

Termination of the audit committee in case of insurance companies

In accordance with the applicable statutory regulations, private limited insurance companies (public interest entity) and reinsurance companies or public insurance companies and reinsurance companies are required to operate an audit committee of at least 3 members, the members of which shall be elected by the supreme body (general meeting) from the members of the board of directors or the supervisory board.

The audit committee is a body to support the supervisory board, which, among others, monitors and audits the efficiency of internal audit and risk management systems as well as the process of financial reporting by providing recommendations, if necessary. Furthermore, it assists the supervisory board in selecting the auditor and in cooperating with the auditor. It is important to mention in this context that at least one member of the audit committee must have audit or accounting qualification. Furthermore, it is an essential requirement that the audit committee must be established so that its president is elected from among its own members or by the audit committee itself, or the supervisory committee has the right to do so.

It is important to mention in connection with aforesaid that the insurance companies or reinsurance companies required to establish and operate an audit committee do not have to establish a separate audit committee if they have set up a board which meets the requirements of an audit committee considering its composition, functions and operation. In respect of credit institutions, the sectoral legislative requirements expressly make it possible that the audit committee may also carry out the tasks of the committee whereas the relevant provision does not mention a particular board in case of insurance companies, therefore the question arises whether such solution is acceptable as an alternative for the establishment of an audit committee.

The National Bank of Hungary has recently issued a position paper on the aforementioned issue. While the Supervision states in its position paper that, in case of insurance companies, it sees neither legislative objection to, nor any point of principle against, the supervisory board carrying out the tasks of and instead of the audit committee, the attention must be drawn that the National Bank of Hungary also points out that, according to its standpoint, it cannot be considered as the best solution in some respects.



Namely, the Supervision — thinks that the above solution is not the best solution because this way the function of the audit committee to support the supervisory board as a separate body, thereby providing for an additional point of control, disappears thereby meaning an additional control point in case of insurance companies having particularly substantial market share. Therefore, according to the standpoint of the Supervision, although it is not illegal if the supervisory board by itself, involving all of its members, fulfils the duties of the audit committee instead of the body designed to support the supervisory board, such solution may give reasons for concern since the tasks to be carried out may be jeopardized by this solution.

Although the legislation especially allows in case of credit institutions that the supervisory board may carry out the tasks of the audit committee in a particular case, it is also worth considering the foregoing in case of credit institutions. Although there is no doubt that the legislative environment allows that the supervisory board by itself may carry out the tasks of the audit committee in case of credit institutions, considering the standpoint of the Supervision, there is a difference as to how such solution is implemented.

In conclusion, it is not enough to find a formally acceptable solution within the limits of the laws, the way of implementation is also essential and that this way the alternative solution meets the legislative requirements also in content. Therefore, it requires particular attention to establish appropriate internal rules, to record the tasks and functioning of a particular board in an accurate and reportable manner, as well as to ensure the performance of these functions in a separate and full form during the operation of that particular board—, whether the tasks of the audit committee are carried out by the supervisory board or other corporate body. It is clearly visible that the standpoint of the Supervision places particular emphasis on the additional control function of the audit committee; therefore, it is recommended to develop a solution and in such a way that can ensure the enforcement of this function.