

Compulsory Insurance Law



On 18 September 2011 the law On Compulsory Insurance, which was adopted by the Parliament at the end of the 2011 Spring Session, was finally published. According to the law, it will become effective one (1) month after it is published, i.e. on 18 October 2011, and is likely to have far-reaching implications for businesses. In anticipation of this date we are pleased to have prepared for you this Client Alert, which summarises the main aspects of the Compulsory Insurance Law.

Scope of the law

The Compulsory Insurance Law sets forth the general principles of the four types of compulsory insurance – (i) compulsory insurance of immovable property, (ii) compulsory insurance of civil liability in connection with the use of immovable property, (iii) compulsory civil liability insurance of owners of motor vehicles, and (iv) personal accident insurance for passengers.

The aim of the law is stated to be the protection of the property interests of individuals and legal entities by ensuring that the losses they suffer are compensated, while expressly excluding compensation for lost profits.

Compulsory insurance defined:

- **Compulsory insurance of immovable property** - The Compulsory Insurance Law makes it obligatory for owners or holders of immovable property, whether individuals or legal entities, to obtain loss or damage insurance coverage, with the exception of certain types of immovable property. Among covered insurance events are: fire, lightning strikes, natural disasters, natural gas explosions, floods, third party actions, etc.

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Compulsory insurance of civil liability in connection with the use of immovable property was introduced to require insurance against damage to the health and property of third parties in connection with the use of immovable property, as well as construction, renovation and other similar works being carried out within the boundaries of such immovable property. In this respect the *use of immovable property* is limited to use by legal entities or individual entrepreneurs for the purposes of their respective entrepreneurial activities. The introduction of this type of insurance is, in our view, particularly important in the light of the high level of construction activity that is underway in the country.

- **Compulsory civil liability insurance of owners of motor vehicles** covers any loss or damage to the health of individuals, as well as to the property of individuals and/or legal entities, caused by motor vehicles. The purchase of this insurance is mandatory for owners and legal users (based on a power of attorney or a lease agreement) of any motor vehicle with an engine of over 50 cubic cm, as well as for owners and legal users of buses and tramways. No exception is made for vehicles that have foreign registration and have entered the country for transit purposes.
- **Passengers' personal accident insurance** provides for insurance coverage in the event of injury to, or the death of, passengers on air, water, railway and motor transport.

Compulsory Insurance Bureau

The law mandates the creation and registration of a Compulsory Insurance Bureau as a public association for the purposes of, among other things, protecting the interests of insured and other injured third parties and ensuring the stability and development of the compulsory insurance system.

In order to obtain permission to underwrite compulsory insurance, an insurer must become a member of the Bureau and pay a security deposit.

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