) Right of claim shall terminate, if in the case of a life insurance contract the person indicated in the insurance contract has not exercised it within a time period of ten years. The right of claim in other classes of insurance shall terminate within a time period of one year, except in cases where laws have specified the necessity of mandatory insurance and the time period for the termination of the right of claim.

(3) If the insurance contract specifies that for the fulfilment of insurance obligations the notification of the policyholder or another person indicated in the contract is required, the term shall begin from the day of acquiring the rights and opportunities to provide a notification by the policyholder or other person indicated in the insurance contract.

(4) After the provision of notification to an insurer, the prescriptive period of claims shall be terminated.

(5) If an insurer executes a lapsed claim, he or she shall not have the right to reclaim the executed from the policyholder or other person indicated in the insurance contract.

*[1 July 2000]*

## **Chapter VI Co-insurance and Leading Insurer**

### **Section 33. Co-insurance**

In co-insurance all insurers who enter into an insurance contract shall sign an insurance policy. Rights and duties of the parties shall be determined in conformity with the insurance contract. If in the insurance contract there is no special agreement between insurers, co-insurance shall not create full (joint) liability of the insurers.

*[1 January 2003]*

### **Section 34. Leading Insurer**

(1) The leading insurer shall be indicated in an insurance policy. The rights and obligations of the leading insurer shall be specified in the contract which has been entered into by the insurers. The leading insurer shall be authorised to act as the representative of all other insurers.

(2) A policyholder or an insured person shall address all the notifications related to an insurance contract to the leading insurer, unless otherwise specified by the insurance contract.

(3) The leading insurer shall inform a policyholder regarding the distribution of rights and obligations of insurers, all alterations in the distribution of these rights and obligations, as well as regarding all alterations in the composition of insurers.

*[1 January 2003]*

## **Chapter VII**

### **Insurance against Loss and Damage and Civil Liability Insurance**

#### **Section 35. Compensation Principle**

In insurance against loss and damage and civil liability insurance, losses shall be compensated on the basis of the compensation principle. Insurance compensation paid may not exceed the loss caused to an insured person in an insurable event.

#### **Section 36. Over-insurance**

(1) If insurance amount against loss and damage in accordance with one or several insurance contracts in relation to the same insurance risk exceed the value of an insured object (over-insurance), upon the request of any party to the contract, it shall be reduced in chronological order of entering into contracts until this sum does not exceed the value of the insured object.

(2) If necessary, one or several insurance contracts shall be terminated.

(3) Insurers may agree upon other procedures for reducing the insurance amount, provided that a policyholder agrees thereto.

(4) If an insurable event has occurred prior to the reduction of the insurance amount, in compliance with the provisions of Paragraph two of this Section, the insurer shall pay insurance compensation in such amount which should be paid if the insurance amount were equal to the value of the insured object.

(5) If the insurance amount in accordance with one or several insurance contracts which have been entered into by one or several insurers, exceed the value of the insured object, those insurance contracts which have been entered into due to bad faith or gross negligence of a policyholder, shall not be in force from the moment of the entering into thereof. In such cases the insurance premiums paid shall not be reimbursed.

#### **Section 37. Cost Allocation of Insurance Compensation if Several Insurance Contracts have been Entered into**

(1) If one and the same insured object in insurance against losses and damages in one and the same class of insurance is insured with several insurers, each insurer shall pay insurance compensation in proportion to the amount specified by each insurance contract.



- (2) If in civil liability insurance one and the same person has insured his or her liability with several insurers, each insurer shall pay insurance compensation in proportion to the liability limit specified in the insurance contracts.
- (3) No insurer may use the existence of other insurance contracts as grounds for full or partial rejection for the payment of insurance compensation, except in cases of fraud.
- (4) Insurers may agree upon different procedures for payment of insurance compensation, if an insured person agrees thereto.

### **Section 38. Payment of Insurance Compensation in Compulsory Insurance**

If an insurance object has concurrently been insured in compulsory and voluntary insurance, the voluntary insurance compensation shall be paid irrespective of the conditions of the compulsory insurance compensation, in compliance with the provisions of Section 35 of this Law.

### **Section 39. Harm Caused to Life, Health or Physical State of a Person**

If with the occurrence of an insurance event the insured person has died or harm has been caused to his or her health or physical state, insurance compensation shall be paid in accordance with all insurance contracts that have been entered into which provide disbursement for such event without compliance with the provisions of Sections 35, 36, 37, and 38 of this Law, except the cases when use of the compensation principle is specified in the insurance contract.

### **Section 40. Subrogation Action**

- (1) An insurer who has paid insurance compensation shall take over the right of claim of an insured person against a person who is responsible for loss, except the cases when harm to the life, health or physical state of a person has been caused. This exception shall not be in force if use of the compensation principle is specified in the insurance contract.
- (2) If insurance compensation paid by an insurer covers only a part of loss caused, the insurer may only exercise the rights of subrogation thereof only pursuant to the insured person has bringing an action to court against the person responsible for the losses caused which are not covered by the insurance compensation.
- (3) An insurer and the insured person may in writing agree upon bringing an action to court concurrently, as well as the insured person may in writing refuse to bring an action to court and in such case an insurer may exercise his or her rights of subrogation without compliance with the provisions of Paragraph two of this Section.
- (4) In accordance with a court adjudication regarding payment of damages, recovery proceedings against the responsible person shall first be performed for the benefit of a victim and only after the loss has been paid in full, recovery proceedings shall be performed for the benefit of an insurer.
- (5) If a victim within a period of one year has not brought an action to the court against the person who is responsible for the loss caused, an insurer may exercise the rights of subrogation thereof, without compliance with the provisions of Paragraph two of this Section.
- (6) If due to bad faith or gross negligence of an insured person a subrogation action for the benefit of an insurer is not possible, the insurer may request from the insured person

reimbursement of the insurance compensation paid in the amount by which subrogation action is not possible.

(7) An insurer may not turn to the children, parents or spouse of the insured with a subrogation action; an exception shall be such insurable events which are caused in bad faith or due to gross negligence.

#### **Section 41. Value of Insurance Object**

(1) In insurance against losses and damages the insurance amount may not exceed the value of an insurance object.

(2) Parties to the insurance contract may agree upon a method for assessment of an insurance object.

(3) Parties to the insurance contract may agree upon the insurance in the value of renewal of the object.

#### **Section 42. Value of Specially Irreplaceable Objects**

Parties have the right by mutual agreement to reduce the initial value of the insured object or terminate an insurance contract if a specially irreplaceable object considerably loses the initial value thereof.

*[1 January 2003]*

#### **Section 43. Under-insurance**

If the insurance amount against losses and damages in accordance with one or several insurance contracts in relation to one and the same insurance risk are less than the value of an insured object (under-insurance), an insurer shall pay insurance compensation in the proportion which exists between the insurance amount and this value, unless otherwise provided for by the insurance contract.

#### **Section 44. Change of Owner**

(1) In case of a change of owner of an insured immovable property, an insurance contract shall be in force in favour of the new owner, one month after all documents regarding the change of ownership rights are drawn up.

(2) The provisions referred to shall not be in force in cases of expiry of the term of a contract before the documents necessary for the change of ownership rights are drawn up or before the new owner has entered into another insurance contract prior to the expiry of the term of operation of the referred to contract.

(3) In case of the change of owners of an insured movable property and provided that there is no other agreement in force, an insurance contract shall terminate at the moment of transfer of the movable property to the new owner.

#### **Section 45. Losses Incurred prior to Entering into an Insurance Contract**

A civil liability insurance contract may provide for the covering of losses which have been caused by an event related to the losses through causal relationship which has occurred

prior to entering into the insurance contract, provided that neither of the parties had been aware of the occurrence thereof at the moment of entering into the contract.

#### **Section 46. Covering of Losses after Expiry of Term of Operation of an Insurance Contract**

An insurer in civil liability insurance may cover the losses incurred during the term of operation of the entered into insurance contract, if the insured person with regard to the event which has caused the losses has brought an action for recovery of losses within a time period of three years after the expiry of term of operation of the insurance contract.

*[1 July 2000]*

#### **Section 47. Representatives in Civil Liability Insurance**

(1) An insurer has the right to act in favour of an insured person and represent the interests of the insured person within the scope of liability limit specified in an insurance contract from the moment of bringing an action for recovery of losses against the insured person.

(2) Assuming the duties of a representative shall not imply that an insurer automatically acknowledges the liability of an insured person, and it shall not cause a duty for the insurer or insured person to reimburse the losses caused to the third party.

(3) An insurer may not assume the duties of representation in cases when such performance of duties may directly or indirectly negatively affect objective representation of the interests of the insured person.

#### **Section 48. Agreement with Third Person in Civil Liability Insurance**

(1) If an insured person has in any way reimbursed or given a promise to reimburse to the third party without the written consent of an insurer, the expenditures incurred as a result of actions of the insured person or the possible expenditures shall not be binding on the insurer.

(2) If in case of occurrence of the risk an insured person has taken measures for reducing losses or provided emergency assistance to the injured person, the insurer shall not therefore have the right to waive the obligations specified for it in the insurance contract.

#### **Section 49. Payments of Insurance Compensation and Other Expenditures in Civil Liability Insurance**

(1) In accordance with the provisions of an insurance contract, an insurer shall pay insurance compensation only to the third party, and this amount may not exceed the liability limit specified in the insurance contract.

(2) An insurance contract may provide that expenditures related to judicial proceedings, expert-examination or other activities based on the settlement of claim are compensated.

(3) In civil liability insurance the insurance compensation shall not cover a fine and other similar payments.

(4) If bad faith or gross negligence of an insured person has been a cause for not participating in investigation activities prescribed for by law or in judicial procedure, the insured person shall reimburse to the insurer all losses incurred by this action or failure to act.

## **Section 50. Right of the Third Party to Bring Action in Court**

A third party has the right to bring an action to the court directly against an insurer in the cases specified by regulatory enactments, and the insurer has the right to contest justification of the brought action.

*[1 July 2000]*

## **Chapter VIII Personal Insurance**

### **Section 51. Classes of Personal Insurance**

(1) Life assurance, accident insurance and health insurance shall be classes of personal insurance.

(2) Parties to the insurance contract may provide, that with the occurrence of an insurable event an insurer shall pay benefits or other amount provided for in the insurance contract the amount of which is set upon entering into the insurance contract. In such cases the compensation principle is not applied.

(3) In personal insurance, except life assurance, parties to the contract may agree in an insurance contract regarding the application of compensation principle for the payment of insurance compensation. In such case the provisions of Sections 35, 36, 37, 38, 39, 40, and 43 must be complied with.

### **Section 52. Insurance Compensation and Diversity of Payments**

Payments which an insured person or beneficiary has received from other sources, shall not reduce obligations of the insurer unless parties to the insurance contract have otherwise agreed in the insurance contract.

### **Section 53. Beneficiary**

(1) In insurance contracts an insurer has the right to indicate one or several persons – beneficiaries who will receive insurance compensation in case of death of an insured, as well as to substitute these persons with other persons within the term of operation of the insurance contract by notifying in writing the insurer thereof.

(2) If an insurer upon entering into an insurance contract or within the term of operation of this insurance contract has not indicated a beneficiary, it must be identifiable at the moment of bringing an action.

(3) If an insured person has not indicated a beneficiary or at the moment of bringing an action it is impossible to be determined, insurance compensation shall be paid to the heirs of the insured person in accordance with the procedures prescribed by the Civil Law.

(4) A beneficiary has the right to decline this status.

### **Section 54. Right of Beneficiary to Become Acquainted with Insurance Law**

A beneficiary has the right to require from a policyholder, insured person or insurer information on an insurance contract and become acquainted with it.

## **Section 55. Requirements for personal Insurance Contracts**

(1) In addition to the requirements specified in Section 6 of this Law, personal insurance contracts shall indicate:

1) the insurance premium and insurance amount separately for each insured risk, as well as the insurance compensation or the procedures for the calculation thereof for each case of insurance; and.

2) life insurance contracts – repurchase amount and the conditions for receipt thereof, the right of the policyholder to change the policy by changing the insurance amount, the insurance premium and the procedures for payment thereof, the conditions for entering into of a new (renewed) life insurance policy, as well as the types of gratuities (bonuses) and the procedures for the calculation and granting thereof, but for a market-linked life insurance contract the procedures for the calculation of the assets applicable and insurance amount thereof.

(2) During the operation of such personal insurance contracts as the time period of which is longer than one year, the insurer shall notify the policyholder and insured person in writing regarding:

1) the procedures for the imposition of taxes on and the deduction of taxes from insurance premiums and insurance compensation, as well as regarding changes in such conditions; and.

2) gratuities (bonuses) granted – not less than once every 12 months.

*[1 July 2000]*

### **Transitional Provisions**

1. Insurance policies, the samples of which have been approved by the State Insurance Supervision Inspection, shall be harmonised with the requirements of this Law within a one-year period from the date of coming into force of this Law.

2. Insurance policies, the samples of which have been approved before the date of coming into force of this Law, shall be utilised by the time period referred to in Paragraph 1, Transitional Provisions of this Law.

3. Insurance policies, samples of which is registered in the State Insurance Supervision Inspection, shall be harmonised with the requirements of Section 55 of this Law by 1 April 2001.

*[1 July 2000]*

4. Amendments to Section 32, Paragraph two of this Law are applicable also to obligations, which arise from contracts that were entered into before the coming into force of these amendments and after which the obligations have not ended.

*[1 July 2000]*

5. The terms and conditions of those insurance policies which are in force up to 1 January 2003 shall be harmonised with the requirements of this Law up to 1 July 2003.

[1 January 2003]

This Law shall come into force on 1 September 1998.

This Law has been adopted by the *Saeima* on 10 June 1998.

President

G. Ulmanis

Rīga, 30 June 1998