Pursuant to Article 83 paragraph 5 and Article 177 paragraph 4 of the Law on Insurance (Official Gazette of the Republic of Montenegro 78/06 and 19/07), at the session held on 14 November 2008, the Council of the Insurance Supervision Agency adopted the

RULEBOOK ON DETAILED CRITERIA AND MANNER OF CALCULATING UNEARNED PREMIUMS

General Provisions

Article 1

This Rulebook governs the detailed criteria and the manner of calculating unearned premiums by insurance classes.

Unearned premium, for the purpose of this Rulebook, shall be a portion of the premium used for covering insurance obligations that are to arise in the subsequent accounting period.

Article 2

An insurance company (hereinafter referred to as the company) shall establish and calculate the unearned premium for such insurance where the coverage extends even after the expiry of the accounting period.

Article 3

The basis for calculation of the unearned premium shall be the total insurance premium established under the insurance contract (hereinafter referred to as the total premium).

Special Provisions

Article 4

The unearned premium shall be calculated on the last day of the current accounting period as follows:

- on 31 December of the current year (annual calculation),
- on 31 March, 30 June, and 30 September of the current year (calculations during the year),
- on the day of portfolio transfer.

Article 5

The unearned premium shall be calculated according to the individual calculation method for each insurance contract with accurate proportion to the length of time involved (*pro rata temporis*).

Article 6

In case of the insurance contracts where the amount of insurance coverage does not change during the duration of insurance, the calculation of the unearned premium by the method referred to in Article 5 of this Rulebook shall be applied in accordance with the following formula:

$$PP = \frac{P \times d}{D}$$
, where

PP = unearned premium of individual insurance,
P = total premium of individual insurance,
d = number of days of insurance duration after the expiry of the accounting period,
D = total number of days of duration of the individual insurance.

In case of insurance contracts where the amount of coverage changes during the duration of the insurance (builder's risks insurance, contractual liability insurance of work contractors, erection insurance, contractual liability insurance of erection contractors, film companies insurance, credit insurance, commercial guarantee, and the like), the method referred to in Article 5 of this Rulebook shall be applied in accordance with the change in the amount of the coverage during the insurance period.

In case of insurance contracts where it may be assumed that the amount of insurance coverage is to be changed linearly during the insurance period, the unearned premium shall be calculated by the method referred to in Article 5 of this Rulebook in accordance with the following formula:

$$PP = P \times \frac{d}{D^2} \times \frac{2O_k \times D - d \times (O_k - O_p)}{O_k + O_p}$$
, where

PP = unearned premium of individual insurance,
P = total premium of individual insurance,
d = number of days of insurance duration after the expiry of the accounting period,
D = total number of days of duration of individual insurance,
Op = insurance coverage (risk) at the beginning of the insurance period,
Ok = insurance coverage (risk) at the end of the insurance period.

In case of insurance contracts where the amount of insurance coverage changes during the duration of the insurance, but it cannot be assumed that it will be changed linearly, the formula other than the formula referred to in paragraph 3 of this Article may also be applied for the calculation of the unearned premium, supported by the explanation of the authorized actuary and the approval of the Insurance Supervision Agency.

Article 7

Total unearned premium of a specific class of insurance shall represent the sum of the unearned premiums of individual insurances of such class of insurance.

Article 8

Unearned premium for life insurance where the mathematical reserve is calculated shall be an integral part of the mathematical reserve.

Article 9

Unearned premium in the retention of a company shall be calculated by reducing the sum of unearned premium of insurance of own portfolio and unearned premium of obtained co-insurance by the sum of unearned premium transferred to co-insurance and re-insurance.

Article 10

Unearned premium in retention of a reinsurance company shall be calculated as the difference of the unearned premium under inwards reinsurance (based on risks assumed from insurers or other reinsurers) and unearned premium under outwards reinsurance (based on risks transferred to other reinsurers).

Final Provisions

Article 11

A company shall be obliged to, for the purpose of undisturbed supervision activities, calculate the unearned premium in such a manner to enable the insight in all data necessary for its calculation, such as: insurance premium, inception date and expiry date of insurance, periodical calculation date, number of days of insurance duration, number of days of insurance duration after the periodical calculation, amount of coverage (risk) at the inception of insurance, amount of coverage (risk) at the expiry of insurance, data obtained from the cedent, and other.

Article 12

Notwithstanding Article 5 of this Rulebook, a company that does not have appropriate IT support may calculate the unearned premium by 31 March 2009 using the pro rata method according to the following formula:

$$UPP = \sum K_M \times UP_M$$, where

UPP = total unearned premium,
KM = ratio for month M (according to the Table 1, which is attached to this Rulebook and makes its integral part),
UPM = total premium invoiced in month M for insurance that lasts after the expiry of the accounting period.

Article 13

This Rulebook shall enter into force on the eighth day after its publication in the Official Gazette of Montenegro.

Number: SS-49/08
Podgorica, 14 November 2008

President of the Council of the Agency
Vladimir Kavarić, MSc.

Table 1
Ratios K_M based on dates of quarterly calculation

Date of quarterly calculation											
31 March			30 June			30 September			31 December		
Year	Month (M)	Ratio (K_M)	Year	Month (M)	Ratio (K_M)	Year	Month (M)	Ratio (K_M)	Year	Month (M)	Ratio (K_M)
Previous	April	1/24	Previous	Jul	1/24	Previous	Oct	1/24	Current	Jan	1/24
	May	3/24		Aug	3/24		Nov	3/24		Feb	3/24
	Jun	5/24		Sept	5/24		Dec	5/24		Mart	5/24
	Jul	7/24		Oct	7/24	Current	Jan	7/24		April	7/24
	August	9/24		Nov	9/24		Feb	9/24		May	9/24
	Sept	11/24		Dec	11/24		Mart	11/24		Jun	11/24
	Oct	13/24	Current	Jan	13/24		April	13/24		Jul	13/24
	Nov	15/24		Feb	15/24		May	15/24		August	15/24
	Dec	17/24		March	17/24		Jun	17/24		Sept	17/24
Current	Jan	19/24		April	19/24		Jul	19/24		Oct	19/24
	Feb	21/24		May	21/24		August	21/24		Nov	21/24
	March	23/24		Jun	23/24		Sept	23/24		Dec	23/24