Pursuant to Article 96 and Article 177 paragraph 4 of the Law on Insurance (Official Gazette of Montenegro, No 78/06, 19/07, and 45/12), on its session held on 13 March 2013 the Council of the Insurance Supervision Agency adopted the

# RULEBOOK ON THE MANNER OF CALCULATING THE SOLVENCY MARGIN

**(Official Gazette of Montenegro, No 14/13 of 15 March 2013)**

### Subject-matter of the Rulebook
### Article 1

This Rulebook governs the manner of calculating the solvency margin, which an insurance company (hereinafter referred as to the Company) shall be obliged to maintain in its business operations.

### Definition of Terms
### Article 2

Specific terms as used in this Rulebook shall have the following meaning:

a) Capital at risk shall be the difference of insured sum value in case of death and calculated mathematical provisions;
b) Capital at risk in a self-insured retention shall be the difference of the capital at risk amount and reinsurance share in the capital at risk;
c) Tontine shall mean a joint assets of insured persons who agreed to jointly capitalise their contributions and subsequently distributing the assets thus capitalised among the surviving insured persons or among the beneficiaries of the deceased insured persons;
d) Earned premium shall be the amount of written premium plus changes in unearned premium, whereby the changes of unearned premium are the difference of unearned premium at the beginning of the accounting period and unearned premium at the end of the accounting period;
e) Expenses for claims reimbursement shall be the amount of calculated gross claims reimbursement plus costs pertaining to claims payment less amount of revenues generated from gross receivables with recourse and plus change in provisions for claims, whereby the change in provisions for claims shall be a difference of provisions for claims at the end of the accounting period and provisions for claims at the beginning of the accounting period;
f) Accounting period shall be a period of 12 months preceding the last day of the accounting period.

### Solvency Margin for Life Insurance
### Article 3

For the classes of insurance stipulated under Article 6, items 1, 2 and 4.1 of the rulebook governing the classification of risk, the solvency margin level shall be equal to the sum of the first and the second result:

a) the first result shall be calculated so that the mathematical provisions calculated on the last day of the current accounting period is multiplied by 0.04 and a ratio of the mathematical provisions in a self-insured retention on the last day of the current accounting period and amount of the total mathematical provisions on the last day of the current accounting period. If the amount of the ratio is less than 0.85, 0.85 shall be used instead.
b) the second result shall be calculated only for insurances on which the capital at risk is not a negative figure, so that a total amount of the capital at risk on the last day of the current accounting period is multiplied by 0.003 and a ratio of the amount of capital at risk in a self-insured retention on the last day of the current accounting period and amount of the total capital at risk on the last day of the current accounting period. If the amount of the ratio is less than 0.5, 0.5 shall be used instead.

Notwithstanding paragraph 1 item b of this Article, the total amount of the capital at risk for insurance in case of death of a defined duration shall be multiplied by 0.001 if the insurance is contracted for a maximum term of three years or by 0.0015 if the insurance is contracted for more than three but not more than five years.

For the classes of insurance stipulated under Article 6 item 4.2 of the rulebook governing the classification of risk by insurance classes, the solvency margin shall be calculated as follows:

a) if the company bears an investment risk, the amount of 4% of the technical provision on the last day of the current accounting period shall be multiplied with a ratio of the technical provisions in a self-insured retention of the company on the last day of the current accounting period and amount of the total technical provisions of the company on the last day of the current accounting period, and no less by 0.85;
b) if the company bears no investment risk but the management expenses are allocated and fixed for a period exceeding 5 year, the amount of 1% of the technical provision on the last day of the current accounting period shall be multiplied with a ratio of the technical provisions in a self-insured retention of the company on the last day of the current accounting period and amount of the total technical provisions of the company on the last day of the current accounting period, and no less by 0.85;
c) if the company bears no investment risk but the management expenses are not allocated and not fixed, the solvency margin shall be 25% of the net administrative expenses accrued in the previous accounting year pertaining to such operations; and
d) if the company covers a death risk of insured person, 0.3% of the capital at risk on the last day of the current accounting period shall be multiplied with a ratio of the capital at risk in a self-insured retention on the last day of the current accounting period and amount of the total capital at risk on the last day of the current accounting period, and not less by 0.5.

For classes of insurance referred to in Article 6 item 4.3 of the rulebook governing the classification of risk by insurance classes, the solvency margin shall be equal to 1% of the tontine value.

For classes of insurance referred to in Article 6 item 4.4 of the rulebook governing the classification of risk by insurance classes, the solvency margin shall be calculated as a result of multiplication of 4% of the mathematical provisions calculated on the last day of the current accounting period and a ratio of the mathematical provisions in a self-insured retention amount on the last day of the current accounting period and amount of the total mathematical provisions on the last day of the current accounting period. If the amount of the ratio is less than 0.85, 0.85 shall be used instead.

For classes of insurance stipulated under Article 6 item 3 of the rulebook governing the classification of risk by insurance classes, the solvency margin shall be calculated in accordance with provisions of Article 4 of this Rulebook.

## Solvency Margin for Non-Life Insurance
## Article 4

The solvency margin for non-life insurance shall be the higher of the amounts calculated in the following two manners:

1) The sum of insurance premiums for the last accounting year shall be multiplied by 0.18 up to EUR 50,000,000, while the remaining amount shall be multiplied by 0.16. The sum of these two results shall be multiplied by the ratio of Expenses for claims reimbursement in a self-insured retention for the previous three accounting years and total Expenses for claims reimbursement for the previous three accounting years, and if the ratio is less than 0.5, 0.5 shall be used instead.
   The sum of insurance premium for the purpose of this point shall be the higher of the amount of the gross earned premium and gross written premium in the current period. The company shall reduce the sum of premiums by the cancelled amount of premium. For insurances referred to in Article 3 items 11, 12, and 13 of the rulebook governing the classification of risk by insurance classes, the premium sum shall be increased by 50%.
2) The average annual amount of Expenses for claims reimbursement for the previous three accounting years shall be multiplied by 0.26 up to EUR 35,000,00, while the remaining amount shall be multiplied by 0.23. The sum of these two results shall be multiplied by the ratio of total Expenses for claims reimbursement in a self-insured retention for the previous three accounting years and total Expenses for claims reimbursement for the previous three accounting years, and if the ratio is less than 0.5, 0.5 shall be used instead.
   For insurance classes referred to in Article 3 items 11, 12, and 13 of the rulebook governing the classification of risk by insurance classes, the Expenses for claims reimbursement shall be increased by 50%.
   The average annual amount of Expenses for claims reimbursement shall be an arithmetic mean of previous three accounting years, and if at least 75% of the portfolio consists of insurance covering credit risks, risk due to storm, hail or frost, when calculating the average annual amount of total Expenses for claims reimbursement an arithmetic mean of previous seven accounting years shall be used.

Notwithstanding paragraph 1 of this Article, the solvency margin for health insurance using a probability distribution tables and calculations as for a life insurance shall equal to one third of the result obtained in the manner set forth under paragraph 1 of this Article or result obtained in the manner set forth under Article 3 paragraphs 1 and 2 of this Article if such obtained amount is higher and if the following conditions are fulfilled:

a) Insurance premiums are calculated using actuarial methods on the basis of sickness tables;
b) Reserves for increasing age are set up in connection with this insurance;
c) Insurance premiums contain a loading in order to set up an appropriate solvency margin level;
d) The company may cancel the insurance contract no later than before expiry of the third year of insurance; and
e) The insurance contract provides that premiums can be increased or liabilities reduced during the validity of the insurance contract.

If the solvency margin for the current year is lower than the solvency margin for the previous year, the solvency margin cannot be lower than the result of multiplication of the solvency margin of the previous year and ratio of provisions for claims in a self-insured retention at the end of the current year and of provisions for claims in a self-insured retention at the end of the previous year, whereby the ratio cannot exceed 1.

Provisions of paragraph 3 of this Article shall apply accordingly to the in-year calculations of the margin.

## Special Provisions for Newly-Established Companies
## Article 5

Notwithstanding Article 4 paragraph 1 of this Rulebook, the solvency margin calculation in the first year of operation shall be done only on the basis of premiums.

The solvency margin calculation on the basis of claims for the second and third year of operation shall be done on the basis of:

- Data of the first and second year of operation, for the second year of operation;
- Data of the first, second and third year of operation, for the third year of operation.

Notwithstanding paragraph 1 of this Article, the company where the portfolio entirely or at least 75% consists of insurance covering credit risks, risk due to storm, hail or frost, shall calculate the solvency margin on the basis of claims based on a roll-over three-year period until expiry of at least seven years from the commencement of pursuit of insurance business.

First calculation of the solvency margin on the basis of claims for a seven-year period shall be produced upon expiry of at least seven years as of the commencement of pursuit of insurance business.

The provisions of this Article shall be used when calculating the solvency margin for supplementary insurance of persons to the life insurance.

## Transfer of the Insurance Company Portfolio
## Article 6

In the case of the insurance portfolio transfer, the company accepting the portfolio shall calculate the solvency margin on the basis of the premium and claims, taking into account aggregate data of the company transferring the portfolio and data pertaining to the transferred insurance portfolio.

The company transferring the insurance portfolio must submit to the company accepting the portfolio data for a period of three or seven years in cases when at least 75% of the portfolio consists of insurance covering credit risks, risk due to storm, hail or frost, or for a period of operation if shorter than three years or seven years in cases when at least 75% of the portfolio consists of insurance covering credit risks, risk due to storm, hail or frost, for the purpose of calculating the solvency margin on the basis of the premiums and claims of the transferred insurance portfolio.

## Article 7

The solvency margin of a company shall be calculated on the last day of the current accounting period, and so as follows:
- on 31 December of the current year (annual calculation),
- on 31 March, 30 June, and 30 September in the current year (in-year calculations),
- on the day of portfolio transfer.

## Article 8

As of the day this Rulebook commences with application, the Instruction on the Manner of Determining the Solvency Margin (Official Gazette of the Republic of Montenegro, No 24/07) shall cease to have effect.

## Article 9

This Rulebook shall enter into force on the eighth day following the day of its publication in the Official Gazette of Montenegro and shall apply starting from calculations as of 30 September 2013.

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Podgorica, 13 March 2013

President of the Council,
Branko Vujović, m.p.