

# ***Analysis of the Insurance Applicant's Obligation of Truthful Disclosure***

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**Abstract:** Since China implemented the reform and opening-up policy in 1978, the insurance industry has gradually embarked on a path of sustained growth and development. In 2001, China joined the World Trade Organization, ushering in an unprecedented era of expansion and diversification in the insurance industry. Against the backdrop of increasing public risk awareness, insurance has become an important tool for individuals seeking to mitigate potential losses in their risk efforts. However, this trend has also raised concerns about the ethical and legal responsibilities of insurance companies. A common dissatisfaction expressed by policyholders is that there is a difference between the optimistic description of insurance products during the sales process and the refusal of claims for false reasons after risks occur. This phenomenon has raised doubts about the true disclosure obligations of insurance companies under the Insurance Law and the necessity of improving transparency and accountability in insurance transactions. This study aims to delve deeper into this complex issue by examining the legal framework of policyholders' true disclosure obligations under the context of insurance contracts. By doing so, it seeks to contribute to the ongoing legal reform discussions within the insurance industry, with the ultimate goal of promoting a more fair, transparent, and harmonious insurance ecosystem that benefits all stakeholders.

**Keywords:** Policyholder, truthful disclosure, insurance industry, commercial law

## **1. Introduction**

The obligation of policyholders to truthfully disclose can be traced back to 1776 worldwide. At that time, a British judge established the obligation of truthful disclosure for policyholders for the first time when adjudicating an insurance case. Later, through continuous improvement, this obligation became a cultural obligation under the British maritime insurance law. The main connotation of the obligation of the policyholder to truthfully disclose is that the policyholder must inform the insurer of all important information related to insurance and cannot conceal it for any reason. If there is no notification, the obligation is not fulfilled, which violates the principle of maximum good faith in insurance law. The principle of maximum good faith requires both parties to an insurance contract to truthfully inform the other party of important circumstances that may affect the conclusion of the contract relationship, to ensure that the conclusion and performance of the insurance contract are based on genuine expression of intention [1-2].

Honest disclosure is an important rule in insurance contract laws of various countries and a fundamental behavioral norm in insurance contracts. The truthful disclosure mainly occurs at the time of contract formation. From the perspective of contract law theory, it belongs to the pre-contractual obligation and is also a subsidiary obligation based on the principle of maximum good faith. When a party fails to fulfill the obligation of truthful disclosure, the other party cannot force it to actually perform and generally cannot request compensation for damages. Instead, the contract can only be terminated or exempted from insurance liability. The breaching party only bears the adverse consequences of rights reduction or loss of interests [3-4].

## **2. Analysis of the Connotation of the Content Informed by the policyholder**

The content that the policyholder needs to inform is an important fact that can influence the insurer's decision on whether to underwrite or increase insurance premiums. The specific content varies depending on the type of insurance contract. For example, in a life insurance contract, the insured's age, gender, health status, past medical history, family genetic history, etc. are important facts, while in a property insurance contract, the value, quality, risk status, etc. of the insured subject matter are important facts. So, the determination of important facts is the key to the content disclosed by the policyholder. There are usually two ways internationally. One is unlimited disclosure, which means that if the law or the insurer does not have clear provisions on the content of the disclosure, the policyholder must actively inform the insurer of the condition of the insured subject matter and relevant important facts truthfully; The second is inquiry and notification, which means that the policyholder only truthfully informs the insurer of the questions asked, and does not need to inform other questions beyond the inquiry. Our country implements inquiry and notification. Generally, insurers need to list the information provided by the policyholder on the application form and require the policyholder to truthfully fill it out. This means that the scope of information provided by the policyholder is within the scope of the insurer's inquiry. At the same time, the insurer places the exemption clause in a prominent position to remind the policyholder to pay attention, and the policyholder agrees to sign it after reading it [5].

An insurance contract is a contract of "utmost good faith", and the principle of "utmost good faith" runs through the entire process of an insurance contract. However, in reality, in the process of concluding and fulfilling an insurance contract, the policyholder and insurer lack the most "good faith". On the one hand, the policyholder lacks good faith and is unwilling to fulfill the obligation of truthful disclosure. In personal insurance, a considerable number of policyholders and insured persons often realize the importance of participating in insurance only after falling ill, so they apply for insurance. However, the medical history is not truthfully stated in the application form. After the accident, the insurance company learns about the past medical history of the policyholder and insured person through various channels and refuses to claim compensation. On the other hand, the insurance industry is developing rapidly with fierce competition, and insurance agents are of mixed quality. Insurance agents are reluctant to fulfill the obligation of clear explanations due to the large number of developing customers. Insurance agents only explain content and explanations that are beneficial to the policyholder and interpret unfavorable ones without saying or lightly, which cannot help customers correctly understand and understand the contract content, and thus cannot make correct judgments. The language of insurance contract terms is not easy to understand, and the content is complex. Both the policyholder and the insured have certain difficulties in understanding the contract. The arrangement of insurance contract format terms is unreasonable and incomplete, which can easily mislead the policyholder. At this point, the problem arises, and the debate between the parties to the insurance contract regarding the obligation of the policyholder to "truthfully disclose" and the obligation of the insurer to "clearly explain" has sparked a significant portion of insurance disputes.

For a long period of history, the obligation of disclosure only applied to the policyholder and the insured and focused on protecting the interests of the insurer in terms of the scope of the disclosure, determination of important facts, and consequences of failure to disclose. It should be said that in the early stages of the insurance industry, the application of such strict rules is necessary to prevent moral hazard and ensure the survival and development of the insurance industry. But with the development of the insurance industry and social economy, as well as the advancement of risk management and technology, this disclosure obligation that only requires such strict requirements of policyholders gradually becomes unfair. In addition, policyholders and insured individuals are clearly at a disadvantage compared to insurance companies with professional skills and a large scale. The risk of the former being unfairly treated by the latter is greater than the risk of the former not fulfilling truthful disclosure, especially in the field of personal insurance. Due to the formatting and standardization of insurance contract terms, it is difficult for policyholders or insured persons to fully understand the insurance products provided by the insurer in a short period, and it is necessary for the insurer to truthfully inform them [6].

### **3. The requirements for the obligation of truthful disclosure**

From the above aspects, the obligation of truthful disclosure needs to adapt to the requirements of the new era and must undergo necessary adjustments and changes. Therefore, the obligation of truthful disclosure should be a joint obligation of both the policyholder and the insurer. Firstly, the legal basis for the policyholder's obligation to truthfully disclose information is the principle of maximum good faith in insurance, which is a common requirement for both parties to the insurance contract and should not be treated differently. The policyholder, the insured, and the insurer all must comply. Therefore, the main manifestation of the policyholder's compliance with the principle of good faith should also be truthful disclosure, that is, the obligation to truthfully disclose information is equivalent and fair. Secondly, the obligation of the insurer to truthfully disclose to the insured shall not be limited or exempted in the form of contract terms. The obligation of the insurer to disclose shall not be a necessary condition for inquiries from the policyholder or the insured. In any case, the insurer shall proactively explain the terms of the insurance contract sold to the policyholder. In addition, the insurer's liability exemption clause not only needs to be indicated, but also needs to be clearly stated, otherwise it is not binding on the policyholder, insured, and beneficiary [7].

### **4. Conclusion**

This article examines the true disclosure obligations of policyholders under the Insurance Law and proposes the latest requirements for disclosure obligations of insurers in conjunction with contemporary progress. With the rapid development of China's insurance industry and the continuous launch of new insurance products, conflicts and disputes continue to escalate. Emphasizing the obligation of insurers and policyholders to truthfully disclose information during the process of insurance contract formation has important practical value. This is not only a prerequisite for legal improvement, insurance development, and social harmony, but also conducive to safeguarding the legitimate rights and interests of citizens to a greater extent. By promoting the active resolution of insurance disputes, it has realized the people's desire for concepts such as freedom and equality, human rights and the rule of law, fairness and justice, safety and order, dignity and happiness.

Encourage insurance companies to provide clear and accurate information about their products by fulfilling their true disclosure obligations, while requiring policyholders to disclose relevant information that may affect insurance contracts. This mutual transparency promotes trust between insurance companies and policyholders and promotes greater stability and reliability in the insurance

market. In addition, it helps to strengthen the overall legal framework of the insurance industry, making it better able to meet the needs of society and individuals.

In summary, this article advocates strengthening the obligation of true disclosure in insurance contracts to adapt to modern development. By doing so, it aims to contribute to improving the legal system, promoting the development of the insurance industry, promoting social harmony, and protecting the rights and interests of citizens. This method not only solves existing conflicts and disputes, but also meets the people's desire for a just, equal, and secure society.

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