

**09 Annex - Financial services**

**37. REPORT ON INSURANCE MARKET IN MONTENEGRO,  
REPORT FOR 2008**

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**INSURANCE SUPERVISORY AGENCY**

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**REPORT ON INSURANCE MARKET IN  
MONTENEGRO**

REPORT FOR 2008

June 2009

## **INSURANCE SUPERVISORY AGENCY**

Kralja Nikole 27a/3, 81000 Podgorica  
Montenegro  
Tel: +382 20 442 824  
Fax: +382 20 442 830  
E-mail: [agencija@ano.co.me](mailto:agencija@ano.co.me)  
Website: [www.ano.me](http://www.ano.me)

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## I INTRODUCTION

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Report on insurance market in Montenegro for 2008 is made based on annual financial statements and statistical data delivered by insurance companies to the Insurance Supervisory Agency, as well as based on annual reports on operation, with opinion of authorized actuary and the report of external auditor.

Positive trend of growth and development of insurance market in Montenegro continued in 2008, which is confirmed by the most important indicators of situation on the insurance market. Advancement was also achieved with regard to adoption of numerous / various regulatory acts and other activities aimed at further improvement of insurance market itself.

The most important events on insurance market of Montenegro in 2008 are:

- Completion of legislation in the field of insurance based on EU directives and the best international practices;
- Foundation of new insurance companies and adaption of existing insurance companies to new legislation;
- Establishment of supervision over insurance sector by way of permanent and proactive supervision;
- Regular statistical reporting on situation on the insurance market of Montenegro;
- Membership in International Association of Insurance Supervisors - IAIS;
- Cooperation with regulators from the neighbouring countries for purpose of achieving more efficient execution of regulatory function (the Agency cooperates with the following regulators of the neighbouring countries: FMA – Austria, Insurance Supervisory Agency – Slovenia, Insurance Supervisory Agency in Bosnia and Herzegovina, Insurance Supervisory Agency of the Republic of Srpska, Insurance Supervisory Agency of the Federation of Bosnia and Herzegovina, National Bank of Serbia, DNB – Dutch National Bank, BNB – Bulgarian National Bank, etc.);
- Growth of gross insurance premium;
- Development of life insurance;
- Growth of basic indicators of insurance market development;
- Reduction of concentration on the insurance market;
- Foreign investments on the insurance market;
- Improvement of insurance portfolio structure (reduction of obligatory insurance share, growth of property insurance share, growth of life insurance share).



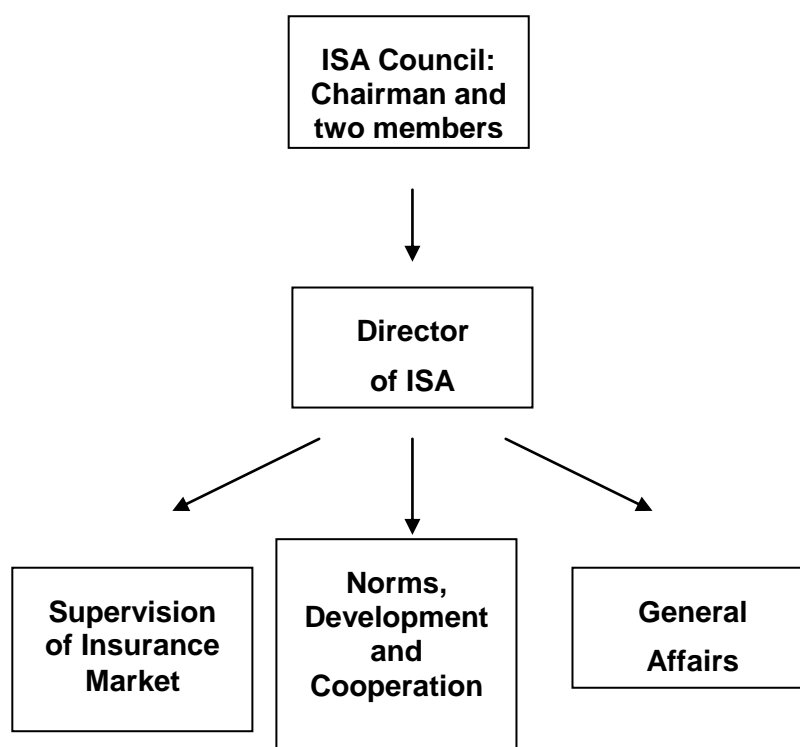
### 1.1 Insurance Supervisory Agency

Competent institution for supervision and control of insurance industry in Montenegro, which is independent in execution of tasks from its own area. The Agency is founded in accordance to the Law on Insurance (Official Gazette of the Republic of Montenegro 78/06 and 19/07). Founder of the Agency is the state of Montenegro, while the founder's rights are on its behalf performed by the Council of the Agency, in accordance to the Law. Insurance Supervisory Agency conducts supervision over execution of tasks from the field of insurance activities, for purpose of stimulating development of insurance market and provision of insurers' adequate protection.

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). The Statute, Financial Plan and Programme of Operations for 2008 are adopted at the end of December 2008; therefore, the Agency has full institutional capacity starting from January 2008.

Competencies of the Council of the Agency are: decides on licences, approvals, authorizations and other issues from the competencies of the Agency; adopts rules and other documents as established by the law; adopts Statute of the Agency; produces annual report on situation on the insurance market; produces annual plan of operations and annual report on operation of the Agency; produces financial plan and annual financial statements; chooses and revokes auditor for control of annual financial statement of the Agency; appoints Bankruptcy Board and bankruptcy administrator; decides on objections to the minutes on performed supervision and complaints and applications of insurers; performs other tasks as established by the law and the statute.

Schematic review of the Insurance Supervisory Agency organizational structure:



**Department for Supervision of Insurance Market** performs following tasks and duties: produces, proposes and monitors implementation of provisions prescribing conditions and the manners for execution of insurance tasks; processes and prepares proposals for granting, suspension and revoke of licences for insurance operations and the tasks directly connected to insurance operations; processes and prepares decisions on temporary prohibition for execution of insurance

operations and operations directly connected to insurance operations; performs direct control of insurance companies operations, affiliations of foreign insurance companies, companies for insurance mediation, authorized intermediaries, companies for insurance agency activity and insurance agents, agencies for provision of other services in insurance; discusses and prepares proposals with regard to quarterly reports of insurance companies; prepares and proposes undertaking of measures towards all entities breaching the rules prescribing conditions and the manner for execution of insurance operations and operations directly connected to insurance operations; acquires from natural and legal persons information required for execution of comprehensive control of conditions and the manners for execution of insurance operations; prepares proposal for submitting application to competent bodies for offences, commercial and criminal offences committed during execution of insurance activities; proposes decision on granting approval / consent for acquiring qualified participation in insurance companies and increase of existing qualified participation in accordance to the law, or refusal of granting this consent; proposes decisions on licences for execution of insurance operations; proposes measures for ordering to insurance companies to remove all illegitimacies and irregularities in operation, in accordance to the Law; proposes and prepares proposals for revoking licence for execution of individual or all insurance operations in cases prescribed by the law; performs other tasks and undertakes other measures and activities for which it is authorized by the Agency.

**Department for the norms, development and cooperation** performs following tasks and duties: maintains registers of data on insurance companies granted with the licence for execution of insurance activities and register of the companies for insurance mediation, companies for insurance agency activity and insurance agents, granted with the licence for execution of mediation and agency operations in insurance, register of authorized mediators and authorized agents, register of agencies for provision of other services in insurance, register of authorized actuaries, and other relevant registers; proposes provisions on the content and the manner for maintenance and inscriptions into the Agency's registers; maintains information basis; gives proposals for production of normative acts for purpose of enhancing regulatory and institutional framework for insurance market functioning; performs study-analytical tasks related to reduction of operating expenses on the insurance market; establishes and promotes cooperation with insurance market regulators throughout the world; establishes and promotes cooperation with relevant local and international financial institutions; conducts procedures related to execution of liabilities based on the membership in international institutions; prepares projects and arrangements that are realized through European Union, local and international institutions; proposes programmes of professional education and training for the agents, mediators and actuaries, as well as programmes for special professional imperfection for certain target groups.

**General Affairs Department** performs following duties and tasks: study-analytical, normative-legal, organizational and other affairs related to coordination and consolidation of operations performed within the Agency; proposes decisions on granting consents for change of the status, name and the address of the company; proposes decision on granting consents on the statute of insurance companies; proposes decisions on granting consents on appointment of members of the Board of directors and the executive directors of insurance companies; proposed decisions on granting and revoking authorization from natural persons for execution of mediation activities in insurance, agency activities in insurance and revoking these authorizations; processes proposals for granting, suspension and revoking licences for execution of insurance operations and operations directly connected to insurance operations; processes proposals for revoking licence for individual or all insurance operations in cases prescribed by the law; performs operations related to civil-legal, administration and constitutional disputes and other disputes for which the Agency has authorization to proceed or participate in them; performs operative-technical activities for preparation and organization of the Agency's meetings and takes minutes from the Agency's meetings; produces reports on operation of the Agency; performs receipt and dispatch of the mail and maintains register and record files; take cares on publishment of rules and delivery and publishment of decisions, publication of the Agency's stands and opinions, publishment of the Agency's public annunciations via public media, agencies, television and radio stations and daily



newspapers; performs accounting activities for the needs of the Agency, particularly preparation of financial plan and annual balance of the Agency, maintains records of employees; performs administrative-technical, operating-technical and other duties and tasks upon the Agency's order, necessary for providing conditions for efficient and timely realization of the Agency's functions.



### 1.2 Macroeconomic indicators

The most significant trends in Montenegrin economy in 2008, which can be evaluated as relatively successful, are real growth of GDP of 8.1%, budget surplus of 0.4% of GDP, increase in number of employees, increase of salaries, as well as growth of inflation.

According to the estimation of the Ministry of Finance, GDP amounted to 3,3 billion euro. Budget surplus, though lower for 77.4% comparing to the previous year, significantly exceeded planned value (for 48.2%).

Unemployment rate amounted to 10.7%, in which way it was practically bisected comparing to 2005. Exceptional positive trend was also noticeable with regard to the level of average net salaries, which were increased for 23% comparing to the previous year.

With regard to basic macroeconomic indicators, inflation was the only indicator to record negative trend. Measured by the CPI index (consumption prices index, i.e. index of retail prices), inflation in 2008 was doubled comparing to the previous year.

**Table 1. Review of macroeconomic indicators 2002-2008**

| Indicators                          | Years   |         |         |          |          |          |          |
|-------------------------------------|---------|---------|---------|----------|----------|----------|----------|
|                                     | 2002    | 2003    | 2004    | 2005     | 2006     | 2007     | 2008     |
| <b>GDP (million €)</b>              | 1,360.1 | 1,510.1 | 1,669.8 | 1,815    | 2,148.9  | 2,807.9  | 3,339    |
| <b>GDP per capita (€)</b>           | 220.8   | 2,435   | 2,684   | 2,912    | 3,443    | 4,484    | 5,384    |
| <b>GDP growth rate (%)</b>          | 1.9     | 2.5     | 4.4     | 4.2      | 8.6      | 10.7     | 8.1      |
| <b>Inflation (CPI)</b>              | 9.2     | 6.2     | 3.0     | 2.5      | 2.8      | 4.2      | 8.6      |
| <b>Population</b>                   | 620,195 | 620,195 | 620,195 | 620,195  | 620,195  | 620,195  | 620,195  |
| <b>No. of unemployed population</b> | 80,584  | 71,679  | 65,064  | 54,457   | 43,190   | 34,396   | 29,535   |
| <b>No. of employed population</b>   | 140,100 | 142,679 | 143,479 | 144,385  | 150,800  | 156,408  | 166,221  |
| <b>Average gross salary (€)</b>     | -       | 271     | 302,9   | 327      | 433      | 497      | 609      |
| <b>Average net salary (€)</b>       | -       | 173.9   | 195.4   | 213      | 282      | 338      | 416      |
| <b>Budget surplus / deficit</b>     | -25.2   | -45.9   | -32,8   | -30.1    | 85.1     | 168.4    | 39.04    |
| <b>Export (million €)</b>           | 481     | 461     | 701,68  | 790.41   | 1,066.36 | 1,333.79 | 1,282.95 |
| <b>Import (million €)</b>           | 815     | 709.6   | 969,93  | 1,108.53 | 1,718.58 | 2,235.3  | 2,321.85 |
| <b>Trade balance (million €)</b>    | -334.0  | -274.7  | -268,25 | -318.12  | -652.22  | -901.51  | -1,038.9 |

Source: Monstat, Central Bank of Montenegro and the Ministry of Finance

## II REGULATORY FRAMEWORK FOR INSURANCE SECTOR

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Legal framework for the field of insurance is completed with adoption of the Law on Insurance (Official Gazette of the Republic of Montenegro 78/06 and 19/07), the Law on Compulsory Insurance in Traffic (Official Gazette of Montenegro 46/07) and the Law on Bankruptcy and Liquidation of Insurance Companies (Official Gazette of Montenegro 11/07).

The Law on Insurance regulates conditions and the way of performing insurance activities, as well as supervision over insurance activities in Montenegro. The Law on Insurance prescribes the way of foundation and the rules for operation of insurance companies. Particularly, the way of establishing risks and the type of insurance according to the principle of risk cover, form of insurance company, as well as the manner and the rules on risk management in insurance (capital adequacy, liquidity maintenance, establishment of technical reserves in insurance of property and depositing and investment of the technical reserves funds, as well as other measures needed for risk management) are prescribed. In addition, the Law regulates reinsurance, the manner of performing actuary and auditing operations, the manner and forms of financial reporting, rules for conducting internal audit, as well as forms and the manner for execution of mediation and agency operations, and provision of other services in insurance.

The Law on Compulsory Insurance in Traffic regulated compulsory insurance in traffic and defines types of compulsory insurance, compulsory insurance contract, insured amounts, conditions of insurance and premium tariffs, amount, time limits and rights to compensation of damage, international document on existence of auto liability insurance (green card) and border insurance. The Law particularly defines obligation and the manner for foundation of Insurers Association of Montenegro – National Bureau, which performs its activities through separate organizational units: Green Card Bureau, Guarantee Fund and Information Centre.

The Law on Bankruptcy and Liquidation of Insurance Companies regulates procedure of bankruptcy and liquidation of insurance companies with reference on application of the Law on Insolvency of Business Organizations.

Enhancement of general performances of insurance market was conditioned by adoption of necessary secondary legislation. In that sense, activities on improvement of regulatory framework for insurance industry commenced in 2007, when the following documents of bylaws were adopted:

- The Rulebook on detailed conditions for issuance of licences for execution of insurance operations, mediation, agency activity and provision of other services in insurance and the manner of proving fulfilment of these services (Official Gazette of the Republic of Montenegro 08/07 of 9 February 2007)
- Instructions on the manner of establishing the level of solvency margin (Official Gazette of the Republic of Montenegro 24/07 of 4 May 2007).

With regard to legislation, activities aimed at creation of the market that would be attractive for further foreign and domestic investments are related to implementation of existing legal solutions and their elaboration through development of bylaws harmonized with legislation of European Union. The following bylaws are adopted in 2008:

- The Rulebook on the content of reports, information and other data that insurance company submit to the Insurance Supervisory Agency, as well as on the way and the time limits for their delivery (Official Gazette of Montenegro 70/08 of 19 November 2008);
- The Rulebook on the content of opinion of authorized actuary (Official Gazette of Montenegro 70/08 of 19 November 2008);
- Rulebook on the content and the manner of maintaining register of data on insurance companies and other entities that are subject to control of the Insurance Supervisory Agency (Official Gazette of Montenegro 70/08 of 19 November 2008);

- Rulebook on the manner of establishment and monitoring of insurance companies liquidity (Official Gazette of Montenegro 70/08 of 19 November 2008);
- The Rulebook on detailed criteria and the manner of calculation of mathematical reserve and the reserve for participation in profit (Official Gazette of Montenegro 70/08 of 19 November 2008);
- The Rulebook on detailed criteria and the manner of calculation of reserves for risk settlement (Official Gazette of Montenegro 70/08 of 19 November 2008);
- The Rulebook on detailed criteria and the manner of calculation of transferable premium reserves (Official Gazette of Montenegro 70/08 of 19 November 2008);
- The Rulebook and the manner of calculation of detailed criteria and the manner of calculation of technical reserves for claims reserves (Official Gazette of Montenegro 70/08 of 19 November 2008);
- The Rulebook on establishment of operation results, distribution of realized profit, cover of losses and measures for covering losses (Official Gazette of Montenegro 70/08 of 19 November 2008).

In cooperation with the Ministry of Finance, the Insurance Supervisory Agency prepared in 2008 the Rulebook on Restrictions Related to Depositing and Investing Technical Reserve Funds and Guarantee Funds of Insurance Companies, which is adopted and published in the Official Gazette of Montenegro 38/09. In addition, the Agency and the Ministry of Finance prepared draft Rulebook on the content and the manner of professional exam for execution of mediation and/or agency operation in the insurance industry, whose adoption is expected during 2009.

### III PARTICIPANTS ON THE INSURANCE MARKET

There are eleven insurance companies performing insurance operations On Montenegrin insurance market. Five insurance companies perform only Non-life insurance operations, four companies deal only with Life insurance operations, while two companies perform duties and tasks of both Life insurance and Non-life insurance, with final time limit for separation of these operations until 30 December 2010.

**Table 2. Review of insurance companies operating in Montenegro**

|   | Type of Insurance |
|---|-------------------|
| <b>Lovćen osiguranje A.D.</b>                 | Life/Non-life     |
| <b>Montenegro osiguranje A.D.</b>             | Non-life          |
| <b>Swiss osiguranje A.D.</b>                  | Non-life          |
| <b>Grawe osiguranje A.D.</b>                  | Life/ Non-life    |
| <b>Magnat osiguranje A.D.</b>                 | Non-life          |
| <b>Atlas life A.D.</b>                        | Life              |
| <b>Uniqa neživotno osiguranje A.D.</b>        | Non-life          |
| <b>Uniqa životno osiguranje A.D.</b>          | Life              |
| <b>Delta generali osiguranje A.D.</b>         | Non-life          |
| <b>Delta generali životna osiguranja A.D.</b> | Life              |
| <b>Merkur osiguranje A.D.</b>                 | Life              |

Competition in insurance industry is strengthened in 2008, which is confirmed by the entrance of new companies on the insurance market. At the beginning of 2008, Uniqa started to perform life insurances through the company Uniqa životno osiguranje, which continued operation of Zepter osiguranje. In 2008, the licence for execution of insurance operations was also granted to Uniqa neživotno osiguranje, Delta osiguranje and Delta life osiguranje (which in December, through entrance of Generali grupa, changed their names in Delta Generali osiguranje and Delta Generali životna osiguranja). At the end of 2008, Merkur Insurance also obtained the licence for execution of Life insurance operations.

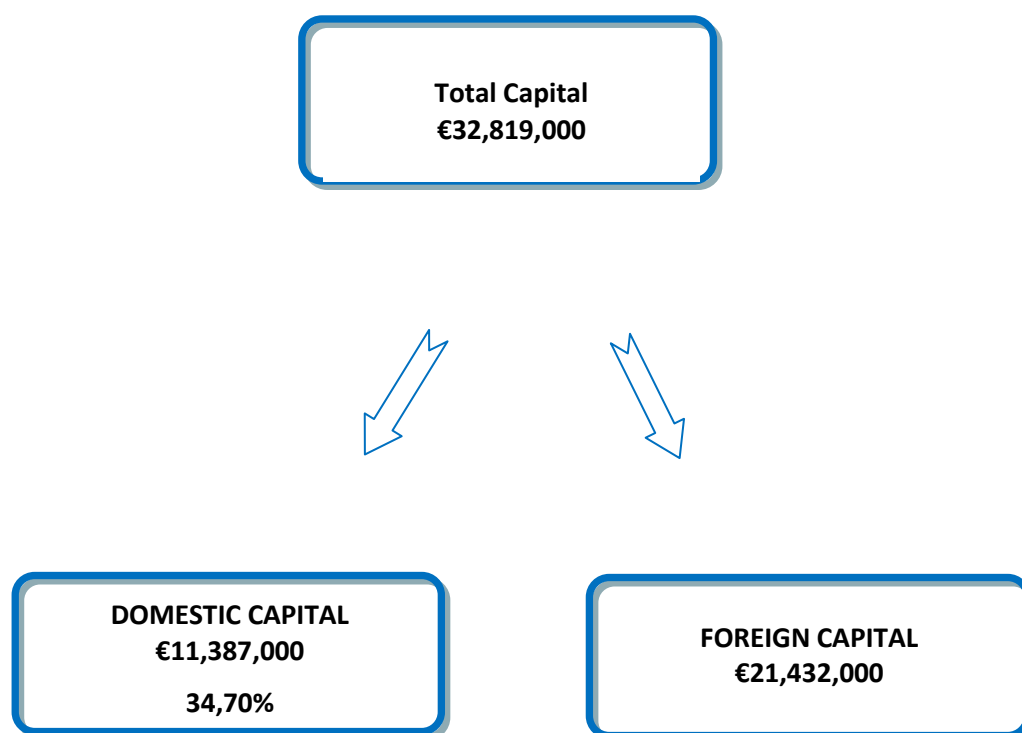
In 2008, following licences are issued:

- Nine licences to companies for agency in insurance;
- Three licences to companies for insurance mediation;
- 250 authorizations to natural persons for execution of agency operations;
- 39 authorizations to natural persons for execution of mediation operations.

### 3.1 Ownership Structure

In 2007, ownership structure of Montenegrin insurance industry was based on approximately equal participation of domestic and foreign capital. Out of total amount of capital, which amounted to 22,43 million euro as at 31 December 2007, foreign capital amounted to 11,83 million euro, i.e. 52.74%, while domestic capital amounted to 10,6 million euro, i.e. 47.25%.

In 2008, trend of increasing participation of foreign capital, commenced in previous years, was continued. Total equity of insurance companies as at 31 December 2008, amounted to 32,819 million euro, which represent increase of 46,24% comparing to the previous year, where foreign capital amounted to 21,432 million euro, with participation of 65,30%. The structure of insurance companies' capital in 2008 was presented by the following graph:



By observing ownership structure by insurance companies in Montenegro, it can be concluded that foreign ownership prevails. Insurance companies Montenegro, Grawe, Merkur, Uniqa neživotno and Uniqa životno osiguranje are in 100% foreign ownership, while the ownership of other insurance companies is characterized by mixed ownership structure.

## IV GENERAL INDICATORS OF INSURANCE MARKET

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#### 4.1 Gross insurance premium

Invoiced gross premium, as a revenue of insurance companies, in the case of non-life insurance includes all amounts of premiums contracted in current calculation period on a period of maximum one year, regardless of the fact whether these amounts relate entirely or partially into subsequent calculation period, while in the case of life insurance it includes all amounts of premiums that are collected till the end of calculation period.

The following table presents a review of invoiced gross premium by companies.

**Table 3. Invoiced gross premium of insurance companies in 2008 (€)**

|  | Gross premium     | Share (%)     |
|--|-------------------|---------------|
| Lovćen osiguranje A.D.                 | 36,919,550        | 60.95         |
| Montenegro osiguranje A.D.             | 11,357,332        | 18.75         |
| Swiss osiguranje A.D.                  | 1,991,377         | 3.29          |
| Grawe osiguranje A.D.                  | 5,720,050         | 9.44          |
| Magnat osiguranje A.D.                 | 2,140,818         | 3.53          |
| Atlas life A.D.                        | 51,233            | 0.08          |
| Uniqa neživotno osiguranje A.D.        | 385,854           | 0.64          |
| Uniqa životno osiguranje A.D.          | 679,855           | 1.12          |
| Delta generali osiguranje A.D.         | 1,228,516         | 2.03          |
| Delta generali životna osiguranja A.D. | 47,260            | 0.08          |
| Merkur osiguranje A.D.                 | 55,671            | 0.09          |
| <b>TOTAL</b>                           | <b>60,577,516</b> | <b>100.00</b> |

Gross premium on the insurance market of Montenegro in 2008 amounted to 60,578 million euro, which represent growth of 18.74% comparing to 2007, when it amounted to 51,01 million euro.

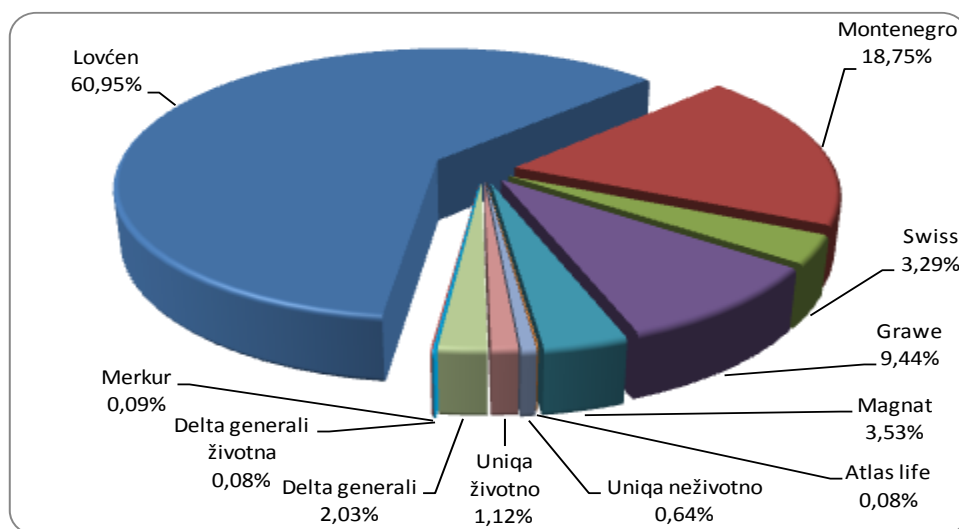
**Table 4. Movements of invoiced gross insurance premium over the period  
2002-2008 (€)**

|              | 2002          | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Life         | -             | 91            | 444           | 821           | 1,830         | 5,907         | 7,246         |
| Non-life     | 22,833        | 25,509        | 25,673        | 31,202        | 37,792        | 45,110        | 53,332        |
| <b>TOTAL</b> | <b>22,833</b> | <b>25,600</b> | <b>26,117</b> | <b>32,023</b> | <b>39,622</b> | <b>51,017</b> | <b>60,578</b> |
| Index        | -             | 112.12        | 102.02        | 122.61        | 123.73        | 128.76        | 118.74        |

The largest share with 60.95% on the insurance market belongs to Lovćen osiguranje, which represents decrease of 6.60% comparing to previous year. Three companies with the largest invoiced premium are Lovćen, Montenegro and Grawe osiguranje, whose market share

amounts to 89.14% (53,996 million euro) in 2008, which represents decrease comparing to 2007 when it amounted to 94.46% (48,186 million euro).

**Graph 1: Share of gross premium of insurance companies in 2008 (%)**

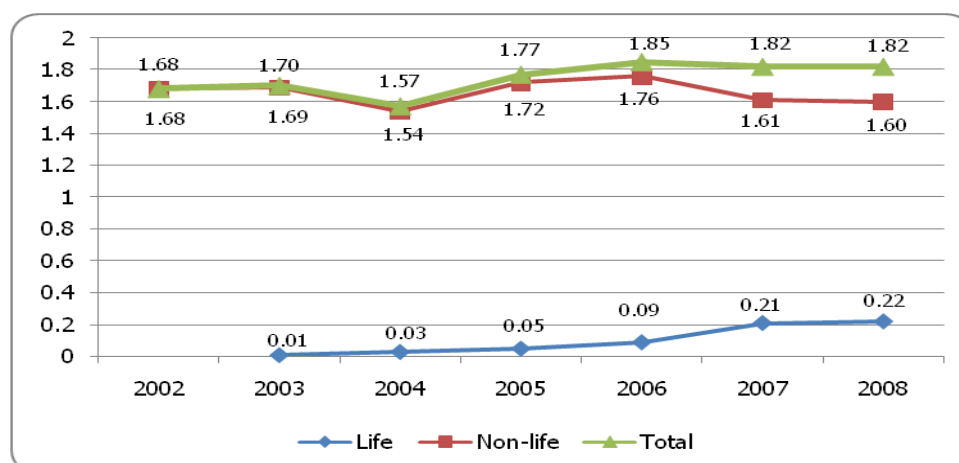


#### 4.2. Share of Gross Premium in GDP

Share of gross premium in GDP represents the most frequent indicator for evaluation of situation on the insurance market. Since 2003, this indicator records mild growth until 2006, while showing stagnation in the last two years. Namely, share of gross premium in GDP amounted to 1.68% in 2002, while the same indicator in 2008 amounted to 1.82%.

Compared to previous year, non-life insurance premium in 2008 recorded approximately same share in GDP. In the same time, share of life insurance premium in GDP records permanent growth starting from 2002, so in 2008 it amounted to 0.22%.

**Graph 2: Share of gross premium in GDP over the period 2002-2008 (%)**



Significant characteristics of insurance market in Montenegro is that it is still developing and its performances are getting improved, although presently insurance sector in Montenegro is far below average of developed countries, members of European Union.

The next table displays share of gross premium in gross domestic product in surrounding countries, as well as European Union, in 2007.

**Table 5. Share of gross premium in GDP in Montenegro comparing to other countries in 2007 (%)**

|                      | Life | Non-life | Total |
|----------------------|------|----------|-------|
| <b>Great Britain</b> | 12.6 | 3.0      | 15.6  |
| <b>Switzerland</b>   | 5.7  | 4.6      | 10.3  |
| <b>Germany</b>       | 3.1  | 3.6      | 6.7   |
| <b>Greece</b>        | 1.0  | 0.9      | 1.9   |

### 37. REPORT ON INSURANCE MARKET IN MONTENEGRO, REPORT FOR 2008

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|                       |     |     |     |
|-----------------------|-----|-----|-----|
| <b>Slovenia</b>       | 1.8 | 3.8 | 5.6 |
| <b>Czech Republic</b> | 1.5 | 2.2 | 3.7 |
| <b>Hungary</b>        | 2.0 | 1.6 | 3.6 |
| <b>Croatia</b>        | 0.9 | 2.4 | 3.3 |
| <b>Serbia</b>         | 0.2 | 1.7 | 1.9 |
| <b>Montenegro</b>     | 0.2 | 1.6 | 1.8 |
| <b>Romania</b>        | 0.3 | 1.4 | 1.7 |
| <b>Turkey</b>         | 0.2 | 1.5 | 1.7 |

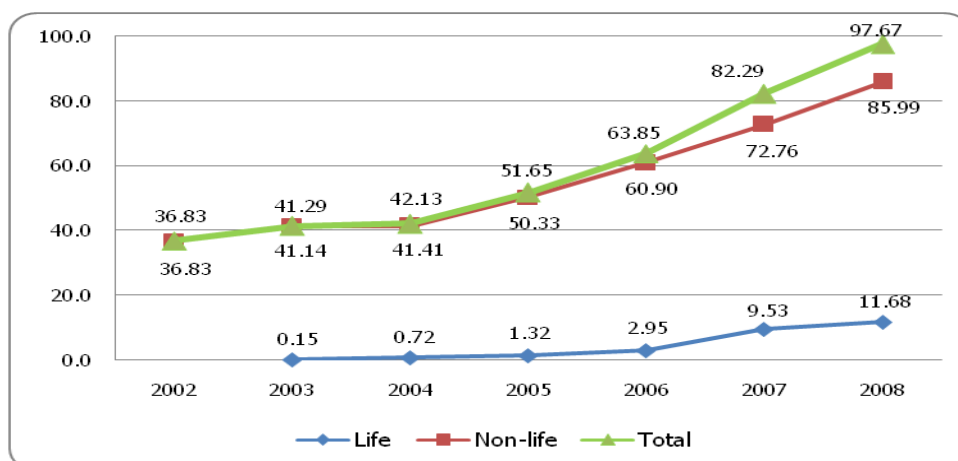
*Source: Swiss Re and ANO*



### 4.3 Insurance Density

Apart from share of premium in GDP, insurance density represents one of the most frequent indicators of insurance market development and is stated as amount of premium per capita. From 2002, premium per capita shows permanent trend of growth, which indicates development of insurance market in Montenegro.

**Graph 3: Gross premium per capita over the period 2002-2008 (€)**



Gross premium per capita in 2008 amounted to 97,67 euro, which is still significantly below average of European Union (around 2,100 euro).

The next table presents gross premiums per capita in surrounding countries, as well as in European Union in 2007.

**Table 6. Gross premium per capita in surrounding countries and EU in 2007 (\$)**

|                               | Gross premium    |
|-------------------------------|------------------|
| <b>Great Britain</b>          | 7 113            |
| <b>Switzerland</b>            | 5.740            |
| <b>Germany</b>                | 2.662            |
| <b>Spain</b>                  | 1.699            |
| <b>Slovenia</b>               | 1.294            |
| <b>Czech Republic</b>         | 631              |
| <b>Austria</b>                | 2.620            |
| <b>Croatia</b>                | 370              |
| <b>Serbia</b>                 | 103              |
| <b>Bosnia and Herzegovina</b> | 73               |
| <b>Sweden</b>                 | 3.705            |
| <b>Montenegro</b>             | 121 <sup>1</sup> |

Source: Swiss Re and ANO

<sup>1</sup> Data for Montenegro was obtained by recalculation based on medium exchange rate on 31 December 2007; Source: Central Bank of Montenegro.

#### 4.4 Herfindahl-Hirschman Index

For establishing level of insurance market concentration Herfindahl-Hirschman index (HHI)<sup>2</sup> is used, whose value moves in interval between 0 and 10,000. Value of the index closer to zero implies that the market has large number of companies of approximately same size, i.e. that is about market with high level of competition. Value of the index near 10,000 means that market is concentrated, i.e. that there is a monopoly on the market.

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, over the period 2006 – 2008, value of HHI moved within the limits of concentrated market, as values of this index belong to interval between 1,800 and 10,000. However, decrease in value of index is observed starting from 2006, which indicates movements towards increase of competition and market efficiency, as well as reduction of market concentration, i.e. monopoly.

**Table 7. Herfindahl-Hirschman Index over the period 2006-2008**

|                              | 2006          |           |          | 2007          |           |          | 2008          |           |          |
|------------------------------|---------------|-----------|----------|---------------|-----------|----------|---------------|-----------|----------|
|                              | Gross premium | Share (%) | HHI      | Gross premium | Share (%) | HHI      | Gross premium | Share (%) | HHI      |
| <b>Lovćen osiguranje</b>     | 29,082,747    | 73.40     | 5,387.82 | 33,949,502    | 66.55     | 4,428.28 | 36,919,550    | 60.95     | 3,714.41 |
| <b>Montenegro osiguranje</b> | 8,150,011     | 20.57     | 423.12   | 10,171,028    | 19.94     | 397.46   | 11,357,332    | 18.75     | 351.50   |
| <b>Swiss osiguranje</b>      | 1,094,160     | 2.76      | 7.63     | 1,210,535     | 2.37      | 5.63     | 1,991,377     | 3.29      | 10.81    |
| <b>Grawe osiguranje</b>      | 1,233,109     | 3.11      | 9.69     | 4,065,002     | 7.97      | 63.49    | 5,720,050     | 9.44      | 89.16    |
| <b>Magnat osiguranje</b>     | 0             | 0         | 0        | 1,576,365     | 3.09      | 9.55     | 2,140,818     | 3.53      | 12.49    |
| <b>Atlas life</b>            | 0             | 0         | 0        | 0             | 0         | 0        | 51,233        | 0.08      | 0.01     |

<sup>2</sup> HHI is calculated by squaring market share of all insurance companies individually and then sum them up between themselves.

37. REPORT ON INSURANCE MARKET IN MONTENEGRO, REPORT FOR 2008

|                                   |                   |               |              |                   |               |              |                   |               |                 |
|-----------------------------------|-------------------|---------------|--------------|-------------------|---------------|--------------|-------------------|---------------|-----------------|
| Uniqa neživotno osiguranje        | 0                 | 0             | 0            | 0                 | 0             | 0            | 385,854           | 0.64          | 0.41            |
| Uniqa životno osiguranje          | 0                 | 0             | 0            | 0                 | 0             | 0            | 679,855           | 1.12          | 1.26            |
| Delta generali osiguranje         | 0                 | 0             | 0            | 0                 | 0             | 0            | 1,228,516         | 2.03          | 4.11            |
| Delta generali životna osiguranja | 0                 | 0             | 0            | 0                 | 0             | 0            | 47,260            | 0.08          | 0.01            |
| Merkur osiguranje                 | 0                 | 0             | 0            | 0                 | 0             | 0            | 55,671            | 0.09          | 0.01            |
| Zepter osiguranje                 | 61,273            | 0.15          | 0.02         | 44,681            | 0.09          | 0.11         | 0                 | 0             | 0               |
| <b>TOTAL</b>                      | <b>39,560,027</b> | <b>100.00</b> | <b>5,828</b> | <b>51,017,113</b> | <b>100.00</b> | <b>4,904</b> | <b>60.577.516</b> | <b>100.00</b> | <b>4,184.17</b> |

V INSURANCE PORTFOLIO STRUCTURE



### 5.1 Structure of Gross Insurance Premium: Life and Non-life Insurance

Insurance Market in Montenegro in 2008 is characterized by low level of Life insurance and dominant share of Non-life insurance, among which the largest share belonged to compulsory insurances. In the structure of gross premium in 2008, share of Non-life insurance amounted to 88.04%, while share of Life insurance mildly increased from 11.58% in 2007 to 11.96% in 2008, thanks to the larger growth of Life insurance premiums comparing to Non-life insurances.

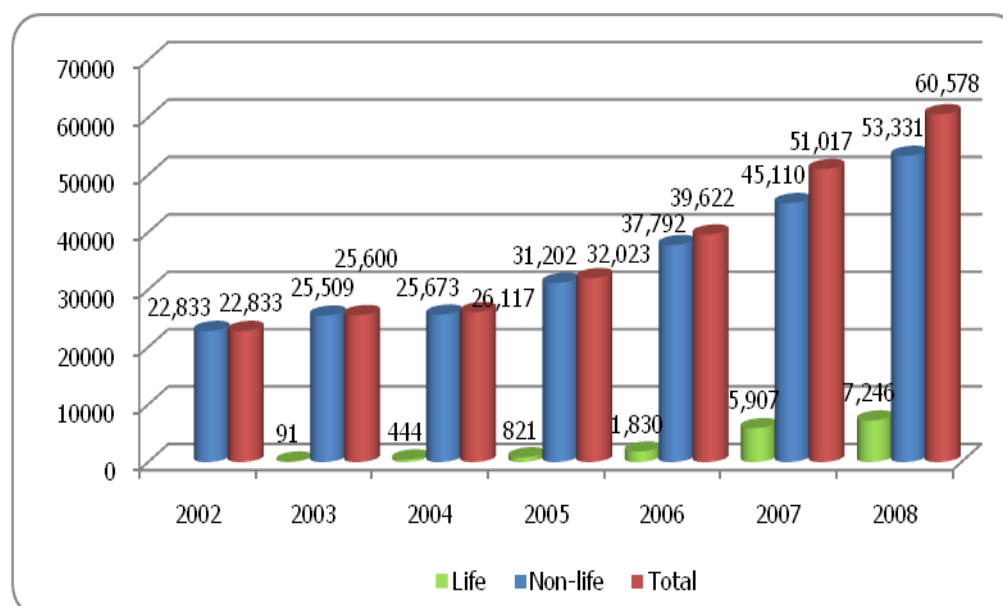
**Table 8. Insurance premium structure over the period 2007 and 2008**

|                           | 2007              |               | 2008              |               | Index<br>2008/2007 |
|---------------------------|-------------------|---------------|-------------------|---------------|--------------------|
|                           | Premium<br>(€)    | Share<br>(%)  | Premium<br>(€)    | Share<br>(%)  |                    |
| <b>Life Insurance</b>     | 5,907,138         | 11.58         | 7,245,771         | 11.96         | 122.66             |
| <b>Non-life Insurance</b> | 45,109,975        | 88.42         | 53,331,745        | 88.04         | 118.23             |
| <b>TOTAL</b>              | <b>51,017,113</b> | <b>100.00</b> | <b>60,577,516</b> | <b>100.00</b> | <b>118.74</b>      |

Structure of insurance gross premium indicates a level of insurance market development. More developed markets are characterized by larger portion of Life insurance in comparison to Non-life insurance. When observing Montenegrin insurance market, dominant share of Non-life insurance is noticeable, but with permanent growing trend of Life insurance along with decrease in share of Non-life insurance in gross insurance premium.

By observing period between 2004 and 2008, Non-life insurance premium recorded average growth rate per annum of 10.06%, while Life insurance had average growth rate of 115.37%. In 2008, Non-life insurance premium achieved growth of 18.23%, while Life insurance premium increased for 22.66% comparing to previous year.

**Graph 4: Gross premium structure: Life vs. Non-life over the period 2002-2008 (000 €)**





### 5.2 Structure of Gross Insurance Premium by Types of Insurance

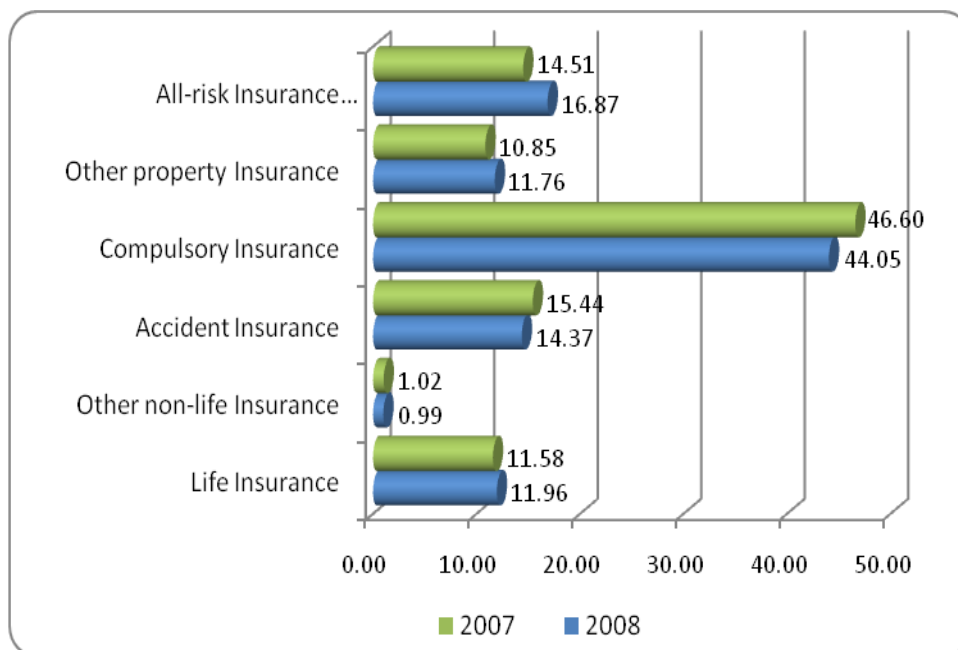
In the structure of gross insurance premium in 2008, the most important changes are related to decrease in share of compulsory insurance, mild growth in share of life insurance and growth of property insurance.

**Table 9. Structure of insurance portfolio by types of insurance in 2007 and 2008**

|                                 | 2007              |               | 2008              |               | Index<br>2008/2007 |
|---------------------------------|-------------------|---------------|-------------------|---------------|--------------------|
|                                 | Amount<br>(€)     | Share<br>(%)  | Amount<br>(€)     | Share<br>(%)  |                    |
| <b>All-risk insurance</b>       | 7,401,322         | 14.51         | 10,216,882        | 16.87         | 138.04             |
| <b>Other property insurance</b> | 5,537,569         | 10.85         | 7,124,404         | 11.76         | 128.66             |
| <b>Mandatory insurance</b>      | 23,773,537        | 46.60         | 26,683,547        | 44.05         | 112.24             |
| <b>Accident insurance</b>       | 7,875,022         | 15.44         | 8,705,777         | 14.37         | 110.55             |
| <b>Other Non-life insurance</b> | 522,525           | 1.02          | 601,135           | 0.99          | 115.04             |
| <b>Life insurance</b>           | 5,907,138         | 11.58         | 7,245,771         | 11.96         | 122.66             |
| <b>TOTAL</b>                    | <b>51,017,113</b> | <b>100.00</b> | <b>60,577,516</b> | <b>100.00</b> | <b>118.74</b>      |

Compared to the previous 2007 year, all types of insurance recorded growth, of which the property insurance recorded the largest growth, namely all-risk insurance with 38.04% and other property insurance with 28.66%. By observing gross premium structure, it can be noticed that the largest portion still belongs to compulsory insurances with 44.05%, whose share in total portfolio decreased for 2.55% comparing to 2007.

**Graph 5: Structure of gross insurance premium by types of insurance in 2007 and 2008 (%)**



### 5.3 Compulsory Insurance

The Law on Compulsory Insurance in Traffic (Official Gazette of the Republic of Montenegro 46/07) defines types of insurance as follows:

- The insurance of passengers in public transport from the accident;
- The insurance of owners or users of vehicles from liability for damage to third parties;
- The insurance of owners or users of the aircraft from liability to damage to third parties and passengers; and
- The insurance of owners or users of business facilities from liability for damage to third parties.

Total premium of mandatory insurance in 2008 amounted to 26,68 million euro, which represents increase of 12.24% comparing to 2007. The largest share in gross premium of mandatory insurances had Lovćen osiguranje with 60.53%.

**Table 10. Compulsory insurance by companies in 2008**

|  | <b>Premium<br/>(€)</b> | <b>Share (%)</b> |
|--|------------------------|------------------|
| <b>Lovćen osiguranje</b>                   | 16,150,678             | 60.53            |
| <b>Montenegro osiguranje</b>               | 7,321,456              | 27.44            |
| <b>Swiss osiguranje</b>                    | 490,983                | 1.84             |
| <b>Magnat osiguranje</b>                   | 2,137,733              | 8.01             |
| <b>Uniqa neživotno osiguranje</b>          | 202,637                | 0.76             |
| <b>Delta generali neživotno osiguranje</b> | 380,060                | 1.42             |
| <b>TOTAL</b>                               | <b>26,683,547</b>      | <b>100.00</b>    |

In the structure of mandatory insurance premium, the largest portion belongs to AL insurance that makes 97.18% of total premium of compulsory insurance. Amount of AL premium amounted to 25,93 million euro. By observing share of invoiced gross insurance premium from AL by insurance companies, the largest share had Lovćen osiguranje with 59.86%, followed by Montenegro osiguranje with 27.76% and Magnat with 8.24%.

**Table 11. Share of invoiced gross premium for motor vehicle insurance for 2008 by insurance companies**

|                              | <b>Invoiced gross<br/>premium MV<br/>(€)</b> | <b>Share (%)</b> |
|------------------------------|--|------------------|
| <b>Lovćen osiguranje</b>     | 15,522,456                                   | 59.86            |
| <b>Montenegro osiguranje</b> | 7,196,909                                    | 27.76            |

### 37. REPORT ON INSURANCE MARKET IN MONTENEGRO, REPORT FOR 2008

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|                                   |                   |               |
|-----------------------------------|-------------------|---------------|
| <b>Magnat osiguranje</b>          | 2,137,733         | 8.24          |
| <b>Delta generalni osiguranja</b> | 380,060           | 1.47          |
| <b>Uniqa neživotno osiguranje</b> | 202,637           | 0.78          |
| <b>Swiss osiguranje</b>           | 490,983           | 1.89          |
| <b>TOTAL</b>                      | <b>25,930,778</b> | <b>100.00</b> |

Relevant technical result with regard to AL with all insurance companies in Montenegro amounted to -365,968 euro in 2008, which shows that relevant insurance premiums with AL were not sufficient for payment of the loss.

## VI ASSETS STRUCTURE

Value of total assets at the level of all insurance companies, according to balance sheet as at 31 December 2008, amounted to 98,819 million euro, which represents increase of 26.93% comparing to value of total assets in 2007. In the structure of total assets, the largest share belongs to fixed assets – 23.98%, short-term financial placements – 22.15% and long-term financial placements – 20.61%.

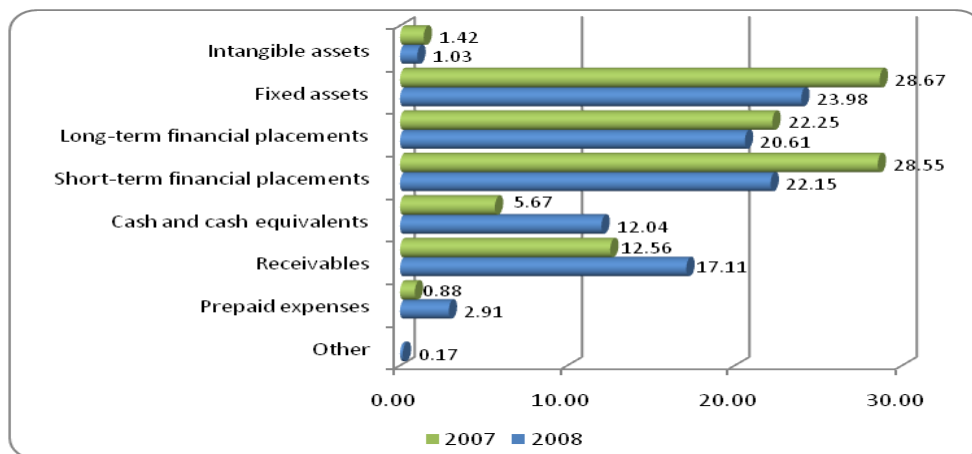
Table 12. Structure of insurance companies' assets in 2007 and 2008

|  | 2007              |               | 2008              |               | Index<br>2008/2007 |
|--|-------------------|---------------|-------------------|---------------|--------------------|
|  | Amount<br>(€)     | Share<br>(%)  | Amount<br>(€)     | Share<br>(%)  |                    |
| <b>Intangible assets</b>               | 1,101,728         | 1.42          | 1,021,300         | 1.03          | 92.70              |
| <b>Fixed assets</b>                    | 22,318,854        | 28.67         | 23,697,346        | 23.98         | 106.18             |
| <b>Long-term financial placements</b>  | 17,324,669        | 22.25         | 20,365,572        | 20.61         | 117.55             |
| <b>Short-term financial placements</b> | 22,229,887        | 28.55         | 21,885,277        | 22.15         | 98.45              |
| <b>Cash and cash equivalents</b>       | 4,414,247         | 5.67          | 11,895,001        | 12.04         | 269.47             |
| <b>Claims</b>                          | 9,779,977         | 12.56         | 16,911,516        | 17.11         | 172.92             |
| <b>Accrued revenues</b>                | 686,197           | 0.88          | 2,877,900         | 2.91          | 419.40             |
| <b>Other</b>                           | 0                 | 0             | 165,682           | 0.17          | -                  |
| <b>TOTAL</b>                           | <b>77,855,559</b> | <b>100.00</b> | <b>98,819,594</b> | <b>100.00</b> | <b>126.93</b>      |

Cash and cash equivalents, claims and long-term financial placements recorded considerable growth in 2008. Cash and cash equivalents recorded growth of 169.47% comparing to previous year, in which way they increased their share in assets at 12.04%. In addition, claims also recorded a growth – 72.92%, in which way their share in total assets was increased on 17.11%. Fixed assets and long-term financial placements decreased their portion in total assets on 23.98% and 20.61%, respectively, while in the same time they showed decrease of 6.18% and 17.55%, respectively, comparing to previous year. Short-term financial placements also showed decrease in total assets structure from 28.55% to 22.15%, recording in the same time drop of 1.55% comparing to their amount in 2007.

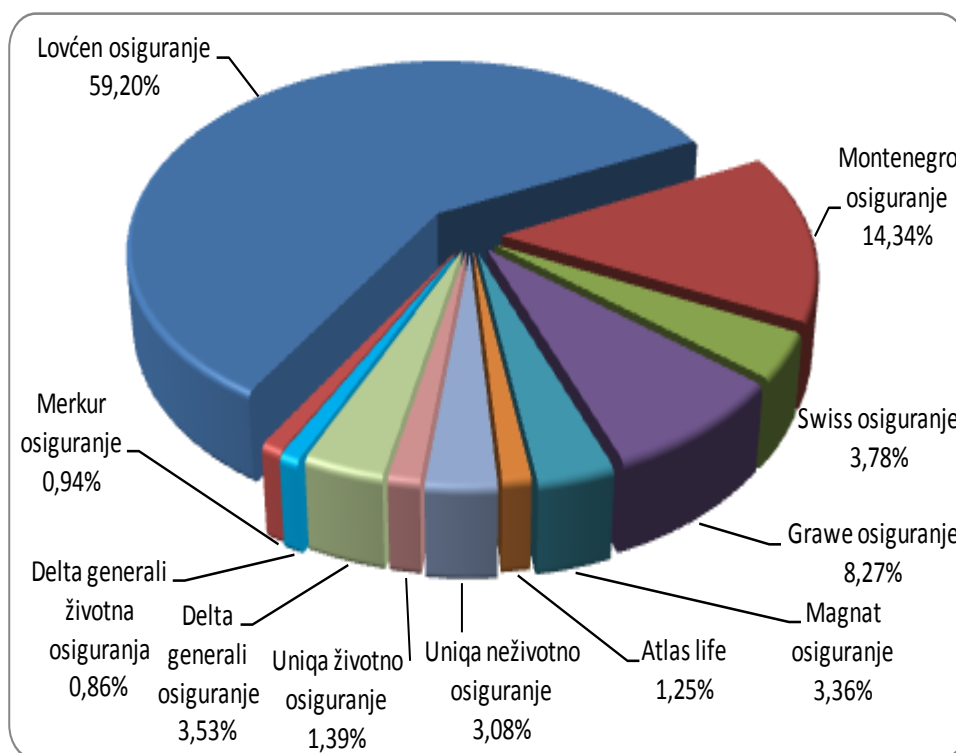
Graph 6: Structure of insurance companies' assets in 2007 and 2008

### 37. REPORT ON INSURANCE MARKET IN MONTENEGRO, REPORT FOR 2008



By observing participation of individual companies in total assets of insurance sector, the largest share of 59.20% still belongs to Lovćen osiguranje, followed by Montenegro osiguranje with 14.34% and Grawe osiguranje with 8.27%. Compared to 2007, Lovćen osiguranje showed significant decrease in share of companies' total assets with 7.56%, while Grawe osiguranje recorded considerable growth in share with 2.94%.

**Graph 7: Share of insurance companies' assets in total assets in 2008 (%)**





## VII LIABILITES STRUCTURE

Value of total liabilities at the level of all insurance companies, according to balance sheet as at 31 December 2008, amounted to 98,819 million euro, which represents increase of 26.93% comparing to value of total liabilities in 2007.

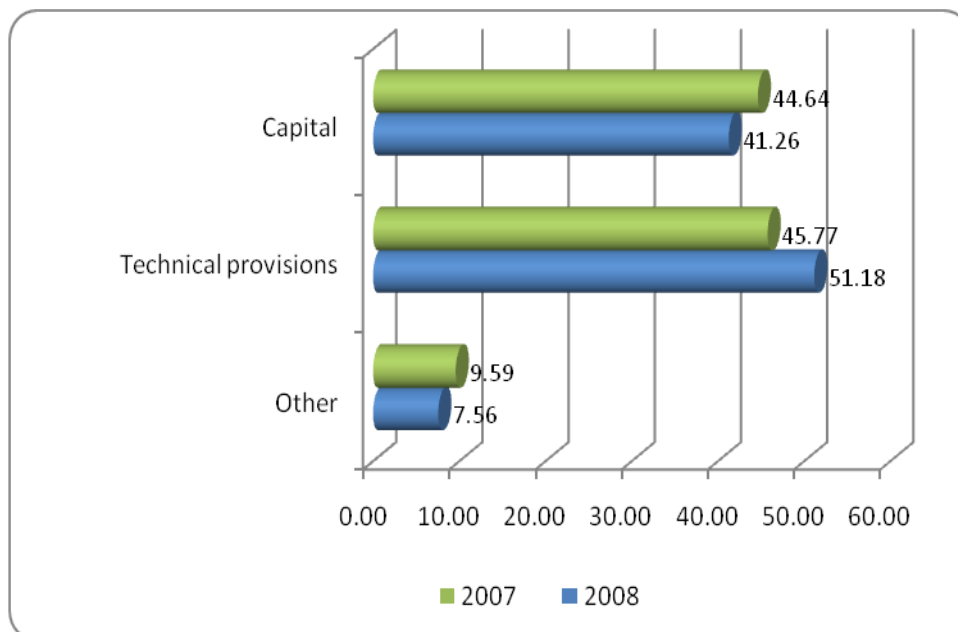
**Table 13. Structure of insurance companies' liabilities in 2007 and 2008**

|                           | 2007.             |               | 2008.             |               | Index<br>2008/2007 |
|---------------------------|-------------------|---------------|-------------------|---------------|--------------------|
|                           | Amount (€)        | Share (%)     | Amount (€)        | Share (%)     |                    |
| <b>Equity</b>             | 34,753,323        | 44.64         | 40,769,076        | 41.26         | 117.31             |
| <b>Technical reserves</b> | 35,639,076        | 45.77         | 50,581,178        | 51.18         | 141.93             |
| <b>Other</b>              | 7,463,160         | 9.59          | 7,469,340         | 7.56          | 100.08             |
| <b>TOTAL</b>              | <b>77,855,559</b> | <b>100.00</b> | <b>98,819,594</b> | <b>100.00</b> | <b>126.93</b>      |

In total value of insurance sector liabilities in 2008, the largest share relates to technical reserves in amount of 51.18%, followed by equity with 41.26% and other with 7.56%. Insurance companies in 2008 formed technical reserves in amount of 50,581 million euro, which represents increase of 41.93% comparing to 2007.

In 2008, equity amounted to 40,769 million euro and was increased for 17.31%, while in the same time its share in total liabilities decreased to 41.26% comparing to 2007, when it was amounting to 44.64%. Other liabilities of insurance companies participated with 7.56% in total liabilities, amounting to 7,469 million euro.

**Graph 8: Structure of insurance companies' liabilities in 2007 and 2008 (%)**



## 7.1 Technical Reserves

According to the Law on Insurance, insurance companies are obliged to form technical reserves that are used for covering liabilities from execution of insurance operations.

Insurance company that performs one or more types of life insurances establishes technical reserves for transferable premiums, outstanding claims reserves, share in the profit and mathematical reserve. Insurance company that performs non-life insurance operations establishes technical reserve for transferable premiums, outstanding claims reserves and risk equalisation.

Transferable premiums are formed from total insurance premium, separately for each type of insurance, proportionally to duration of insurance, and serve for cover of liabilities that will incur in the next calculation period.

Reserved damages are formed at the level of estimated amount of liabilities for occurred reported but unresolved claims and occurred non-reported claims in the current period.

Mathematical reserve is formed at the level of present value of future liabilities of the company reduced for present value of insurance contractor' future liabilities (insurance premium) and is calculated for every single contract.

Risk equalization reserves (RER) are formed at the expense of insurance company, individually for each type of non-life insurance and are used for time equalization of the claims duration in certain types of insurance. Reserves are formed based on standard deviation of relevant technical results in the current calculation period of average relevant technical result for each type of non-life insurance that the insurance company performs in observed period.

Technical reserves as at 31 December 2008, at the level of insurance activities amounted to 50,581 million euro, which represent 51.18% of total liabilities. In 2008, amount of technical reserves recorded a growth of 41.93% comparing to 2007.

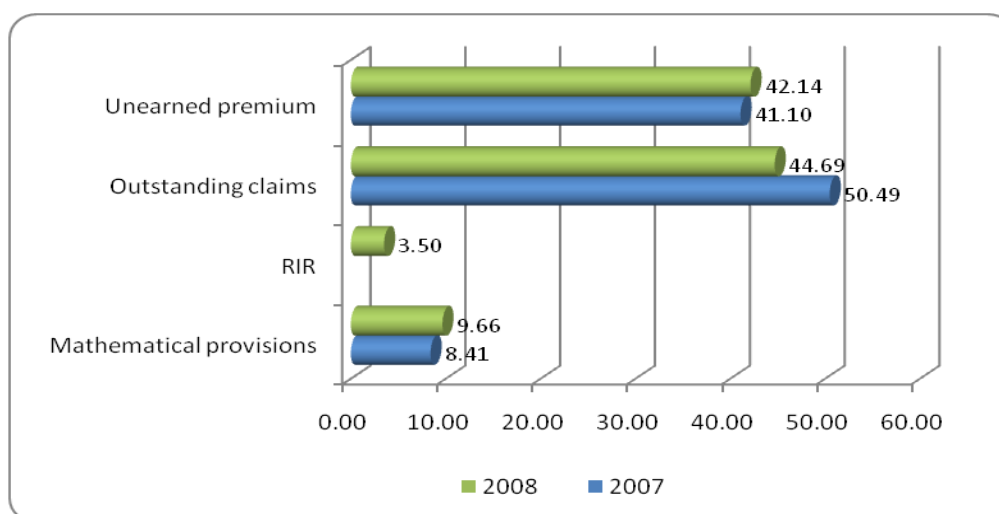
**Table 14. Structure of insurance companies' technical reserves in 2007 and 2008**

|                             | 2007              |               | 2008              |               | Index<br>2008/2007 |
|-----------------------------|-------------------|---------------|-------------------|---------------|--------------------|
|                             | Amount<br>(€)     | Share<br>(%)  | Amount<br>(€)     | Share<br>(%)  |                    |
| <b>Mathematical reserve</b> | 2,997,155         | 8.41          | 4,886,047         | 9.66          | 163.02             |
| <b>RER</b>                  | -                 | -             | 1,771,854         | 3.50          | -                  |
| <b>Claims reserves</b>      | 17,995,646        | 50.49         | 22,605,986        | 44.69         | 125.62             |
| <b>Transferable premium</b> | 14,646,275        | 41.10         | 21,317,291        | 42.14         | 145.55             |
| <b>TOTAL</b>                | <b>35,639,076</b> | <b>100.00</b> | <b>50,581,178</b> | <b>100.00</b> | <b>141.93</b>      |

In the structure of technical reserves in 2008, the greatest portion of the funds was intended for claims reserves in amount of 22,6 million euro, which represented 44.69% of total technical reserves. Transferable premium was the second largest item, amounted to 21,31 million euro,

recorded in the same time growth of 45.55% and making 42.14% of technical reserves total value.

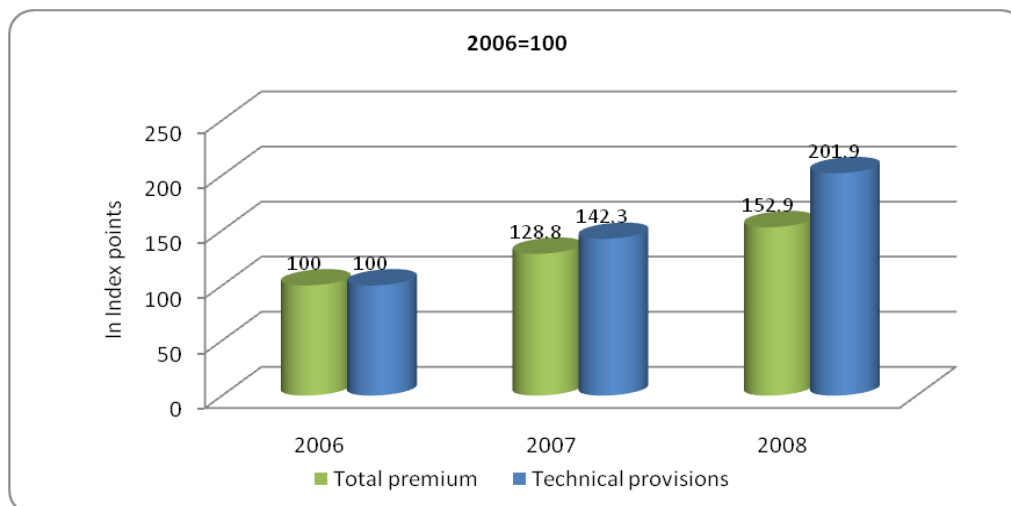
Mathematical reserves with 63.02% recorded the largest growth, which in 2008 amounted to 4,88 million euro or 9.66% of total technical reserves. In 2008, insurance companies started to allocate reserves for risk equalization and they amounted to 1,77 million euro, i.e. 3.50% of technical reserves total amount.

**Graph 8: Structure of insurance companies' technical reserves in 2007 and 2008 (%)**

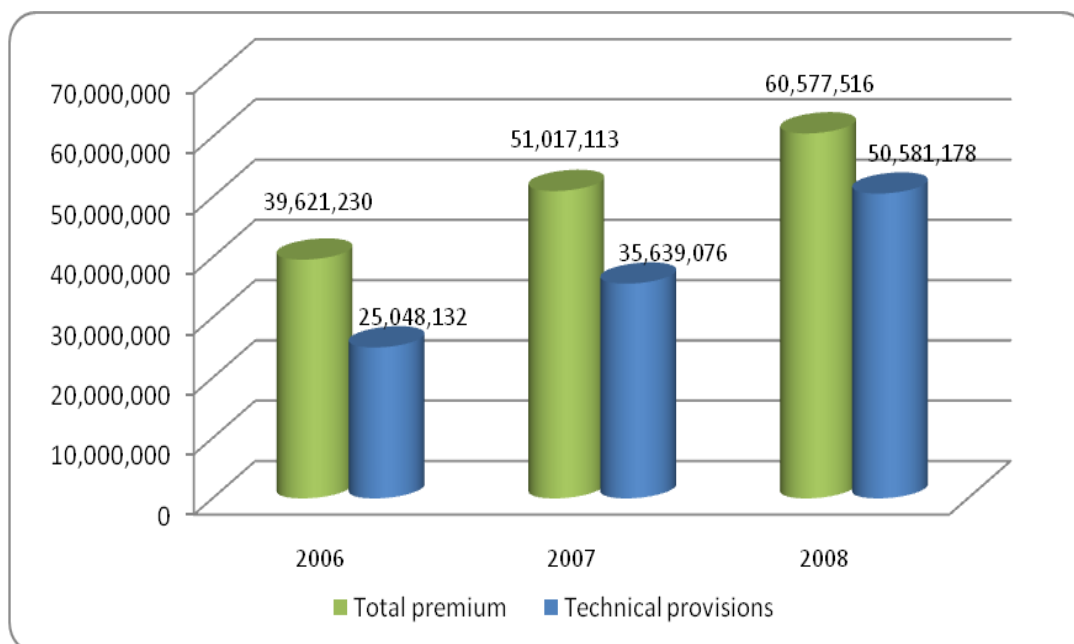
Movements of technical reserves and total premium represent important indicator of the results of activities undertaken for purpose of stabilization and organization of insurance market. More rapid growth of technical reserves comparing to growth of total premium indicates acceptance of insurers

to evaluate these reserves with more reality, in which way interest of policyholders and insurance users are protected in greater extent. The next graph displays growth of technical reserves and total premium in the last two years, observed in relation to base year 2006.

**Graph 9: Movements of total premium and technical reserve index over the period 2006-2008 (2006=100)**



**Graph 10: Movements of total premium and technical reserves over the period 2006-2008**



Relation between technical reserve and gross resolved claims in 2008 amounted to 212.67%, which shows that the companies allocated reserves 2.1267 times more than amount of expenses from claims.

**Table 15. Relation between technical reserve and gross settled claims in 2008**

|              | <b>Technical reserves<br/>(€)</b> | <b>Gross settled claims<br/>(€)</b> | <b>%</b>      |
|--------------|-----------------------------------|-------------------------------------|---------------|
| <b>TOTAL</b> | <b>50,581,178</b>                 | <b>23,783,612</b>                   | <b>212.67</b> |

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VIII DEPOSITING AND INVESTING OF TECHNICAL RESERVE FUNDS  
AND GURANTEE FUNDS

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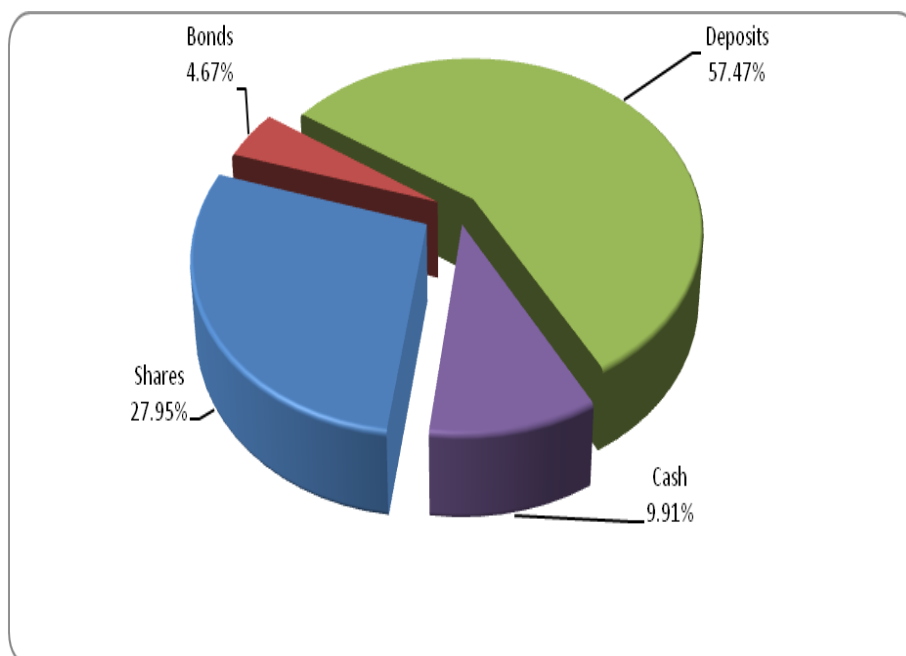
### 8.1 Depositing and Investing of Technical Reserves Funds

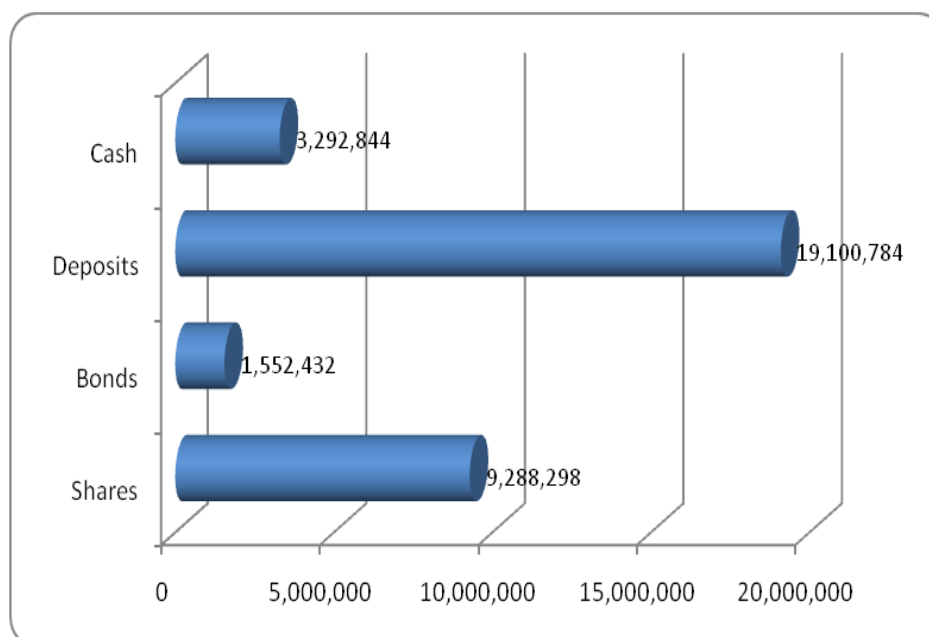
According to the Law on Insurance, the companies are obliged to deposit and invest technical reserves funds into:

- Securities issued by the State of Montenegro, central banks and governments of foreign countries provided that they have credit rating not less than A, or its equivalent, determined by generally accepted, internationally recognized rating agencies;
- Bonds and/or other debt securities traded on the organized securities market in Montenegro;
- Bonds and/or other debt securities not traded on organized securities market in Montenegro, whose issuer is a legal person headquartered in Montenegro;
- Stocks traded on the organized securities market in Montenegro;
- With banks headquartered in Montenegro.

Technical reserves funds that the insurance companies invested in accordance to the Law amounts to 33,23 million euro. In total structure of investing and depositing of technical reserves funds, deposits have the largest portion of 57.47%, amounting to 19,01 million euro. Shares participate with 27.95% or 9,28 million euro, cash with 9.91% or 3,29 million euro, while the bonds amounted to 1,55 million euro or 4.67%.

**Graph 11: Structure of investing and depositing of technical reserves funds in 2008 (%)**



**Graph 13: Structure of investing and depositing of technical reserves funds in 2008 (€)****Table 16. Structure of depositing and investing of the companies' technical reserves funds in 2008 (€)**

|       | Shares    | Bonds     | Deposits   | Cash      | TOTAL      |
|-------|-----------|-----------|------------|-----------|------------|
| TOTAL | 9,288,298 | 1,552,432 | 19,100,784 | 3,292,844 | 33,234,358 |

Regarding the Rulebook on Restrictions Related to Depositing and Investing Technical Reserve Funds and Guarantee Funds of Insurance Companies, adopted at the beginning of June 2009, the companies will perform harmonization of depositing and investing of technical reserves during 2009, in accordance to provisions of above mentioned Rulebook.

## 8.2 Depositing and Investing of Guarantee Funds

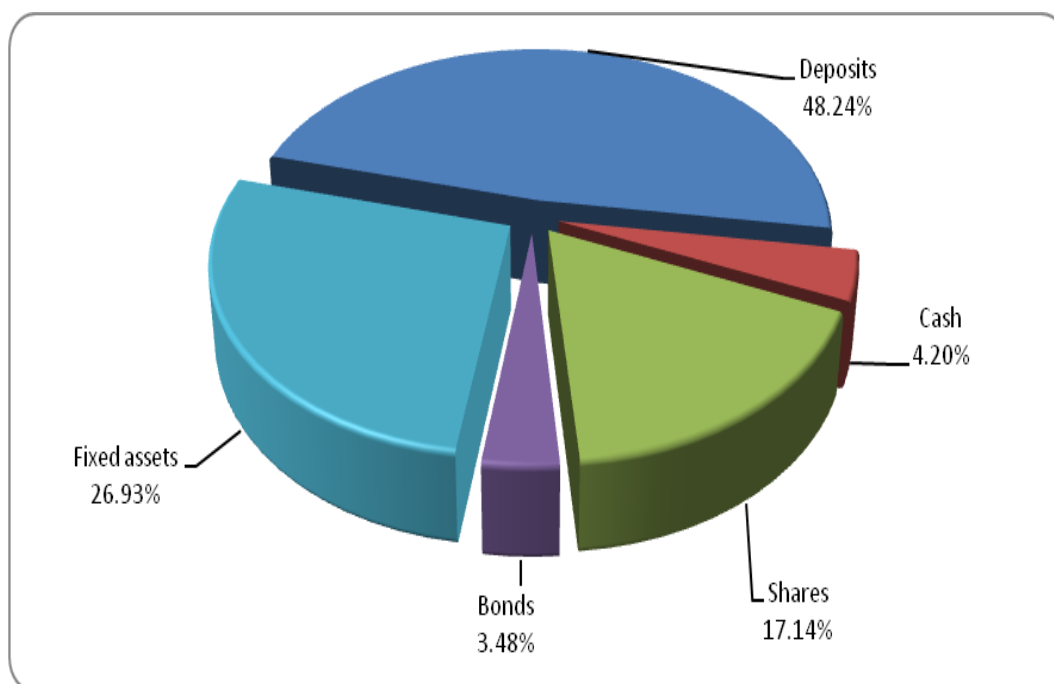
According to the Law on Insurance, the companies are obliged to hold guarantee reserve for securing timely execution of its obligations. Total amount of guarantee reserve cannot be lower than monetary amount of basic capital as established by the Article 21 of this Law. In 2008, total amount of insurance companies' guarantee reserves amounted to 29,96 million euro.

Insurance companies are obliged to deposit and invest one third of guarantee reserve in the same forms as prescribed by the Law with regard to technical reserves. In the structure of investing and depositing of one third of guarantee reserves, deposits amount to 4,818 million euro, achieving in that way the largest share of 48.24%.



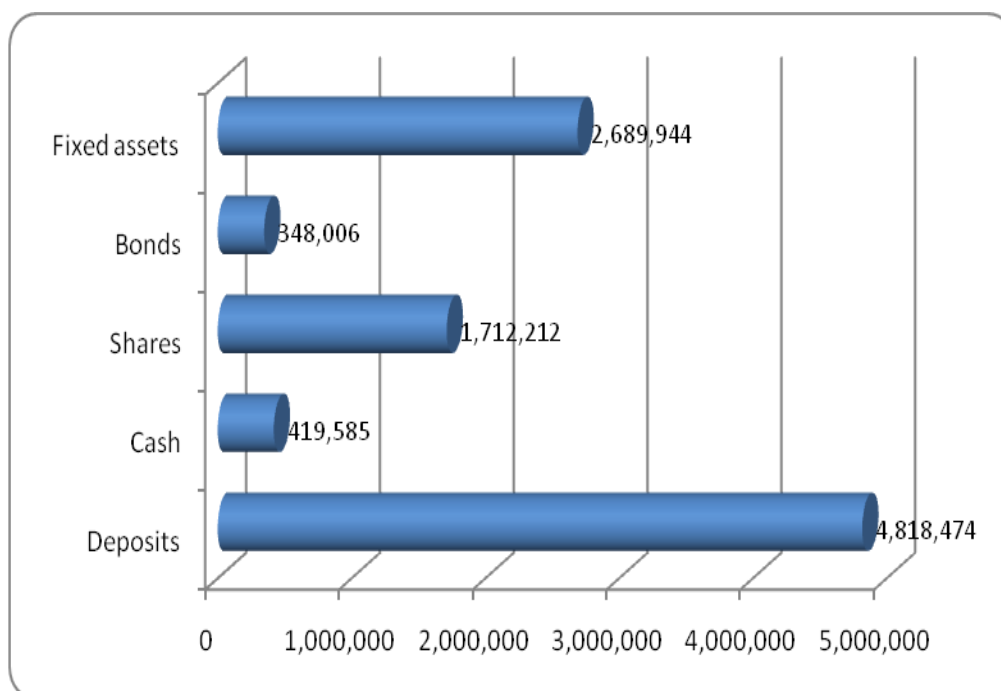
Other forms of depositing and investing of one third of guarantee funds are presented in the following graphs.

**Graph 14: Structure of investing and depositing of one third of guarantee funds in 2008 (%)**



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**Graph 15: Structure of investing and depositing of one third of guarantee funds in 2008 (€)**



## IX FINANCIAL RESULT OF OPERATION

According to the Law on Insurance, insurance companies are obliged to report profit and loss by types of insurance (separately for all types of both life and non-life insurances) and separately for reinsurance operations.

Insurance activity in 2008 realized loss in amount of 4,24 million euro, while in the previous year it realized profit in amount of 819 thousands euro. Out of eleven insurance companies operating in 2008, four companies realized profit in amount of 1,43 million euro, while remaining seven insurance companies realized loss amounting to 5,67 million euro. Lovćen, Grawe, Magnat and Merkur osiguranje realized profit in 2008, of which Grawe osiguranje realized the largest profit, amounting to 1,23 million euro.

**Table 17. Net profit / loss of insurance companies for 2008**

|  | Net profit / loss<br>(€) |
|--|--------------------------|
| <b>Lovćen osiguranje</b>                       | 40,522                   |
| <b>Grawe osiguranje</b>                        | 1,232,152                |
| <b>Montenegro osiguranje</b>                   | -2,366,141               |
| <b>Magnat osiguranje</b>                       | 132,792                  |
| <b>Swiss osiguranje</b>                        | -970,440                 |
| <b>Delta generali<br/>neživotno osiguranje</b> | -333,774                 |

|  |                   |
|--|-------------------|
| <b>Uniqa neživotno osiguranje</b>            | <b>-725,773</b>   |
| <b>Uniqa životno osiguranje</b>              | <b>-478,444</b>   |
| <b>Delta generali<br/>životna osiguranja</b> | <b>-182,610</b>   |
| <b>Merkur osiguranje</b>                     | <b>22,829</b>     |
| <b>Atlas life</b>                            | <b>-615,000</b>   |
| <b>TOTAL</b>                                 | <b>-4,243,887</b> |

**X INDICATORS OF OPERATION**

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*10.1 Solvency*

Solvency of insurance company depends on sufficiency of technical reserves for taken liabilities, as well as on sufficiency of guarantee reserve as a form of policyholders' protection in the case on unpredicted losses in operation, i.e. as a damper for the losses that are not covered with technical reserves.

Calculated solvency margin for insurance sector in Montenegro as at 31 December 2008 amounted to 20,81 million euro, while guarantee reserve amounted to 29,96 million euro, which shows that insurance companies in Montenegro were solvent in 2008. At the level of insurance sector in Montenegro, relation between guarantee reserve and solvency margin in 2008 amounted to 144%, which means that insurance companies fulfilled legal request prescribing that guarantee reserve of an insurance company must always be above calculated solvency margin.

**Table 18. Solvency of insurance companies in 2008**

|              | <b>Solvency margin<br/>(€)</b> | <b>Guarantee reserve<br/>(€)</b> | <b>Relation between guarantee reserve and solvency margin<br/>(%)</b> |
|--------------|--------------------------------|----------------------------------|---|
| <b>TOTAL</b> | <b>20,815,609</b>              | <b>29,964,660</b>                | <b>144.00</b>   |

Insurance risk, i.e. capability of the company to absorb the risk of inadequate price level of premiums, unpredicted claims and inadequate transfer of risk to reinsurance is measured by relation between retention premium and total equity of the company, as well as by relation between total equity and technical reserves of the companies.

Although, as a consequence of more rapid increase of premium than increase of the insurance companies' equity, share of retention premium in total equity in 2008 amounted to 128.52% (which represents increase of 126.47% comparing to value of relevant indicator in 2007) at the level of all insurance companies in Montenegro, the guarantee reserve was significantly lower than solvency margin, which means that solvency of insurance industry in Montenegro was not endangered.

With regard to companies performing non-life insurance, retention premium in represents approximation of taken risks and should be sufficient for payment of claims and compensations from insurance. In case when transfer of risk into reinsurance was not performed in adequate manner, total equity of the company is used as a guarantee for cover.

For the companies that predominantly perform non-life insurance, relation between retention premium and total equity amounted to 137.86% in 2008, and was higher than in 2007, when it was amounting to 124.66%.

**Table 19. Relation between total retention premium and total equity for insurance sector and for the companies performing non-life insurance in 2007 and 2008**

|                            | Total retention premium /<br>Total equity |               |
|----------------------------|---|---------------|
|                            | 2007                                      | 200           |
| <b>Insurance Industry</b>  | <b>126.94</b>                             | <b>128.52</b> |
| <b>Non-life insurances</b> | <b>124.66</b>                             | <b>137.86</b> |

Relation between and technical reserves at the level of all insurance companies was decreased for 97.51%, as amounted in 2007, to 80.60%, as amounted in 2008. Growth of technical reserves of the companies affected above mentioned decrease. Observing the companies performing predominantly life insurance, relation between total equity and technical reserves was increased from 76.30% in 2007 to 165.05% in 2008, which is a consequence of foundation of four new life insurance companies.

**Table 20. Relation between total equity and technical reserves for insurance sector and life insurance companies in 2007 and 2008**

|                            | Total equity / Technical reserves |               |
|----------------------------|-----------------------------------|---------------|
|                            | 2007                              | 2008          |
| <b>Insurance Industry</b>  | <b>97.51</b>                      | <b>80.60</b>  |
| <b>Non-life insurances</b> | <b>76.30</b>                      | <b>165.05</b> |

*10.2 Reinsurance*



Reinsurance is used for so-called risk equalization and protection of insurers from large losses, which could endanger operation of the company. For the part of the risk that remains in retention of the company, its equity serves as a cover for unexpected events and inadequate price level of the premium.

Share of relevant retention premium in relevant total premium indicates a volume of the risks transferred into reinsurance. At the level of all insurance companies in Montenegro, this indicator shows that relevant retention premium makes 61.98% of relevant total premium.

**Table 21. Share of relevant retention premium in relevant total premium in 2008**

|              | Relevant retention premium (€) | Relevant total premium (€) | Share of relevant retention premium in relevant total premium (%) |
|--------------|--------------------------------|----------------------------|---|
| <b>TOTAL</b> | <b>34,383,852</b>              | <b>55,472,111</b>          | <b>61.98</b>  |

In 2008, insurance companies in Montenegro used reinsurance services of the following reinsurance companies:

**Table 22. List of insurance companies using services of reinsurance and reinsurance companies**

| Insurance Companies | Reinsurance Companies |
|---------------------|-----------------------|
| Lovćen osiguranje   | Hannover Re           |
|                     | Swiss Re              |
|                     | Partner Re            |
|                     | Converium Re/Score    |
|                     | Triglav Re            |
|                     | Tryg Baltica/Sirius   |
|                     | Muncher Re            |
|                     | Bosna Re              |
|                     | Sava Re               |
|                     | Goather Re            |
|                     | Transatlantic Re      |
|                     | Mapf Re               |

|  |  |
|--|--|
|  | <b>Odyssey Re</b>                                      |
|  | <b>Mitsumi Sumimoto</b>                                |
|  | <b>Caisse Centrale de Reasur</b>                       |
|  | <b>Polish Re</b>                                       |
|  | <b>Lloyd's Syndicate</b>                               |
|  | <b>Moscow Re</b>                                       |
|  | <b>Russin Re</b>                                       |
|  | <b>Ingosstrakh</b>                                     |
| <b>Grawe osiguranje</b>                  | <b>Grazer Wechselseitige Versicherung AG</b>           |
| <b>Montenegro osiguranje</b>             | <b>Sava Re</b>   |
|  | <b>Lovćen Re</b>                                       |
| <b>Swiss osiguranje</b>                  | <b>Dunav Re</b>  |
| <b>Delta generali osiguranje</b>         | <b>Dunav Re</b>  |
| <b>Uniqa neživotno osiguranje</b>        | <b>Munich Re</b>                                       |
|  | <b>A.G.Gen Re</b>                                      |
|  | <b>Dunav Re</b>  |
| <b>Uniqa životno osiguranje</b>          | <b>Swiss Re Europe S.A., Niederlassung Deutschland</b> |
| <b>Delta generali životna osiguranja</b> | <b>Dunav Re</b>  |
| <b>Atlas life</b>                        | <b>General Re. Co.</b>                                 |

*10.3 Profitability*

### Relevant technical results in retention

Applicable technical result in retention for insurance sector in Montenegro is indicator of pricing policy and adequacy, i.e. sufficiency of premiums for settlement of obligations based on the insurance contract and adequacy of transferring risk to reinsurance. This indicator amounted to 78.73% for insurance sector in Montenegro and indicates that relevant claims amounts to 78.73% of relevant technical premium, i.e. that premiums of insurance companies were sufficient for settlement of obligations based on insurance contract.

**Table 22. Relevant technical results in retention in 2008**

|              | Relevant technical premium in retention<br>(€) | Relevant claims in retention<br>(€) | Relevant technical result in retention<br>(%) |
|--------------|--|-------------------------------------|---|
| <b>TOTAL</b> | <b>32,594,530</b>                              | <b>25,663,207</b>                   | <b>78.73</b>                                  |

### Rentability of the assets and the own funds

Relation between net result and total assets (ROA) represents a measure of the return realized on total assets in 2008. Only four companies in 2008 recorded positive net result and returns on assets and equity. By observing all companies in Montenegro, negative net result is realized, with return on total assets of -4.29% and return on equity of -10.41%, which represents a result of realized net loss in insurance sector in Montenegro.

**Table 23. Rentability of the assets and own funds in 2008**

|              | Assets<br>(€)     | Capital<br>(€)    | Net profit / loss<br>(€) | ROA          | ROE           |
|--------------|-------------------|-------------------|--------------------------|--------------|---------------|
| <b>TOTAL</b> | <b>98,819,594</b> | <b>40,769,076</b> | <b>-4,243,887</b>        | <b>-4.29</b> | <b>-10.41</b> |

## 10.4 Liquidity

In order to fulfil their obligations, it is necessary for insurance companies to take care on the level of compatibility of assets and liabilities by maturity, as well as on merchantability and assets quality. Liquidity ratio for insurance companies in Montenegro in 2008 amounted to 3.33, which tell us that at the end of 2008 the companies had 3.33 times higher liquid funds comparing to its short-term liabilities. This ratio was calculated in accordance to the Rulebook on the manner of establishment and monitoring of insurance companies' liquidity.

According to this Rulebook, **liquid funds** deemed to be:

- 1) Securities;
- 2) Monetary funds;
- 3) Claims that are due in the next fourteen days from the day of establishing liquidity of insurance company, that are covered with the payment instruments (cheque, avalised bill, bank guarantee);
- 4) Non-used portion of approved framework bank loans for insurance company;
- 5) Realistically expected cashflow in the next fourteen days based on insurance premiums and the portion of reinsurer in insurers claims, taking into consideration average daily cashflow of insurance company in previous year (i.e. from the day of establishing provided there is no data for the previous year).

**Liabilities of insurance companies**, within the meaning of this Rulebook, deemed to be due liabilities and liabilities from the companies' operation, that are due within fourteen days from the day of establishment the companies' liquidity ratio, based on the inventory list, insurance contract, actuarial calculations and so on.

In addition, taking into consideration liquidity ratios such as relation between cash and short-term liabilities and relation between current assets reduced for inventories and short-term liabilities, that amount to 2.20 and 15.80, respectively, it can be concluded that liquidity of insurance sector in 2008 was at satisfactory level.

### 10.5 Claims Indicator

#### Promptness in settlement of claims

Promptness indicator in settlement of claims is used for determining the numbers of settled claims in relation to total number of reported claims in observed year. Insurance companies recorded high level of promptness in 2008, as 86.93% of total number of reported claims was settled.

**Table 24. Promptness in payment of claims in 2008**

|              | Number of settled claims | Total number of claims | % of promptness |
|--------------|--------------------------|------------------------|-----------------|
| <b>TOTAL</b> | <b>23,123</b>            | <b>26,599</b>          | <b>86.93</b>    |

#### Claims Quote

Claims quote is calculated as relation of the sum of the amount of gross settled claims and changes of technical reserves and amount of relevant insurance premium. If observing entire insurance sector in Montenegro in 2008, 69.81% of relevant premium was related to gross

**Table 25. Gross claims quote of insurance companies in 2008**

|              | Gross settled claims (€) | Change of technical reserves (€) | Relevant insurance premium (€) | Gross claims quote (%) |
|--------------|--------------------------|----------------------------------|--------------------------------|------------------------|
| <b>TOTAL</b> | <b>23,783,612</b>        | <b>14,942,102</b>                | <b>55,472,111</b>              | <b>69.81</b>           |

#### Expenses Quote

Expenses quote is calculated as relation of a sum of the costs of conducting insurance and other operating expenses arising from insurance operation and relevant premium. At the level of insurance sector, the costs of conducting insurance and other operating expenses makes 51.76% of relevant premium in 2008, which indicates high level of the companies' costs for conducting insurance operations.

**Table 26. Share of costs of conducting insurance and other operating expenses arising from insurance operations in relevant premium in 2008**

|              | <b>Costs of conducting insurance and other operating expenses</b><br>(€) | <b>Applicable insurance premium</b><br>(€) | <b>%</b>     |
|--------------|--|--|--------------|
| <b>TOTAL</b> | <b>28,713,079</b>  | <b>55,472,111</b>                          | <b>51.76</b> |

### Combined Quote

Combined quote, representing a sum of gross claims quote and expenses quote, shows a result of operation before inclusion of revenues from investments of monetary funds. In 2008, expenses of insurances companies from claims and the costs of conducting insurance are for 21.57% higher comparing to relevant premium.

**Table 27. Combined quote in 2008 (%)**

|              | <b>Gross claims quote</b> | <b>Expenses quote</b> | <b>Combined quote</b> |
|--------------|---------------------------|-----------------------|-----------------------|
| <b>TOTAL</b> | <b>69.81</b>              | <b>51.76</b>          | <b>121.57</b>         |

## XI INSURANCE COMPANIES IN MONTENEGRO



### ATLAS LIFE AD

Address: Stanka Dragojevića 4, 81000 Podgorica

Phone: +382 20 406 106, 406 112

Fax: +382 20 406 156

E-mail: [info@atlaslife.net](mailto:info@atlaslife.net)

Website: [www.atlaslife.net](http://www.atlaslife.net)

Type of insurance: all types of life insurance

Number of employees: 13

### DELTA GENERALI OSIGURANJE AD

Address: Kralja Nikole 27a/VI, 81000  
Podgorica

Phone: +382 20 444 858

Fax: +382 20 444 810

E-mail: [kontakt@deltagenerali.me](mailto:kontakt@deltagenerali.me)

Website: [www.deltagenerali.me](http://www.deltagenerali.me)



Type of insurance: all types of non-life insurance

Number of employees: 24

#### DELTA GENERALI ŽIVOTNA OSIGURANJA AD



Address: Kralja Nikole 27a/VI, 81000 Podgorica

Phone: +382 20 444 858

Fax: +382 20 444 810

E-mail: [kontakt@deltagenerali.me](mailto:kontakt@deltagenerali.me)

Website: [www.deltagenerali.me](http://www.deltagenerali.me)

Type of insurance: life insurance

Number of employees: 8

#### GRAWE OSIGURANJE AD

Address: Novaka Miloševa, 81000  
Podgorica

Phone: +382 20 210 790

Fax: +382 20 210 963

E-mail: [maja.pavlicic@grawe.at](mailto:maja.pavlicic@grawe.at)

Website: [www.atlaslife.net](http://www.atlaslife.net)



Type of insurance: life and non-life insurance, insurance from accidents and voluntary health insurance, other property insurance, auto insurance - all-risk insurance.

Number of employees: 8



### LOVĆEN OSIGURANJE AD



Address: Slobode 13A, 81000 Podgorica

Phone: +382 20 404 400, 404 410

Fax: +382 20 665 281

E-mail: [info@lo.cg.yu](mailto:info@lo.cg.yu); [lovosig@cg.yu](mailto:lovosig@cg.yu); [lovcen@cg.yu](mailto:lovcen@cg.yu)

Website: [www.lovcenosiguranje.cg.yu](http://www.lovcenosiguranje.cg.yu)

Type of insurance: life and non-life insurance

Number of employees: 252

Offices: 6 regional offices, 6 branches and 9 sub-branches

### MAGNAT OSIGURANJE AD

Address: Radosava Burića br.9, 81000 Podgorica

Phone: +382 20 648 825

Fax: +382 20 648 826

E-mail: [office@magnatosiguranje.com](mailto:office@magnatosiguranje.com)

Website: [www.magnatosiguranje.com](http://www.magnatosiguranje.com)



Type of insurance: compulsory insurance

Number of employees: 55

### MERKUR OSIGURANJE AD



Address: Bul. Sv. Petra Cetinjskog b.b, 81000 Podgorica

Phone: +382 20 205 465

Fax: +382 20 205 466

E-mail: [info@merkurosiguranje.me](mailto:info@merkurosiguranje.me)

Website: [www.merkurosiguranje.me](http://www.merkurosiguranje.me)

Type of insurance: all types of non-life insurance

Number of employees: 4

### **MONTENEGRO OSIGURANJE AD**

Address: Rimski Trg 70, 81000 Podgorica  
Phone: +382 20 234 508, 234 036, 403 020  
Fax: +382 20 234 008  
E-mail: [direkcija@mnosiguranje.cg.yu](mailto:direkcija@mnosiguranje.cg.yu)  
Website: [www.mnosiguranje.cg.yu](http://www.mnosiguranje.cg.yu)



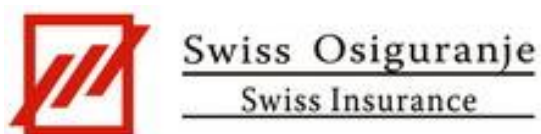
Type of insurance: all types of non-life insurance

Number of employees: 100

Branches: Podgorica (3), Herceg Novi, Bar and Ulcinj

Organizational units: Bar, Bijelo Polje, Berane, Pljevlja, Ulcinj

### **SWISS OSIGURANJE AD**



Address: Novaka Miloševa 6/2, 81000 Podgorica  
Phone: +382 20 230 828, 230 767  
Fax: +382 20 230 734  
E-mail: [sio@cg.yu](mailto:sio@cg.yu)  
Website: [www.swissosiguranje.com](http://www.swissosiguranje.com)

Type of insurance: all types of non-life insurance

Number of employees: 32

### **UNIQA NEŽIVOTNO OSIGURANJE AD**

Address: Bul. Sv. Petra Cetinjskog 1a/4, 81000 Podgorica  
Phone: +382 20 444 700  
Fax: +382 20 444 715  
E-mail: [info@uniqa.co.me](mailto:info@uniqa.co.me)  
Website: [www.uniqa.co.me](http://www.uniqa.co.me)



Type of insurance: all types of non-life insurance

Number of employees: 75

Organizational units: Bijelo Polje, Pljevlja, Herceg Novi, Bar



#### **UNIQA ŽIVOTNO OSIGURANJE AD**

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

Phone: +382 20 444 700

Fax: +382 20 444 715

E-mail: [info@uniqa.co.me](mailto:info@uniqa.co.me)

Website: [www.uniqa.co.me](http://www.uniqa.co.me)

Type of insurance: all types of life insurance

Number of employees: 70

Organizational units: Bijelo Polje and Herceg Novi