

UNDERSTANDING THE OBLIGATION TO PROVIDE INFORMATION IN LIFE INSURANCE CONTRACTS ACCORDING TO THE PROVISIONS OF THE INSURANCE BUSINESS LAW 2022

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ABSTRACT

The legal framework for human life insurance contracts in general and life insurance in particular, is an extremely complex area. Stemming from the nature of insurance business activities with the subject being risk, the law only provides orientational regulations and the detailed agreements in this relationship will be determined by the parties involved. This complexity has led to many disputes regarding life insurance in practice. This article analyses the legal provisions regarding the obligation to provide information by the parties in life insurance contracts, aiming to assist the entities participating in insurance contracts to fulfill their obligations and protect their rights.

Keyword: *obligation; information; contract; regulation; life insurance.*

1. INTRODUCTION

Life insurance is one of the high-value insurance products that brings significant benefits to policyholders. A life insurance contract is an essential instrument that defines the rights and obligations of both the insurance company and the insured party. On June 16, 2022, the National Assembly promulgated the Law on Insurance Business 2022, replacing the Law on Insurance Business 2000. At present, the provisions on life insurance contracts are codified in Section 1, Chapter II of the Law on Insurance Business 2022. These regulations provide a solid legal foundation for the continued development of the insurance sector in Vietnam.

However, in recent years, the life insurance market has repeatedly witnessed controversial incidents, undermining public trust and the reputation of the insurance business industry. One of the most contentious issues pertains to life insurance contracts. Unlike ordinary civil contracts, life insurance contracts contain numerous detailed clauses with technical and legal terminology, making the contractual language complex. As a result, even policyholders who intentionally read the contract often find it confusing, lengthy and difficult to fully understand due to the specialized terms. Moreover, many customers do not pay sufficient attention to

studying the contract thoroughly and tend to sign based on trust or social courtesy, which later results in complaints and litigation. Therefore, it is necessary to establish a comprehensive, consistent and uniform legal framework to restore order and discipline in the insurance market, thereby rebuilding public trust. This article presents findings from the grassroots-level scientific research project entitled “Study on the legal provisions of life insurance contracts through practice in Vietnam”, Project Code No. 2025.TDHHN.07.04. The research results discussed herein constitute an important part of this project.

2. RESEARCH CONTENT

2.1. On Insurable Interests

The policyholder is the contracting party to an insurance contract, including organizations and individuals who enter into contracts with the insurance enterprise and pay the premiums. The policyholder may at the same time be the insured person or the beneficiary. In life insurance contracts, in order to prevent insurance fraud, the law only permits the policyholder to purchase insurance for the following subjects: themselves; their spouse, parents or children; their siblings or other persons who have a relationship of nurturing or support; or persons who have a

financial interest or an employment relationship with the policyholder.

To safeguard the rights of the insured and to prevent insurance fraud, where the policyholder purchases insurance covering the death of another person, such purchase must be made with the written consent of that person. This provision originates from the principle that the right to life of every individual is sacred and the right to self-determination over one's own life is inviolable. No one has the right to decide over another person's life unless it derives from that person's own will (except in cases where the law imposes punishment) [1].

2.2. Obligation to Provide Information of the Parties

2.2.1. Obligation to Provide Information of the Insurer

In life insurance contracts, the insurer is the party that issues the set of rules and policy terms, which are subject to approval by the Ministry of Finance. Life insurance contracts contain standard-form provisions drafted by the insurer and approved by the Ministry of Finance. Unlike other types of contracts, in life insurance contracts the policyholder does not have the right to participate in negotiating the contract terms but may only accept or reject the terms already incorporated into the contract. The policyholder cannot negotiate the provisions because, given the nature of life insurance as a transfer of risk, the insurer designs the contract terms and submits them for approval to the Ministry of Finance. This creates a significant disadvantage for the policyholder and may be exploited by insurers for improper gain. Therefore, the insurer's obligation to provide information effectively requires the insurer to explain the terms and rules contained in the policy package to the policyholder.

Point b, Clause 2, Article 20 of the Law on Insurance Business 2022 prescribes the insurer's duty as follows: "To clearly and fully explain to the policyholder the insured benefits, the clauses excluding insurance liability and the rights and obligations of the policyholder when concluding the insurance contract" [2].

Article 24 of the Law on Insurance Business 2022 provides for contract interpretation as follows: "In the event that an insurance contract contains an ambiguous provision that gives rise to different

interpretations, that provision shall be interpreted in a manner favorable to the policyholder." Accordingly, the insurer must have the obligation to explain the provisions of the insurance contract and is responsible for the informational content it supplies and explains to the policyholder [3].

Obligation to provide information at contract formation: In addition to explaining the conditions and provisions in the insurance contract, the insurer is also obliged to explain the rights and obligations of the policyholder. In practice, these rights and obligations are often difficult for the policyholder to grasp or are understood only vaguely because the policyholder's knowledge of insurance is usually far more limited than the insurer's. For that reason, the insurer must explain them thoroughly to avoid subsequent misunderstandings that may lead to termination of the insurance contract. Besides explaining the policyholder's rights and obligations, the insurer must also explain exclusion clauses, provide information about insurance products and request the policyholder to provide information related to the insured person...

Obligation to provide information during contract performance: In the course of its business, when there are material changes requiring the Ministry of Finance's approval, the insurer must disclose those changes to the policyholder, such as changes in company name, principal place of business, corporate separation, spin-off, merger, consolidation, dissolution, conversion of legal form, annual financial statements, discontinuation of life insurance products and so forth.

Obligation to provide information when an insured event occurs: A life insurance contract is a bilateral contract, so the insurer has the right to require the policyholder to provide information regarding the insured event. However, because the information required can be extensive and the policyholder may not know which particulars the insurer needs to assess the claim for insurance benefits, the insurer has the obligation to provide the policyholder with a checklist of the information that must be submitted concerning the insured event. In addition, if the insurer conducts its own verification of information related to the insured event of the insured person, the insurer is obliged to notify the policyholder of its verification activities.

2.2.2. Obligation to Provide Information of the Policyholder

Obligation to provide information at contract formation: In the stages of a life insurance contract, the contract formation stage is the most important in terms of the obligation to provide information. At this stage, the policyholder must supply a substantial amount of personal information to the insurer, including age, health status, financial circumstances and family information. Moreover, the information provided by the policyholder will affect the insurer's decision to accept the insurance application and will influence the insurer's premium-rating and subsequent decisions when an insured event occurs. In terms of format, for the majority of insurers today the information is provided via a questionnaire, answered in a "yes/no" format and if an answer is "yes" the respondent is required to describe the matter in detail. The questionnaire typically requests information such as age, occupation, address, personal income, the policyholder's health status and the health status of family members and the proposed insured [4]. The information requested by the insurer can be divided into three main groups: personal data, health information and other relevant information. Based on the information provided by the policyholder, especially information concerning the insured's health, the insurer will assess the risk and consequently decide whether to accept the risk [5].

Obligation to provide information during contract performance: The Insurance Business Law permits the policyholder to modify the information they have provided during the term of the contract. In addition, where changes relating to the insured affect the level of insured risk, the Insurance Business Law requires the policyholder and the insured to notify the insurer so that an appropriate measure can be taken. Changes commonly accepted by insurers include: changes to the sum insured, the insured's age, place of residence, occupation, lifestyle habits, sex and medical conditions of the insured [6].

Obligation to provide information when an insured event occurs: The Insurance Business Law does not stipulate in detail the specific information or documents the policyholder must submit; instead, this depends on the insurer's regulations and requirements. To prevent moral hazard and insurance fraud, when the

policyholder informs the insurer of an insured event and requests payment, the insurer requires the policyholder to provide extensive and case-specific information. For instance, in the case of an accident, hospitalization or death, the insurer will review and evaluate the submitted claim file and supporting information to decide whether to approve or deny the benefit.

2.3. Deficiencies in the Application of Legal Provisions on Life Insurance Contracts

2.3.1. On Insurable Interests

Under the provisions of the Law on Insurance Business 2022, the rules on insurable interests in life insurance contracts still contain elements that require theoretical consideration. Specifically, pursuant to Clause 1, Article 34, there is a separation between marital relationships, blood relationships and maintenance (support) obligations. According to Clause 1, Article 107 of the Law on Marriage and Family 2014, the obligation of maintenance is performed between parents and children; between siblings; between grandparents and grandchildren; between aunts/uncles and their nieces/nephews; and between spouses. Thus, it may be implied that the concepts of "nurturing/maintenance relationship" under the Law on Insurance Business and the "maintenance obligation" under the Law on Marriage and Family are different. In other words, under the Insurance Business Law, if the relationship between the policyholder and the proposed insured is parent, child, spouse or sibling, no further proof of insurable interest is required because such an interest is deemed to fall within the class of insurable interests. For other relationships outside the recognized marital or blood relations, an additional condition of being a person who has a nurturing or maintenance relationship is required. For example, an uncle may purchase insurance on his nephew only if that uncle has a direct obligation to raise or financially support the nephew. A charitable institution may insure persons with disabilities if those persons reside in that institution, etc. Meanwhile, the maintenance obligation under the Law on Marriage and Family is limited to obligations between spouses and those in blood relationships. In practice, a nurturing relationship and a maintenance obligation cannot simultaneously coexist, because where there is a nurturing (caregiving) relationship there is no separate maintenance obligation and vice versa.

2.3.2. The Insurer's Obligation to Provide Information

Firstly, unclear wording in life insurance policy provisions.

Because the subject matter of life insurance contracts concerns life, longevity and human health, policies contain extensive medical jargon and foreign-language technical terms. Consequently, the information in insurance contracts often causes considerable difficulty for policyholders in understanding the product when deciding whether to conclude the contract. In practice, some insurers have exploited this informational disadvantage of policyholders, causing them to misunderstand the nature of the product they purchase or to misinterpret the information in the contract.

Secondly, insurers explain benefits and product information unclearly.

Life insurance is a commercial insurance product and insurers are commercial entities whose objective is to generate profit to operate the company. In order to sell more policies, many agents tend to focus only on the benefits that the policyholder will receive while attempting not to emphasize the obligations that the policyholder must perform. This situation arises from the concern that if prospective policyholders learn of numerous binding obligations, they may abandon the intention to purchase insurance. Moreover, by appealing to consumers' desire for returns, insurers will stress the profit-generating aspects so that policyholders believe life insurance both provides financial protection and offers the potential for returns. Additionally, insurance staff or agents sometimes exploit the policyholder's limited insurance knowledge by failing to explain clearly or by intentionally misrepresenting the benefits of life insurance products.

Thirdly, insurers deliberately overlook details that could render the contract void in order to conclude the contract.

In the insurance relationship, insurers are typically the party most familiar with the contract information. Under the principle of good faith in forming and performing civil transactions, when an insurer discovers that the policyholder has misdeclared information, the insurer should request correction of the declaration or cancel/terminate the contract. However, in

practice some insurers have ignored or deliberately turned a blind eye to such information; when an insured event later occurs, many insurers then rely on the policyholder's incorrect disclosures at contract formation as a ground to deny payment of benefits.

Fourthly, insurers do not rigorously perform medical examinations of the proposed insured when required.

The health of the proposed insured is the most important factor when entering into an insurance contract. Nevertheless, to save costs and maximize profit, some insurers omit health checks or conduct only cursory examinations in order to simplify procedures and reduce expenses. As a result, in many cases the insurer, the policyholder and the insured do not have a clear understanding of the insured person's health status either at the time of contract inception or when an insured event occurs [7].

2.3.3. The Policyholder's Obligation to Provide Information

Policyholders may fail to disclose truthfully their medical history or prior treatments when entering into a life insurance contract; they may not timely notify changes that affect the level of insured risk or those changes may fall within the scope of policy exclusions. In practice, most insurance disputes arise from policyholders' breaches of the duty to provide information, such as concealing or misrepresenting medical conditions and other personal data when submitting an application for insurance.

Fraudulent declarations in application forms intended to obtain insurance benefits are a reality faced by insurers in the Vietnamese market. Notably, in many cases the reason for dishonest disclosure is the collusion of agents (who know that the customer has an illness but conspire with them to suppress the information, fail to declare it or unilaterally complete the declaration on the customer's behalf...).

3. SOME SOLUTIONS TO IMPROVE LEGAL PROVISIONS ON LIFE INSURANCE CONTRACTS

3.1. Amend the Provision on Insurable Interests

Amend Article 34 to add grandparents, aunts, uncles and nephews/nieces as persons who may insure each other so as to align with the Law on

Marriage and Family. Under the Law on Marriage and Family, these persons may have maintenance or support obligations toward one another. Where they owe maintenance or support, they have a legally recognized financial obligation and therefore should have the right to purchase life insurance on one another.

In addition, to ensure the statute's precision, the wording of point c, Clause 1, Article 34 should be clarified to read "other persons who have a nurturing or maintenance relationship with the policyholder" instead of the phrase "other persons who have a nurturing, maintenance relationship."

3.2. Supplement the Law with Rules on How Insurers Must Explain Insurance Contracts

The Insurance Business Law 2022 requires insurers to explain contracts to policyholders but does not specify how this explanation must be carried out. To reduce disputes, it is necessary to require that insurers' explanations be made in writing to the policyholder and be treated as an annex to the policy document set. Beyond a general duty to explain, the insurer must provide a written explanation upon the policyholder's request.

3.3. Specify Financial Liability for Insurers Who Violate the Obligation to Provide Information

Because insurers design the rule set and policy terms, they typically possess superior information compared with policyholders. Therefore, the provision of incorrect information by an insurer is often intentional. It is necessary to prescribe clearer principles and criteria regarding the financial obligations that an insurer must bear in cases where it provides incorrect information when concluding or performing a life insurance contract.

3.4. Add Clear Criteria for Determining Violations of the Duty to Provide Information

In practice, in some cases the policyholder may unintentionally omit information, yet the insurer may still treat such omission as a breach of the duty to disclose and unilaterally cancel the contract. This is somewhat unfair to the policyholder, the weaker party, because the law does not clearly distinguish the grounds for intentional versus unintentional misrepresentation. Therefore, the law should add provisions specifying the criteria for deliberate

misrepresentation. Moreover, to protect policyholders from wrongful denial of benefits, the Ministry of Finance should prescribe a time limit for the health information that must be disclosed — for example, requiring disclosure of the policyholder's medical history for the five years preceding contract formation — to safeguard the policyholder's rights.

3.5. Add Provisions on Insurers' Responsibilities for Training and Managing Sales Staff and Agents

To prevent fraudulent conduct during the sales and advisory process, the law should supplement detailed and specific regulations on insurers' responsibilities to train, supervise and ensure the quality of their sales staff and agents. Stricter rules are needed regarding the obligations of insurers, sales staff and agents to disclose, provide and explain clearly, fully and accurately the information necessary for policyholders and to establish mechanisms and control measures to monitor and verify the effectiveness of these activities.

3.6. Revise the Standard Insurance Policy Form

Currently, life insurance policies are overly long and complex and few people read them in full. To ensure transparency, the policy form should be simplified and shortened, with key provisions presented in a checklist format. In addition, the contract should more clearly require a policy summary to be included.

4. CONCLUSION

From the practical experience of recent disputes in life insurance contracts, it is clear that proper implementation of the legal provisions on life insurance contracts is of paramount importance. Over the past years, the application of legal regulations on life insurance contracts has revealed many inadequacies. These shortcomings stem from statutory provisions that are not sufficiently specific or clear. Therefore, improving the legal framework to make it rigorous, consistent and uniform, while ensuring transparency, openness and equality between the parties, is an essential requirement for the stable orderly and sustainable development of insurance business activities as well as for protecting the lawful and legitimate rights and interests of insurance participants [8]. At the same time, policyholders must exercise the necessary caution

when concluding and performing insurance contracts. They should not rely solely on the advice or sales pitches of insurance advisors or agents, but should proactively seek information about the insurance product, the insurer and the relevant legal regulations and should carefully study and fully understand the contents of the insurance contract.

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