

Pursuant to Article 177 paragraph 4, Article 185 item 2, in conjunction with Article 83 of the Law on Insurance (Official Gazette of the Republic of Montenegro 78/06 and 19/07), at the 70th session held on 3 August 2011, the Council of the Insurance Supervision Agency adopted the

**RULEBOOK
ON DETAILED CRITERIA AND MANNER OF CALCULATING TECHNICAL RESERVES FOR
OUTSTANDING CLAIMS
(Official Gazette of Montenegro, 41/11 of 10 August 2011)**

General Provisions

Article 1

This Rulebook governs the detailed criteria and manner of calculating technical reserves for outstanding claims.

Article 2

For the purpose of this Rulebook, specific used terms shall mean as follows:

Gross outstanding claims are the outstanding claims increased by expected loss adjustment expenses and expenses related to payment of claims.

Net outstanding claims are the gross outstanding claims reduced by the reinsurer's share.

Loss adjustment expenses and expenses related to payment of claims comprise direct and indirect expenses related to loss adjustment and payment of claims.

Direct loss adjustment expenses and expenses related to payment of claims are the expenses that can be directly associated to a specific claim (e.g. interest, court expenses and proceedings-related fees, and the like).

Indirect loss adjustment expenses and expenses related to payment of claims are the expenses that are not associated to a specific claim but are incurred in the process of loss adjustment and payment of claims (e.g. salaries, administrative costs, etc).

Incurred reported but not settled losses are the losses that are reported to an insurance company and are not settled until the end of the accounting period.

Incurred but not reported losses are incurred losses that are not reported to an insurance company until the end of the accounting period.

Processed claims include claims that are paid, settled or repudiated until the end of the accounting period.

Paid claims are the processed claims that are paid in respect of the liabilities arising from the insurance contract.

Settled claims are the processed claims that have not been paid in the accounting period, but for which the company has established and recognised the liability and the claimant has accepted the amount of indemnity or compensation.

Repudiated claims are the claims processed in the accounting period, in respect of which the company does not recognise any liabilities.

Reactivated claim is a previously processed claim that is re-reported.

Article 3

Outstanding claims shall be calculated in the amount of estimated liabilities that the insurance company is to pay in respect of the insurance contracts where the insured event takes place

prior to the end of the accounting period, including all loss adjustment expenses and expenses related to payment of claims.

The company shall calculate outstanding claims based on the liabilities arising from insurance and reinsurance contracts, regulations on provision of services in the procedure of establishing of losses, value of materials and services, findings and opinions of court experts, appraisers, actuaries and other experts, and based on the data relevant to loss adjustment expenses and expenses related to payment of claims.

In addition to estimated liabilities in respect of incurred, reported but not settled losses, outstanding claims must also cover estimated liabilities in respect of incurred but not reported losses.

The insurance company shall establish outstanding claims by risks within individual insurance classes, and if it is in no position to do so, then by insurance classes.

Article 4

In case of insurance contracts where liabilities are expressed in a foreign currency, outstanding claims shall be calculated in the foreign currency if possible (for individual appraisals for each claim, the calculation in foreign currency is mandatory), and converted into € according to the exchange rate as of the end of the accounting period in the manner that is compliant to the provisions of the insurance contract.

Article 5

Outstanding claims include the following:

1. reserves for incurred, reported but not settled losses until the end of the accounting period for which the reserve for claims is established (RBNS);
2. reserves for incurred but not reported losses until the end of the accounting period for which the reserve for claims is established (IBNR).

Reserves for incurred but not reported losses referred to in paragraph 1 item 2 of this Article may also include, if necessary (depending on the method for establishing reserves for reported losses and the loss adjustment technology),:

1. reserves for incurred but not enough reserved losses (future developments in respect of reported losses – IBNER),
2. reserves for losses that could be reactivated in the future and
3. reserves for claims in transit (reported but not reserved losses or not recorded claims – RBNR).

Insurance company is not obliged to individually present each of the reserves from the above paragraph of this Article.

SPECIAL PROVISIONS

Article 6

Outstanding claims shall be calculated on the last day of the following accounting periods (hereinafter referred to as appraisal dates):

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

Data relevant to the outstanding claims referred to in paragraph 1 of this Article shall be developed based on the tables attached to this Rulebook as its integrated part, and shall be submitted to the Agency in the way and within the timeframes as determined by the Rulebook governing the contents of reports, notices and other data that an insurance company is to submit to the Agency.

OUTSTANDING INCURRED, REPORTED BUT NOT SETTLED LOSSES

Article 7

Reserves for incurred, reported but not settled losses shall be calculated for any losses reported to the insurance company that have not been settled until the end of the accounting period, based on individual appraisal of each loss.

Individual appraisals for each loss shall be determined according to the appraisal of the value of anticipated payments based on the documents collected in the process of claim processing.

Notwithstanding paragraph 1 above, in case of incurred, reported but not settled losses in the regular procedure (not in dispute), whose legal grounds have been established but required documents based on which outstanding amounts could be calculated with greater precision (validly) have not been obtained, the amount to be reserved against each such claim shall be no less than the average amount of claims processed in the current year for the insurance class to which such claim belongs.

The amount of outstanding claims referred to in paragraph 1 of this Article shall be re-adjusted at the end of each accounting period.

Outstanding incurred, reported but not settled losses in liability insurance that are paid in the form of annuities, shall be calculated in capitalized amounts (present value of future annuity payments).

The reserves referred to in paragraph 5 of this Article shall be established for each annuity claim individually, where demographic tables published by the relevant state authority will be used, and discount rate not exceeding 5% will be applied, taking into account the anticipated increase in the annuity amount.

Insurance company shall specifically present the reserves referred to in paragraph 5 of this Article within the reserves for incurred, reported but not settled losses.

OUTSTANDING INCURRED BUT NOT REPORTED LOSSES (IBNR)

Article 8

Outstanding incurred but not reported losses shall be established based on statistical data relevant for such losses, data on reported losses and loss adjustment technology, as well as other available data and information.

Article 9

Depending on the characteristics of an individual group or class of insurance, and portfolio of the company, as well as the form and quality of available data, the outstanding incurred but not reported losses shall be calculated by the following actuarial methods or their combination:

- chain ladder method;

- expected loss ratio method – this method may be used in case when due to insufficiency of data, it is not possible to use more precise methods;
- Bornhuetter-Ferguson method;
- other actuarial methods (if according to the opinion of the authorised actuary the previously mentioned methods cannot provide a realistic appraisal of outstanding claims or are not possible to be applied to a specific insurance class).

Article 10

If the data for establishing of the reserve for incurred but not reported losses do not include the data on annuity claims, the reserve for incurred but not reported annuity claims needs to be specifically determined based on the application of a method referred to in Article 9 of this Rulebook.

EXPENSES RELATED TO PAYMENT OF CLAIMS IN GROSS OUTSTANDING CLAIMS

Article 11

Loss adjustment expenses and expenses related to payment of claims are an integrated part of gross outstanding claims, and they are related to direct loss adjustment expenses and expenses related to payment of claims and indirect loss adjustment expenses and expenses related to payment of claims.

In order to calculate gross outstanding claims by insurance classes, the total amount of outstanding incurred, reported but not settled losses and outstanding incurred but not reported losses shall be adjusted by r_t coefficient of provisioning for loss adjustment expenses and expenses related to payment of claims.

The company shall calculate the coefficient referred to in paragraph 2 of this Article for each insurance class by applying the following formula:

$$r_t = 1 + \frac{T_t}{S_{Ut}}, \text{ where}$$

- r_t = coefficient of provisioning for loss adjustment expenses and expenses for payment of claims,
- T_t = loss adjustment expenses and expenses for payment of claims at the end of the accounting period,
- S_{Ut} = total amount of settled claims or insurance compensations at the end of the accounting period (including annuity claims).

Gross outstanding claims as of the appraisal date shall be calculated as the product of the coefficient r_t and the amount of outstanding claims as of such date.

NET OUTSTANDING CLAIMS

Article 12

Insurance company shall calculate the share of the reinsurer in gross outstanding claims of a specific insurance class in line with the provisions of the reinsurance contract and depending on the method applied for calculation of outstanding claims.

Article 13

Net outstanding claims (outstanding claims in retention) of a company engaged in reinsurance activities shall be calculated as the difference between outstanding claims in respect of inwards reinsurance (in respect of risks assumed from insurers or other reinsurers) and outstanding claims in respect of outwards reinsurance (in respect of risks ceded to other reinsurers).

Article 14

Companies shall use data on mortality for men and women presented in demographic tables of SFRY for the period 1980-1982 published by the Federal Statistics Bureau for calculating the outstanding claims referred to in Article 7 paragraph 5 of this Rulebook until demographic tables of the Statistical Office of Montenegro are published.

Notwithstanding the paragraph above of this Article, until the demographic tables of the Statistical Office of Montenegro have been published, it is allowed to use other demographic tables if their application ensures higher amounts of the reserve referred to in Article 7 paragraph 5 of this Rulebook and provided that the authorised actuary reasons the same in his opinion.

Article 15

This Rulebook shall be published in the Official Gazette of Montenegro and enter into force on 1 October 2011.

On the day this Rulebook enters into force, the Rulebook on detailed criteria and method of calculation of technical reserves for outstanding claims (Official Gazette of Montenegro, 70/08) shall be rescinded.

Number: 01-795/3-11
Podgorica, 3 August 2011

PRESIDENT OF THE AGENCY COUNCIL
Branko Vujović

Table 1. Ordinary claims (including annuity claims)

Insurance class	ORDINARY CLAIMS					
	Outstanding incurred reported but not settled/processed losses as of 31 December of the previous year			Of which settled/processed on the accounting day for the previous year		
	Year of loss occurrence	Number	Amount	Year of loss occurrence	Number	Amount
Total:						

Table 2. Court claims (including annuity claims)

Insurance class	COURT CLAIMS					
	Outstanding incurred reported but not settled/processed losses as of 31 December of the previous year			Of which settled/processed on the accounting day for the previous year		
	Year of loss occurrence	Number	Amount	Year of loss occurrence	Number	Amount
Total:						

Table 3. Analytical review of settled claims (excluding annuity claims)

Insurance class	Settled claims from previous accounting periods			Of settled claims (from column 2) in the current period			
	Claim number	Settlement date	Amount	Paid		Not paid	
				Payment date	Amount	Claim number	Amount

Table 4. Analytical review of settled claims (including annuity claims)

Insurance class	Settled claims from previous accounting periods			Of settled claims (from column 2) in the current period			
	Claim number	Settlement date	Amount	Paid		Not paid	
				Payment date	Amount	Claim number	Amount

Table 5. Total outstanding claims as of _____

Class insurance code	Insurance class	Outstanding incurred reported but not settled/processed losses				Amount of outstanding incurred but not reported losses IBNR	Coefficient for provisioning for loss adjustment expenses (Article 11 of this Rulebook)	Total outstanding claims	Total outstanding incurred, reported but not settled/processed losses	Total outstanding incurred but not reported losses
		Total number	Of which annuity claims' number	Total amount	Of which annuity claims' amount					
		1	2	3	4	5	6	$7=6*(3+5)$	$8=6*3$	$9=6*5$
01	Accident insurance									
02	Health insurance									
03	Motor vehicle insurance									
04	Rail-borne vehicles insurance									
05	Insurance of aircrafts									
06	Insurance of watercrafts									
07	Insurance of goods in transit									
08	Insurance of property against fire and other perils									
09	Other property insurance									
10	Motor vehicle liability insurance									
11	Aircraft liability insurance									
12	Watercraft liability insurance									
13	General liability insurance									
14	Credit insurance									
15	Commercial guarantee									
16	Financial losses insurance									
17	Legal protection costs insurance									
18	Travel insurance									
19	Other non-life insurance classes									
20	Life insurance									
21	Annuity insurance									
22	Supplementary insurance to life insurance									
23	Other life insurance classes									
I.Total life-insurance (20 to 23)										
II.Total non-life insurance (1 to 19)										
TOTAL (I+II)										

Note: Columns 1 and 3 include annuity claims