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Our experts

Dr. Gábor Erdős
Attorney - Partner
Associate
Tel: +36 (1) 428 6813
Email:
gerdos@deloitteCE.com

Dr. Júlia Szarvas
Attorney - Partner
Associate
Tel: +36 (1) 428 6465
Email:
jszarvas@deloitteCE.com

Dr. Anna Katalin Papp
Attorney - Managing
Associate
Tel: +36 (1) 428 6736
Email:
apapp@deloitteCE.com

Legal newsletter

Provisions concerning insurance contracts as defined in the new Civil Code

Dear Sir/Madam,

Deloitte Legal Szarvas, Erdős and Partners Law Firm is providing its clients with a monthly newsletter on the most recent changes and newly adopted regulations in economic law and the most notable legal cases.

In case our legal newsletter is not relevant to you, please indicate to which expert at your company we may send our summary of current legal matters in the future.

The current issue of our newsletter will make you familiar with the provisions concerning insurance contracts as defined in the new Civil Code entering into force on 15 March 2014. Apart from structural changes, the new Civil Code introduces important dogmatic reforms and incorporates into law current judicial practices, as well as the contracting practices of insurers as crystallized over the years.

Group insurance

Group insurance contracts are signed in large numbers in practice although neither the Civil Code, nor industry regulations contain separate rules for such schemes. The new Civil Code will remedy this shortcoming and regulate group insurance in detail. The scope of insured persons in group insurance contracts is determined by their membership in some organization or other existing legal relationship (e.g. employment contract) with the contracting party. This can be an advantage for employers who wish to provide insurance cover for their employees since the scope of insured persons can here be defined without the need to specify each employee individually or update the insurer in each case about new employment contracts or terminations.

Changed rules of late payment

Pursuant to current regulations, if obligors default on paying an outstanding premium, the insurance contract will automatically terminate after 30 days from the due date. This provision caused a number of legal disputes in practice since if the insurance event did not occur during the time of delay, insurers tolerated payment after 30 days and maintained the insurance contract whereas if the insured event occurred after the mandatory grace period, they referred to the termination of the contract. To avoid this,

the new Civil Code stipulates that if the contracting party fails to pay the premium, the insurer shall first send him a written payment reminder allowing for a 30 days' grace period and the contract will only terminate (retroactively on the original due date of the premium) if this additional deadline expires without the contracting party paying the premium.

A rule favorable for the contracting party in default is the opportunity to recover risk assumption (i.e. reactivate the contract). If the contract terminates due to default on paying the premium, the contracting party may ask the insurer, within 120 days from the termination of the contract, to recover risk assumption under the terms and conditions of the original policy, provided that the outstanding premium had been paid in full. However, it is not clear from the wording of the new Civil Code whether the insurer's obligation to provide coverage extends to the period of default and for which period the contracting party is required to pay premium. So we recommend that our clients should proceed carefully when including these issues in contracts.

Changes to various insurance contracts

A new provision for liability insurance contracts stipulates that a deadline of at least 30 days must be allowed for the insured to report claims raised against him to the insurer.

In the case of life and accident insurance policies the new Civil Code expressly allows multiple insurance coverage, i.e. that several policies may validly be taken out to cover the same insurance risk and insurers' coverage may be accumulated.

Summary

As the new detailed rules applying to insurance contracts, as well as the general provisions of the new Civil Code—e.g. electronic underwriting and new provisions of tort law—are likely to affect insurers' operation and contracting practices, we recommend that our clients should review their insurance portfolios. Our experts are ready to provide assistance in the procedure.

We hope you will find our newsletter thought-provoking, and we look forward to receiving your remarks. **Please address any questions or comments to our experts on the left.**

Best Regards,

Judit Süveges

Coordinator

Tel: +36 (1) 428 6487

Email: jsuveges@deloittece.com

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