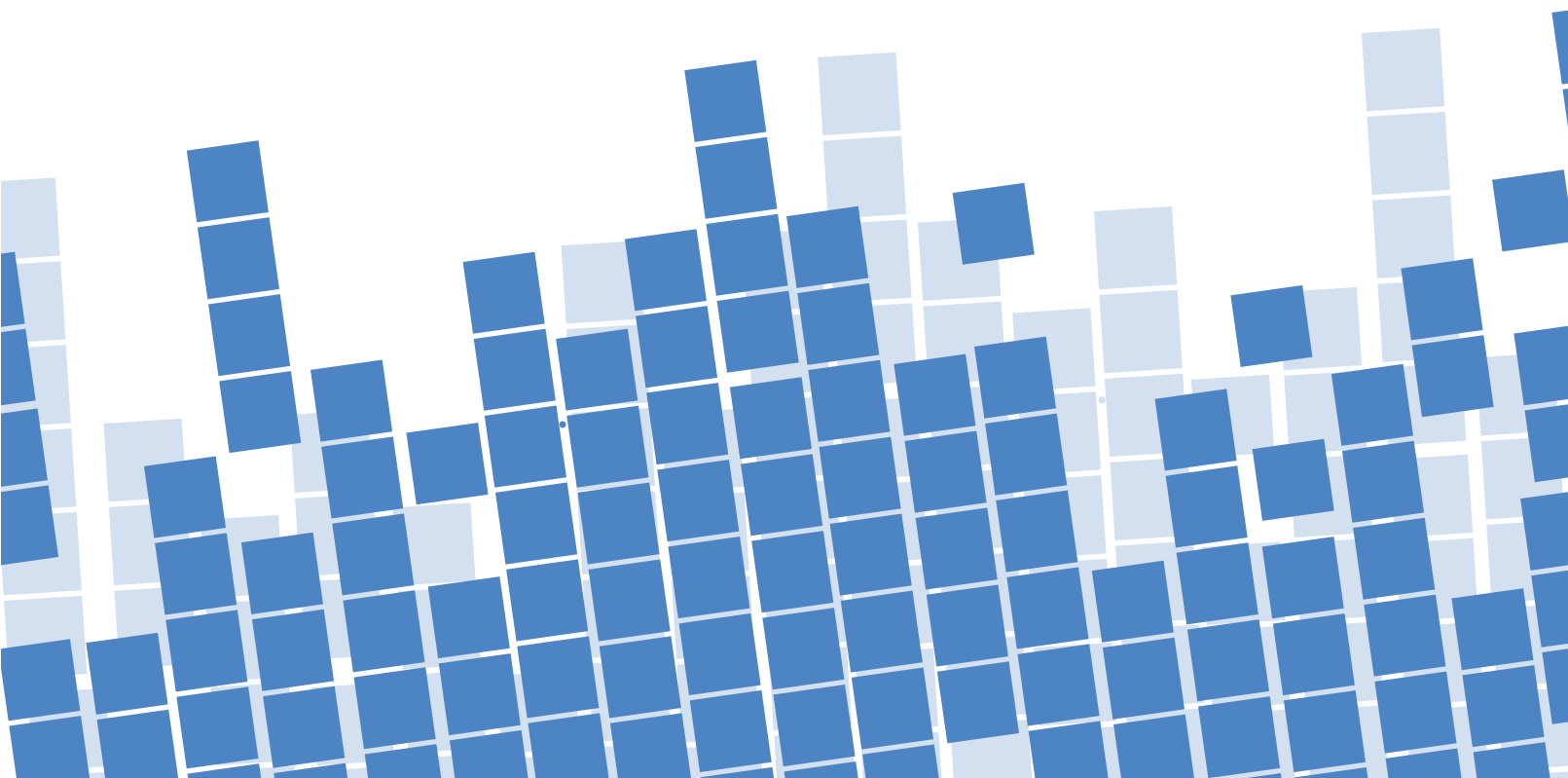




MONTENEGRO
INSURANCE
SUPERVISION AGENCY

Report on Insurance Market Situation in Montenegro 2010

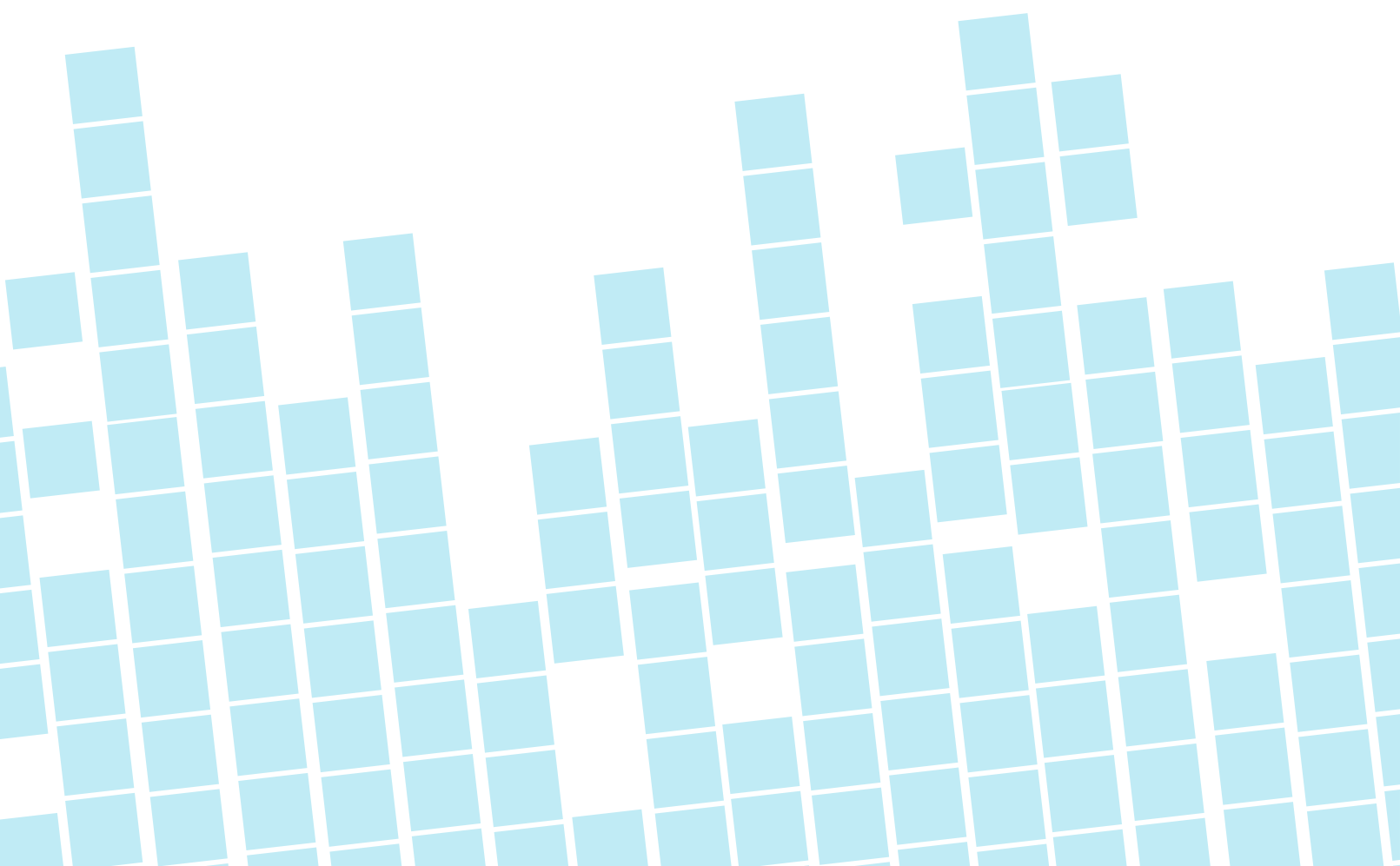




MONTENEGRO
INSURANCE
SUPERVISION AGENCY

REPORT ON INSURANCE MARKET SITUATION IN MONTENEGRO 2010

June 2011



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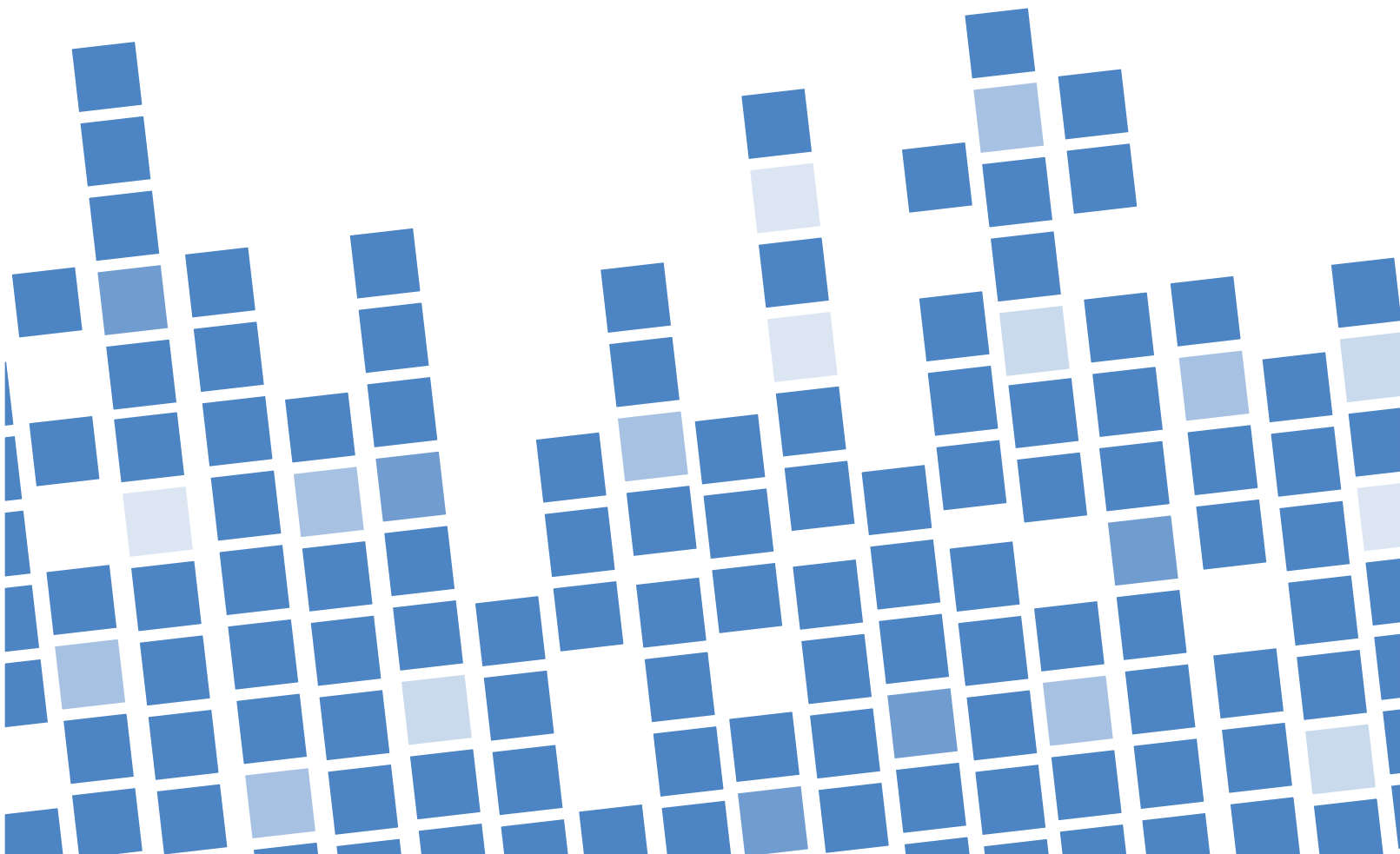
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INTRODUCTION



I INTRODUCTION

The Report on Insurance Market Situation in Montenegro 2010 has been prepared based on the analysis of annual financial statements, statistical data submitted by insurance companies to the Insurance Supervision Agency and annual operation reports, including the opinion of the authorized actuary and the report of the external auditor.

In 2010 the economic-financial crisis had an indirect impact on the insurance sector that reflected its growth and development in relation to the previous year.

The most significant events in Montenegro insurance market for 2010 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;
- › Intensifying the cooperation with the system institutions from the area of insurance with the view of qualitative and efficient performance of supervision function;
- › 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, Central Bank of Kosovo, etc.);
- › Membership with IAIS (International Association of Insurance Supervisors);
- › Implementation of the Twining project "Strengthening of regulatory and supervisory capacities of financial regulators in Montenegro" in cooperation with the Dutch Bank (DNB) and the National Bank of Bulgaria (BNB);
- › Ongoing training of the staff with the view of preparing for conduct of risk assessment based supervision, which is one of the basic principles of the EU Directive Solvency II, which is expected to be applied in the EU starting 1 January 2013;
- › Decline in the gross insurance premium;
- › Growth of life insurance share;
- › Slight slowdown in the growth of basic insurance market development indicators;
- › Reduction in the insurance market concentration;
- › Increase of foreign capital share in the total share capital of insurance companies;
- › Change in the structure of insurance portfolio (reduction of the share of compulsory 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 the Agency, in accordance with Law.

Insurance Supervision Agency supervises performance of the 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 provisions of ancillary insurance services;
 - › Other entities in insurance market.
-

The basic goals of the Agency are to protect the interest of the insured and other insurance beneficiaries, and improve the sustainability and reliability of the 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 and Official Gazette of Montenegro 18/11 of 1 April 2011).

Members of the Council:

- › Branko Vujović, 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 the law and the 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

After real fall of GDP in 2009 by 5.7% due to the global financial crisis, the Montenegrin economy entered the process of recovery and strengthening in 2010. Namely, in 2010 there was the real growth of the gross domestic product by 1.1% in relation to the previous year.

According to the estimate of the Ministry of Finance of Montenegro, in 2010 the BDP amounted to 3.023 billion euro. Budgetary deficit amounted to 132.09 million euro, i.e. 4.41% GDP.

Unemployment rate in Montenegro in 2010 amounted to 12.13. 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 3.46%. In 2010 the inflation rate amounted to 0.5%.

The following Table illustrates the macro-economic indicators:

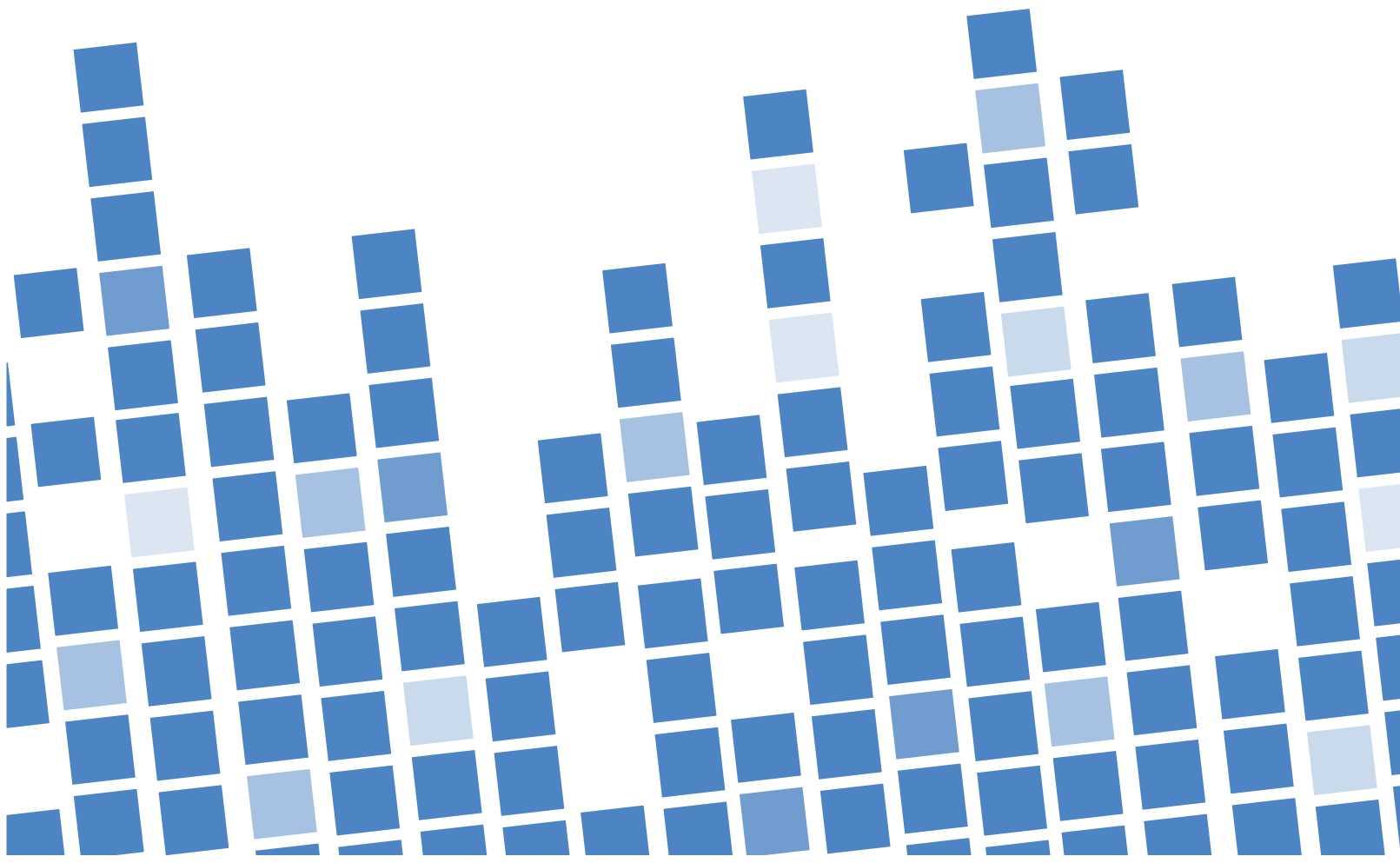
Table 1. Breakdown of macroeconomic indicators 2002-2010

Indicators	Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	3,023.00
GDP per capita (€)	2208	2435	2,684	2,912	3,443	4,484	5,384	4,779	4,801
GDP growth rate (%)	1.9	2.5	4.4	4.2	8.6	10.7	8.1	-5.3	1.1
Inflation (CPI)	9.2	6.2	3	2.5	2.8	4.2	8.6	1.5	0.5
Population	620,195	620,195	620,195	620,195	620,195	620,195	620,195	628,349	625,266
Number of unemployed persons	80 584	71,679	65,064	54,457	43,190	34,396	29,535	30,169	32,026
Number of employed persons	140,100	142,679	143,479	144,385	150,800	156,408	166,221	174,152	156,000
Average gross salary (€)	-	271	302.9	327	433	497	609	643	715
Average net salary (€)	-	173.9	195.4	213	282	338	416	463	479
Budgetary surplus /deficit	-25.2	-45.9	-32.8	-30.1	85.1	168.4	39.04	-132.09	-4.41
Export (in million euro)	-	-	-	460.65	627.46	487.12	433.16	276.98	330.4
Import (in million euro)	-	-	-	974.30	1,482.69	2,072.48	2,527.15	1,654.04	1,657.3
Trade balance (in million euro)	-	-	-	-513.65	-855.23	-1,585.36	-2,093.99	-1,377.06	-1,326.9

Source: Ministry of Finance, Monstat and CBM



INSURANCE SECTOR REGULATORY FRAMEWORK



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 provisions 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.

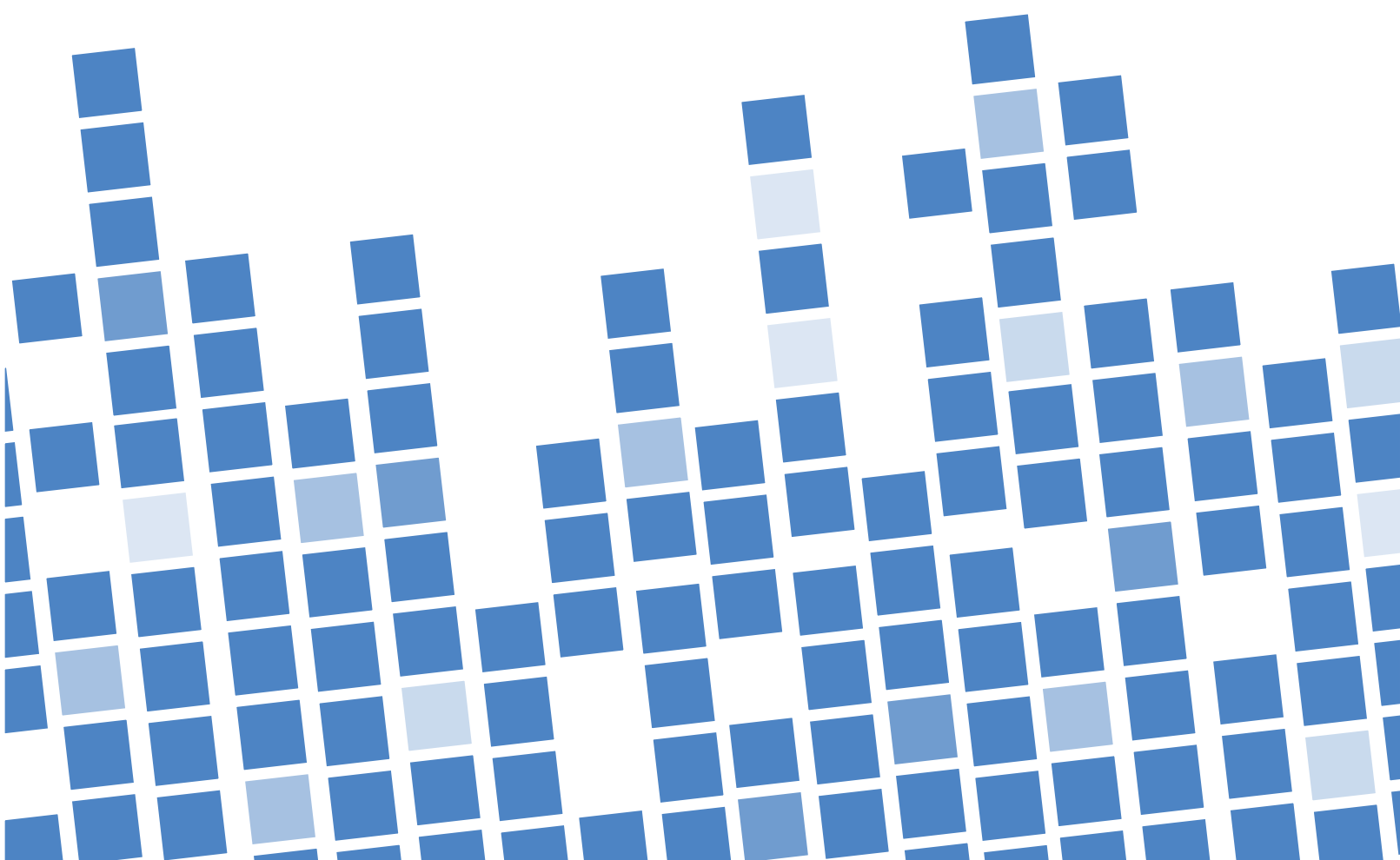
The Law on Bankruptcy and Liquidation of Insurance Companies establishes bankruptcy and liquidation procedure for insurance companies with reference to the application of the Law on Insolvency of Business Organisations.

Improvement of general performance of the insurance market in Montenegro was conditioned by the adoption of the required 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 provisions 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 and 21/11 of 24 April 2011);
- › 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 and 21/10 of 23 April 2010);
- › 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 provisions 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 provisions funds and guarantee reserve 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);
- › Rulebook on the Chart of Accounts for insurance companies (OGM 63/10 of 5 November 2010);
- › Rulebook on the method of valuation of assets for insurance companies (OGM 77/11 of 28 December 2010).



INSURANCE MARKET PARTICIPANTS



III INSURANCE MARKET PARTICIPANTS

3.1 Insurance companies

In 2010 there were twelve insurance companies performing insurance business in the Montenegrin insurance market. Four insurance companies conducted non-life insurance business only, six companies conducted life insurance business only, while Lovćen Osiguranje conducted life and non-life insurance business until 21 December 2010 when it was approved by the Insurance Supervision Agency to separate the mentioned businesses. At the meeting held on 20 September 2010, the Council of the Insurance Supervision Agency passed the decision on licensing the joint stock company Wiener Städtische Životno Osiguranje to conduct life insurance business, thus the number of the companies dealing with life insurance business increased to seven.

Table 2. Insurance companies operationally active in Montenegro in 2010

Company	Insurance class
Lovćen osiguranje AD	Non-life
Lovćen životna osiguranja AD	Life
Sava Montenegro AD	Non-life
Swiss osiguranje AD	Non-life
Grawe osiguranje AD	Life
Wiener Städtische životno osiguranje AD	Life
Atlas Life AD	Life
Unika neživotno osiguranje AD	Non-life
Unika životno osiguranje AD	Life
Delta Generali osiguranje AD	Non-life
Delta Generali životna osiguranja AD	Life
Merkur osiguranje AD	Life

SHARE CAPITAL OF INSURANCE COMPANIES

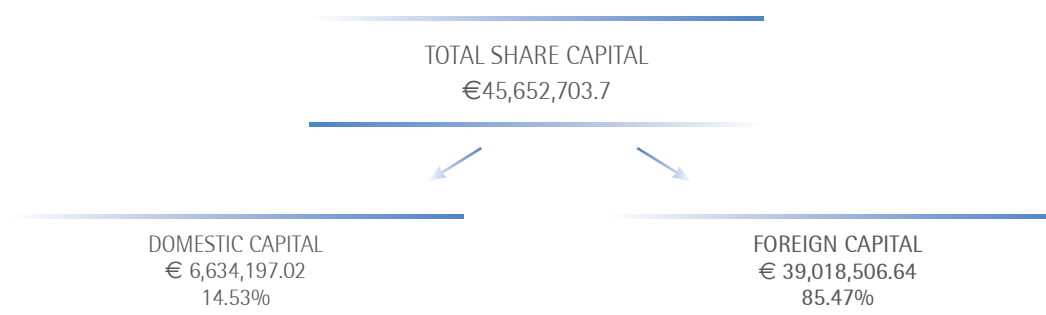
In 2010 there was continuance of the growing trend of the foreign capital share in the ownership structure of insurance companies that commenced in previous years. The total share capital of insurance companies as of 31 December 2010 amounted to 45.652 mil. euro, which is by 31.85%¹ higher in relation to 2009. Foreign capital amounted to 39.018 mil. euro, or 85.47% share in the total share capital, and domestic capital amounted to 6.634 mil.euro, or 14.53%. The increase in the total share capital of insurance companies was caused by:

- › increase of capitalisation of Sava Montenegro AD Podgorica in the amount of 4,000,114.53 euro²;
- › increase of capitalisation of Delta Generali životnih osiguranja AD Podgorica in the amount of 50,000.00 euro;
- › increase of capitalisation of Delta Generali osiguranja AD Podgorica in the amount of 150,000 euro;
- › increase of capitalisation of Atlas Life AD Podgorica in the amount of 550,000 euro;
- › increase of capitalisation of Lovćen osiguranja AD Podgorica in the amount of 6,500,000.00 euro and
- › entry of two new insurance companies with the capital amounting to 2,080,000 euro.

1 The total share capital of insurance companies in 2009 amounted to 34.624 mil.euro;
2 Sava Montenegro AD covered the loss from 2009 in the amount of €2,672,488 by share capital;

Significant changes in the structure of the total share capital, from the aspect domestic vs. foreign capital of insurance companies in 2010 were related to the establishing of two new insurance companies.

The following figure illustrates the structure of the total share capital of insurance companies in 2010:



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, Wiener Städtische, 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 2010 the following were issued:

- › one license to a company for agency in insurance;
- › one license to a company for brokerage in insurance;
- › one license of a company for agency in insurance was revoked;
- › 130 authorisations to physical persons for performance of agency activities;
- › 37 authorisations to physical persons for performance of brokerage activities.

As of 31 December 2010, 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 insurance³.

Also, as of 31 December 2010, 382 physical persons in Montenegro had authorisations for conduct of agency operations in insurance, while 79 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
Auctor DOO Podgorica	agency
Safe Invest DOO Podgorica	agency
IURISPRUDENS DOO Podgorica	agency
Protektor Crna Gora DOO Podgorica	agency
Aktuar DOO Podgorica	agency
Obses DOO Podgorica	agency
Eurohelp Agent DOO Podgorica	agency
Premija plus DOO Podgorica	agency
Adriatic AG DOO Podgorica	brokerage
ILC DOO Podgorica	brokerage
WVPCG DOO Budva	brokerage
PARTNER M DOO Podgorica	brokerage
Elita-Meel zastupnik u osiguranju Tivat	agent-entrepreneur
Expres-Ključ Rožaje	agent-entrepreneur
Start Up Herceg Novi	agent-entrepreneur
Montenegro Assistance	provisions 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 2010, the brokerage companies in Montenegrin insurance market concluded 3,989 insurance proposals (31.3% higher in relation to 2009) and contracted the gross premium in the amount of € 2.066 mil with the share in the total gross written premium of the insurance market of 3.33%.

Agency companies, which conducted activities of concluding insurance contracts on behalf of and for the account of insurers (issue of policies) and collecting premiums, as well as advisory and assistance operations in administration of claims and risk and loss assessment in 2010, sold 174,355 insurance policies (12% higher in relation to 2009 when 156,835 insurance policies were sold) and generated the gross written premium in the amount of 24,941,271, as well as the share in the gross written premium of insurance market of 41%.

3.3 Employees in insurance sector

Review of the number of employees at the level of the overall insurance sector in the period 2001–2010 is presented in the following Table:

Table 4. Total number of employees in insurance sector 2001–2010

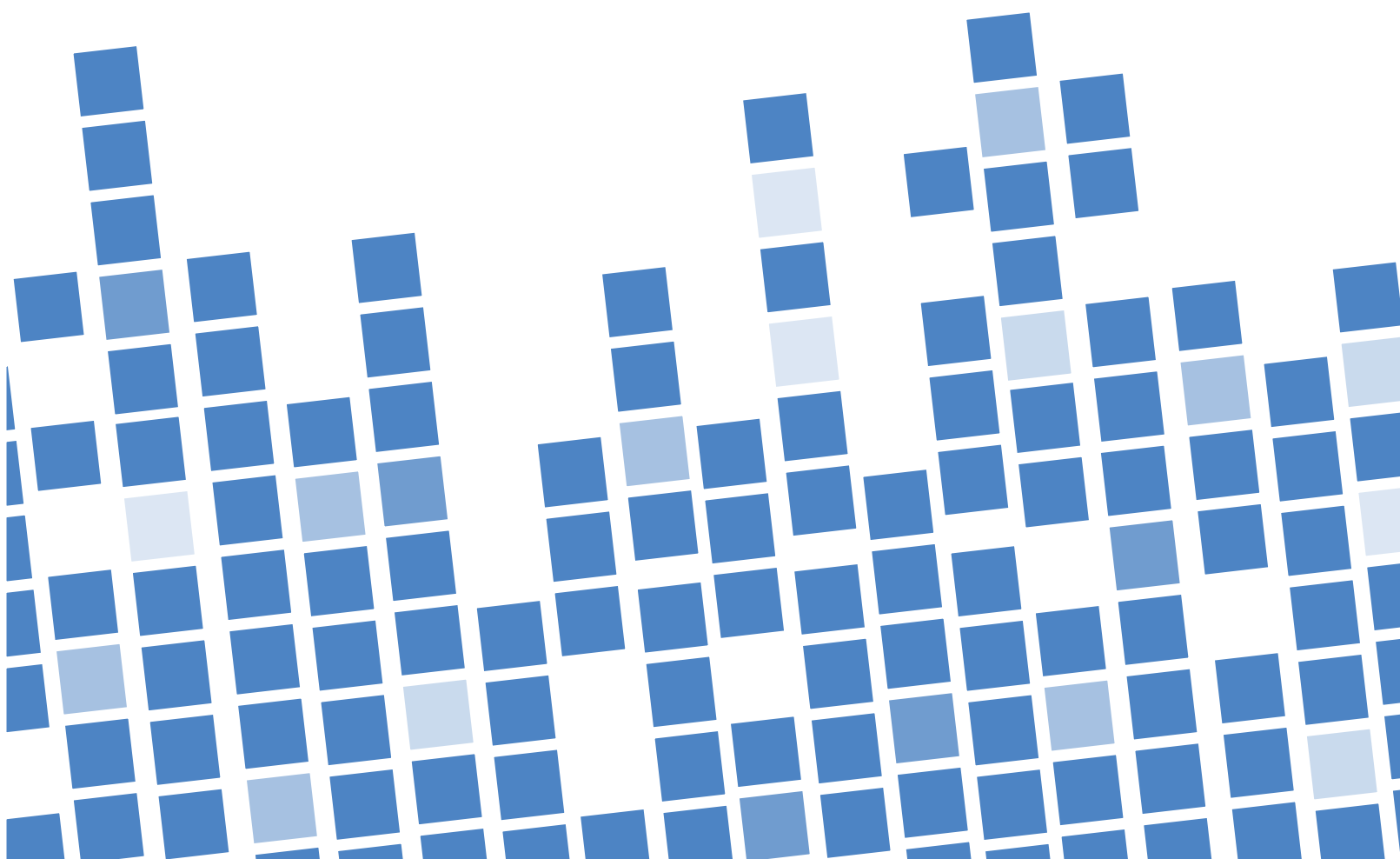
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total employees in insurance sector	295	298	314	313	313	319	386	639	643	703

The number of employees in insurance sector from 2001 to 2010 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 Uniqa neživotno osiguranje, Uniqa životno osiguranje, Delta osiguranje, Delta životno osiguranje and Merkur in the insurance market. The growing trend of the number of employees continued in 2010 too, due to the increase in the scope of operations in the insurance sector and establishment of the new company Wiener Städtische Životno Osiguranje, where the number of employees increased by 9.34% in relation to 2009.

IV

GENERAL INSURANCE MARKET INDICATORS



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 the accounting period.

Gross written premium in insurance market of Montenegro in 2010 slightly declined due to unfavourable trends in the real and overall financial sector by 5.16% in comparison to the previous year and amounted to 62.186 mil. euro⁴.

The following Table shows written gross premium in the period 2003–2010:

Table 5. Insurance written gross premium trends in 2003–2010 (thousand €)

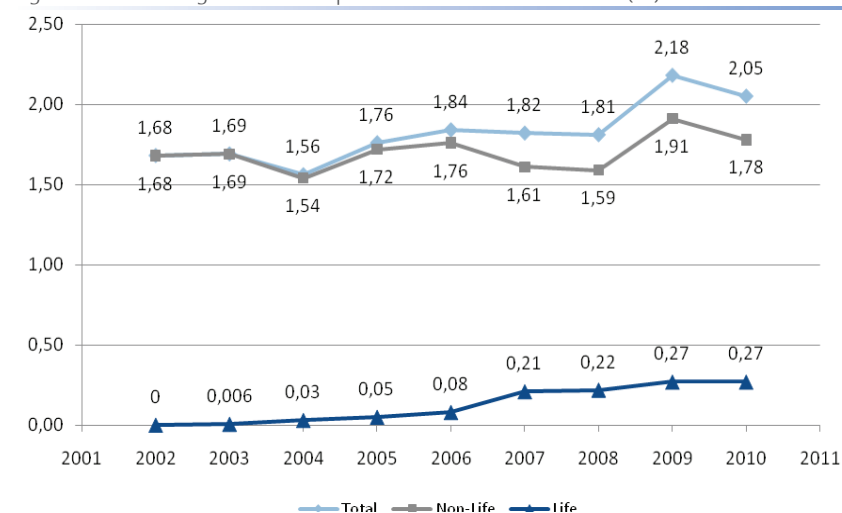
	2003	2004	2005	2006	2007	2008	2009	2010
Life	91	444	821	1.830	5,907	7,246	8,087	8,367
Non-life	25,509	25,673	31,202	37,792	45,11	53,332	57,483	53,819
TOTAL	25.6	26,117	32,023	39,622	51,017	60,578	65,570	62,186
Index	-	102.02	122.61	123.73	128.76	118.74	108.24	94.84

4.2. Gross written premium share in GDP

The share of gross written premium in GDP is one of the basic indicators 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. However, in 2010 the global financial crisis affected the decline of the gross premium and therefore the fall of its share in GDP to 2.05%.

In 2010, the share of non-life insurance premium in GDP amounted to 1.78%, while the share of life insurance premium in GDP amounted to 0.27%.

Figure 1. Share of gross written premium in GDP 2002-2010 (%)



Important feature of insurance market in Montenegro is an ongoing development. However, according to the indicators, the level of development of the insurance sector in Montenegro is significantly lagging behind the markets 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 2009.

Table 6. Share of gross written premium in GDP in Montenegro in comparison to other countries in 2009 (%)

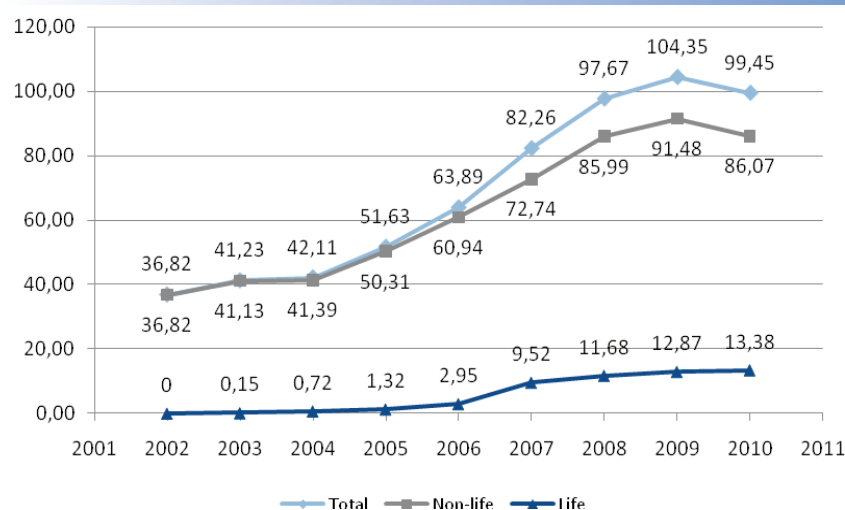
	Life	Non-life	Total
Great Britain	10	3	12.9
Switzerland	5.4	4.5	9.8
Germany	3.3	3.7	7
Greece	1	1	2
Slovenia	1.8	4.2	6
Czech Republic	1.7	2.3	3.9
Hungary	1.6	1.5	3.1
Croatia	2.1	0.8	2.9
Serbia	0.3	1.6	1.8
Montenegro	0.27	1.91	2.18
Romania	0.3	1.4	1.8
Turkey	0.2	1.1	1.3

Source: Swiss Re (Sigma No2/2010) and ISA

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.

Figure 2. Gross written premium per capita 2002-2010 (€)



Gross written premium per capita in Montenegro in 2010 amounted to 99.45 euro, which remains significantly below the average of EU member countries in 2009 (around 1,933 euro).

The following Table shows insurance density in the neighbouring countries, and some EU countries in 2009.

Table 7. Insurance density in neighbouring and EU countries in 2009 (€)

	Total	Life	Non-life
Great Britain	3,193.25	2,460.15	733.10
Switzerland	4,364.05	2,375.06	1,989.05
Germany	2,007.40	948.25	1,059.14
Spain	1,256.57	594.88	661.69
Slovenia	990.31	300.65	689.66
Czech Republic	504.08	213.4	290.66
Austria	1,912.75	861.70	1,051.12
Croatia	280	74.06	205.94
Bulgaria	110.46	13.11	97.35
Serbia	75.46	10.32	65.14
Romania	94.98	17.5	77.55
Montenegro	104.35	12.87	81.48

Source: Swiss Re 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)⁷, 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 2008 to 2010, 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 2008 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.

Table 8. Herfindahl-Hirschman index 2008-2010

Insurance company	2008			2009			2010		
	Gross premium	Share %	HHI	Gross premium	Share %	HHI	Gross premium	Share %	HHI
Lovćen osiguranje AD	36,919,550	60.94	3,713.68	35,798,843	54.60	2,980.75	32,338,112	52.00	2,704.27
Sava Montenegro AD	11,357,332	18.75	351.56	10,873,448	16.74	274.99	9,687,203	15.58	242.67
Grawe osiguranje AD	5,720,050	9.44	89.11	4,944,525	7.61	56.86	4,888,343	7.86	61.79
Magnat osiguranje AD	2,140,818	3.53	12.46	1,743,472	1.72	7.07	0	0.00	0.00
Swiss osiguranje AD	1,991,377	3.29	10.82	2,609,224	4.02	15.83	2,417,799	3.89	15.12
Delta Generali osiguranje AD	1,228,516	2.03	4.12	5,050,714	7.78	59.33	5,838,992	9.39	88.17
Unika životno osiguranje AD	679,855	1.12	1.25	1,181,250	1.82	3.25	1,309,126	2.11	4.43
Unika neživotno osiguranje AD	385,854	0.64	0.41	2,732,712	4.21	17.37	4,782,900	7.69	59.16
Merkur osiguranje AD	55,671	0.09	0.008	423,551	0.65	0.42	654,070	1.05	1.11
Atlas Life osiguranje AD	51,233	0.08	0.006	78,173	0.12	0.01	113,623	0.18	0.03
Delta Generali životna osiguranja AD	47,260	0.08	0.006	134,296	0.21	0.04	155,413	0.25	0.06
Wiener Städtische životno osiguranje AD	0	0	0	0	0.00	0	0.00	0.00	0.00
TOTAL	60,577,516	100	4,183.43	65,570,208	100	3,415.93	62,185,580	100	3,176.81

7

HHI is obtained when market shares of each insurance company are individually squared and mutually summed.

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 2010 (€)

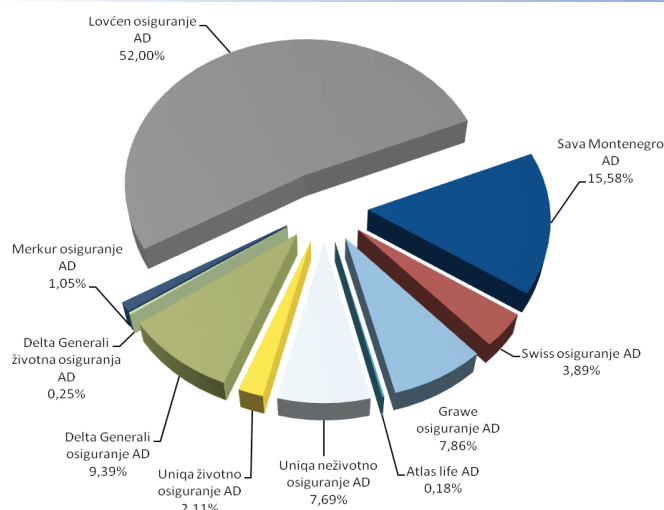
Insurance company	2010	Share %
Lovćen osiguranje AD	32,338,112	52.00
Sava Montenegro AD	9,687,203	15.58
Delta Generali osiguranje AD	5,838,992	9.39
Grawe osiguranje AD	4,888,343	7.86
Unika neživotno osiguranje AD	4,782,900	7.69
Swiss osiguranje AD	2,417,799	3.89
Unika životno osiguranje AD	1,309,126	2.11
Merkur osiguranje AD	654,070	1.05
Delta Generali životna osiguranja AD	155,413	0.25
Atlas life AD	113,623	0.18
Wiener Städtische životno osiguranje AD	-	
TOTAL	62,185,580	100

The largest share of 52% in the insurance market was generated by Lovćen Osiguranje (life: gross premium 1,246,062, with the share of 2% and non-life: 31,092,050 with the share of 50%), which is by 2.6 percentage points lower in relation to the previous year, when it amounted to 54.6% (35.798 mil.euro).

Two companies with the greatest gross written premium are Lovćen and Sava Montenegro whose market share amounted to 67.58% (42.025 mil. euro) in 2010 which is by 3.6 percentage points lower in relation to 2009 when it amounted to 71.18% (46.672 mil.euro).

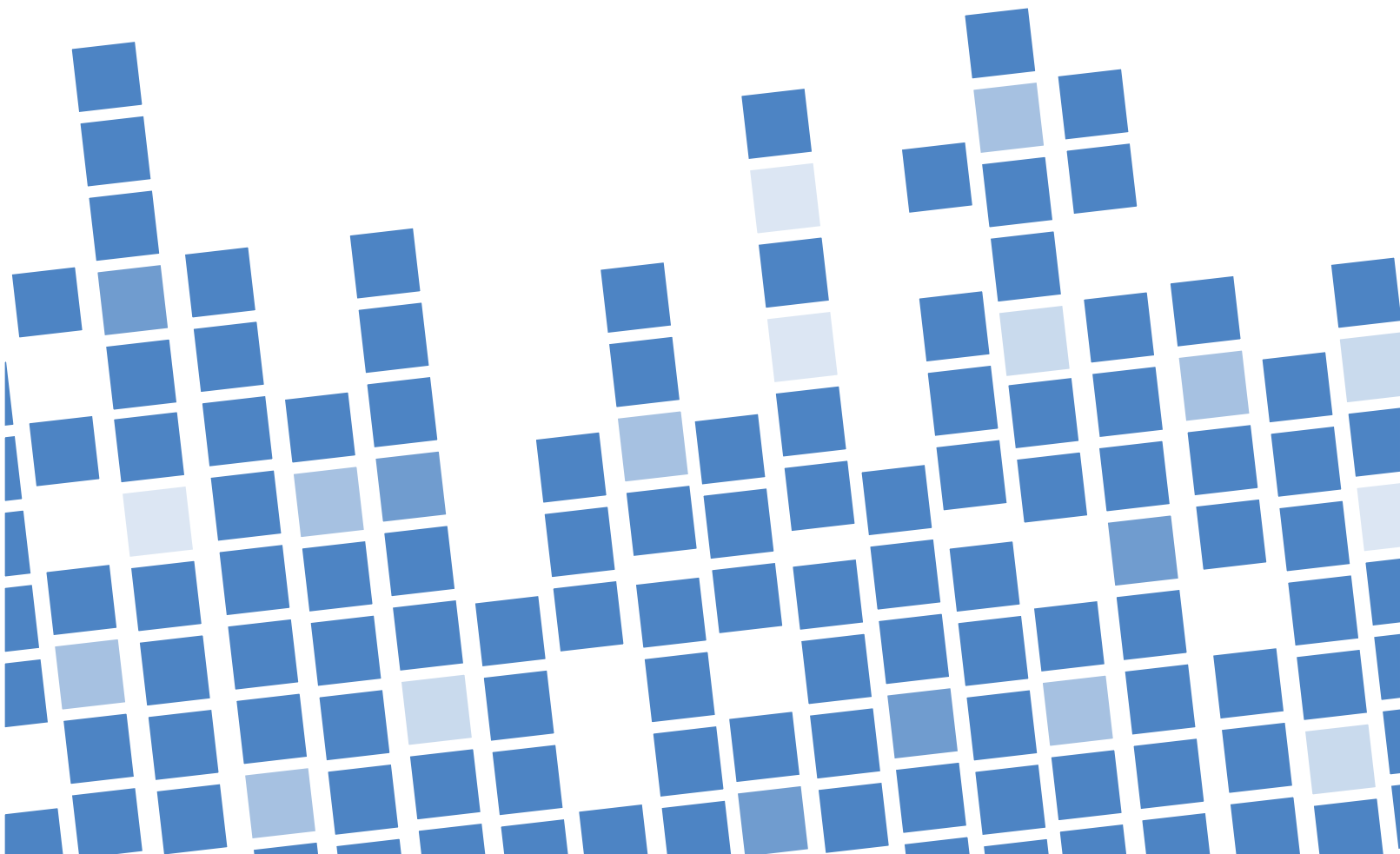
Three companies with greatest gross written premium were Lovćen, Sava Montenegro and Delta Generali osiguranje whose market share amounted to 76.97% (47.864 mil.euro) in 2010. Therefore, notable is the trend of reduction of concentration in the insurance market of Montenegro, which is evidenced by data that in the previous year of 2009 the market presence of the three companies (Lovćen, Sava Montenegro and Delta) with greatest gross written premium amounted to 78.88% (51.723 mil.euro).

Figure 3. Market share of insurance companies in 2010 (%)



V

INSURANCE PORTFOLIO STRUCTURE



V INSURANCE PORTFOLIO STRUCTURE

5.1 Gross insurance premium structure: life and non-life insurance

Insurance market in Montenegro in 2010 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 2010, the share of non-life insurance amounted to 86.55%, while the share of life insurance slightly increased from 12.33% in 2009 to 13.45% in 2010.

Table 10. Insurance premium structure in 2009 and 2010

	2009		2010		Index 2010/2009
	Premium (€)	Share (%)	Premium (€)	Share (%)	
Life insurance	8,086,671	12.33	8,366,637	13.45	103.46
Non-Life insurance	57,483,537	87.67	53,818,943	86.55	93.62
TOTAL	65,570,208	100	62,185,580	100	94.84

In Montenegrin insurance market, 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 2010 non-life insurance premium grew on annual level at average rate of 11.76%, while life insurance grew at average rate of 122.32%. In 2010, non-life insurance premium declined by 6.38%, while life insurance premium increased by 3.46% in relation to the previous year.

Figure 4. Gross premium trend: life vs. non-life 2002-2010

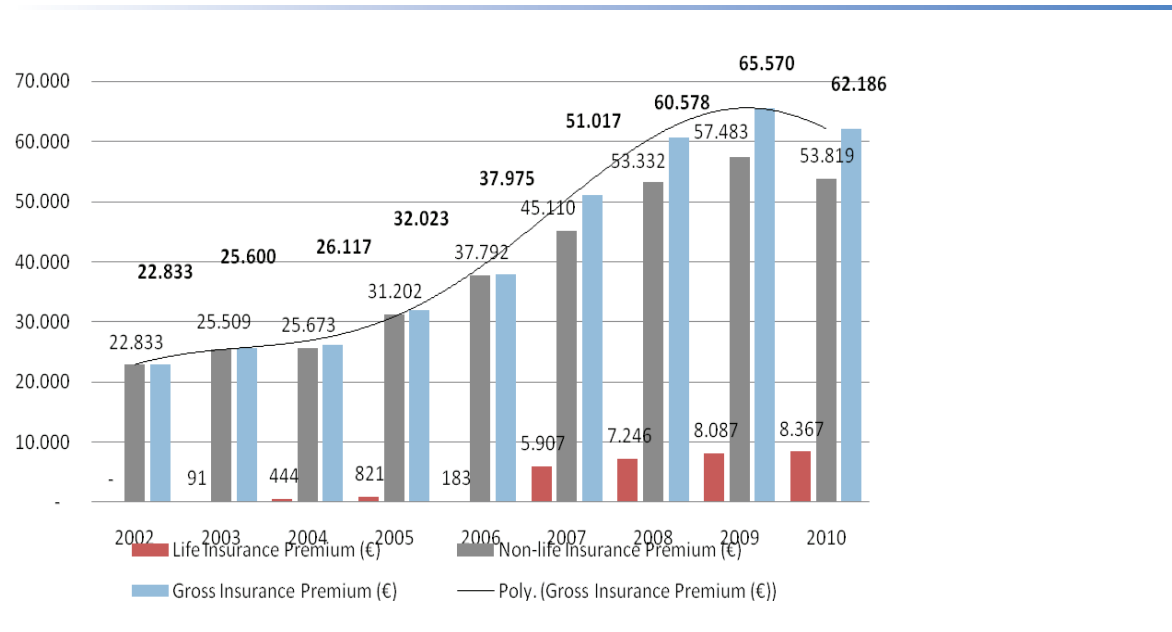
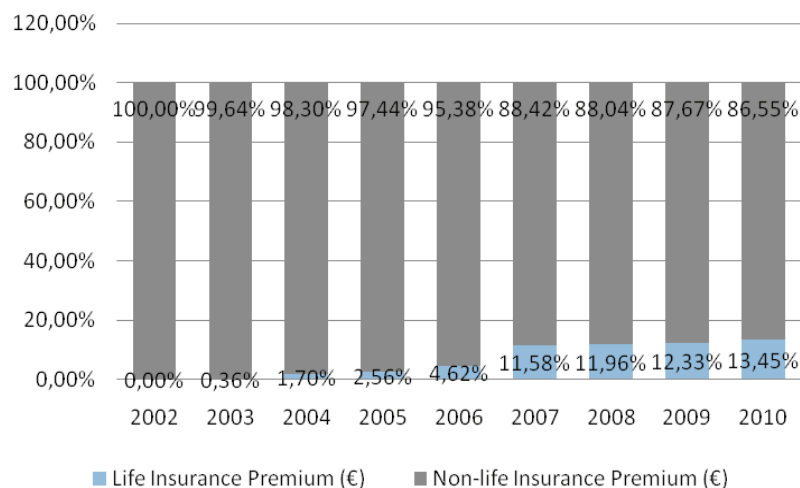


Figure 5. Gross premium structure: life vs. non-life 2002-2010



5.2 Structure of gross insurance premium by insurance classes

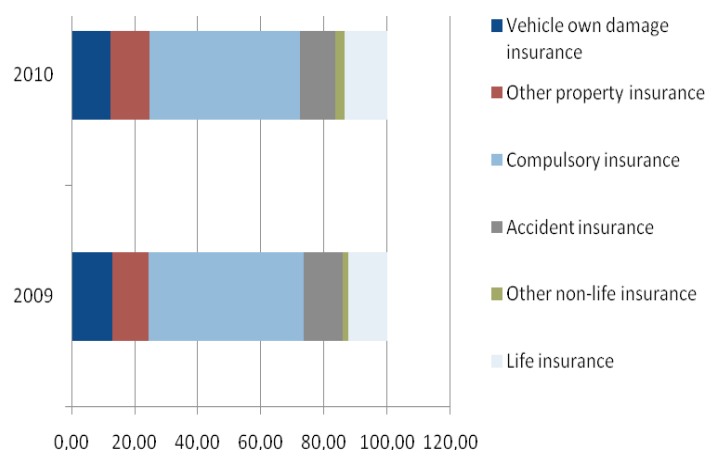
In addition to the growth of life insurance classes, the most significant changes in the structure of insurance gross premium in 2010 are related to the growth of the share of other non-life and property insurance, as well as the reduction of the share of compulsory insurance, vehicle own damage insurance and accident insurance.

Tabela 11: Structure of insurance portfolio by insurance classes in 2009 and 2010

	2009		2010		Index 2010/2009
	Amount (€)	Share (%)	Amount (€)	Share (%)	
Vehicle own damage insurance	8,568,134	13.07	7,595,205	12.21	88.64
Other property insurance	7,416,866	11.31	7,863,055	12.64	106.02
Compulsory insurance	32,259,842	49.20	29,661,204	47.70	91.94
Accident insurance	8,062,403	12.30	6,975,311	11.22	86.52
Other non-life insurance	1,176,290,83	1.79	1,724,168	2.77	146.58
Life insurance	8,086,671	12.33	8,366,637	13.45	103.46
TOTAL	65,570,208	100.00	62,185,580	100	94.84

In the structure of gross premium, compulsory insurance had the greatest share of 47.70%, which went down by 8.06% in 2010. The premium of vehicle own damage insurance in 2010 declined by 972,929 euro, i.e. 11.36%, while the accident insurance premium declined by 1,087,092 euro, or 13.48%.

Figure 6. Structure of gross insurance premium by insurance classes in 2009 and 2010 (%)



In 2010 the total vehicle own damage premium declined in relation to 2009, which is mostly the result of the reduction of the watercraft insurance premium by 69% and the reduction of motor vehicle insurance premium by 19%. Under the categories of other non-life insurance in 2010 the greatest growth of approximately 4 times was generated in case of the voluntary health insurance premium. The greatest growth in the voluntary health insurance premium was generated by Lovćen Osiguranje, whose share in the gross premium of voluntary health insurance amounts to 66.87%.

5.3 Compulsory insurance

The Law on Compulsory Transport Insurance (OGRM 46/07) prescribes the 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.

The total compulsory insurance premium in 2010 amounted to 29.661 mil. euro which is by 8.06% lower in relation to 2009. Five companies conducted compulsory insurance business in Montenegro, of which the greatest share in the gross premium of compulsory insurance was generated by Lovćen Osiguranje with 51.34%.

Table 12. Compulsory insurance premium by companies in 2010

	Premium (€)	Share (%)
Lovćen osiguranje AD	15,229,086	51.34
Sava Montenegro AD	6,487,084	21.87
Swiss osiguranje AD	837,528	2.82
Uniqa neživotno osiguranje AD	3,412,646	11.51
Delta Generali osiguranje AD	3,694,861	12.46
TOTAL	29,661,204	100

The auto liability insurance has the greatest share in the structure of compulsory insurance premium and it makes 96% of the total compulsory insurance premium in 2010. The auto liability insurance premium in 2010 amounted

to 28.332 mil. euro and it went down in relation to 2009 by 9.04%, when it amounted to 31.149 mil. euro. The reduction in the auto liability premium was primarily caused by the reduction in the number of registered vehicles by 7.61%, according to the data of the Ministry of Interior Affairs of Montenegro. The greatest share in the auto liability premium was generated by: Lovćen Osiguranje with 49.42%, Sava Montenegro with 22.69% and Delta Generali Osiguranje with 13%.

Table 13. Share of auto liability written gross premium for 2010 by insurance companies

	Gross written premium AO (€)	Share (%)
Lovćen osiguranje AD	14,002,253	49.42
Sava Montenegro AD	6,428,182	22.69
Delta Generali osiguranje AD	3,682,985	13.00
Unika neživotno osiguranje AD	3,396,009	11.99
Swiss osiguranje AD	822,932	2.90
TOTAL	28,332,362	100

5.4 Life insurance

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

Life insurance in Montenegro continued the growing trend. Life insurance gross written premium in 2010 amounted to 8.366 million euro and increased by 279,966 euro, or 3.46% in relation to 2009 when it amounted to 8.086 mil. euro. The number of life insured persons in 2010 amounted to 32,190 which is by 7.77% higher in relation to the previous year.

Table 14. Breakdown of the number of life insured persons in 2009 and 2010

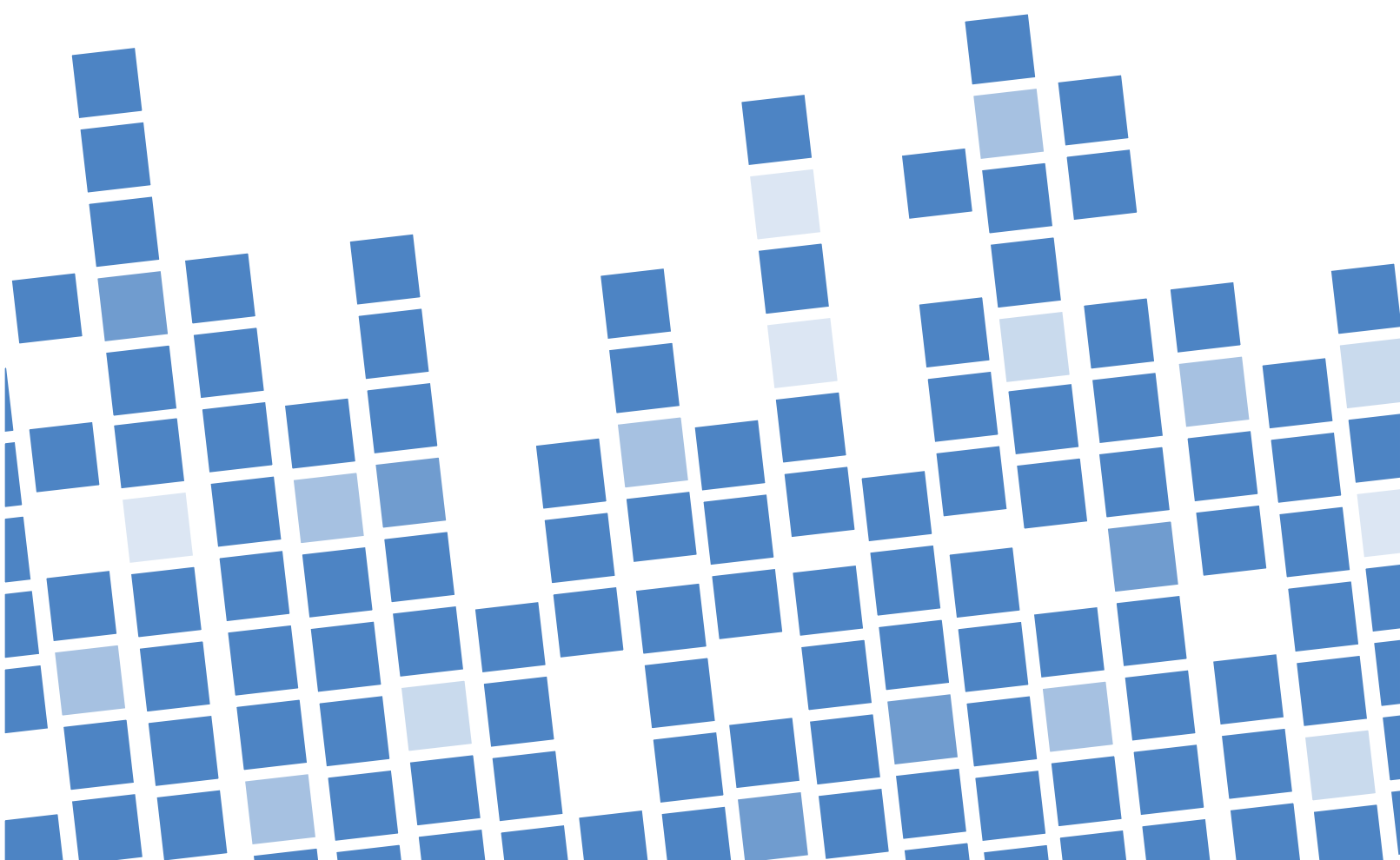
	Total number of insured persons		
	2009	2010	Change in %
TOTAL	29,870	32,190	7.77

According to the analysis of life insurance market, due to the impact of economic crisis, notable is the growth of the number of cancelled life insurance contracts, which resulted in the slowdown of the growth rate of life insurance gross premium in 2010.

The number of cancelled policies as of 31 December 2010 amounted to 4,541 and increased by 39% in relation to 2009 when it amounted to 3,273. The number of reduced policies in 2010 went down in relation to 2009 (956) and amounted to 508.

VI

VI ASSETS STRUCTURE



VI ASSETS STRUCTURE

The value of total asset for all insurance companies, as of 31 December 2010, was 122.002 million euro, which accounts for the increase of 15.86% if compared to the value of total assets in 2009. The short-term financial placements have the highest share in the total assets of 28.89%, followed by the long-term financial placements with 26.48%, receivables having 13.01% and fixed assets of 12.26%.

Table 15. Structure of Assets of Insurance Companies in 2009 and 2010

	2009		2010		Index 2010/2009
	Amount (€)	Share (%)	Amount (€)	Share (%)	
Intangible assets	671,110	0.64	407,739	0.33	60.76
Fixed assets	14,182,231	13.47	14,956,841	12.26	105.46
Long-term financial placements	25,540,909	24.26	32,305,554	26.48	126.49
Short-term financial placements	31,547,561	29.96	35,244,723	28.89	111.72
Cash and cash equivalents	6,037,693	5.73	13,217,891	10.83	218.92
Receivables	17,835,404	16.94	15,868,180	13.01	88.97
Prepayments and accrued income	6,025,481	5.72	6,299,870	5.16	104.55
Other	3,458,100	3.28	3,700,846	3.03	107.02
TOTAL	105,298,489	100	122,001,642	100	115.86

In 2010 structure of total assets, cash and cash equivalents evidenced the highest growth if compared to the previous year of 118.92%, and this is due to increase of capital of one company that recorded its capital assets on its current account on 31 December 2010.

The long-term financial placements at the end of 2010 were increased by 26.49% if compared to the previous year. Namely, in order to align the level conformity of placements and liabilities arising from insurance contracts in terms of maturity, several companies engaged in life insurance operations applied an investment policy and converted short-term investments into long-term investments. Furthermore, investments into the bonds issued by Montenegro on the EU market were increased, as well as financial placements in subsidiaries.

Short-term financial placements recorded a growth of 11.72%, however a decline of their share in total assets was also recorded. Growth in short-term financial placements is predominantly generated by a growth of short-term fixed-term deposits of companies engaged in non-life insurance operations.

Liabilities recorded a decline of 11.03% in 2010, because of increased collection of premiums, both for premiums from direct insurance operations and premiums from co-insurance and reinsurance operations. This shows to an increase of the liquidity in the insurance sector in 2010.

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.

Figure 7. Breakdown of assets of insurance companies in 2009 and 2010 (%)

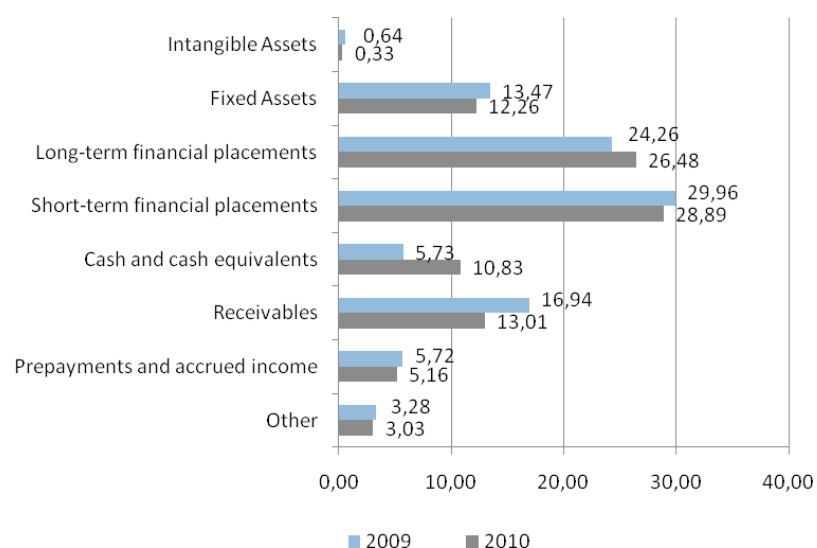
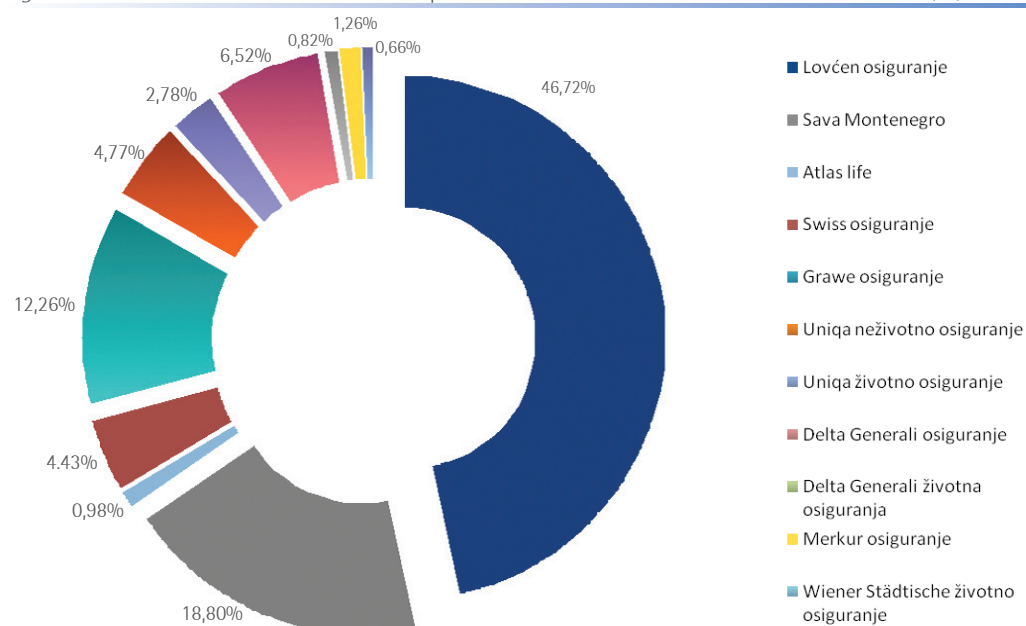


Table 16. Share of insurance companies in total assets of insurance sector in 2009 and 2010 (%)

	2009	2010	% change
Lovćen osiguranje	48.26%	46.70%	-1.56%
Sava Montenegro osiguranje	17.29%	18.80%	1.50%
Swiss osiguranje	4.66%	4.43%	-0.23%
Grawe osiguranje	10.76%	12.26%	1.50%
Magnat osiguranje	3.38%	0.00%	
Atlas life	0.84%	0.98%	0.14%
Unika neživotno osiguranje	4.44%	4.77%	0.33%
Unika životno osiguranje	2.50%	2.78%	0.28%
Delta Generali osiguranje	5.78%	6.52%	0.74%
Delta Generali životna osiguranja	0.97%	0.82%	-0.15%
Merkur osiguranje	1.11%	1.26%	0.16%
Wiener Städtische životno osiguranje	-	0.66%	
TOTAL	100,00%	100	-

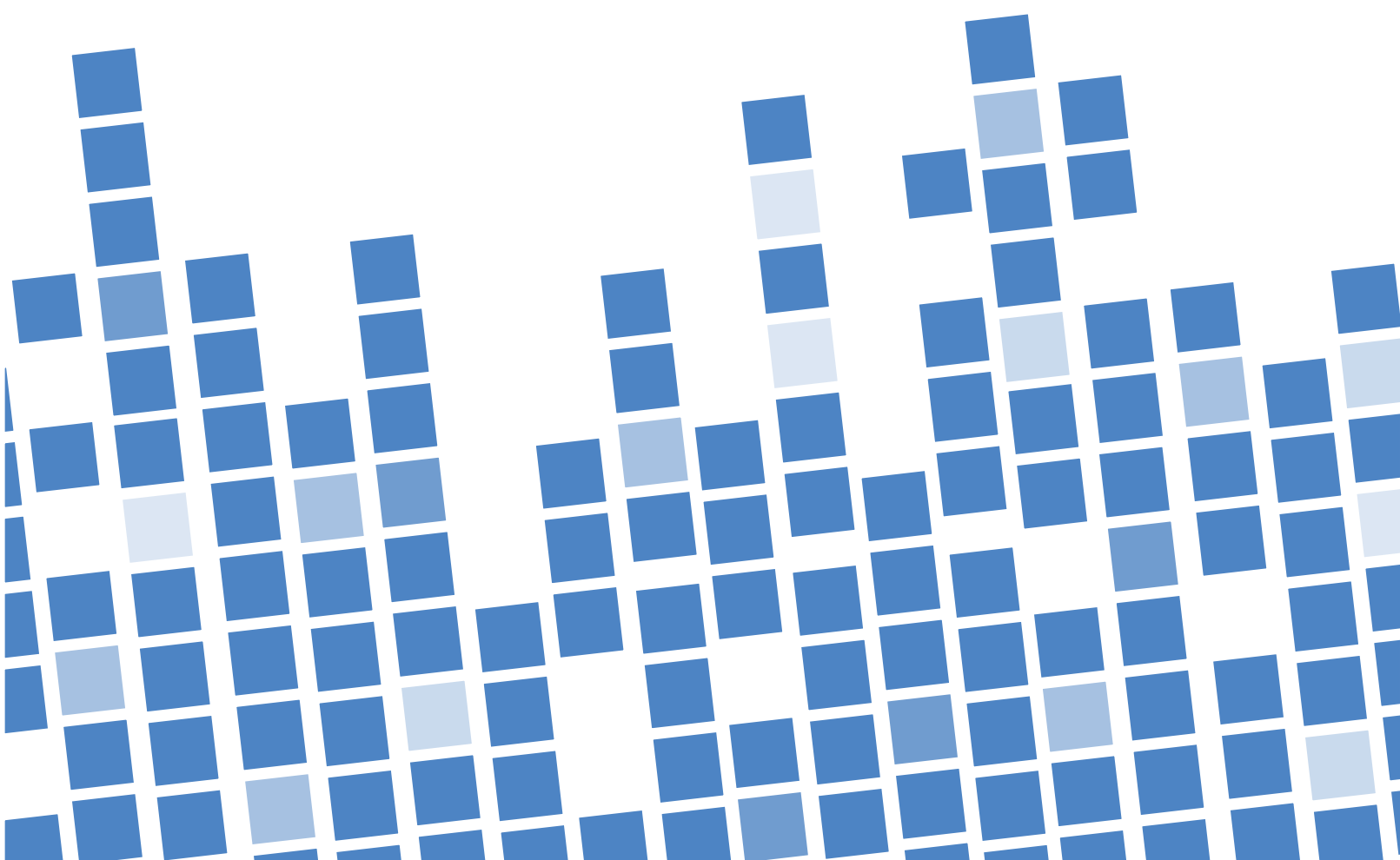
Considering the share of individual companies in the total assets of the insurance sector, it can be noted that Lovćen osiguranje continues to have the largest share of 46.70%, followed by Sava Montenegro with 18.80% and Grawe osiguranje with 12.26%. If compared to 2009, Lovćen osiguranje has recorded a decline of the share in total assets of companies, i.e. by 1.56 percentage points, while Sava Montenegro recorded significant increase of its share, i.e. by 1.5 percentage points each.

Figure 8. Share of assets of insurance companies in total assets of insurance sector in 2010 (%)



VII

STRUCTURE OF LIABILITIES AND CAPITAL



VII STRUCTURE OF LIABILITIES AND CAPITAL

Value of total liabilities and capital for all insurance companies in Montenegro, as of 31 December 2010, was 122.002 million euro, which represents the increase of 15.86% if compared to the value of total liabilities and capital in 2009, when it was 105.298 million euro.

Table 17. Structure of Liabilities and Capital of insurance companies in 2009 and 2010

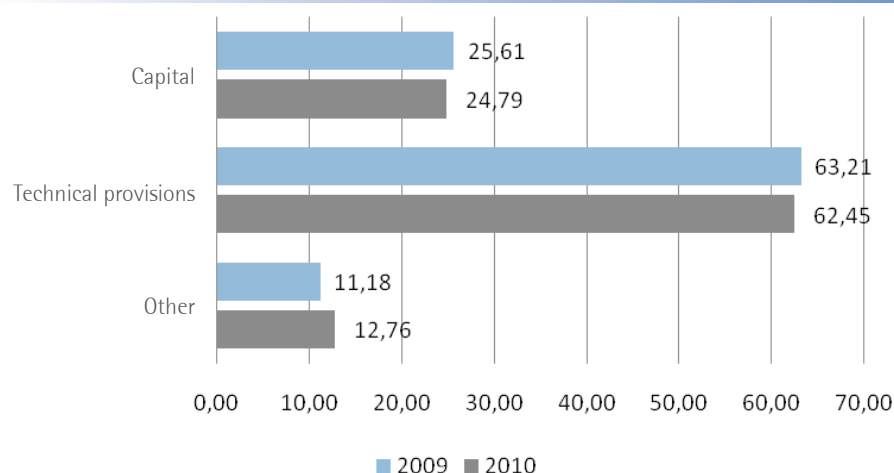
	2009		2010		Index 2010/2009
	Amount (€)	Share (%)	Amount (€)	Share (%)	
Capital	26,966,965	25.61	30,244,358	24.79	112.15
Technical Provisions	66,562,778	63.21	76,195,930	62.45	114.47
Other	11,768,746	11.18	15,561,354	12.76	132.23
TOTAL	105,298,489	100	122,001,642	100	115.86

The growth of capital of insurance companies in 2010 of 12.15% or by 3.27 million euro is a result of increase in capital amounting to 11.25 million euro and establishment of two new insurance companies having share capital of 2.08 million euro. The largest share of funds from increase in capital was used to cover losses from 2009.

Technical provisions of companies were increased by 9.63 million euro or by 14.47% in 2010. Provisions for claims had the highest growth within technical reserves of 5.96 million euro, which is a consequence of commencement of application of the Chain-ladder method in calculating incurred but not reported (IBNR) claims in 2010. Furthermore, growth of the mathematical reserve of 35.49%, compared to the previous year, is also evident, which is a consequence of growth on the side of life insurance premiums over the previous years.

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

Figure 9. Breakdown of Liabilities and Capital of insurance companies in 2009 and 2010 (%)



7.1 Technical Provisions

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

An insurance company engaged in one or more classes of life insurance establishes technical provisions for unearned premiums, outstanding claims, bonuses, and mathematical reserve. Insurance company engaged in non-life insurance operations establishes technical provisions 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 provisions at the level of the insurance sector were 76.196 million euro as of 31 December 2010, which represents the increase of 14.47% compared to 2009.

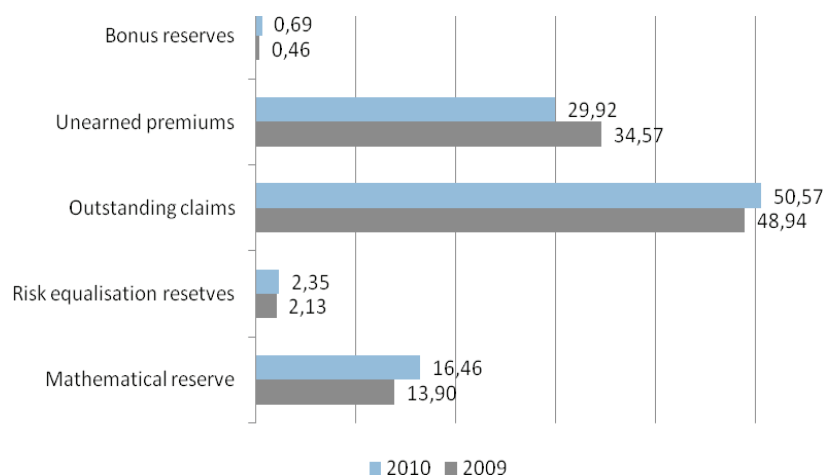
Table 18. Structure of technical provisions of insurance companies in 2009 and 2010

	2009		2010		Index 2010/2009
	Amount (€)	Share %	Amount (€)	Share %	
Mathematical reserve	9,255,438	13.90	12,540,207	16.46	135.49
Risk equalisation reserves	1,418,754	2.13	1,794,004	2.35	126.45
Outstanding claims	32,575,999	48.94	38,531,768	50.57	118.28
Unearned premiums	23,008,197	34.57	22,801,009	29.92	99.10
Bonus reserves	304,390	0.46	528,942	0.69	173.77
TOTAL	66,562,778	100	76,195,930	100	114.47

The highest share in the structure of technical provisions in 2010 was the one of outstanding claims and amounted to 38.532 million euro, which made 50.57% of total technical provisions. Allocations for outstanding claims have recorded the growth of 18.28% if compared to 2009. Unearned premiums represent the second largest item, they were 22.801 million euro, and they make 29.92% of the total value of technical provisions.

Bonus reserves have recorded the highest growth of 73.77%, if compared to 2009; in 2010, they amounted to 529 thousand euro, or 0.69% of the total technical provisions. In 2010, mathematical reserves recorded a growth as well by 35.49% and amounted 12.540 million euro. Furthermore, the trend of risk equalisation reserves of insurance companies that started in 2008 continued, and they were 1.794 million euro, or 2.45% of total technical provisions.

Figure 10. Structure of technical provisions of insurance companies in 2009 and 2010 (%)



The trend of technical provisions and total premium represents an important indicator of results of activities undertaken to stabilize and regulate insurance market. The faster growth in technical provisions 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 provisions 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 provisions for the period 2006-2010

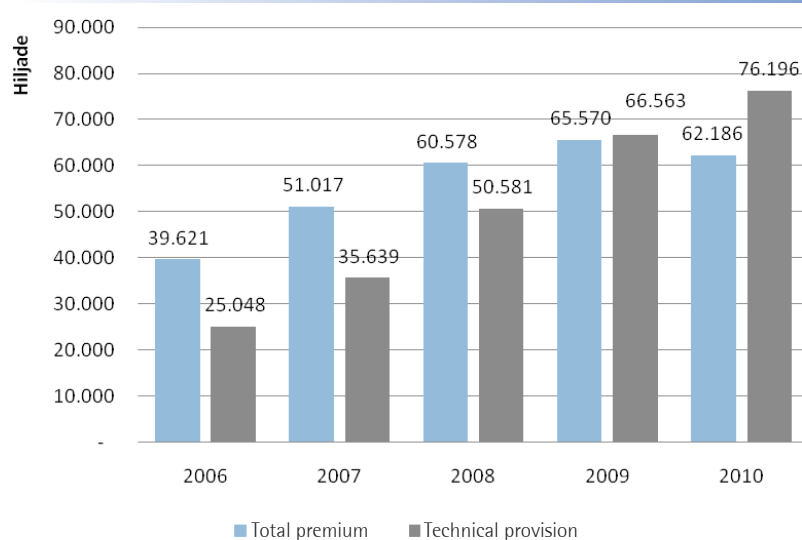
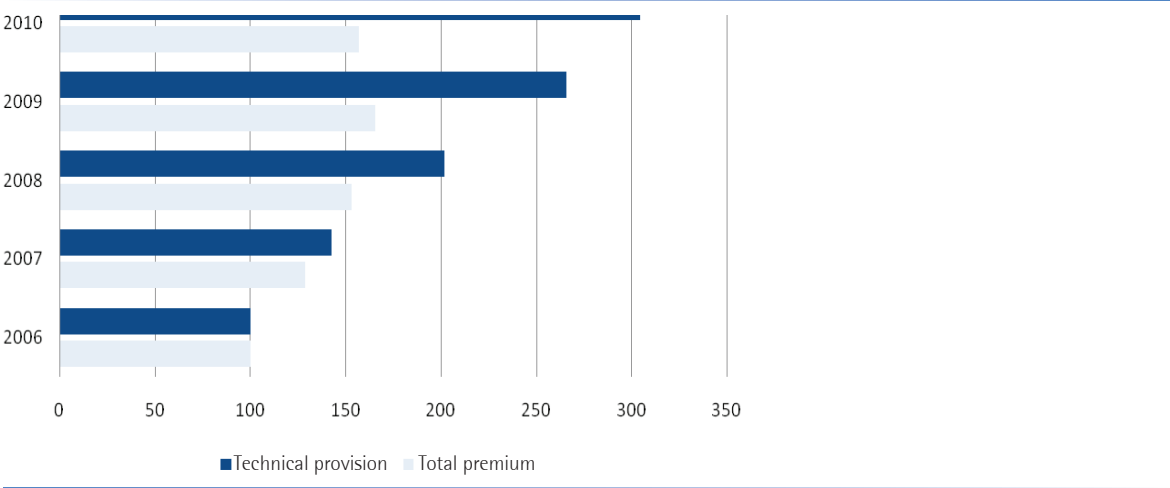
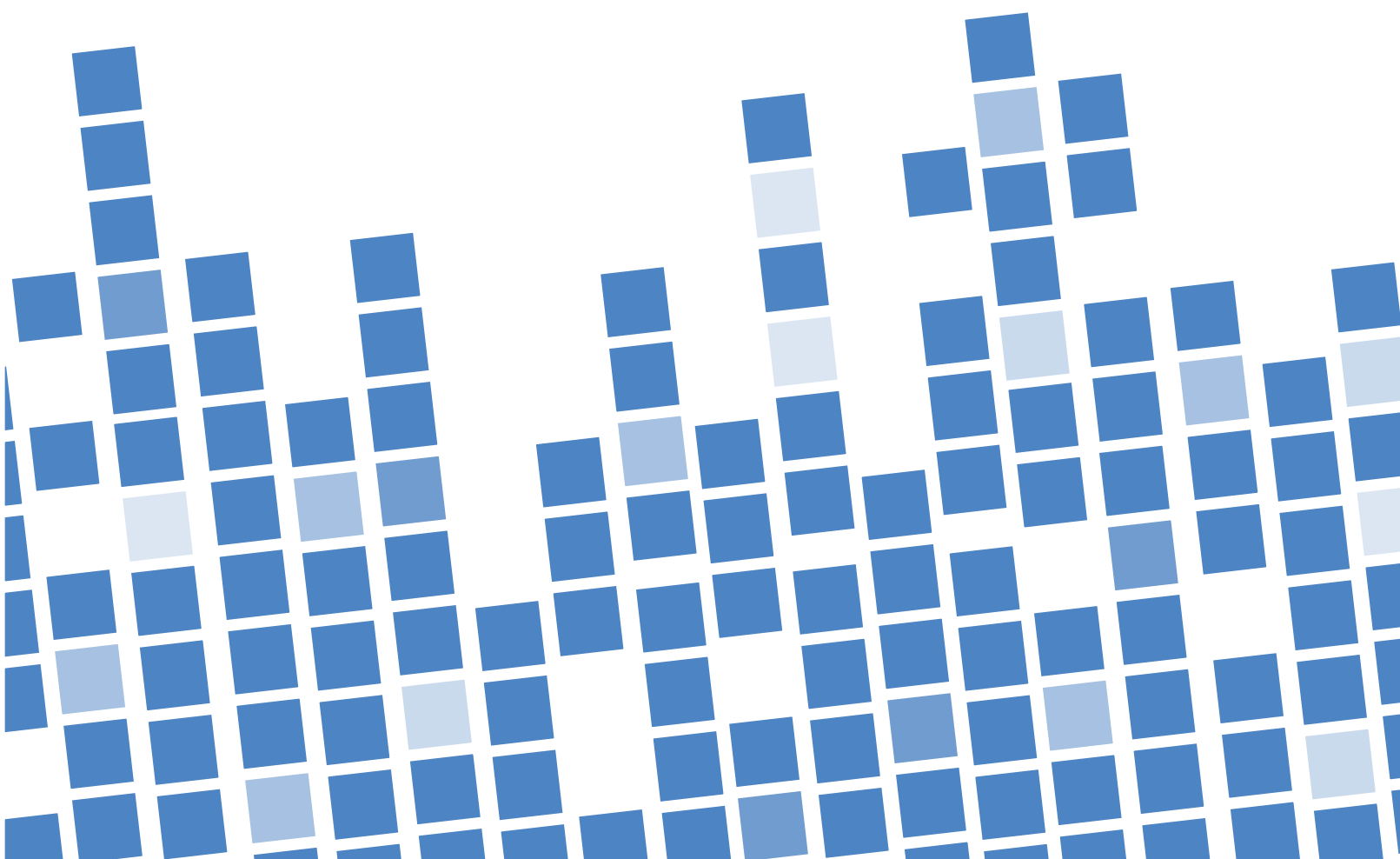


Figure 12. Trend of total premium and technical provisions indices for the period 2006-2010 (2006=100)



VIII

DEPOSITING AND INVESTING
TECHNICAL PROVISIONS FUNDS
AND GUARANTEE RESERVE FUNDS



VIII DEPOSITING AND INVESTING TECHNICAL PROVISIONS FUNDS AND GUARANTEE RESERVE FUNDS

8.1 Depositing and Investing Technical Provisions Funds

According to the Law on Insurance, the companies are obliged to deposit and invest technical provisions 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.

The Rulebook on Restrictions Related to Depositing and Investing Technical Provisions Funds and Guarantee Reserve Funds of Insurance Companies 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 property registered with the immovable property cadastre in Montenegro if their purchase price is determined based on the appraisal of an authorised 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 provisions of insurance companies, which amounted to 71.833 million euro in 2010. Gross technical provisions were 76.196 million euro as of 31 December 2010 for the entire insurance sector, which shows that the share of reinsurers in technical provisions was 5.73% (or 4.363 million euro).

Table 19. Structure of net and gross technical provisions of insurance companies in 2010

	Net technical provisions		Gross technical provisions	
	Amount (€)	Share (%)	Amount (€)	Share (%)
Mathematical reserve	12.467.166,46	17,36	12.540.207	16,46
Risk equalisation reserve	1.794.004,79	2,50	1.794.005	2,35
Outstanding claims	36.520.215,48	50,84	38.531.767	50,57
Unearned premium	20.522.718,01	28,57	22.801.009	29,92
Bonus reserves	528.941,96	0,74	528.941,96	0,69
TOTAL	71.833.047	100	76.195.930	100

Figure 13. Structure of gross and net technical provisions of insurance companies in 2010

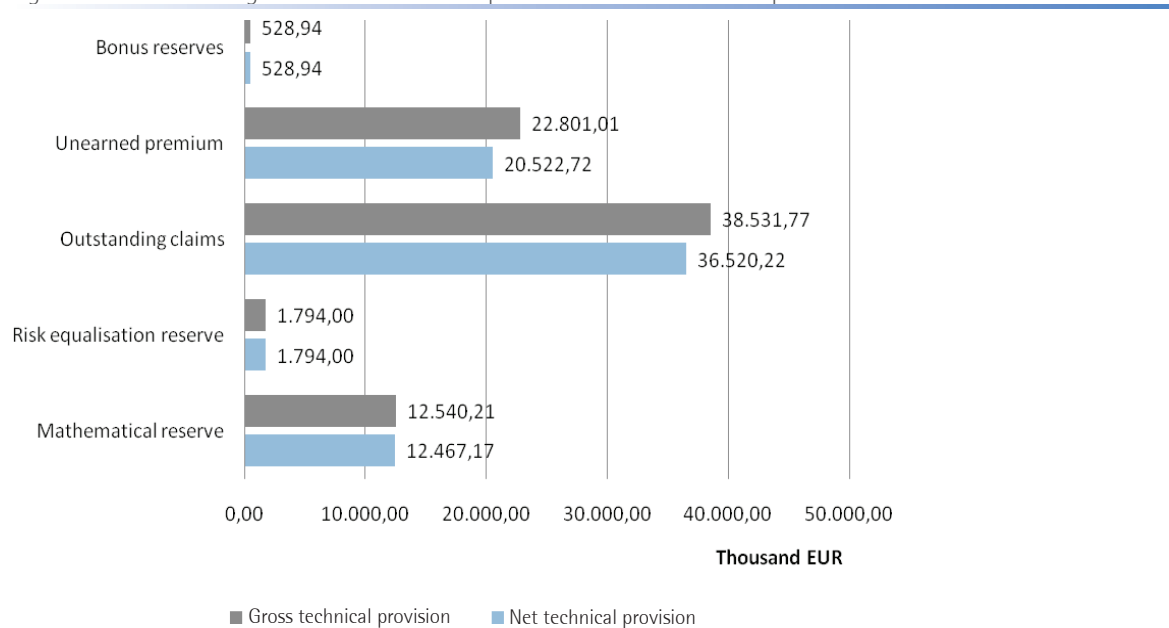


Table 20. Gross and net technical provisions by insurance groups in 2010 (€)

	Net technical provisions		Gross technical provisions	
	Amount (€)	Share	Amount (€)	Share
Life insurance	13,690,590	19.06	13,929,455	18.28
Non-life insurance	58,142,457	80.94	62,266,475	81.72
Total	71,833,047	100	76,195,930	100

The following conclusions are drawn by analysing the depositing and investing of technical provisions funds of insurance companies in 2010:

- › Net technical provisions funds invested and deposited at the level of the entire insurance sector in Montenegro were 55,006,655 euro, those in line with stipulated asset forms (but not in compliance with restrictions stipulated by the Rulebook), or 76.58% of the total net technical provisions, while the amount of deposited and invested net technical provisions in accordance with stipulated asset forms and in compliance with restrictions stipulated by the Rulebook was 54,592,762 euro i.e. 76% of the total net technical provisions;
- › Insurance companies engaged in life-insurance operations have placed 13,678,976 euro of net technical provisions funds in stipulated asset forms (99.92% of the total net technical provisions for life insurance), while they have placed 13,552,802 euro of the net technical provisions funds while respecting stipulated asset forms and stipulated restrictions, (98.99% of the total net technical provisions of life insurance);
- › Insurance companies engaged in non-life insurance operations have invested technical provisions funds in stipulated asset forms in the amount of 41,327,679 euro (71.08% of the total net technical provisions of non-life insurance), while they invested 41,039,960 euro (70.59% of the total net technical provisions of non-life insurance) into stipulated asset forms and in compliance with restrictions in compliance with the Rulebook.

Table 21. Structure of deposited and invested technical provisions funds into stipulated asset forms in 2010

	Life Insurance		Non-life Insurance		Total	
	Amount (€)	Share %	Amount (€)	Share %	Amount (€)	Share %
Shares	406,760	2.97	2,753,543	6.66	3,160,303,21	5.75
Bonds	2,362,853	17.27	2,192,914	5.31	4,555,766,98	8.28
Deposits	9,604,139	70.21	26,908,996	65.11	36,513,134,58	66.38
Investment property	899,694	6.58	8,652,165	20.94	9,551,859,26	17.36
Cash	405,530	2.96	820,061	1.98	1,225,590,71	2.23
TOTAL	13,678,976	100	41,327,679	100	55,006,655	100

Table 22. Structure of deposited and invested net technical provisions funds of companies in line with restrictions stipulated by the Rulebook in 2010

	Life Insurance		Non-life Insurance		Total	
	Amount (€)	Share %	Amount (€)	Share %	Amount (€)	Share %
Shares	406,760	3.00	2,753,543	6.71	3,160,303	5.79
Bonds	2,362,853	17.43	2,192,914	5.34	4,555,767	8.35
Deposits	9,595,177	70.80	26,621,277	64.87	36,216,454	66.34
Investment property	899,694	6.64	8,652,165	21.08	9,551,859	17.50
Cash	288,318	2.13	820,061	2.00	1,108,379	2.03
TOTAL	13,552,802	100	41,039,960	100	54,592,762	100

Technical provisions 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 Provisions Funds and Guarantee Reserve Funds of Insurance Companies were 54.593 million euro. Deposits have the highest share in the total structure of invested and deposited technical provisions funds, in the asset forms stipulated by the Law and the Rulebook, the share being 66.34%, and amounting to 36.216 million euro. The share of the investment property was 17.50% or 9.552 million euro, while shares account for 5.79% i.e. 3.160 million euro, bonds 8.35% i.e. 4.556 million euro, while the cash accounted for 1.108 million euro or 2.03%.

Figure 14. Structure of deposited and invested technical provisions funds in line with restrictions stipulated by the Rulebook in 2010 (%)

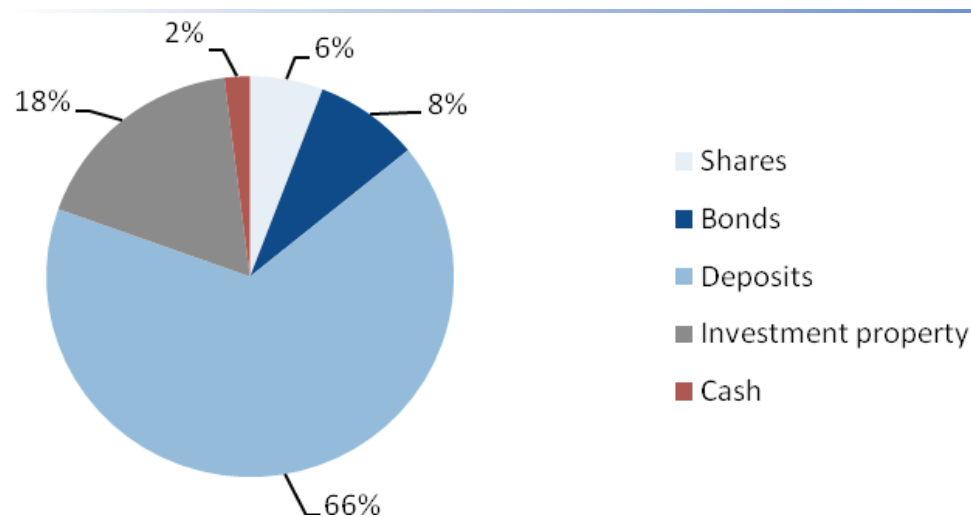
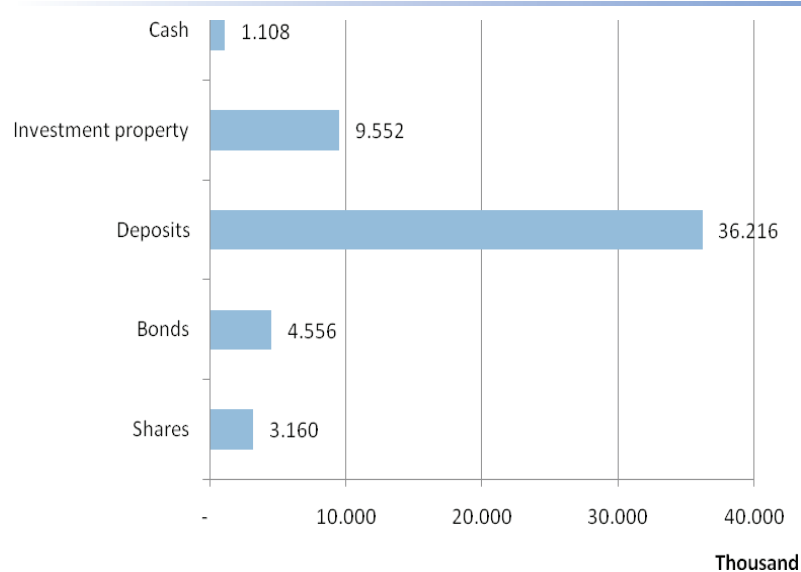


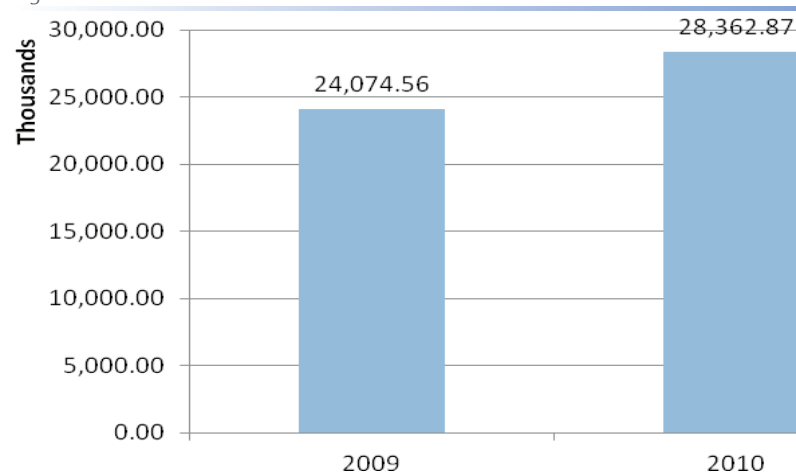
Figure 15. Structure of deposited and invested technical provisions funds in line with restrictions stipulated by the Rulebook in 2010 (€)



8.2 Depositing and Investing Guarantee Reserve Funds

According to the Law on Insurance, companies are obliged to keep guarantee reserve funds in order to secure regular execution of their obligations. Total amount of guarantee reserve cannot be lower than the monetary amount of the core capital set forth under Article 21 of the Law on Insurance. In 2010, total amount of guarantee reserve of insurance companies was 28.363 million euro, which is 17.82% more compared to 2009 when guarantee reserve were 24.075 million euro.

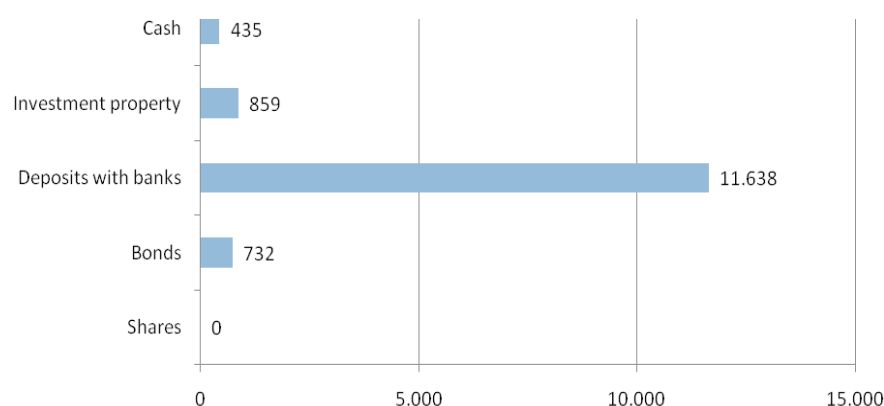
Figure 16. Total Guarantee Reserve in 2009 and 2010



Insurance companies are obliged to deposit at least one third of the guarantee reserve funds and invest it in forms stipulated for technical provisions by the Law and the Rulebook.

The Figures to follow present asset forms into which insurance companies deposited and invested total guarantee reserve funds.

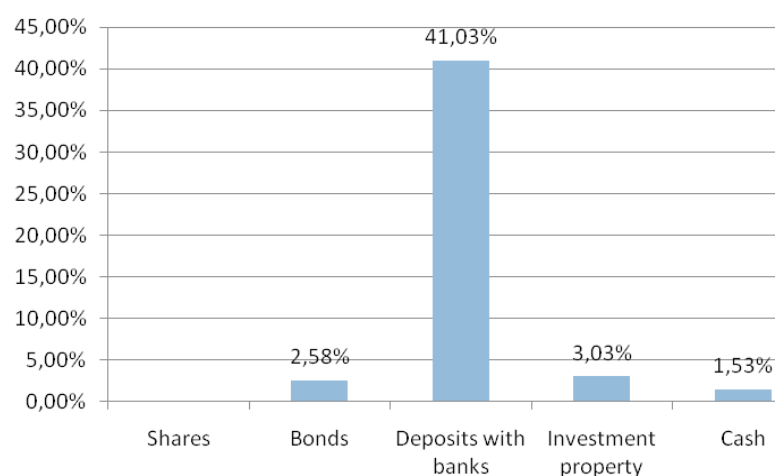
Figure 17. Structure of investing and depositing the guarantee reserve funds in 2010 (thousand EUR)



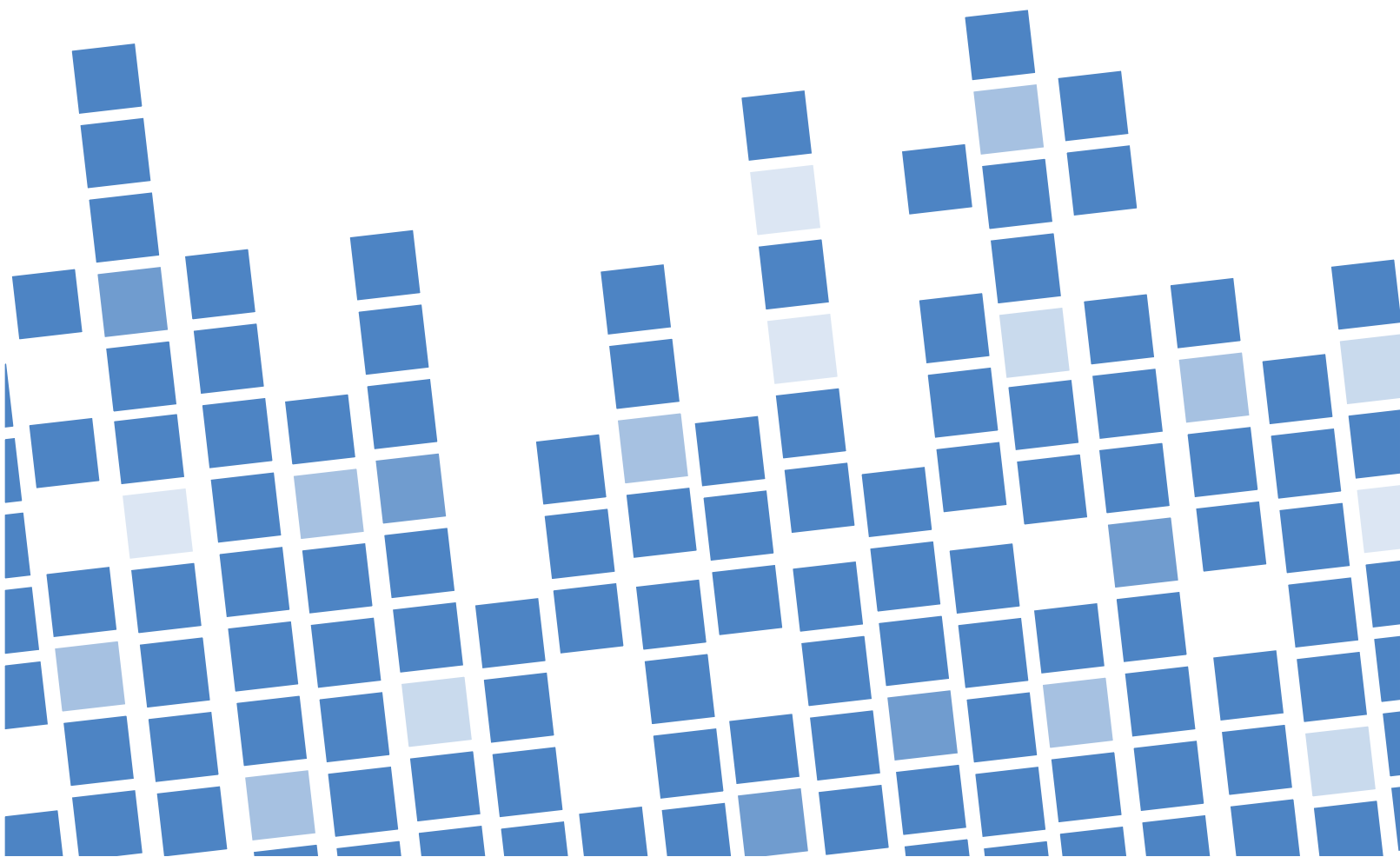
A conclusion that could be drawn by analysing the depositing and investing of the guarantee reserve funds of insurance companies in 2010 is that as far as the entire insurance sector in Montenegro is concerned, the amount of 13,664,450 euro of total guarantee reserve funds or (48.17%) was placed in line with stipulated asset forms and in compliance with the restrictions set forth by the Rulebook. Furthermore, majority of companies met requirements of the Law, stipulating that at least one third of the guarantee reserve funds must be deposited and invested in stipulated forms, and in compliance with restrictions set forth by the Rulebook. Out of the total guarantee reserve funds, the companies deposited and invested in deposits with banks amount of 11,637,811 euro or 41.03% of the total guarantee funds.

Complying with all stipulated restrictions, the placement in investment property was 859,498 euro or 3.03% of total guarantee reserve funds. The remaining guarantee reserve funds were invested into bonds, in the amount of 732,381 euro, or 2.58% of the guarantee reserve funds, and in cash 434,759 euro or 1.53%.

Figure 18. Structure of investing and depositing the guarantee reserve funds in 2010 (%)



IX FINANCIAL OPERATING RESULT



IX FINANCIAL OPERATING RESULT

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 7.897 million euro in 2010, which is less than the recorded loss in the previous year by 1.301 million euro, when the loss was 9.198 million euro.

Out of eleven⁸ insurance companies that were operating in 2010, four companies generated profit amounting to 1.311 million euro while remaining seven insurance companies generated loss of 9.209 million euro.

Grawe, Delta Generali osiguranje, Merkur osiguranje and Wiener Städtische životno osiguranje had positive operating results in 2010, and Grawe osiguranje had the highest net profit of 1.244 million euro.

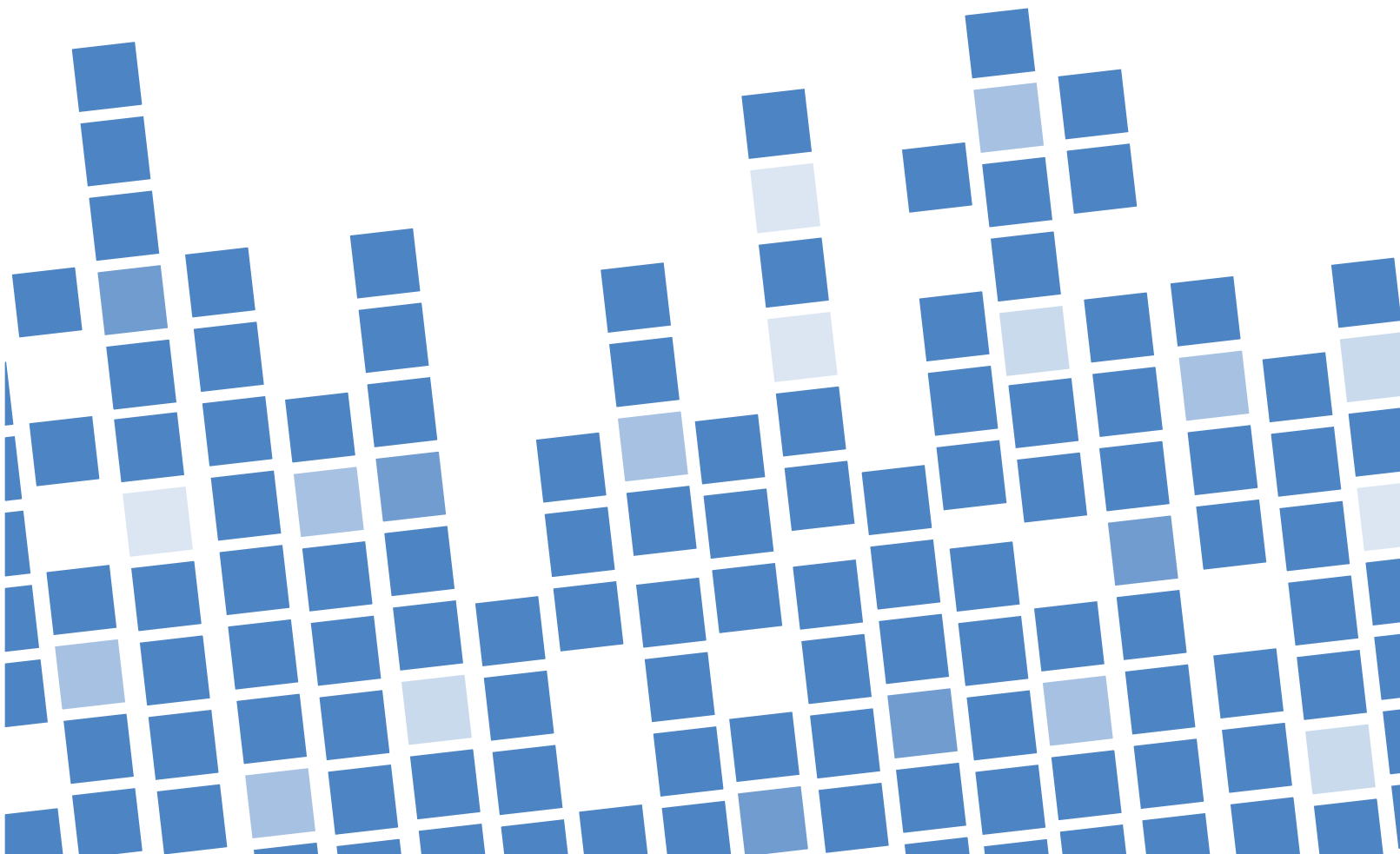
Table 23. Net financial result of insurance companies in 2009 and 2010

Insurance company	Net financial result (€) in 2009	Net financial result () in 2010
Lovćen osiguranje	-7,372,817	-5,667,000
Grawe osiguranje	1,616,868	1,244,983
Sava Montenegro	-2,672,488	-2,124,280
Magnat osiguranje	489,799	
Wiener Städtische životno osiguranje		6,983
Swiss osiguranje	18,704	-107,366
Delta Generali osiguranje	111,701	30,765
Delta Generali životna osiguranja	-186,829	-164,956
Unika neživotno osiguranje	-745,595	-725,175
Unika životno osiguranje	-184,251	-149,965
Merkur osiguranje	49,001	28,736
Atlas life	-323,024	-270,306
TOTAL	-9,198,931	-7,897,581

⁸ The Insurance Supervision Agency issued consent to the transfer of the life insurance portfolio of the Lovćen osiguranja AD to a new company Lovćen Životna osiguranja (life insurance) on 21 December 2010;

X

X OPERATING INDICATORS



X OPERATING INDICATORS

10.1 Solvency

Solvency of insurance companies depends on the adequacy of technical provisions for undertaken obligations as well as on the adequacy of the guarantee reserve 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 2010, was 18.818 million euro, while guarantee reserve were 28.362 million euro, which shows that insurance companies in Montenegro were solvent in 2010. The ratio of the guarantee reserve and solvency margin for the entire insurance sector in Montenegro in 2010 was 150.72%, meaning that companies were compliant with statutory requirement whereby guarantee reserve must exceed calculated solvency margin.

Table 24. Solvency of insurance companies in 2009 and 2010

	Solvency Margin (€)	Guarantee reserve (€)	Ratio of Guarantee reserve and Solvency Margin (%)
Total for 2009	19,085,276	24,074,560	126.14
Total for 2010	18,818,016 ¹	28,362,866	150.72
Index of changes	98.60	117.81	-

The ability of companies to absorb the risk of inadequate premium price level, contingent claims and inadequate transfer of co-insurance and reinsurance risks and other, is measured as the ratio of retained premium and total capital of the company, among other things. In case of companies engaged in non-life insurance operations, 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 premium is not adequately assessed, the co-insurance and reinsurance risk transfer is not performed adequately, as well as in case of other insurance risks, the total capital of the company is used as coverage guarantee. The ratio of retained premium and total capital in 2010 for the entire insurance sector for companies engaged in non-life insurance operations was 240.16% and is lower if compared to 2009 when it was 268.80%, which is a consequence of reduction of gross written premium of non-life insurance by 6.38% and of the increase in capital of companies engaged in non-life insurance operations by 4.16% (total capital growth was 9.66%), which is a consequence of the reduction of the gross written premium for non-life insurances by 6.38% and increase of the capital of companies engaged in non-life insurance operations by 4.16% (total capital growth was 9.66%), along with the provisions of the adequate solvency level.

Table 25. Ratio of total retained premium and total capital for insurance sector and for companies engaged in non-life insurance in 2009 and 2010

	Total retained premium/Total capital	
	2009	2010
Non-life insurances	268.80	240.16

The ratio of the total capital and technical provisions is observed for insurance companies engaged in life insurance operations and indicates the adequacy of approximation of risks undertaken under technical provisions. This ratio was 81.91% in 2010 and it was reduced if compared to 2009, when it was 125.78%, and indicates that reserves exist at the level of around 82% in case of inadequately assessed assumed risks of companies.

Table 26. Ratio of the total capital and technical provisions for companies engaged in life insurance operations in 2009 and 2010 (%)

	Total capital/Technical provisions	
	2009	2010
Life insurances	125.78	81.91

10.2 Reinsurance

Entering into reinsurance contract so called risk equalisation is performed and insurers are protected 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 (applicable) 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 95.69% of the total earned premium⁹, showing a reduction of transfer of risks to reinsurance if compared to 2009, when this share was 86.63%.

Table 27. Share of retained earned premium in the total earned premium in 2010

	Retained earned premium (€)	Total earned premium (€)	Share of retained earned premium in the total earned premium (%)
TOTAL	59,310,955	61,978,704	95.69

Insurance companies in Montenegro used reinsurance services of the following reinsurance companies in 2010:

9 Applicable premium ÷ earned premium;

Table 28. List of reinsurance companies that companies in Montenegro were doing business with

Insurance company	Reinsurance company
Lovćen osiguranje	Hannover Re
	Swiss Re
	Partner Re
	SCOR Global
	Triglav Re
	Sava Re
	AIG UK, London
	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
	Ingostrach Insurance
	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
	Lanceshir Insurance Company
	RJ Kiln Syndicate
	Global Aerospace
	JSC Kapital Insurance
	Arch Insurance Company, London SCOR
	Chartis Ins.
Grawe osiguranje	Grazer Wechselseitige Versicherng AG
Sava Montenegro	Sava Re
	Wiener Städtische Vienna
Swiss osiguranje	Dunav Re
	Wiener RE
Delta Generali osiguranje	Delta Generali reosiguranje
Uniqa neživotno osiguranje	Munich Re
	Uniqa Re
	Chartis Ins.
	Uniqa Sachversicherung AG Vienna
	Alianz Hungaria Biztosito
	Wiener Re
	AXA Corporate Solutions Assurance Germany
Uniqa životno osiguranje	Swiss Re Europe S.A., Niedelassung Deutschland
Delta Generali životna osiguranja	Delta Generali reosiguranje
Atlas Life	General Reinsurance Co Ltd, Beč
Merkur osiguranje	Kölnische Ruckversicherungs AG Köln

10.3 Profitability

RETAINED RELEVANT LOSS RATIO

Retained relevant loss ratio is the indicator of the price policy and adequacy, precisely of the adequacy of premiums to cover obligations arising from insurance contracts and adequacy of transferred risks into reinsurance. This indicator was 97.83% for the non-life insurance sector in Montenegro in 2010 and points out the fact that earned claims were lower by 2.17% than retained earned pure premiums i.e. premiums of insurance companies were sufficient to settle obligations arising from insurance contracts.

Table 29. Retained relevant loss ratio by classes of insurance in 2010

Class of insurance	Retained relevant loss ratio	Retained relevant claims	Retained relevant loss ratio
Liability insurance of owners or users of motor vehicles	20,715,333.00	20,622,810.00	99.55
Liability insurance of watercraft owners or users	60,221.76	54,107.63	89.85
Liability insurance of aircraft owners or users	44,155.32	26,102.93	59.12
Motor vehicles insurance	4,400,393.75	3,619,063.67	82.24
Railborne vehicles insurance	12,083.88	0.00	0.00
Aircraft insurance	52,751.37	0.00	0.00
Watercraft insurance	17,521.37	11,644.48	66.46
Property insurance	1,849,253.16	1,150,269.65	62.20
Accident insurance	4,398,770.64	5,584,642.13	126.96
General damages liability	168,537.57	79,681.27	47.28
Travel insurance	77,933.92	39,489.38	50.67
Voluntary health insurance	515,894.20	340,182.10	65.94
Insurance of goods in transport	98,427.84	119,404.18	121.31
Credit insurance	211.76	79,790.15	37,679.52
Commercial guarantee	5,412.87	0.00	0.00
Financial loss insurance	7,759.50	0.00	0.00
Other non-life insurances	6,993.02	0.00	0.00
TOTAL	32,431,654.93	31,727,187.57	97.83

PROFITABILITY OF ASSETS AND EQUITY

Ratio of net results and total assets (ROA) is the measure of return on total assets in 2010 generated by employing funds in insurance operations, investments etc. Only four companies had positive net results and return on assets and equity in 2010. When all companies in Montenegro are taken into account there is negative net result and return on total assets of -6.47%, as well as negative return on equity of -26.11%, which is a result of net loss generated in insurance sector of Montenegro. However, it should be pointed out that these two indicators were increased compared to 2009 (ROA -8.74 and ROE -34.11).

Table 30. Profitability indicators in 2010

	Assets (€)	Capital (€)	Net profit/loss (€)	ROA	ROE
TOTAL	122.001.642	30.244.358	-7.897.580,83	-6,47	-26,11

10.4 Liquidity

In order for insurance companies to be able to meet their obligations, they should take care of the conformity of assets and liabilities in terms of maturity, as well as marketability and quality of assets. The liquidity ratio as of 31 December 2010 for insurance companies in Montenegro was 3.72 which means that at the end of 2010 companies had 3.72 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;

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);

unused portion of approved framework bank loans to insurance company;

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. In 2010, insurance companies had high level of timeliness since 94.31% of total number of reported claims was processed. The timeliness level was increased by 8.75 percentage points if compared to 2009.

Table 31. Timeliness in processing claims for the insurance sector in 2010

	Number of processed claims	Total number of claims	% timeliness
TOTAL	25,365	26,895	94.31

GROSS CLAIMS RATIO

Gross claims ratio is calculated as ratio of the sum of gross amount of processed claims and changes in technical provisions and amount of earned insurance premium. When observing the entire insurance sector in Montenegro in 2010, 60.20% of the earned premium referred to gross claim expenses and increase of technical provisions.

Table 32. Gross claims ratio of insurance companies in 2010

	Gross processed claims (€)	Changes in technical provisions (€)	Earned insurance premium (€)	Gross claims ratio (%)
TOTAL	26,261,057.52	11,049,832.83	61,978,704.02	60.20

COSTS RATIO

Cost ratio is calculated as ratio of the sum of insurance-related administrative costs and other operating costs arising from insurance operations and earned insurance premium. The insurance-related administrative costs and other operating costs make 43.89% of the earned premium in 2010 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 insurance-related administrative costs and other operating costs made 45.14% of the earned insurance premium for 2009, which is an important indicator of results of activities undertaken to stabilize and improve the insurance market.

Table 33. Share of insurance-related administrative costs and other operating costs arising from insurance operations in earned premium in 2010

	Insurance-related administrative cost and other operating costs (€)	Earned insurance premium(€)	%
TOTAL	27,202,303.74	61,978,704.02	43.89

COMBINED RATIO

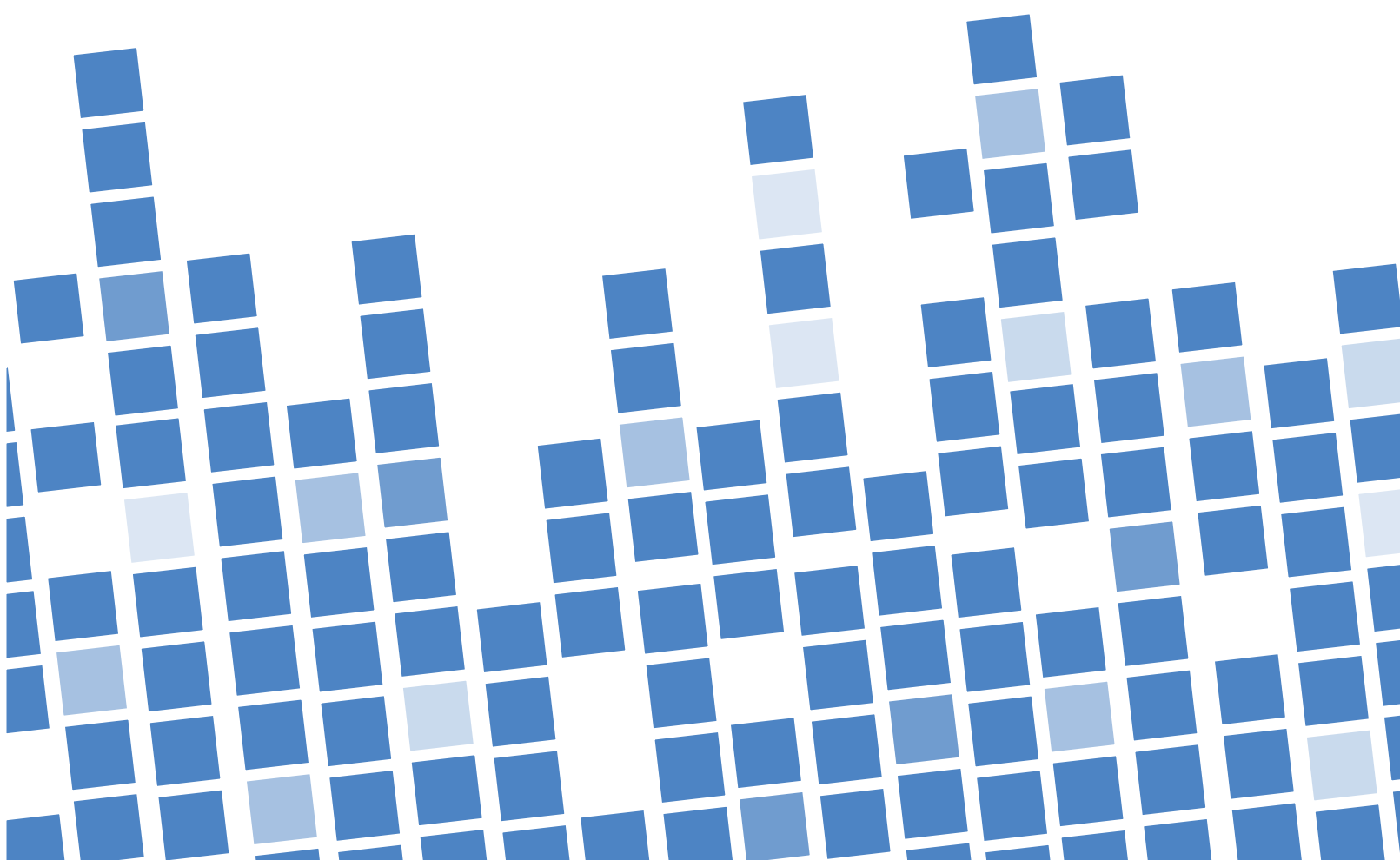
Combined ratio, being a sum of gross claims ratio and costs ratio, shows the operating results before income from invested assets are included. In 2010, expenses of insurance companies for claims, the insurance-related administrative costs were higher by 4.09% if compared to the earned premium, which is less in relation to 2009 when said expenses were 12.37% higher than the last year earned premium.

Table 34. Combined ratio in 2010 (%)

	Gross claims ratio	Costs ratio	Combined ratio
TOTAL	60.20	43.89	104.09

XI

NATIONAL BUREAU OF INSURERS
OF MONTENEGRO



XI NATIONAL BUREAU OF INSURERS OF MONTENEGRO

The National Bureau of Insurers is a legal entity, established to implement joint interests of insurance companies engaged in compulsory transport insurance operations in Montenegro. All insurance companies engaged in the compulsory transport insurance operations must be members of the National Bureau of Insurers.

The National Bureau of Insurers conducts its operations through established organisational parts without legal entity status:

- 1) Green Card Bureau
- 2) Guarantee Fund;
- 3) Information Centre.

Pursuant to Article 40 of the Law on Compulsory Transport Insurance, the National Bureau of Insurers carries out the following activities:

- 1) represents insurance companies in international insurance organizations;
- 2) processes, calculates, settles claims and makes recourse requests with respect to claims paid in under international agreements on compulsory transport insurance for damage incurred in the country and abroad ("green card"), uninsured motor and trailer vehicles and passengers in public transport, aircrafts and vessels; death, bodily injury or impaired health caused by the use of unknown motor vehicle, aircraft, vessel or other means of transport; request of injured persons who were not able to compensate the damage due to the closing of their insurance companies;
- 3) prescribes and prints forms of international insurance cards (green card) for its members;
- 4) manages the Guarantee Fund;
- 5) collects statistical and other data and prepares statistical reports;
- 6) proposes criteria for determining the amount of compulsory contributions to be made by insurance companies (members of the Association) to the Association for operations of the Association and for the Guarantee Fund, as well as deadlines for payment thereof; amounts of deposits and guarantees of banks which the insurance companies are guaranteeing fulfilment of the obligations for which the Association is responsible;
- 7) determines the tariff for calculation and payment of costs based on claim processing;
- 8) performs other activities for which it has been authorized by insurance companies and the Regulatory authority;
- 9) determines bases for calculation of the premium and premium structure for compulsory insurances;
- 10) prepares operating plans and financial operating reports;
- 11) cooperates with the associations of other countries with respect to more complete and comprehensive exercising of insured parties rights, injured persons and members of the Association;
- 12) adopts the code of conduct for insurance employees.

Its members manage this association, and its managing bodies are the Assembly, constituted by one representative from each insurance company being its members, and the Executive Director who act on behalf and is the authorised representative of the Association.

The Guarantee Fund has a special importance in the Association, and insurance companies engaged in compulsory life insurance allocate funds for its functioning from sold insurance policies. The intended use of those funds was to secure payment of damages caused by the use of unknown or uninsured vehicles, aircrafts, watercrafts or other means of transport, as well as damages caused by these means of transport if insured with the insurance companies that was revoked its operating license or if a bankruptcy or liquidation proceeding was initiated against such company. In addition to the mentioned damages, the funds of this Fund also cover damages caused by a vehicle the use of which was covered by a green card or border insurance, as well as costs of processing these claims and costs of operation of the Guarantee Fund.

The funds of the Guarantee Fund that were available to the Association for payment of claims during 2010 amounted to 1,878,936 euro. During 2010, the Association paid claims of 1,702,527 euro, out of which for damages abroad 468,749 euro, for damages in country 1,142,316, and for costs related to the payment claims the amount paid was 91,462 euro.

Out of the total number of reported claims from previous year and from 2010, which was 944, 479 claims were processed, out of which 207 requests for payment of claims were rejected and 272 claims were paid. Out of the total number of paid claims, 163 claims were reported in 2010 and 82 claims were from previous periods.

The following Table provides an overview of calculation of contributions for the Guarantee Fund for all companies engaged in compulsory insurance operations.

Table 35. Calculation of contribution to the Guarantee Fund for all insurance companies

Type	TOTAL 2010		
	No. of policies	Per vehicle	Total
Passenger vehicles	160,947	6	965,682.00
Cargo Vehicles	12,481	20	249,620.00
Buses and trolleybuses	1107	40	44,280.00
Bus and trolleybus trailers	0	20	0.00
Trailers and other towable vehicles	1,823	3	5,469.00
Other motor vehicles	6,693	5	33,465.00
Total	183,051		1,298,516.00
Contribution from the technical premium of the compulsory aircraft liability insurance	0	1%	0
Contribution from the technical premium of the compulsory public transport passengers insurance	6,272	1%	62.72
Border policy	58,165	3	174,495.00

INSURANCE COMPANIES IN MONTENEGRO



Atlas Life

ATLAS LIFE AD

Address: Stanka Dragojevića 4, 81000 Podgorica
Telephone: +382 20 406 106, 406 112
Fax: +382 20 406 156
Email: info@atlaslife.net
Web: www.atlaslife.me

Classes of insurance: non-life insurance
Number of employees: 11



DELTA GENERALI
Osiguranje

DELTA GENERALI OSIGURANJE AD

Address: Kralja Nikole 27a/VI, 81000 Podgorica
Telephone: +382 20 444 858
Fax: +382 20 444 810
Email: kontakt@deltagenerali.me
Web: www.deltagenerali.me

Classes of insurance: non-life insurance
Number of employees: 71



DELTA GENERALI
Životna osiguranja

DELTA GENERALI OSIGURANJE AD

Address: Kralja Nikole 27a/VI, 81000 Podgorica
Telephone: +382 20 444 858
Fax: +382 20 444 810
Email: kontakt@deltagenerali.me
Web: www.deltagenerali.me

Classes of insurance: life insurance
Number of employees: 18



GRAWE
osiguranje d.d.

GRAWE OSIGURANJE AD

Address: Novaka Miloševa, 81000 Podgorica
Telephone: +382 20 210 790
Fax: +382 20 210 963
Email: maja.pavlicic@grawe.at
Web: www.grawe.me

Classes of insurance: life insurance
Number of employees: 22

LOVČEN
OSIGURANJE A.D.



Simbol Vaše sigurnosti

LOVČEN OSIGURANJE AD

Address: Slobode 13A, 81000 Podgorica
Telephone: +382 20 404 400, 404 410
Fax: +382 20 665 281
Email: info@lo.co.me
Web: www.lovcenosiguranje.co.me

Classes of insurance: non-life insurance
Number of employees: 266



LOVČEN
ŽIVOTNA OSIGURANJA

LOVČEN ŽIVOTNA OSIGURANJA AD

Address: ul. Novaka Miloševa 6/II, 81000 Podgorica
Telephone: +382 20 231 895
Fax: +382 20 231 881
e-mail: info@lovcentzivot.me
Web: www.lovcentzivot.me

Classes of insurance: life insurance
Number of employees: 6



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
Web: www.merkurosiguranje.me

Classes of insurance: life insurance
Number of employees: 6



UNIQA NEŽIVOTNO OSIGURANJE AD

Address: Bul. Sv. Petra Cetinjskog 1a/4, 81000 Podgorica
Telephone: +382 20 444 700
Fax: +382 20 444 715
Email: info@unika.co.me
Web: www.unika.co.me

Classes of insurance: non-life insurance
Number of employees: 85



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
Web: www.sava.co.me

Classes of insurance: non-life insurance
Number of employees: 117



UNIQA ŽIVOTNO OSIGURANJE AD

Address: Bul. Sv. Petra Cetinjskog 1a/4, 81000 Podgorica
Telephone: +382 20 444 700
Fax: +382 20 444 715
Email: info@unika.co.me
Web: www.unika.co.me

Classes of insurance: life insurance
Number of employees: 69



SWISS OSIGURANJE AD

Address: Josipa Broza 23A, 81000 Podgorica
Telephone: +382 20 657 300
Fax: +382 20 657 301
Email: sio@t-com.me
Web: www.swiss-osiguranje.com

Classes of insurance: non-life insurance
Number of employees: 27



WIENER STÄDTISCHE ŽIVOTNO OSIGURANJE AD

Address: Bulevar Revolucije 50/1, 81000 Podgorica
Telephone: +382 20 201 250
Fax: +382 20 201 251
E-mail: office@wiener.co.me
Web: www.wiener.co.me

Classes of insurance: life insurance
Number of employees: 5