



INSURANCE  
SUPERVISION AGENCY  
OF MONTENEGRO

# *REPORT*

*ON INSURANCE MARKET  
SITUATION IN MONTENEGRO  
2009*



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SUPERVISION AGENCY  
OF MONTENEGRO**

# REPORT ON INSURANCE MARKET SITUATION IN MONTENEGRO Report for 2009

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## I INTRODUCTION

The Report on Insurance Market Situation in Montenegro 2009 has been produced based on annual financial statements, statistical data submitted by insurance companies to the Insurance Supervision Agency and annual operation reports, including opinions of authorized actuaries and external auditor reports.

Positive trend of growth and development of insurance market in Montenegro continued in 2009. However, Montenegro insurance market indicators for 2009 highlight the fact that economic-financial crisis had indirect effect on insurance sector by slowing down its growth and development in relation to the previous year.

The most significant events in Montenegro insurance market for 2009 are as follows:

- Development of legislative and enabling regulations in the area of insurance based on EU directives and best international practice;
- Oversight of insurance sector through permanent and proactive supervision;
- Regular statistical reporting on insurance market situation in Montenegro;
- Cooperation with supervisory authorities in the region aimed at efficient performance of regulatory function (the Agency cooperates with regulators from the region: FMA - Austria, Insurance Supervision Agency of Slovenia, Insurance Agency in Bosnia and Herzegovina, Insurance Agency of the Republika Srpska, Insurance Supervision Agency of the Federation of Bosnia and Herzegovina, National Bank of Serbia, Insurance Supervision Agency of Macedonia, DNB – Dutch Bank, BNB – Bulgarian National Bank, etc.);
- Membership with IAIS (International Association of Insurance Supervisors);
- Commencement of Twinning project “Strengthening of regulatory and supervisory capacities of financial regulators in Montenegro” in cooperation with Dutch Bank (DNB) and National Bank of Bulgaria (BNB);
- Growth of insurance premium;
- Growth of life insurance share;
- Growth of basic insurance market development indicators;
- Reduction in insurance market concentration;
- Increase of foreign capital share in the total share capital of insurance companies;
- Change in the structure of insurance portfolio (increase in the share of compulsory insurance, fall of the share of property insurance, slight growth in the share of life insurance).

## 1.1 Organisation of Insurance Supervision Agency

### *Powers, mission and goals*

Insurance Supervision Agency is the institution responsible for supervision and control of insurance sector in Montenegro, and it is independent in performing affairs under its scope. The Agency was established pursuant to the Law on Insurance (OGRM 78/06 and 19/07). The founder of the Agency is Montenegro, and the rights of the founder are carried out on its behalf by the Council of Agency, in accordance with Law.

Insurance Supervision Agency supervises performance of affairs from the area of insurance, aimed at encouraging of insurance market development and ensuring adequate protection of the insured.

#### **Insurance Supervision Agency supervises the operations of:**

- **Insurance companies;**
- **Insurance brokerage companies;**
- **Insurance agency companies;**
- **Agencies for provision of ancillary insurance services;**
- **Other entities in insurance market.**

Basic goals of the Agency are to protect interest of the insured and other insurance beneficiaries, and increase sustainability and reliability of insurance market.

#### **Under its competence the Agency:**

- **issues licences for performance of insurance, reinsurance and coinsurance activities, brokerage and agency and other activities directly related to insurance affairs;**
- **issues approvals to acts and actions envisaged by the Law on Insurance and Law on Compulsory Transport Insurance;**
- **supervises the conduct of insurance activities;**
- **adopts acts envisaged by the Law on Insurance;**
- **keeps registers in accordance with the Law on Insurance;**
- **considers objections and complaints of the insured and other insurance beneficiaries;**
- **cooperates with other supervisory authorities in-country and abroad;**
- **issues initiatives for regulating issues from insurance area;**
- **conducts other tasks as envisaged by the Law.**

### *Organisation*

Insurance Supervision Agency is managed by a three-member Council. The Council of the Agency was appointed by the Parliament of Montenegro on 3 July 2007 (Official Gazette of Montenegro 42/07 of 12 July 2007).

#### **Members of the Council:**

- Ph.D. Vladimir Kavarić, president
- Veselin Popović, member
- Miodrag Latković, member

#### **Powers of the Agency Council :**

- decides on licences, approvals, authorisations and other issues under the competence of the Agency;
- adopts rules and other acts envisaged by Law;
- adopts the Statute of the Agency;
- establishes annual report on insurance market situation;
- establishes annual work plan and annual operation report of the Agency;
- establishes financial plan and annual financial statements;
- selects and revokes auditors for examination of annual financial statements of the Agency;
- makes decisions with regard to objections to minutes taken on conducted supervision and complaints and representations of the insured;
- conducts other tasks as envisaged by law and statute.

From the aspect of organisational structure, the Insurance Supervision Agency comprises three departments: Insurance Market Supervision Department, Department for Regulatory Framework, Development and Cooperation and Common Affairs Department.

## 1.2 MACRO-ECONOMIC INDICATORS

Strong influence of global and financial crisis caused the fall in economic activity in Montenegro in 2009. Namely, in 2009 real gross domestic product declined by 5.3% in relation to the previous year.

According to the estimate of the Ministry of Finance of Montenegro, in 2009 GDP amounted to 3.003 billion euro. Budgetary deficit amounted to 132.09 million euro, i.e. 4.4% GDP.

Unemployment rate in Montenegro in 2009 amounted to 11.43%, which is nearly by half less if compared to 2005. Extremely positive trend is notable in the area of average net salaries, where, in comparison to the amount from last year, there was nominal growth by 11.3%, i.e. real growth of 7.6%. Inflation generated in 2009 amounted to 1.5%.

The following Table illustrates macro-economic indicators:

Table 1 Breakdown of macroeconomic indicators 2002-2009

Indicators	Year							
	2002	2003	2004	2005	2006	2007	2008	2009
GDP (in million euro)	1,360.10	1,510.10	1,669.80	1,815	2,148.90	2,807.90	3,339.00	3,003
GDP per capita (€)	2208	2435	2,684	2,912	3,443	4,484	5,384	4,779
GDP growth rate (%)	1.9	2.5	4.4	4.2	8.6	10.7	8.1	-5.3
Inflation (CPI)	9.2	6.2	3	2.5	2.8	4.2	8.6	1.5
Population number	620,195	620,195	620,195	620,195	620,195	620,195	620,195	628,349
Number of unemployed persons	80 584	71,679	65,064	54,457	43,190	34,396	29,535	30,169
Number of employed persons	140,100	142,679	143,479	144,385	150,800	156,408	166,221	174,152
Average gross salary (€)	-	271	302.9	327	433	497	609	643
Average net salary (€)	-	173.9	195.4	213	282	338	416	463
Budgetary surplus /deficit	-25.2	-45.9	-32.8	-30.1	85.1	168.4	39.04	-132.09
Export (in million euro)	-	-	-	460.65	627.46	487.12	433.16	276.98
Import (in million euro)	-	-	-	974.30	1,482.69	2,072.48	2,527.15	1,654.04
Trade balance (in million euro)	-	-	-	-513.65	-855.23	-1,585.36	-2,093.99	-1,377.06

Source: Ministry of Finance and Monstat

## II INSURANCE SECTOR REGULATORY FRAMEWORK

Insurance legislative framework was completed by the adoption of the Law on Insurance (OGRM 78/06 and 19/07), the Law on Compulsory Transport Insurance (OGM 46/07) and the Law on Bankruptcy and Liquidation of Insurance Companies (OGM 11/07).

The Insurance Law regulates conditions and manner for conduct of insurance activity, as well as supervision over the insurance activity in Montenegro. The Insurance Law prescribes the manner of establishing and rules of operation for insurance companies. The following is particularly prescribed: manner of establishing risk and insurance class according to the principle of covering risk, form of an insurance company, and manner and rules on risk management in insurance (capital adequacy, maintaining liquidity, establishing technical reserves and depositing and investing technical reserve funds, and other measures for risk management). In addition to the mentioned, the Law defines reinsurance, manner of performing actuarial and audit operations, manner and forms of financial reporting, rules for conduct of internal audit, as well as forms and manner for conduct of brokerage and agency affairs and provision of ancillary insurance services.

The Law on Compulsory Transport Insurance regulates compulsory insurance in traffic and defines compulsory insurance classes, compulsory insurance contract, insured sum, insurance conditions and insurance tariff, amount, deadlines and rights to damage compensation, international document on existence of auto liability insurance (green card) and border motor insurance. The Law specifically defines the obligation and manner for founding the Association of Insurers of Montenegro – National Bureau, which conducts its operations through special organisational parts: Green Card Bureau, Guarantee Fund and Information Centre.

The Law on Bankruptcy and Liquidation of Insurance Companies establishes bankruptcy and liquidation procedure for insurance companies with reference to the application of the Law on Insolvency of Business Organisations.

Improvement of general performance of insurance market in Montenegro was conditioned by the adoption of enabling regulations. With regard to regulatory framework for insurance sector, the Agency has undertaken activities aimed at creating a market attractive for better foreign and domestic investments through development of enabling regulations. Since the foundation of the Agency, the following enabling regulations have been adopted:

- Rulebook on detailed requirements for licensing insurance, brokerage and agency activities, and provision of ancillary insurance services, and the manner of proving the fulfilment of such requirements (OGRM 08/07 of 9 February 2007);
- Instruction on the manner of determining solvency margin level (OGRM 24/07 of 4 May 2007);
- Rulebook on the content of reports, notifications and other data submitted by the insurance company to the Insurance Supervision Agency and the manner and deadlines for submission thereof (OGM 70/08 of 19 November 2008 and 87/09 of 30 December 2009);
- Rulebook on the content of the opinion of authorized actuary (OGM 70/08 of 19 November 2008);
- Rulebook on the content and manner of keeping registers of data on insurance companies and other entities subject to the control of the Insurance Supervision Agency (OGM 70/08 of 19 November 2008);
- Rulebook on the manner of determining and monitoring of the insurance company liquidity (OGM 70/08 of 19 November 2008 and 87/09 of 30 December 2009);
- Rulebook on detailed criteria and manner of calculating mathematical reserves and bonus reserves (OGM 70/08 of 19 November 2008);
- Rulebook on detailed criteria and manner of calculating risk equalisation reserves (OGM 70/08 of 19 November 2008);
- Rulebook on detailed criteria and manner of calculating unearned premiums (OGM 70/08 of 19 November 2008);
- Rulebook on detailed criteria and manner of calculating technical reserves for outstanding claims (OGM 70/08 of 19 November 2008);
- Rulebook on establishing underwriting result, distribution of generated profit, loss coverage and loss coverage measures (OGM 70/08 of 19 November 2008);
- Rulebook on restrictions related to depositing and investing technical reserve funds and guarantee funds of insurance companies (OGM 38/09 of 12 June 2009 and 43/09 of 3 July 2009);
- Rulebook on the content and the manner of taking the professional exam for conducting insurance brokerage or agency activities (OGM 47/09 of 24 July 2009).



## III INSURANCE MARKET PARTICIPANTS

### 3.1 INSURANCE COMPANIES

In 2009 there were eleven insurance companies performing insurance business in Montenegrin insurance market<sup>1</sup>. Five insurance companies were performing only non-life insurance business, five companies were performing only life insurance business, while one company was performing both life and non-life insurance business and its final deadline to separate them is 30 December 2010.

*Table 2 Insurance companies operationally active in Montenegro in 2009*

Company	Insurance class
Lovćen Insurance JSC	Life/Non-life
Sava Montenegro JSC <sup>2</sup>	Non-life
Swiss Insurance JSC	Non-life
Grawe Insurance JSC	Life
Magnat Insurance JSC	Non-life
Atlas Life JSC	Life
Uniqa Non-Life Insurance JSC	Non-life
Uniqa Life Insurance JSC	Life
Delta Generali Insurance JSC	Non-life
Delta Generali Life Insurance JSC	Life
Merkur Insurance JSC	Life

#### Share capital of insurance companies

The increasing trend in the share of foreign capital in ownership structure of insurance companies, which began in previous years, continued in 2009. Total share capital of insurance companies in 2009 amounted to 34.624 million euro, which is by 5.5% higher in comparison to 2008<sup>3</sup>. Foreign capital amounted to 28.649 million euro, or 82.74% share in the total share capital, and domestic 5.975 million euro, or 17.26%. The increase in the total share capital of insurance companies was caused by:

- increase of capitalisation of Swiss Osiguranje AD Podgorica in the amount of 500,029.35 euro, whereby ownership structure of the company changed

<sup>1</sup> On 24 December 2009 the Council of the Insurance Supervision Agency made a decision to revoke the license for conduct of insurance operations of the insurance company "Magnat osiguranje" AD Podgorica due to legal non-compliance.

<sup>2</sup> Change of the name of the company from "Montenegro osiguranje AD Podgorica" to "Sava Montenegro AD Podgorica".

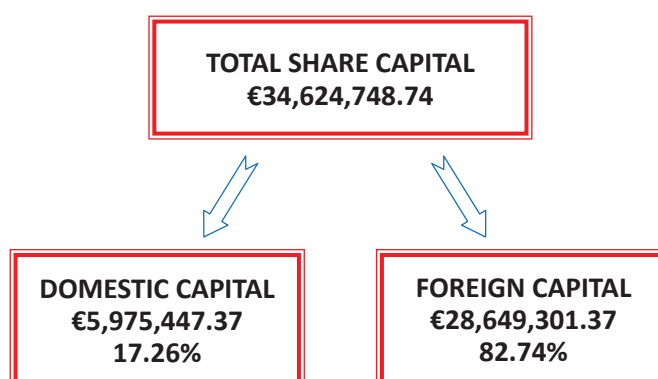
<sup>3</sup> Total share capital of insurance companies in 2008 amounted to 32,819 million euro.

(EUROFOND AD became qualified holder with 13.75% shares);

- increase of capitalisation of Sava Montenegro AD Podgorica in the amount of 3,000,135.71 euro;
- increase of capitalisation of Uniqa Životno Osiguranje AD Podgorica in the amount of 1,150,006.29 euro;
- increase of capitalisation of Uniqa Neživotno Osiguranje AD Podgorica in the amount of 850,000 euro and
- increase of capitalisation of Delta Generali Životna Osiguranja AD Podgorica in the amount of 300,000 euro.

Significant change in the structure of total share capital, from the aspect domestic vs. foreign capital of insurance companies in 2009 was related to the sale of 36.41% shares of Lovćen Osiguranje AD Podgorica that were under the ownership of the Development Fund of Montenegro and the Pension and Disability Insurance Fund, whereby the ownership structure of the company changed (Zavarovalnica Triglav from Slovenia became the owner of 91.83% shares).

The following figure illustrates the structure of total share capital of insurance companies in 2009:



Taking into consideration the ownership structure by companies in Montenegro, it may be concluded that foreign ownership is prevailing. Insurance companies Sava Montenegro, Grawe, Merkur, Uniqa Neživotno and Uniqa Životno Osiguranje are 100% under foreign ownership, while Lovćen Osiguranje, Delta Generali Osiguranje and Delta Generali Životna Osiguranja are over 90% under foreign ownership. Other insurance companies are under majority domestic ownership.

## 3.2 INSURANCE AGENTS AND BROKERS AND AGENCIES FOR ANCILLARY INSURANCE SERVICES

The Law on Insurance prescribes detailed criteria that companies in Montenegro need to meet as to perform brokerage activities, agency activities and provide ancillary insurance services, as well as conditions that physical persons – entrepreneurs need to meet in order to perform activities of an insurance agent.

In 2009 the following were issued:

- two licenses to companies for agency in insurance;
- three licenses to physical persons entrepreneurs – agents in insurance;
- one license to an agency for provision of ancillary insurance services;
- 18 authorisations to physical persons for performance of agency activities;
- 2 authorisations to physical persons for performance of brokerage activities.

As of 31 December 2009, in Montenegrin insurance market 14 companies for agency in insurance and 3 agents – entrepreneurs conducted agency operations, while 3 brokerage companies conducted brokerage operations in insurance.

Also, as of 31 December 2009, 251 physical persons in Montenegro had authorisations for conduct of agency operations in insurance, while 41 physical persons had authorisations for conduct of brokerage operations in insurance.

*Table 3 Companies conducting agency and brokerage activities and providing ancillary insurance services in Montenegro*

Company	Activity
PRIMS DOO Nikšić	agency
IN PRO DOO Podgorica	agency
Lojd Montenegro DOO	agency
Rogošić Invest DOO	agency
Montagent DOO Podgorica	agency
DOZ DOO Podgorica	agency
ZOIL DOO Nikšić	agency
Safe Invest DOO Podgorica	agency
IURISPRUDENS DOO	agency
Protektor Crna Gora DOO	agency
Aktuar DOO Podgorica	agency
Obses DOO Podgorica	agency
Eurohelp Agent DOO	agency
Premium plus DOO	agency

Adriatic AG DOO Podgorica	brokerage
ILC DOO Podgorica	brokerage
WVPCG DOO Budva	brokerage
Elita-Meel agent u osiguranju	agent-entrepreneur
Expres-Ključ	agent-entrepreneur
Start Up	agent-entrepreneur
Montenegro Assistance	provision of ancillary insurance services

The basic function of a brokerage company is to bring into contact the insured, i.e. policy holders with insurance companies to negotiate concluding of insurance contracts. In 2009, brokerage companies in Montenegrin insurance market concluded 3,038 insurance proposals.

Agency companies, which conducted activities of concluding insurance contracts on behalf of and for the account of insurers (issue of policies) and collection of premiums, as well as advisory and assistance operations in administration of claims and risk and loss assessment in 2009, sold 156,835 insurance policies, of which most are related to auto-liability insurance policies.

### 3.3 EMPLOYEES IN INSURANCE SECTOR

Review of the number of employees at the level of the overall insurance sector, in the period 2001-2009, is presented in the following Table:

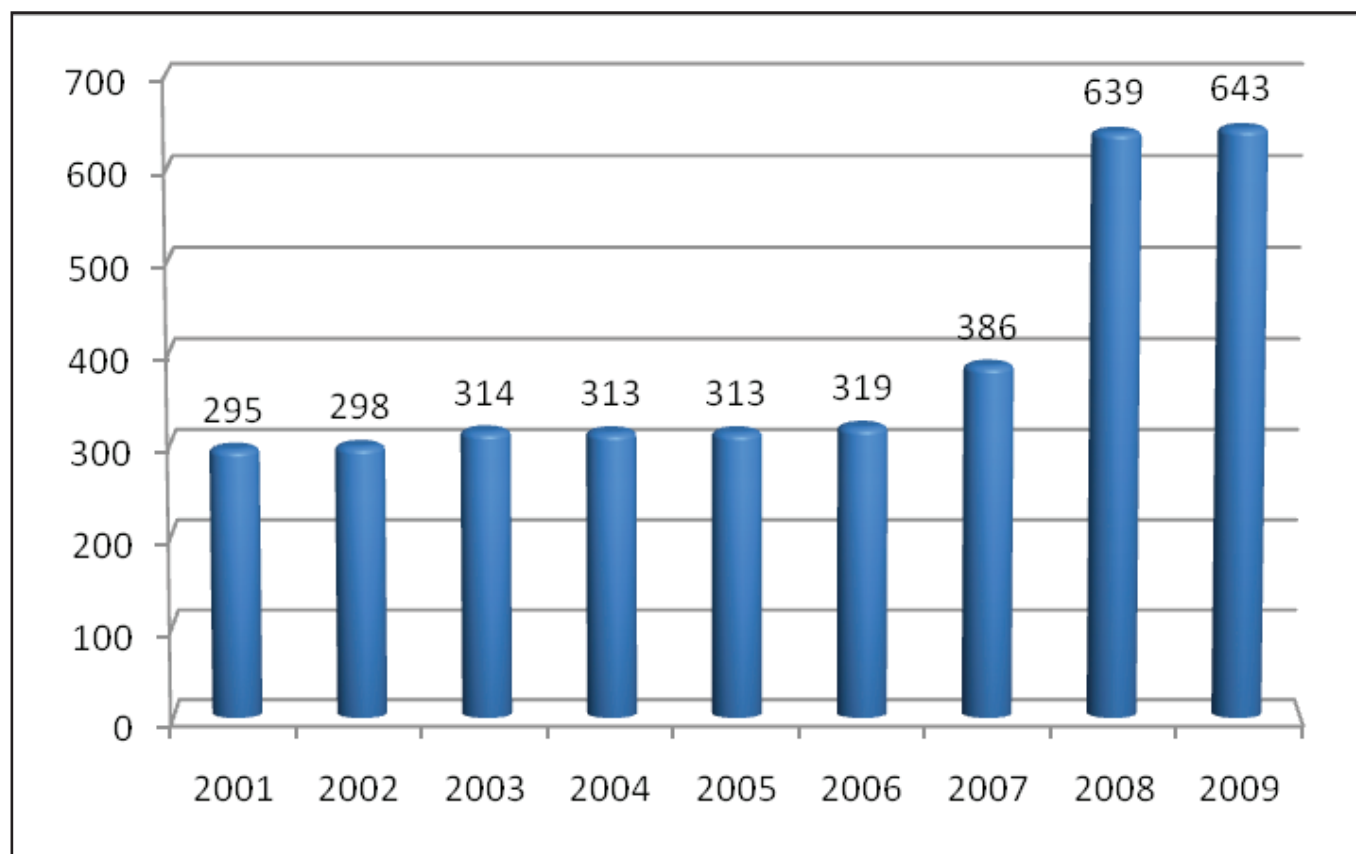
*Table 4 Total number of employees in insurance sector 2001-2009*

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total employees in insurance sector	295	298	314	313	313	319	386	639	643

The number of employees in insurance sector from 2001 to 2009 constantly went up, indicating gradual development of insurance market in Montenegro. Abrupt growth is notable in 2008 when there were 639 employees in insurance sector, which is by 65.54% higher in relation to 2007 when there were 386 employees in the insurance sector.

The growth of the number of employees was primarily affected by the foundation of new insurance companies such as Unika neživotno osiguranje, Unika životno osiguranje, Delta osiguranje, Delta životno osiguranje and Merkur in the insurance market. The growing trend of the number of employees continued in 2009 too, due to increase in the scope of operations in the insurance sector where the number of employees increased by 0.63% in relation to 2008..

*Figure 1 Total number of employees in insurance sector 2001-2009*



## IV GENERAL INSURANCE MARKET INDICATORS

### 4.1 GROSS INSURANCE PREMIUM

Non-life insurance written gross premium includes all amounts of premiums underwritten in the current accounting period for the period to one year maximum, irrespective whether such amounts are related in whole or in part to the subsequent accounting period, while for life insurance it includes all amounts of premiums collected by the end of accounting period.

Gross written premium in insurance market of Montenegro in 2009 amounted to 65.570 million euro, which represents growth of 8.24% in relation to 2008, when it amounted to 60.578 million euro.

The following Table shows written gross premium in the period 2002-2009:

*Table 5 Insurance written gross premium trends in 2002-2009 (thousand €)*

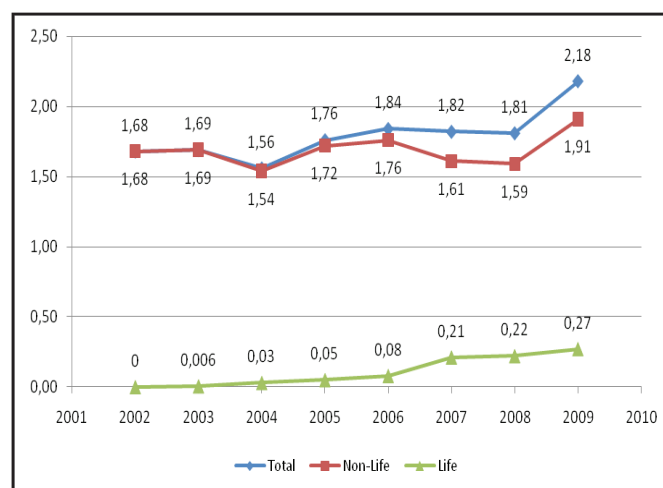
	2002	2003	2004	2005	2006	2007	2008	2009
Life	-	91	444	821	1.83	5,907	7,246	8,087
Non-life	22,833	25,509	25,673	31,202	37,792	45.11	53,332	57,483
TOTAL	22,833	25.6	26,117	32,023	39,622	51,017	60,578	65,570
Index	-	112.12	102.02	122.61	123.73	128.76	118.74	108.24

### 4.2. GROSS WRITTEN PREMIUM SHARE IN GDP

The share of gross written premium in GDP is the most frequent indicator used for assessment of insurance market situation. Since 2004 this indicator has been increasing, starting from 1.68% in 2002 to 2.18% in 2009.

In 2009, the share of non-life insurance premium in GDP amounted to 1.91%, while the share of life insurance premium in GDP amounted to 0.27%.

*Figure 2: Share of gross written premium in GDP 2002-2009 (%)*



Important feature of insurance market in Montenegro is that the market has been developing and its performance has been improving with regard to growth and development of life insurance in Montenegro. However, at this moment, insurance market in Montenegro is far below the average of developed EU member countries.

The following Table shows the share of gross written premium in gross domestic product in neighbouring countries, and in the European Union in 2008<sup>4</sup>.

*Table 6 Share of gross written premium in GDP in Montenegro in comparison to other countries in 2008 (%)*

	Life	Non-life	Total
Great Britain	12.8	2.9	15.7
Switzerland	5.5	4.4	9.9
Germany	3.0	3.6	6.6
Greece	1.0	0.9	1.9
Slovenia	1.7	3.7	5.4
Czech Republic	1.4	2.1	3.5
Hungary	1.7	1.5	3.1
Croatia	0.8	2.4	3.2
Serbia	0.2	1.6	1.9
Montenegro	0.22	1.59	1.81
Romania	0.4	1.4	1.8
Turkey	0.2	1.0	1.2

Source: Swiss Re and ISA

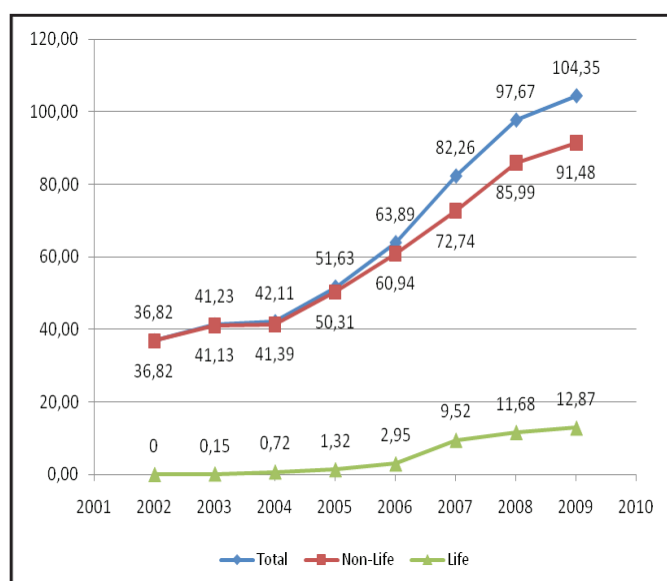
<sup>4</sup> Since data relevant for other countries for 2009 are not available, the Table shows data on the share of gross premium in GDP for 2008 for the purpose of comparison.



## 4.3 INSURANCE DENSITY

Insurance density, as one of the most frequently used insurance market indicators, represents the amount of gross written premium per capita. Since 2002 premium per capita has been recording significant and stable growth trend.

Figure 3: Gross written premium per capita 2002-2009 (€)



Gross written premium per capita in Montenegro in 2009 amounted to 104.35 euro, which remains significantly below the average of CEA (European Insurance and

Reinsurance Federation) member countries in 2008 (around 1,805 euro).

The following Table shows insurance density in the neighbouring countries, and some EU countries in 2008<sup>5</sup>.

Table 7 Insurance density in neighbouring and EU countries in 2008 (€)

Gross premium per capita (€)	
Great Britain	4,061.02
Switzerland	4,344.03
Germany	2,001.97
Greece	1,282.48
Slovenia	992.63
Czech Republic	537.54
Hungary	1,942.26
Croatia	302.44
Serbia	121.5
Montenegro	93.67 <sup>6</sup>
Romania	111.72
Turkey	97.67

Source: CEA and ISA

## 4.4 INSURANCE MARKET CONCENTRATION IN MONTENEGRO

### 4.4.1 HERFINDAHL-HIRCHMAN INDEX

The level of concentration of insurance market is established by Herfindahl-Hirschman index (HHI)<sup>7</sup>, and its value can range from 0 to 10,000. The value of index closer to zero indicates that market has a large number of companies of nearly the same size, i.e. it is a market with high level of competition. The value of index closer to 10,000 indicates that market is concentrated, i.e. there is monopoly in the market.

The range of Herfindahl-Hirschman index is:

- 0 – 1.000 → non-concentrated market (high level of competition);
- 1.000 – 1.800 → moderate concentration;
- 1.800 – 10.000 → concentrated market (monopoly).

For insurance market in Montenegro, in the period from 2007 to 2009, the value of HHI ranged within the limits of concentrated market, since the values of this index belong to the interval from 1,800 to 10,000. Still, from 2007 the reduction of index value can be noted, which indicates trends in the direction of increase of competition and efficiency of the market and reduction of market concentration, i.e. monopoly.

<sup>7</sup> HHI is obtained when market shares of each insurance company are individually squared and mutually summed.

<sup>5</sup> Since data relevant for other countries for 2009 are not available, the Table shows density insurance data for 2008 for the purpose of comparison.

<sup>6</sup> Data are taken over from the report on insurance market produced by National Bank of Serbia, based on calculation made according to average exchange rate as of 31 December 2008

Table 8 Herfindahl-Hirschman index 2007-2009

Insurance company	2007			2008			2009		
	Gross premium	Share %	HHI	Gross premium	Share %	HHI	Gross premium	Share %	HHI
Lovćen osiguranje	33,949,502	66.55	4,428.28	36,919,550	60.94	3,713.68	35,798,843	54.60	2,980.75
Sava Montenegro	10,171,028	19.94	397.46	11,357,332	18.75	351.56	10,873,448	16.58	274.99
Grawe osiguranje	4,065,002	7.97	63.49	5,720,050	9.44	89.11	4,944,525	7.54	56.86
Magnat osiguranje	1,576,365	3.09	9.55	2,140,818	3.53	12.46	1,743,472	2.66	7.07
Swiss osiguranje	1,210,535	2.37	5.63	1,991,377	3.29	10.82	2,609,224	3.98	15.83
Delta Generali osiguranje	0	0	0	1,228,516	2.03	4.12	5,050,714	7.70	59.33
Unika životno osiguranje	0	0	0	679,855	1.12	1.25	1,181,250	1.80	3.25
Unika neživotno osiguranje	0	0	0	385,854	0.64	0.41	2,732,712	4.17	17.37
Merkur osiguranje	0	0	0	55,671	0.09	0.008	423,551	0.65	0.42
Atlas Life	0	0	0	51,233	0.08	0.006	78,173	0.12	0.01
Delta Generali životna osiguranja	0	0	0	47,260	0.08	0.006	134,296	0.20	0.04
Zepter osiguranje	44,681	0.09	0.11	0	0	0	0	0	0.00
TOTAL	51,017,113	100	4,904.52	60,577,516	100	4,183.43	65,570,208	100	3,415.93

#### 4.4.2 SHARE OF INSURANCE COMPANIES IN GROSS WRITTEN PREMIUM

The following Table shows written gross premium by companies:

Table 9 Gross written premium of insurance companies in 2009 (€)

Insurance company	2009	Share%
Lovćen osiguranje AD	35,798,843	54.60
Sava Montenegro AD	10,873,448	16.58
Swiss osiguranje AD	2,609,224	3.98
Grawe osiguranje AD	4,944,525	7.54
Magnat osiguranje AD	1,743,472	2.66
Atlas Life AD	78,173	0.12
Unika neživotno osiguranje AD	2,732,712	4.17
Unika životno osiguranje AD	1,181,250	1.80
Delta Generali osiguranje AD	5,050,714	7.70
Delta Generali životnaosiguranja AD	134,296	0.20
Merkur osiguranje AD	423,551	0.65
TOTAL	65,570,208	100.0

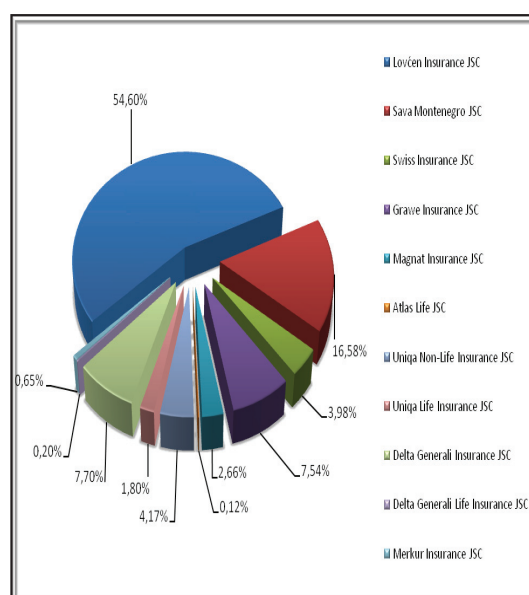
The largest share of 54.60% in the insurance market was generated by Lovćen osiguranje (35.798 million euro), which makes decrease in relation to the previous year by 3.04 percentage points, when it amounted 60.94% (36.919 million euro).

Two companies with greatest gross written premium are Lovćen and Sava Montenegro whose market share amounted to 71.18% (46.672 million euro) in 2009, which is by 8.51 percentage points lower in relation to 2008 when it amounted 79.69% (48.276 million euro).

Three companies with greatest gross written premium were Lovćen, Sava Montenegro and Delta Generali

osiguranje whose market share amounted to 78.88% (51.723 million euro) in 2009. Therefore, notable is the trend of reduction of concentration in insurance market of Montenegro, which is evidenced by data that in the previous year of 2008 the market presence of the three companies (Lovćen, Sava Montenegro and Grawe) with greatest gross written premium amounted 89.14% (53.996 million euro).

Figure 4 Market share of insurance companies in 2009 (%)



## V INSURANCE PORTFOLIO STRUCTURE

### 5.1 GROSS INSURANCE PREMIUM STRUCTURE: LIFE AND NON-LIFE INSURANCE

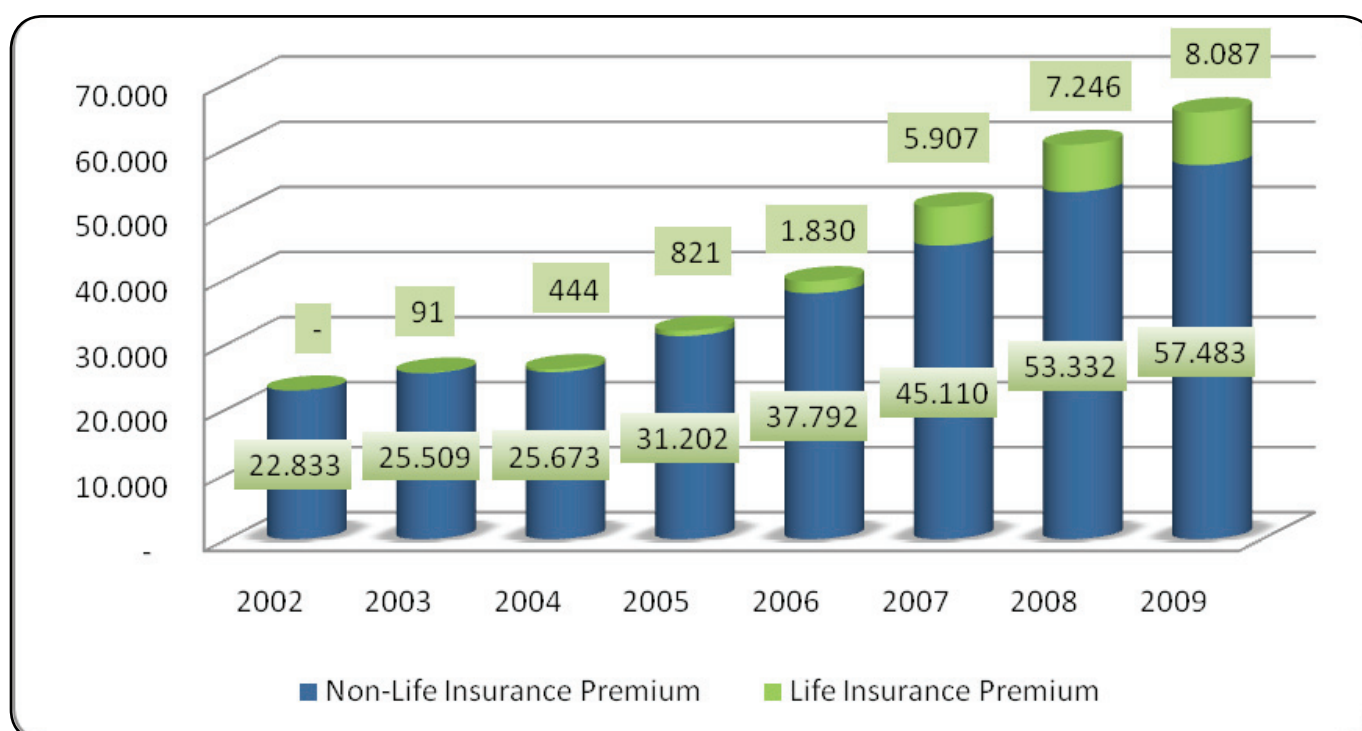
Insurance market in Montenegro in 2009 was characterised by the continuation of the trend of low level of life insurance and dominant share of non-life insurance. In the structure of gross premium in 2009, the share of non-life insurance amounted to 87.67%, while the share of life insurance slightly increased from 11.96% in 2008 to 12.33% in 2009.

Table 10 Insurance premium structure in 2008 and 2009

	2008		2009		Index 2009/2008
	Premium (€)	Share (%)	Premium (€)	Share (%)	
Life insurance	7,245,771	11,96	8,086,671	12.33	111.61
Non-Life insurance	53,331,745	88,04	57,483,537	87.67	107.78
TOTAL	60.577.516	100.00	65,570,208	100	108.24

In Montenegrin market insurance, the share of non-life insurance is still notable as dominant, but increasing trend of the share of life insurance has become increasingly notable starting from 2003. In the period from 2004 to 2009 non-life insurance premium grew on annual level at average rate of 14.78%, while life insurance grew at average rate of 142.13%. In 2009, non-life insurance premium increased by 7.78%, while life insurance premium increased by 11.61% in relation to the previous year.

Figure 5 Gross premium structure: life vs. non-life 2002-2009 (000 €)



## 5.2 STRUCTURE OF GROSS INSURANCE PREMIUM BY INSURANCE CLASSES

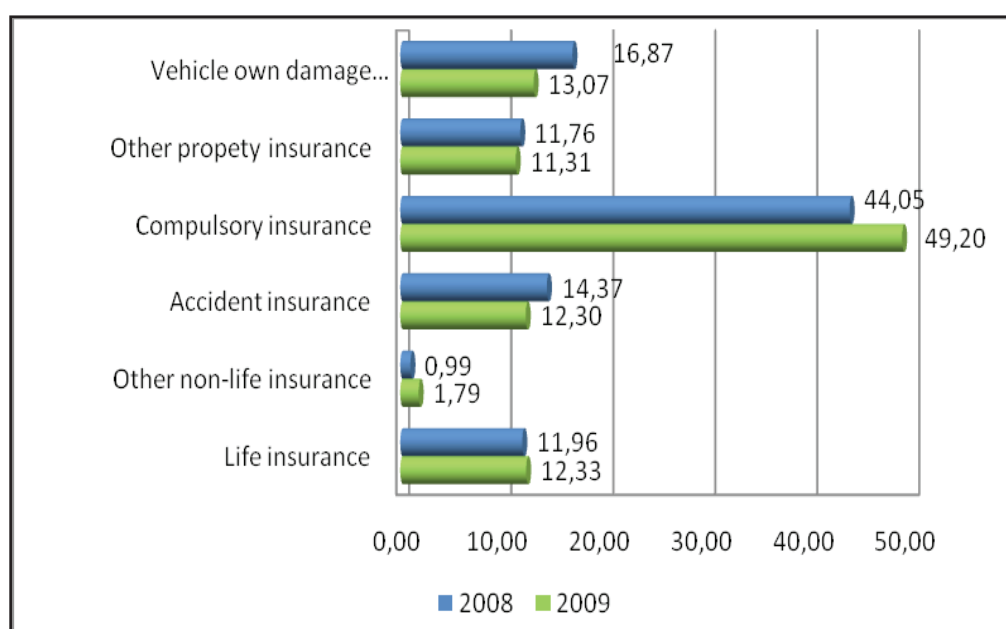
The most significant changes in the structure of insurance gross premium in 2009 are related to the growth of the share of compulsory insurance and life insurance, as well as reduction of the share of vehicle own damage insurance and accident insurance.

Table 11 Structure of insurance portfolio by insurance classes in 2008 and 2009

	2008		2009		Index 2009/2008
	Amount (€)	Share (%)	Amount (€)	Share (%)	
Vehicle own damage insurance	10,216,882	16.87	8,568,134	13.07	83.86
Other property insurance	7,124,404	11.76	7,416,866	11.31	104.11
Compulsory insurance	26,683,547	44.05	32,259,842	49.20	120.90
Accident insurance	8,705,777	14.37	8,062,403	12.30	92.61
Other non-life insurance	601,135	0.99	1,176,291	1.79	195.68
Life insurance	7,245,771	11.96	8,086,671	12.33	111.61
TOTAL	60,577,516	100	65,570,208	100	108.24

In the structure of gross premium, compulsory insurance had the greatest share of 49.20%, which went up by 20.90% in 2009, while vehicle own damage insurance and accident insurance declined. Vehicle own damage insurance premium in 2009 decreased by 1,648,748 euro, or 16.14%, while accident insurance premium declined by 643,374 euro, or 7.39%.

Figure 6 Structure of gross insurance premium by insurance classes in 2008 and 2009 (%)





## 5.3 COMPULSORY INSURANCE

The Law on Compulsory Transport Insurance (OGRM 46/07) prescribes classes of compulsory insurance, as follows:

- Accident insurance of passengers in public traffic;
- Third party liability insurance of motor vehicle owners or users;
- Third party liability insurance of aircraft owners or users and
- Third party liability insurance of watercraft owners or users.

Total compulsory insurance premium in 2009 amounted to 32.259 million euro which makes increase in relation to 2008 by 20.90%. Six companies conducted compulsory insurance business in Montenegro, of which the greatest share in gross premium of compulsory insurance was generated by Lovćen Osiguranje with 52.74%.

Table 12 Compulsory insurance premium by companies in 2009

	Premium (€)	Share (%)
Lovćen osiguranje	17,012,560	52.74
Sava Montenegro	7,660,631	23.75
Swiss osiguranje	612,727	1.90
Magnat osiguranje	1,743,472	5.40
Uniqa neživotno osiguranje	1,959,908	6.08
Delta Generali osiguranje	3,270,543	10.14
TOTAL	32,259,842	100

## 5.4 LIFE INSURANCE

Life insurance makes the basic developmental factor of insurance market of Montenegro.

Life insurance in Montenegro continued the increasing trend. Life insurance gross written premium in 2009 amounted to 8,086 million euro and increased by 840,900 euro, i.e. 11.61% in relation to 2008 when it amounted to 7.245 million euro. The number of life insured persons in 2009 amounted to 33,168, which makes the increase of 2.64% in relation to the previous year.

Table 14 Breakdown of the number of life insured persons in 2008 and 2009

Total number of insured persons			
	2008	2009	Change in %
TOTAL	32,315	33,168	2.64

The greatest share in the structure of compulsory insurance premium goes to auto liability insurance which makes 96.56% of the total compulsory insurance premium in 2009. Auto liability insurance premium in 2009 amounted to 31,149 million euro. The greatest share in auto liability insurance premium was generated by: Lovćen osiguranje with 51.32%, Sava Montenegro with 24.38% and Delta Generali osiguranje with 10.48%.

Table 13 Share of auto liability written gross premium for 2009 by insurance companies

	Gross written premium AO (€)	Share (%)
Lovćen osiguranje	15,984,602	51.32
Sava Montenegro	7,593,542	24.38
Magnat osiguranje	1,743,472	5.60
Delta Generali osiguranje	3,264,768	10.48
Uniqa neživotno osiguranje	1,949,917	6.26
Swiss osiguranje	612,727	1.97
TOTAL	31,149,029	100

According to the analysis of life insurance market, due to impact of economic crisis, notable is the growth of the number of cancelled and reduced life insurance contracts, which resulted in slowdown of the growth rate of life insurance gross premium in 2009.

The number of cancelled policies as of 31 December 2009 amounted to 3,273 and increased by 7.52% in relation to 2008 when it amounted to 3,044. The number of reduced policies in 2009 doubled in relation to 2008 (353) and amounted to 956.

## VI ASSETS STRUCTURE

The value of total asset for all insurance companies, as of 31 December 2009, was 105.298 million euro, which accounts for the increase of 6.56% if compared to the value of total assets in 2008. The short-term financial placements have the highest share in the total assets of 29.96%, followed by long-term financial placements with 24.26%, receivables having 16.94% and fixed assets of 13.47%.

Table 15 Structure of Assets of Insurance Companies in 2008 and 2009

	2008		2009		Index 2009/2008
	Amount (€)	Share (%)	Amount (€)	Share (%)	
Intangible Assets	1,021,300	1.03	671,110	0.64	65.71
Fixed Assets	23,697,346	23.98	14,182,231	13.47	59.85
Long-term financial placements	20,365,572	20.61	25,540,909	24.26	125.41
Short-term financial placements	21,885,277	22.15	31,547,561	29.96	144.15
Cash and cash equivalents	11,895,001	12.04	6,037,693	5.73	50.76
Receivables	16,911,516	17.11	17,835,404	16.94	105.46
Prepayments and accrued income	2,877,900	2.91	6,025,481	5.72	209.37
Other	165,682	0.17	3,458,100	3.28	2,087.19
TOTAL	98,819,594	100	105,298,489	100	106.56

In 2009, short-term financial placements and long-term financial placements evidenced the highest growth (44.15% and 25.41% respectively). Furthermore, receivables evidenced the growth of 5.46%, while their share in total assets was reduced to 16.94%. A significant change concerning total assets of the insurance sector in Montenegro pertains to the reduction by 49.24% of the amount of funds on business accounts of insurance companies. Additionally, there was reduction in fixed assets by 40.15% and intangible assets by 34.29%.

The decline of fixed assets of 40.15% is primarily a result of changes in accounting policies in case of one insurance company in the segment of property and equipment, as well as due to transfer of part of the property and equipment to the investment property. The long-term financial placements resulted in growth of 25.41% as a consequence of the aforementioned.

Changes in assets of the insurance sector concerning the increase of short-term financial placements of insurance companies, as well as reduction of funds on business accounts, is a consequence of activities dealing with harmonisation of operations of companies and investments in reserves in line with the *Rulebook on Restrictions related to Depositing and Investing Technical Reserve Funds and Guarantee Funds of Insurance Companies*, adopted in 2009.

The growth in category Prepayments and accrued income is mainly referring to the delineation of underwriting costs which is made possible for companies by Article

102 of the Law on Insurance. The category “other” of the assets is mainly relating to the share of reinsurance and co-insurance in technical reserves. Significant increase in the category “other” is a consequence of application of the principle whereby insurance companies present technical reserves using gross principle rather than net principle.

Figure 7 Structure of assets of insurance companies in 2008 and 2009 (%)

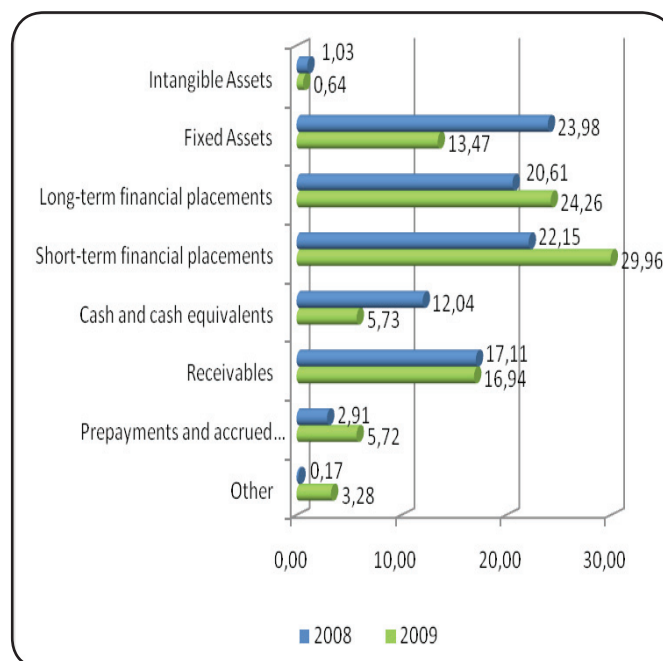


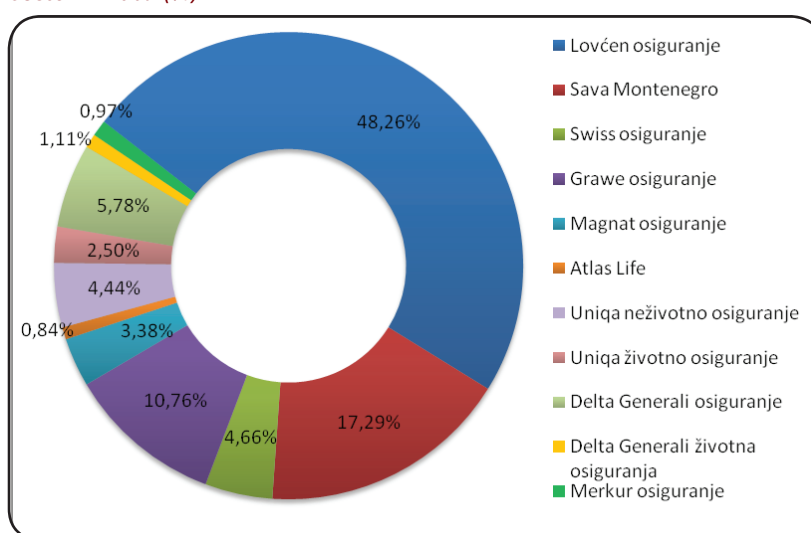
Table 16 Share of insurance companies in total assets of insurance sector in 2008 and 2009 (%)

Company	2008	2009	% change
Lovćen osiguranje	59,20%	48,26%	-12,80%
Sava Montenegro	14,34%	17,29%	3,65%
Swiss osiguranje	3,78%	4,66%	1,07%
Grawe osiguranje	8,27%	10,76%	2,72%
Magnat osiguranje	3,36%	3,38%	0,16%
Atlas Life	1,25%	0,84%	-0,37%
Uniqa neživotno osiguranje	3,08%	4,44%	1,54%
Uniqa životno osiguranje	1,39%	2,50%	1,21%
Delta Generali osiguranje	3,53%	5,78%	2,49%
Delta Generali životna osiguranja	0,86%	0,97%	0,15%
Merkur osiguranje	0,94%	1,11%	0,19%
TOTAL	100%	100%	-

Considering the share of individual companies in the total assets of the insurance sector it can be noticed that *Lovćen osiguranje* continues to have the

largest share of 48.26%, followed by *Sava Montenegro* with 17.29% and *Grawe osiguranje* with 10.76%. If compared to 2008, *Lovćen osiguranje* has recorded significant decline of the share in total assets of companies, i.e. by 12.80 percentage points, while *Sava Montenegro* recorded significant increase of its share, i.e. by 3.65 percentage points.

Figure 8: Share of assets of insurance companies in total assets of insurance sector in 2009 (%)



## VII STRUCTURE OF LIABILITIES AND CAPITAL

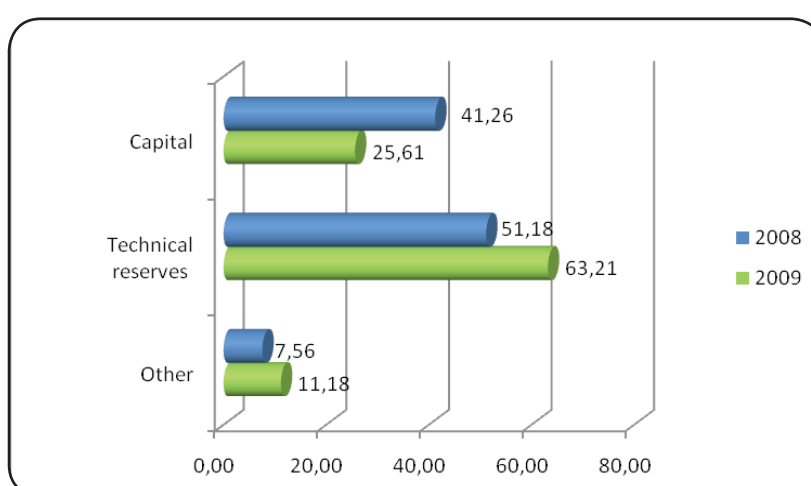
Value of total liabilities and capital for all insurance companies in Montenegro, as of 31 December 2009, was 105.298 million euro, which represents the increase of 6.56% if compared to the value of total liabilities and capital in 2008, when it was 98.819 million euro.

Table 17 Structure of Liabilities and Capital of insurance companies in 2008 and 2009

	2008		2009		Index 2008/2009
	Amount (€)	Share (%)	Amount (€)	Share (%)	
Capital	40,769,076	41.26	26,966,965	25.61	66.15
Technical reserves	50,581,178	51.18	66,562,779	63.21	131.60
Other	7,469,340	7.56	11,768,746	11.18	157.56
TOTAL	98,819,594	100	105,298,489	100	106.56

Technical reserves had the highest share of 63.21% in the total value of insurance sector liabilities and capital in 2009, followed by capital of 25.61%. In 2009, insurance companies created technical reserves in the amount of 65.562 million euro, while the capital of insurance companies was 26.966 million euro. Other liabilities of insurance companies had the share of 11.18% in total liabilities and capital and amounted to 11.768 million euro.

Figure 9 Structure of Liabilities and Capital of insurance companies in 2008 and 2009 (%)



The analysis of liabilities and capital of insurance companies shows that decline of capital of 33.85%, in relation to the previous year, was mainly caused by incurred operating losses of insurance companies as well as by changes in accounting policy (change from the revaluation model to historical value model) in case of one insurance company, which has directly impacted the decline in the revaluation reserves.

Adoption of relevant enabling regulations and more strict requirements of the Regulator concerning

adequate establishment of the technical reserves level has resulted in the increase of the technical reserves by 31.6% if compared to the previous year.

Increase of the category "other" in the liabilities and capital of the balance sheet refers to the growth in liabilities maturing for collection in the coming period, i.e. growth of liabilities arising from claims, reinsurance and co-insurance contracts, severance payments and jubilee awards and unused annual leaves, as well as liabilities arising from short-term and long-term loans.

## 7.1 TECHNICAL RESERVES

According to the Law on Insurance, insurance companies are obliged to establish technical reserves that are used to cover liabilities arising from insurance operations.

An insurance company engaged in one or more classes of life insurance establishes technical reserves for unearned premiums, outstanding claims, bonuses, and mathematical reserve. Insurance company engaged in non-life insurance establishes technical reserves for unearned premiums, outstanding claims, and risk equalisation reserves.

Unearned premiums are established from the total insurance premium, separately for each insurance class, commensurate to the insurance period, and serve to cover liabilities that will arise in the coming accounting period.

Outstanding claims are established at the level of estimated amount of liabilities for incurred and reported but unprocessed claims and incurred but not reported claims in the current period.

Mathematical reserve is established at the level of present value of future liabilities of the company less present value of future obligations of policyholders (insurance premium) and is calculated for each individual contract.

Risk equalisation reserves (RER) are established at the account of expenses of insurance company, separately for each class of non-life insurance and are used for time adjustments of claims by individual insurance classes. Risk equalisation reserves are created based on the standard deviation of relevant loss ratio in the current accounting period from average relevant loss ratio for each class of non-life insurance that the insurance company was engaged in during the observed period.

Technical reserves at the level of the sector were 66.562 million euro as of 31 December 2009, which represents the increase of 31.60% in relation to 2008.

Table 18 Structure of technical reserves of insurance companies in 2007, 2008 and 2009

	Amount (€)	Share %	Amount (€)	Share %	Index 2008/2007	Amount (€)	Share %	Index 2009/2008
Mathematical reserve	2,997,155	8.41	4,886,047	9.66	163.02	9,255,438	13.90	189.43
Risk equalisation reserves	-	-	1,771,854	3.5	-	1,418,754	2.13	97.25
Outstanding claims	17,995,646	50.49	22,605,986	44.69	125.62	32,575,999	48.94	144.10
Unearned premiums	14,646,275	41.10	21,317,291	42.14	145.55	23,008,197	34.57	107.93
Bonus reserves	-	-	-	-	-	304,390	0.46	-
<b>TOTAL</b>	<b>35,639,076</b>	<b>100</b>	<b>50,581,178</b>	<b>100</b>	<b>141.93</b>	<b>66,562,778</b>	<b>100</b>	<b>131.60</b>

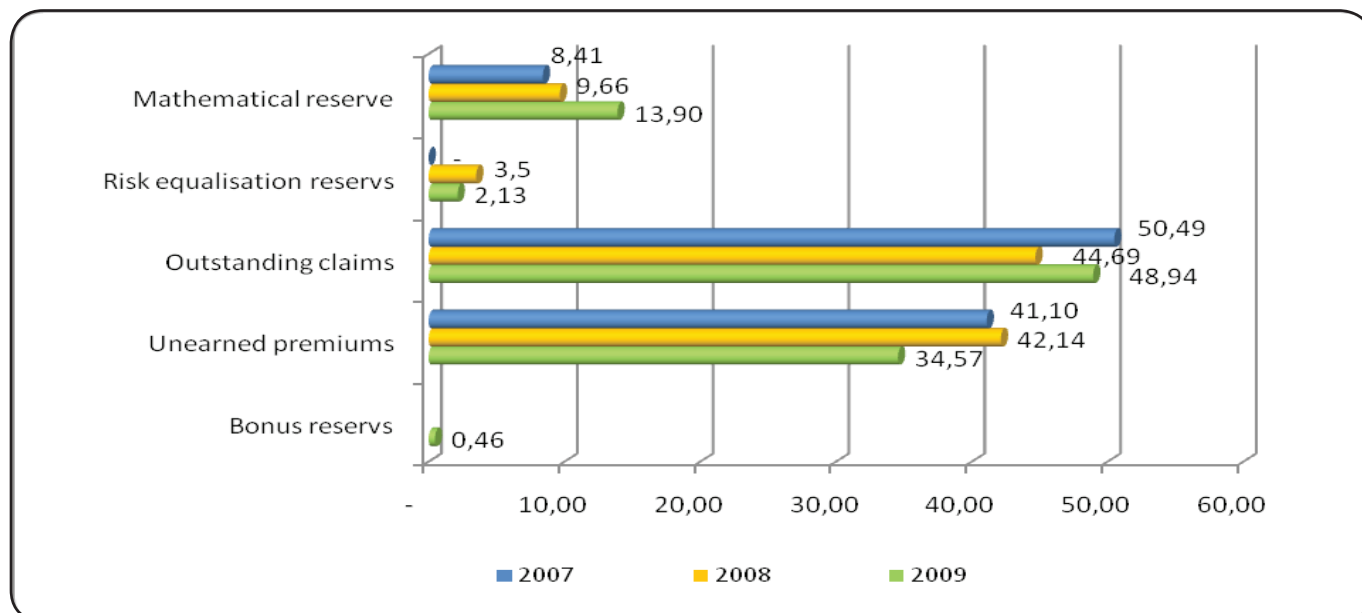
The highest share in the structure of technical reserves in 2009 was the one of outstanding claims and amounted to 32.575 million euro, which made 48.94% of total technical reserves. Allocations for outstanding claims have recorded the growth of 44.1% if compared

to 2008. Unearned premiums represent the second largest item, and they were 23.008 million euro, which makes the growth of 7.93% and they make 34.57% of the total value of technical reserves.



Mathematical reserves have recorded the highest growth of 89.43%, if compared to 2008, and in 2009 they were 9.255 million euro, or 13.9% of the total technical reserves. In 2009, the trend of risk equalisation reserves of insurance companies that started in 2008 continued, and they were 1.418 million euro, or 2.13% of technical reserves.

Figure 10 Structure of technical reserves of insurance companies in 2007, 2008, and 2009 (%)



The trend of technical reserves and total premium represents an important indicator of results of activities undertaken to stabilize and regulate insurance market. The faster growth in technical reserves than the total premium indicates commitment of insurers to be more realistic in assessing these reserves, whereby they largely protect interests of insurers and insurance beneficiaries. The figure to follow shows the growth of technical reserves and total premium over the course of the last three years, using 2006 as the base year.

Figure 11 Trend of the total premium and technical reserves for the period 2006-2009 (€)

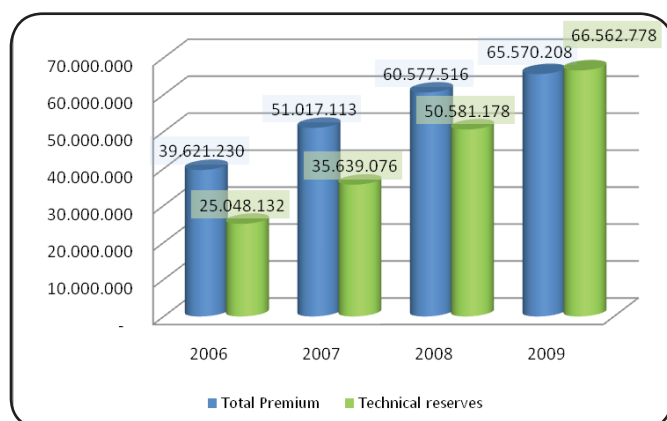
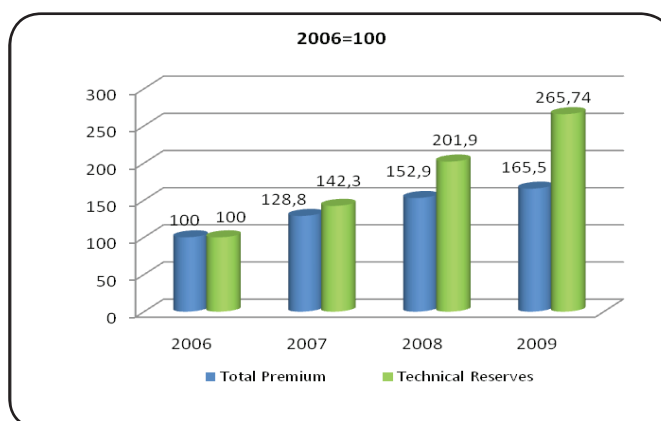


Figure 12 Trend of total premium and technical reserve indices for the period 2006-2009 (2006=100)



In 2009, insurance companies in Montenegro placed in reserves the amount 2.1962 times the gross expenditures arising from claims, whereby this indicator increased in comparison to 2008, when it amounted to 2.1267.

Table 19 Ratio of technical reserves and gross processed claims in 2008 and 2009

	Technical reserves (€)	Gross processed claims (€)	%
Total 2008	50,581,178	23,783,612	212.67
Total 2009	66,562,778	30,307,966	219.62

## VIII DEPOSITING AND INVESTING TECHNICAL RESERVE FUNDS AND GUARANTEE FUNDS

### 8.1 DEPOSITING AND INVESTING TECHNICAL RESERVE FUNDS

According to the Law on Insurance, the companies are obliged to deposit and invest technical reserve funds in:

- securities issued by Montenegro, central banks and governments of foreign countries rated at least "A", or its equivalent by widely-accepted, internationally recognized rating agencies;
- bonds or other debt securities traded on the organized securities market in Montenegro;
- bonds, or other debt securities not traded on the organized securities market, if the issuer is a legal entity with registered office in Montenegro;
- shares traded on the organized securities market in Montenegro;
- banks having their registered offices in Montenegro.

In 2009, the Rulebook on Restrictions Related to Depositing and Investing Technical Reserve Funds and Guarantee Funds of Insurance Companies was adopted, which defines types of placements of reserve funds and restrictions concerning investments into stipulated asset types, depending whether the insurance company is engaged in life or non-life insurance. In addition to the forms stipulated by Article 90 of the Law on Insurance, the Rulebook stipulates that technical reserve funds are deposited and invested in:

- immovable properties registered with the immovable property cadastre in Montenegro if their purchase price is determined based on the appraisal of an authorized appraiser

and if generate revenue or if revenue may be expected;

- debt securities issued by another country, central bank of another country or international financial organization, or securities guaranteed for by another country or central bank of another country, if their credit rating awarded by the rating agencies Standard&Poor's or Fitch - IBCA is not less than "BBB", or "Baa3" if awarded by Moody's;
- debt securities of foreign legal entities traded on the stock exchange market in the countries where they are registered, provided that their credit rating awarded by the rating agencies Standard&Poor's or Fitch - IBCA is not less than "BBB", or "Baa3" if awarded by Moody's;
- shares of foreign legal entities, provided that they have been listed on the stock exchange for at least last two years and if their credit rating awarded by the rating agencies Standard&Poor's or Fitch - IBCA is not less than "BBB", or "Baa3" if awarded by Moody's.

As far as the compliance with the Law and the Rulebook is concerned, the Insurance Supervision Agency controls depositing and investing of net technical reserves of insurance companies, which amounted to 63.014 million euro in 2009. **Gross technical reserves** were 66.562 million euro as of 31 December 2009 for the entire insurance sector, which shows that the share of reinsurers in technical reserves was 5.33% (or 3.548 million euro).

Table 20 Structure of net and gross technical reserves of insurance companies in 2009

	Net technical reserves		Gross technical reserves	
	Amount (€)	Share	Amount (€)	Share
Mathematical reserve	9,185,854	14.58	9,255,438	13.90
Risk equalisation reserve	1,418,754	2.25	1,418,754	2.13
Outstanding claims	30,797,755	48.87	32,575,999	48.94
Unearned premium	21,307,973	33.81	23,008,197	34.57
Bonus reserves	304,390	0.48	304,390	0.46
<b>TOTAL</b>	<b>63,014,726</b>	<b>100</b>	<b>66,562,778</b>	<b>100</b>

Figure 13 Structure of gross and net technical reserves of insurance companies in 2009 (%)

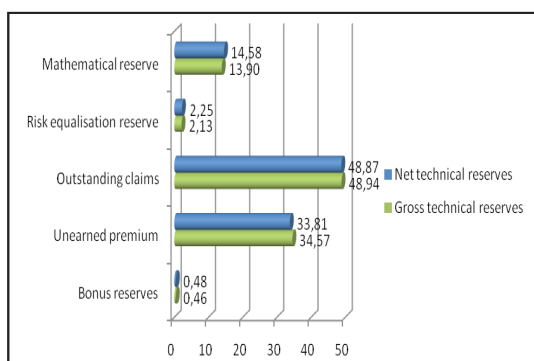


Table 21 Gross and net technical reserves by insurance groups in 2009 (€)

	Net technical reserves		Gross technical reserves	
	Amount (€)	Share	Amount (€)	Share
Life insurance	10,426,313	16.55	10,663,224	16.02
Non-life insurance	52,588,414	83.45	55,899,554	83.98
TOTAL	63,014,726	100	66,562,779	100

The following conclusions are drawn by analysing the depositing and investing of technical reserve funds of insurance companies in 2009:

- Net technical reserve funds invested and deposited at the level of the entire insurance sector in Montenegro were 44,782,108 euro, those *in line with stipulated asset forms* (but not in compliance with restrictions stipulated by the Rulebook), or 71.07% of the total net technical reserves, while the amount of deposited and invested net technical reserves *in accordance with stipulated asset forms and in compliance with restrictions stipulated by the Rulebook* was 43,305,799 euro i.e. 68.72% of the total net technical reserves;
- Insurance companies engaged in life-insurance operations have placed 10,425,096 euro of net technical reserve funds *in stipulated asset forms* (99.99% of the total net technical reserves for life insurance), while they have placed 10,379,938 euro of the net technical reserve funds, while *respecting stipulated asset forms and stipulated restrictions*, (99.56% of the total net technical reserves of life insurance);
- Insurance companies engaged in non-life insurance operations have invested technical reserve funds *in stipulated asset forms* in the amount of 34,357,012 euro (65.13% of the total net technical reserves of non-life insurance), while they invested 32,925,861 euro (62.61% of the total net technical reserves of non-life insurance) into *stipulated asset forms and in compliance with restrictions stipulated by the Rulebook*.

Table 22 Structure of deposited and invested technical reserves funds into stipulated asset forms in 2009

	Life Insurance		Non-life Insurance		Total	
	Amount (€)	Share	Amount (€)	Share	Amount (€)	Share
Shares	364,277	3.49	2,158,154	6.28	2,522,431	5.63
Bonds	179,579	1.72	2,068,572	6.02	2,248,151	5.02
Deposits	8,430,643	80.87	19,892,405	57.90	28,323,049	63.25
Investment property	1,296,158	12.43	8,356,226	24.32	9,652,384	21.55
Securities of foreign issuer	0	0	0	0	0	0
Cash	154,438	1.48	1,881,654	5.48	2,036,092	4.55
TOTAL	10,425,096	100	34,357,012	100	44,782,108	100

Table 23 Structure of deposited and invested net technical reserves funds of companies in line with restrictions stipulated by the Rulebook in 2009

	Life Insurance		Non-life Insurance		Total	
	Amount (€)	Share	Amount (€)	Share	Amount (€)	Share
Shares	364,277	3.49	2,158,154	6.28	2,522,431	5.63
Bonds	179,579	1.72	2,068,572	6.02	2,248,151	5.02
Deposits	8,430,643	80.87	19,892,405	57.90	28,323,049	63.25
Investment property	1,296,158	12.43	8,356,226	24.32	9,652,384	21.55
Securities of foreign issuer	0	0	0	0	0	0
Cash	154,438	1.48	1,881,654	5.48	2,036,092	4.55
<b>TOTAL</b>	<b>10,425,096</b>	<b>100</b>	<b>34,357,012</b>	<b>100</b>	<b>44,782,108</b>	<b>100</b>

Technical reserve funds invested by the insurance companies complying with the forms stipulated by the Law and the Rulebook on Restrictions Related to Depositing and Investing Technical Reserve Funds and Guarantee Funds of Insurance Companies were 43.305 million euro. Deposits have the highest share in the total structure of invested and deposited technical reserve funds, in the asset forms stipulated by the Law and the Rulebook, the share being 64.68%, and amounting to 28.008 million euro. The share of the investment property was 22.04% or 9.544 million euro, while shares account for 5.82% i.e. 2.522 million euro, bonds 5.19% i.e. 2.248 million euro, while the cash accounted for 2.27% or 982,038 euro.

Figure 14 Structure of deposited and invested technical reserve funds in line with restrictions stipulated by the Rulebook in 2009 (%)

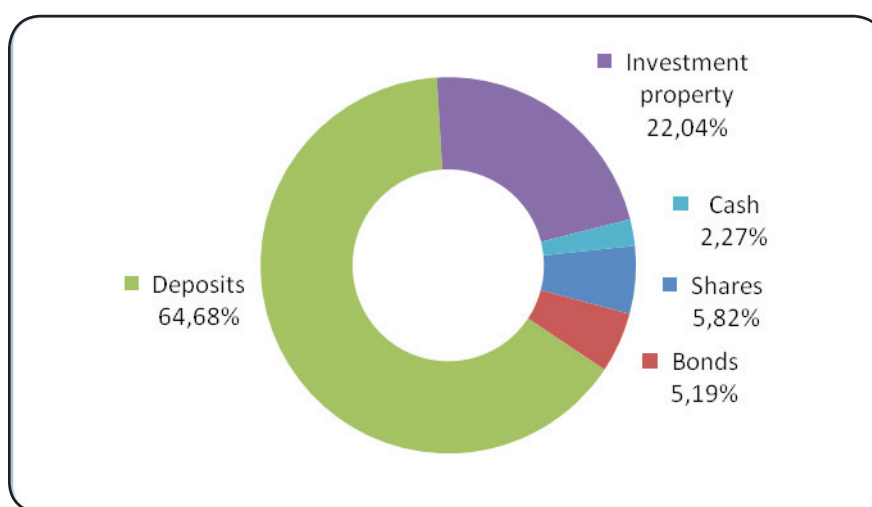
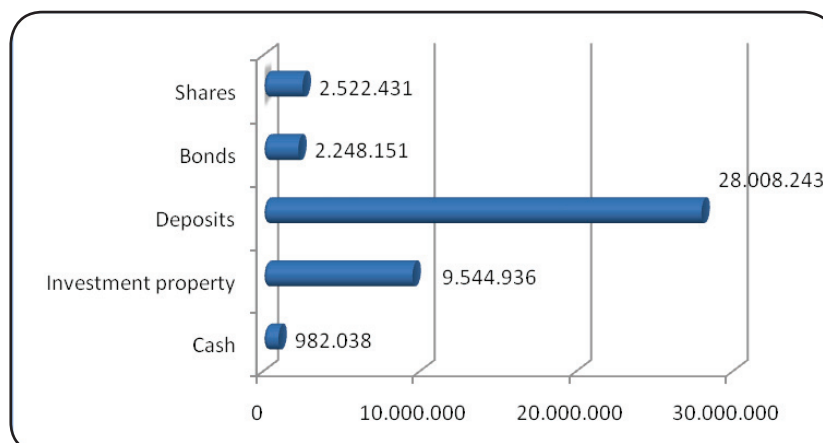


Figure 15 Structure of deposited and invested technical reserve funds in line with restrictions stipulated by the Rulebook in 2009 (€)

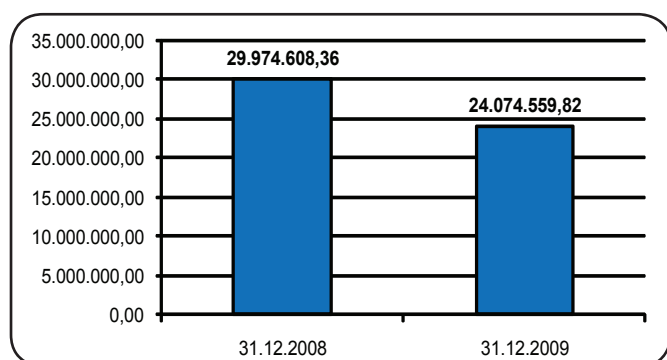




## 8.2 DEPOSITING AND INVESTING GUARANTEE FUNDS

According to the Law on Insurance, companies are obliged to keep guarantee funds in order to secure regular execution of their obligations. Total amount of guarantee funds cannot be lower than the monetary amount of the core capital set forth under Article 21 of the Law on Insurance. In 2009, total amount of guarantee funds of insurance companies was 24.075 million euro, which is 19.68% less in relation to 2008 when guarantee funds were 29.975 million euro, this is primarily caused by incurred losses of insurance companies.

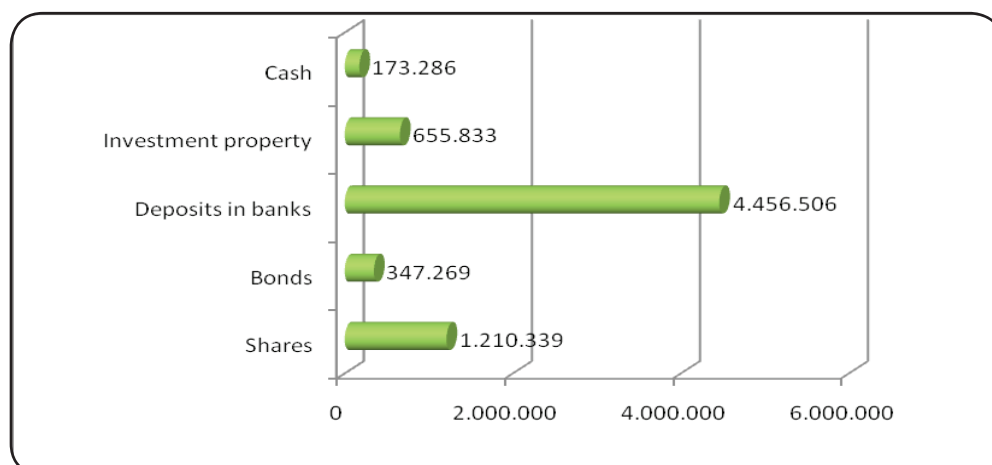
Figure 16 Total Guarantee Funds in 2008 and 2009 (€)



Insurance companies are obliged to deposit up to one third of the guarantee funds and invest it in forms stipulated for technical reserves by the Law and the Rulebook. Insurance companies have invested 85.27% of one third of guarantee funds in asset form stipulated by the Law and the Rulebook, and in doing so have complied with all stipulated restrictions.

The Figures to follow present asset forms into which insurance companies deposited and invested one third of guarantee funds.

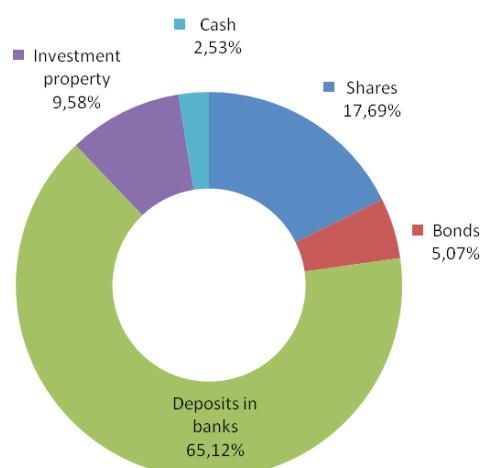
Figure 17 Structure of investing and depositing of one third of guarantee funds in 2009 (€)



A conclusion that could be drawn by analysing depositing and investing of one third of guarantee funds of insurance companies in 2009 is that as far as the entire insurance sector in Montenegro is concerned the placement in deposits in banks was 4,456,506 euro or 65.12% of one third of guarantee funds, *in line with stipulated asset forms and in compliance with the restrictions stipulated by the Rulebook.*

Complying with all stipulated restrictions, the placement in shares was 1,210,330 euro i.e. 17.69% of one third of guarantee funds, while 655,833 euro or 9.58% was invested in the investment property. The remainder of one third of guarantee funds was invested into bonds in the amount of 347,260 euro, or 5.07% of one third of guarantee funds, and cash was 2.53% or 173,286 euro.

Figure 18 Structure of investing and depositing of one third of guarantee funds in 2009 (%)



## IX FINANCIAL OPERATING RESULTS

Insurance companies are obliged, according to the Law on Insurance, to state profit and loss by insurance classes (separately for all classes of life and all classes of non-life insurance) and separately for reinsurance operations.

The insurance activity generated loss of 9.199 million euro in 2009, which is higher than the recorded loss in the previous year by 4.955 million euro, when the loss was 4.244 million euro.

Out of eleven insurance companies that were operating in 2009, five companies generated profit amounting to 2.286 million while remaining six insurance companies generated loss of 11.485 million euro.

*Grawe, Magnat, Swiss osiguranje, Delta Generali neživotno osiguranje and Merkur osiguranje* had positive operating results in 2009, and *Grawe osiguranje* had the highest net profit of 1.617 million euro.

Table 24 Net profit/loss of insurance companies 2009

	Net profit / loss (€)
Lovćen osiguranje	-7,372,817
Grawe osiguranje	1,616,868
Sava Montenegro	-2,672,488
Magnat osiguranje	489,799
Swiss osiguranje	18,704
Delta Generali osiguranje	111,701
Delta Generali životna osiguranja	-186,829
Uniqa neživotno osiguranje	-745,595
Uniqa životno osiguranje	-184,251
Merkur osiguranje	49,001
Atlas Life	-323,024
TOTAL	-9,198,931

## X OPERATING INDICATORS

### 10.1 SOLVENCY

Solvency of insurance companies depends on the adequacy of technical reserves for undertaken obligations as well as on the adequacy of the guarantee funds as a form of protection of insured parties in case of unforeseen operating losses.

Calculated solvency margin for the insurance sector in Montenegro, as of 31 December 2009, was 19.085 million euro, while guarantee funds were 24.075 million euro, which shows that insurance companies in Montenegro were solvent in 2009. The ratio of the guarantee funds and solvency margin for the entire insurance sector in Montenegro in 2008 was 143.95%, meaning that companies were compliant with statutory requirement whereby guarantee funds must exceed calculated solvency margin.

Table 25 Solvency of insurance companies in 2008 and 2009

	Solvency Margin (€)	Guarantee Funds(€)	Ratio of Guarantee Funds and Solvency Margin (%)
Total for 2008	20,815,515	29,964,660	143.95
Total for 2009	19,085,276	24,074,560	126.14
Index of changes	91.69	80.34	-

Calculated solvency margin for 2009 was reduced as a result of re-registration of one company to undertake only life insurance activities, as well as due to the decline in the gross premium in case of one company.

The insurance risk, i.e. ability of companies to absorb the risk of inadequate premium price level, contingent claims and inadequate transfer of reinsurance risk, is measured as ratio of retained premium and total capital of the company and ratio of the total capital and technical reserves of the company.

Even though the share of the retained premium in the total capital in 2009 was 202.34% (representing an increase if compared to the value of the subject indicator being 128.52% in 2008) calculated for all insurance companies in Montenegro, as a consequence of the growth of premium and significant decline of the capital of insurance companies, the guarantee funds were above the solvency margin implying that solvency of insurance sector in Montenegro was not endangered.

In case of companies engaged in non-life insurance, the retained premium represents an approximation of undertaken risks and it should be sufficient to pay claims and insurance-related compensations. In case that the reinsurance risk transfer is not performed adequately, the total capital of the company is used as coverage guarantee. For companies predominantly engaged in non-life insurance, the ratio of retained premium and total capital in 2009 was 268.80% and is higher if compared to 2008 when it was 137.86%.

*Table 26 Ratio of total retained premium and total capital for insurance sector and for companies engaged in non-life insurance in 2008 and 2009*

	Total retained premium/Total capital	
	2008	2009
Insurance sector	128.52	202.34
Non-life insurance	137.86	268.80

The ratio of the total capital and technical reserves for all insurance companies reduced from 80.6%, as it was in 2008, to 40.51% in 2009. A notable reduction in the total capital of companies influenced mentioned reduction, as well as the increase of technical reserves which occurred as a result of stated operating losses. If we observe companies predominantly engaged in life insurance, the ratio of the total capital and technical reserves is reduced from 165.05% in 2008 to 121.70% in 2009.

*Table 27 Ratio of total capital and technical reserves for insurance sector and life insurance companies in 2007, 2008 and 2009 (%)*

	Total capital/Technical reserves		
	2007	2008	2009
Insurance sector	97.51	80.60	40.51
Life insurance	76.30	165.05	121.70

## 10.2 REINSURANCE

Reinsurance is used to perform so called risk equalisation and protection of insurers against large losses that could endanger operation of the company. For the retained part of risk of the company, its capital serves as the coverage of unexpected events and inadequate premium price level.

The share of retained earned premium in the total earned premium indicates the volume of transferred risks to reinsurance. If considering all insurance companies in Montenegro this indicator shows that the retained earned premium makes 86.63% of the total earned premium.

*Table 28 Share of retained earned premium in the total earned premium in 2009*

	Retained earned premium (€)	Total earned premium (€)	Share of retained earned premium in the total earned premium (%)
TOTAL	54,705,025	63,145,656	86.63

Insurance companies in Montenegro used reinsurance services of the following reinsurance companies in 2009:

*Table 29 List of reinsurance companies that companies in Montenegro were doing business with*

Insurance companies	Reinsurance companies
Lovćen osiguranje	Hannover Re
	Swiss Re
	Partner Re
	SCOR Global
	Triglav Re
	Certain Lloyds
	Navigators Insurance Company
	Federal Insurance Co
	Sava Re
	AIG
	Lloyds underwriters
	Aviabel S.A. Brussels
	General Insurance Corporation of India
	Max Re
	Glacier Uinsurance AG
	Polish Re
	Lloyd's Syndicate
	Moscow Re
	Russin Re
	Ingosstrakh
	International Insurance Co of Hanover
	SCOR Zurich
	Munchener Ruckversicherung
	Sirius International, Stocholm
	The Oriental Insurance
	International Aerospace Services
	Aspen Insurance
	Catlin Insurance
	Liberty Mutual Insurance Europe
	Robert Malatier Ltd
	Alianz Global Corporate & Specialty AG
	Navigators Managment
	ACE European Group
	AXIS Specialty
	Lancashire Insurance Company
	RJ Klin Syndicate
	MAP Syndicate
	Catlin Syndicate
	Hiscox Syndicate
	Global Aerospace
	Antares
	Pembroke
	Wiener Re
	Tokio Marine
	Zurich Insurance Company
	AXA Corporate Solution
	XL Insurance Company
	Alianz Belgium Insurance
Grawe osiguranje	Grazer Wechselseitige Versicherung AG
Sava Montenegro	Sava Re
Swiss osiguranje	Dunav Re
Delta Generali osiguranje	Delta Generali reosiguranje
Unika neživotno osiguranje	Munich Re
	Unika Re
	Dunav Re
	Marsh Ltd
	Unika Sachversicherung
	Alians Hungaria Insurance Co Ltd
	Wiener Re
Unika životno osiguranje	Kapital Reinsurance
	AXA Corporate Solutions Assurance Germany
	AIG Europe
	Swiss Re Europe S.A., Niederlassung Deutschland
Delta Generali životna osiguranja	Delta Generali reosiguranje
Atlas Life	Gen Re Life Haelht
Merkur osiguranje	Gen Re

## 10.3 PROFITABILITY

### Retained relevant loss ratio

Relevant retained loss ratio for insurance sector in Montenegro is the indicator of the price policy and adequacy, i.e. adequacy of premiums to cover obligations arising from insurance contracts and adequacy of transferred risks in reinsurance. This indicator was 100.67% for the insurance sector in Montenegro in 2009 and points out the fact that relevant claims were higher by 0.67% than pure earned premiums i.e. premiums of insurance companies were not sufficient to settle obligations arising from insurance contracts.

*Table 30 Retained relevant loss ratio 2009*

	Retained relevant loss ratio (€)	Retained relevant claims (€)	Retained relevant loss ratio (%)
TOTAL	36,331,574	36,575,434	100.67

### Profitability of assets and equity

Ratio of net results and total assets (ROA) is the measure of return on total assets in 2009 generated by employing funds in insurance operations, investments etc. Only five companies had positive net results and return on assets and equity in 2009. When all companies in Montenegro are taken into account there is negative net result and return on total assets of -8.74%, as well as negative return on equity of -34.11%, which is a result of net loss generated in insurance sector of Montenegro.

*Table 31 Profitability of assets and equity in 2009*

	Assets (€)	Equity(€)	Net loss/profit (€)	ROA	ROE
TOTAL	105,298,489	26,966,965	-9,198,931.38	-8.74	-34.11

## 10.4 LIQUIDITY

In order for insurance companies to be able to meet their obligations, they should take care of the level conformity of assets and liabilities in terms of maturity, as well as marketability and quality of assets. The liquidity ratio in 2009 for insurance companies in Montenegro was 4.07 which means that at the end of 2009 companies had 4.07 times higher liquid assets if compared to their short-term liabilities. This ratio is calculated in accordance with the Rulebook on the Manner of Determining and Monitoring the Insurance Companies Liquidity.

**The liquid assets**, according to this Rulebook are:

- 1) Securities;
- 2) Monetary assets;
- 3) Receivables maturing in the next 14 days from the day of determining the insurance company liquidity, covered by secured transaction

instruments (cheque, aval, bank guarantee);

- 4) unused portion of approved framework bank loans to insurance company;
- 5) inflows realistically expected in the next 14 days from insurance premiums and reinsurers' share in the insurer's claims, taking into account the average daily monetary inflow of the insurance company in the previous year (or from the foundation day in case there are no data for the previous year).

**Insurance company liabilities**, for the purpose of this Rulebook, are considered to be due liabilities and liabilities from company's operation becoming due within 14 days from the day of determining the company liquidity ratio, established pursuant to regulations, insurance contracts, actuarial calculations, and other.

## 10.5 CLAIMS INDICATORS

### *Timeliness in settling claims*

The indicator of timeliness in settling claims is used to determine the number of processed claims compared to the total number of reported claims in the observed year. Insurance companies had high level of timeliness since 85.56% of total number of reported claims was processed. However, the timeliness level declined by 1.37 percentage points if compared to 2008.

*Table 32 Timeliness in payment of claims for the insurance sector in 2009*

	Number of processed claims	Total number of claims	% timeliness
<b>TOTAL</b>	24,270	28,367	85.56

### *Gross Loss Ratio*

Gross loss ratio is calculated as ratio of the sum of gross amount of processed claims and changes in technical reserves and amount of earned insurance premium. When observing the entire insurance sector in Montenegro in 2009, 73.31% of the earned premium referred to gross claim expenses and increase of technical reserves.

*Table 33 Gross loss ratio of insurance companies in 2009*

	Gross processed claims (€)	Changes in technical reserves (€)	Earned insurance premium (€)	Gross loss ratio (%)
<b>TOTAL</b>	30,307,966	15,981,601	63,145,656	73.31

### *Cost ratio*

Cost ratio is calculated as ratio of the sum of costs of insurance administration and other operating costs arising from insurance operations and earned insurance premium.

The costs of insurance administration and other operating costs make 45.14% of the earned premium in 2009 for the entire insurance sector, which points out high companies' expense for administration of insurance operations. However, expenses of companies at the level of the entire insurance sector were reduced if compared to the previous year, when the costs of insurance administration and other operating costs made 51.76% of the earned insurance premium for 2008, which is an important indicator of results of activities undertaken to stabilize and improve the insurance market.

*Table 34 Share of insurance administration costs and other operating costs arising from insurance operations in earned premium 2009*

	Insurance administration costs and other operating costs (€)	Earned insurance premium (€)	Cost ratio %
<b>TOTAL</b>	28,502,205	63,145,656	45.14

### *Combined ratio*

Combined ratio, sum of gross loss ratio and costs ratio, shows the operating results before revenues from invested assets are included. In 2009, expenses of insurance companies for claims, the insurance administration costs were higher by 12.37% if compared to the earned premium, which is less in relation to 2008 when said expenses were 21.57% higher than the last year earned premium.

*Table 35. Combined ratio in 2009 (%)*

	Gross loss ratio	Costs ratio	Combined ratio
<b>TOTAL</b>	67.23	45.14	112.37



## XI INSURANCE COMPANIES IN MONTENEGRO



### ATLAS LIFE AD

Adresa: Stanka Dragojevića 4, 81000 Podgorica  
Telefon: +382 20 406 106, 406 112  
Fax: +382 20 406 156  
Email: [info@atlaslife.net](mailto:info@atlaslife.net)  
Web: [www.atlaslife.me](http://www.atlaslife.me)

Classes of insurance: all classes of life insurance  
Number of employees: 7

### DELTA GENERALI OSIGURANJE AD

Adress: Kralja Nikole 27a/VI, 81000 Podgorica  
Telephone: +382 20 444 858  
Fax: +382 20 444 810  
Email: [kontakt@deltagenerali.me](mailto:kontakt@deltagenerali.me)  
Web: [www.deltagenerali.me](http://www.deltagenerali.me)



Classes of insurance: all classes of non-life insurance  
Number of employees: 33

### DELTA GENERALI ŽIVOTNA OSIGURANJA AD

Adress: Kralja Nikole 27a/VI, 81000 Podgorica  
Telephone: +382 20 444 858  
Fax: +382 20 444 810  
Email: [kontakt@deltagenerali.me](mailto:kontakt@deltagenerali.me)  
Web: [www.deltageneralilife.me](http://www.deltageneralilife.me)



Classes of insurance: life insurance  
Number of employees: 11

### GRAWE OSIGURANJE AD

Adress: Novaka Miloševa, 81000 Podgorica  
Telephone: +382 20 210 790  
Fax: +382 20 210 963  
Email: [maja.pavlicic@grawe.at](mailto:maja.pavlicic@grawe.at)  
Web: [www.grawe.me](http://www.grawe.me)



Classes of insurance: life insurance  
Number of employees: 9



#### LOVCEN OSIGURANJE AD

Address: Slobode 13A, 81000 Podgorica  
Telephone: +382 20 404 400, 404 410  
Fax: +382 20 665 281  
Email: [info@lo.cg.yu](mailto:info@lo.cg.yu); [lovosig@cg.yu](mailto:lovosig@cg.yu); [lovcen@cg.yu](mailto:lovcen@cg.yu)  
Web: [www.lovcenosiguranje.co.me](http://www.lovcenosiguranje.co.me)

Classes of insurance: life and non-life insurance  
Number of employees: 267  
Representative offices: 6 local offices, 6 branches and 9 sub-branches



#### MERKUR OSIGURANJE AD

Address: Bul. Sv. Petra Cetinjskog b.b, 81000 Podgorica  
Telephone: +382 20 205 465  
Fax: +382 20 205 466  
Email: [info@merkurosiguranje.me](mailto:info@merkurosiguranje.me)  
Web: [www.merkurosiguranje.me](http://www.merkurosiguranje.me)

Classes of insurance: all classes of life insurance  
Number of employees: 6

#### SAVA MONTENEGRO AD

Address: Rimski Trg 70, 81000 Podgorica  
Telephone: +382 20 234 508, 234 036, 403 020  
Fax: +382 20 234 008  
Email: [info@sava.co.me](mailto:info@sava.co.me)  
Web: [www.sava.co.me](http://www.sava.co.me)

Classes of insurance: all classes of non-life insurance  
Number of employees: 103  
Representative offices: 12 local offices and 3 branches



**SAVA  
MONTENEGRO**

Akcionarsko društvo za osiguranje  
Član Sava Re Grupe



**Swiss Osiguranje**  
**Swiss Insurance**

#### SWISS OSIGURANJE AD

Address: Novaka Miloševa 6/2, 81000 Podgorica  
Telephone: +382 20 230 828, 230 767  
Fax: +382 20 230 734  
Email: [sio@t-com.me](mailto:sio@t-com.me)  
Web: [www.swiss-osiguranje.com](http://www.swiss-osiguranje.com)

Classes of insurance: all classes of non-life insurance  
Number of employees: 30

#### UNIQA NEŽIVOTNO OSIGURANJE AD

Adress: Bul. Sv. Petra Cetinjskog 1a/4, 81000 Podgorica

Telephone: +382 20 444 700

Fax: +382 20 444 715

Email: [info@unika.co.me](mailto:info@unika.co.me)

Web: [www.unika.co.me](http://www.unika.co.me)

Classes of insurance: all classes of non-life insurance

Number of employees: 68



#### UNIQA ŽIVOTNO OSIGURANJE AD

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Fax: +382 20 444 715

Email: [info@unika.co.me](mailto:info@unika.co.me)

Web: [www.unika.co.me](http://www.unika.co.me)

Classes of insurance: all classes of life insurance

Number of employees: 54