

# The Principle of Good Faith in Policy Execution as the Basis for the Legal Protection of the Insured in Life Insurance Contracts

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## ABSTRACT

The implementation of life insurance policies often leads to legal disputes concerning the application of the principle of *utmost good faith* and the legal protection of insured parties. Claim rejections are frequently based on the alleged failure of insured parties to disclose material facts, although insurers are likewise required to provide transparent information, conduct proper risk assessment, and perform contractual obligations in good faith. This study aims to analyze the principle of good faith as the legal foundation for protecting insured parties in the implementation of life insurance policies and to examine its role in resolving insurance disputes. The research employs a normative legal method using statutory, conceptual, and case approaches. Primary legal materials consist of the Indonesian Civil Code, the Indonesian Commercial Code, Law Number 40 of 2014 concerning Insurance, and relevant court decisions, supported by secondary legal materials collected through library research. The materials were analyzed qualitatively using a prescriptive approach. The findings reveal that the principle of good faith creates reciprocal obligations for both insurers and insured parties throughout policy implementation, including disclosure of material facts, professional underwriting, transparent policy formulation, and objective claim assessment. The study concludes that consistent application of this principle strengthens legal certainty, promotes balanced contractual relationships, and enhances legal protection for insured parties in life insurance practice.

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## 1. INTRODUCTION

The life insurance industry in Indonesia has experienced significant growth in recent years, reflecting the increasing public awareness of the importance of financial protection against life-related risks. Life insurance is no longer regarded merely as a risk transfer mechanism but has become an integral part of financial planning, providing economic security for insured parties and their beneficiaries when insured events occur. Within this legal relationship, the insurance policy serves as

the primary instrument establishing the rights and obligations of both the insurer and the insured. Accordingly, the implementation of life insurance policies must ensure legal certainty while maintaining a balanced protection of the interests of both parties (N. T. N. Bach, 2020). Nevertheless, disputes frequently arise during policy implementation, particularly when differences emerge regarding the interpretation of policy provisions and the fulfillment of contractual obligations after the occurrence of an insured event.

One of the most common causes of disputes in the implementation of life insurance policies concerns the application of the principle of *utmost good faith*. This principle requires honesty, transparency, and mutual trust as the foundation for both the formation and performance of insurance contracts. Unlike ordinary civil contracts, insurance agreements are established primarily on information possessed by prospective insured parties. Consequently, insurers rely on information relating to health conditions, occupations, and other risk-related circumstances when conducting the underwriting process (Thanasegaran, 2016). At the same time, insurers are equally obliged to provide accurate explanations regarding insurance coverage, policy exclusions, and the legal consequences arising from contractual provisions. This reciprocal relationship demonstrates that the principle of good faith is not solely an obligation of the insured but also constitutes a legal standard of conduct that binds insurers throughout the contractual relationship.

Legal issues arise when the implementation of insurance policies no longer reflects the objectives of the contract. In practice, insurance claims are frequently rejected on the grounds that the insured allegedly failed to disclose material facts during the application process. Conversely, insured parties or their beneficiaries often argue that the information provided accurately reflected their knowledge and corresponded to the questions presented by the insurer. Such differences in understanding indicate that insurance disputes involve not only the existence of undisclosed material facts but also the extent to which insurers have fulfilled their obligations to verify risks, explain policy provisions, and exercise due diligence before issuing the policy (Abisheva, Omirali, & Yensebayeva, 2025). Accordingly, legal protection for insured parties cannot be separated from the consistent application of the principle of good faith by both contracting parties.

The legal protection of insured parties occupies an essential position because the contractual relationship between insurers and insured parties is not always balanced. Insurance companies possess superior technical expertise, professional experience, and greater control over the drafting and interpretation of policy provisions. In contrast, prospective insured parties generally rely on explanations provided by insurance agents and standard-form contracts prepared by insurers. This imbalance of information may result in disputes whenever policy implementation is based on unilateral interpretations of contractual provisions. Therefore, the principle of good faith should not be understood merely as an obligation to disclose material facts but also as a legal instrument ensuring the balance of rights and obligations throughout the implementation of the insurance policy.

Previous studies have examined the principle of good faith in insurance law from various perspectives. Some scholars have focused on the application of Article 251 of the Indonesian Commercial Code as the legal basis for voiding insurance contracts due to the insured's failure to disclose material facts (Glušac, 2024). Other studies have analyzed legal protection for policyholders under Law Number 40 of 2014 concerning Insurance, particularly in relation to claim dispute resolution. Additional research has explored the relationship between the principle of *utmost good faith* and the duty of disclosure during the formation of insurance contracts (Hudayberdiyev, 2024). Although these studies have contributed to the development of insurance law, they have

predominantly emphasized the insured's disclosure obligations or the legal consequences of claim rejection.

Despite these contributions, relatively limited attention has been devoted to examining the principle of good faith as the legal foundation for protecting insured parties throughout the implementation of life insurance policies. Most previous studies have not comprehensively analyzed the reciprocal relationship between the insured's duty to disclose material information and the insurer's obligation to provide clear information, conduct professional risk verification, and perform contractual obligations in accordance with fairness and reasonableness (Bach, 2025). This study addresses that gap by positioning the principle of good faith as the legal basis governing the entire implementation of life insurance policies. Consequently, legal protection should not depend solely on the insured's compliance with disclosure obligations but should also reflect the proportional fulfillment of the insurer's contractual responsibilities (Prayogo & Syufaat, 2023).

Based on these issues, this study aims to analyze the legal position of the principle of good faith in the implementation of life insurance policies, examine the forms of legal protection available to insured parties under Indonesian positive law, and explain how the principle of good faith is applied in the settlement of disputes arising from policy implementation. The findings are expected to contribute to the development of Indonesian insurance law by strengthening the understanding that balanced contractual rights and obligations constitute the fundamental basis of legal protection within life insurance agreements.

This research employs a normative legal method using statutory, conceptual, and case approaches to analyze the implementation of legal norms in life insurance disputes. Primary legal materials consist of the Indonesian Commercial Code, the Indonesian Civil Code, Law Number 40 of 2014 concerning Insurance, and relevant court decisions. These materials are supported by secondary legal sources, including academic books, journal articles, and previous legal studies. All legal materials were collected through library research and analyzed qualitatively using a prescriptive legal analysis to formulate legal arguments regarding the application of the principle of good faith as the foundation of legal protection for insured parties in the implementation of life insurance policies.

## 2. METHODS

This study employs a normative legal research method to analyze the application of the principle of utmost good faith as the legal foundation for protecting insured parties in the implementation of life insurance policies. The research adopts three complementary approaches: the statutory approach, the conceptual approach, and the case approach. The statutory approach examines the legal framework governing the relationship between insurers and insured parties, particularly the Indonesian Commercial Code (Kitab Undang-Undang Hukum Dagang), the Indonesian Civil Code (Kitab Undang-Undang Hukum Perdata), Law Number 40 of 2014 concerning Insurance, and other relevant regulations governing the insurance industry. The conceptual approach is used to analyze legal doctrines relating to the principle of utmost good faith and legal protection within contract law, while the case approach examines relevant judicial decisions to evaluate the practical implementation of legal norms in resolving life insurance disputes.

The legal materials consist of primary, secondary, and tertiary legal sources. Primary legal materials include statutory regulations and court decisions relevant to the subject matter of this research. Secondary legal materials comprise academic books, scholarly journal articles, previous legal

studies, and other literature concerning insurance law, contract law, and the principle of good faith. Tertiary legal materials include legal dictionaries, encyclopedias, and other reference sources that assist in interpreting legal terminology. All legal materials were collected through library research and analyzed qualitatively using a prescriptive legal analysis. The analysis involved identifying applicable legal norms, interpreting relevant legal provisions, and evaluating their implementation in life insurance policy execution to formulate legal arguments regarding the protection of insured parties based on the principle of utmost good faith.

### 3. FINDINGS AND DISCUSSION

#### 3.1. *The Principle of Good Faith as the Foundation for the Implementation of Life Insurance Policies*

The implementation of life insurance policies is fundamentally based on a fiduciary relationship between the insurer and the insured. Unlike ordinary reciprocal contracts, which primarily emphasize the fulfillment of contractual obligations after the agreement has been concluded, insurance contracts require honesty and transparency from the initial application stage until the termination of the insurance coverage. The analysis of the Indonesian Commercial Code, the Indonesian Civil Code, and the implementation of insurance policies examined in this study demonstrates that the principle of good faith functions not only as a fundamental principle governing the formation of contracts but also as a legal standard of conduct that binds both parties throughout the contractual relationship. Consequently, the proper implementation of an insurance policy depends not merely on compliance with administrative requirements but also on the consistent fulfillment of rights and obligations in an honest, transparent, and responsible manner.

The normative foundation of this principle is established in Article 1338 paragraph (3) of the Indonesian Civil Code, which requires every agreement to be performed in good faith. In insurance law, this obligation is reinforced by Article 251 of the Indonesian Commercial Code, which imposes the duty to disclose material facts on the insured. The findings of this study indicate that these two provisions should not be interpreted separately because they perform complementary functions. While Article 251 regulates the legal consequences of failing to disclose material facts, Article 1338 paragraph (3) provides the ethical and legal framework governing the proper performance of contractual obligations. Together, these provisions demonstrate that the principle of good faith in life insurance contracts is intended not only to protect the interests of insurers but also to safeguard the legal position of insured parties during the implementation of policy obligations.

The findings further reveal that the application of the principle of good faith in Indonesian insurance practice continues to be predominantly associated with the insured's obligation to disclose all material facts relating to the insured risk. Such an interpretation is understandable, given that insurance contracts rely substantially on information provided by prospective insured parties during the underwriting process. Nevertheless, this study finds that such an approach does not fully reflect the balanced nature of the contractual relationship. As professional business entities, insurers also have a legal obligation to conduct careful underwriting before accepting insurance applications. This process serves not only to assess the level of risk but also to verify the accuracy of information submitted by prospective insured parties. Accordingly, the effective implementation of the principle of good faith depends on the proportional fulfillment of obligations by both parties rather than solely on the honesty of the insured.

The findings also demonstrate that the principle of utmost good faith encompasses a broader legal dimension than merely requiring the disclosure of material facts. Throughout the duration of the contractual relationship, this principle functions as an instrument integrating the respective rights and obligations of insurers and insured parties. The insured is obliged to provide accurate information based on his or her knowledge, whereas the insurer is responsible for explaining policy benefits, exclusions, claim procedures, and conducting professional risk assessments before issuing the policy. Such reciprocal obligations are essential because life insurance contracts concern not only the economic interests of the parties but also the protection of legal certainty when the insured risk materializes (Olivia & Chinelo, 2021).

To illustrate the reciprocal application of the principle of good faith, the findings of this study are summarized in Table 1.

**Table 1.** Implementation of the Principle of Good Faith in Life Insurance Policy Execution

| Stage of Contract Formation | Obligations of the Insured                                    | Obligations of the Insurer  | Implementation of the Principle of Good Faith                           |
|-----------------------------|---|---|---|
| Insurance application       | Complete the application accurately, fully, and honestly      | Provide clear explanations regarding insurance products, benefits, risks, and policy requirements | Establishes transparency during the pre-contractual stage               |
| Underwriting process        | Submit all required supporting documents                      | Verify the applicant's information and assess the insured risk                                    | Ensures objective and professional risk assessment                      |
| Policy issuance             | Pay the agreed insurance premium                              | Deliver the policy and explain the rights and obligations of both parties                         | Establishes mutual understanding of the contractual terms               |
| Policy implementation       | Perform contractual obligations in accordance with the policy | Fulfill contractual obligations properly and in a timely manner                                   | Maintains a balanced legal relationship throughout the insurance period |

Table 1 illustrates that the principle of good faith is not confined to a particular stage of the insurance relationship but operates throughout the entire life cycle of the insurance policy. Each stage reflects reciprocal obligations that must be fulfilled proportionally by both the insured and the insurer (Soemartono, 2025). Failure by either party to perform these obligations may disrupt the contractual balance and ultimately give rise to legal disputes. In this context, the principle of good faith should not be regarded as a mechanism for attributing fault to one party but rather as a legal instrument that ensures the transfer of risk is carried out based on trust, transparency, and fairness.

The analysis also indicates an evolving interpretation of the principle of good faith within Indonesian insurance law. Traditionally, the principle has been closely associated with the legal consequences arising from the insured's failure to disclose material facts. However, the findings of this study suggest that its application should be understood within a broader framework of reciprocal

contractual obligations. Insurers should not rely exclusively on the insured's duty of disclosure without demonstrating that the underwriting process has been conducted professionally and in accordance with the applicable standard of care (Bork & Wandt, 2020). Accordingly, the principle of good faith serves as the legal foundation for implementing life insurance policies by ensuring a balanced allocation of contractual rights and obligations while simultaneously providing the basis for assessing legal protection afforded to insured parties.

### **3.2. Legal Protection of the Insured in the Implementation of Life Insurance Policies**

Legal protection for insured parties in the implementation of life insurance policies is not intended merely to guarantee the fulfillment of claim payments but also to ensure that the entire contractual relationship is carried out in accordance with the principles of justice, legal certainty, and contractual balance. The findings of this study demonstrate that such protection is normatively grounded in the Indonesian Civil Code, the Indonesian Commercial Code, and Law Number 40 of 2014 concerning Insurance. Nevertheless, the effectiveness of legal protection depends not only on the existence of statutory regulations but also on the insurer's consistent application of the principle of *utmost good faith* throughout the implementation of the insurance policy.

Based on the findings, legal protection for insured parties in the execution of life insurance policies is manifested through the following forms:

#### **1. Protection through Legal Certainty of Policy Provisions**

The insurance policy constitutes the primary written instrument establishing the legal relationship between the insurer and the insured. Accordingly, all contractual rights and obligations, insurance benefits, policy exclusions, coverage periods, premium amounts, and claim procedures should be formulated clearly and comprehensively. The findings indicate that the clarity of policy provisions represents the most fundamental form of legal protection because every action undertaken by the contracting parties during the insurance period is governed by the terms of the policy (Song, 2023). Ambiguous clauses or provisions that permit unilateral interpretation may create legal uncertainty and potentially prejudice the insured when submitting a claim. In this respect, the principle of good faith requires insurers to draft policy provisions transparently so that insured parties fully understand the legal consequences arising from the insurance contract.

#### **2. Protection through the Duty to Provide Accurate and Complete Information**

The study reveals that the legal relationship in life insurance is established through the exchange of information between the insurer and the insured. Traditionally, the obligation to disclose information has been emphasized primarily on the insured through the disclosure of material facts. However, the findings indicate that insurers bear an equally important obligation to provide complete and accurate information regarding insurance coverage, insured and excluded risks, premium payment procedures, claim procedures, and the legal consequences of non-compliance with policy provisions. Inadequate disclosure may lead insured parties to make contractual decisions without fully understanding the actual scope of protection provided under the policy (Ardiansyah, Nurjaman, Saputra, Febriansyah, & Rafles, 2024). Therefore, transparency of information constitutes an essential preventive mechanism for legal protection.

### 3. Protection through Professional Underwriting

The underwriting process represents a crucial stage in both the formation and implementation of the insurance relationship. The findings demonstrate that insurers should not rely exclusively on information provided by prospective insured parties without conducting adequate verification. Medical examinations, document verification, and professional risk assessment constitute essential responsibilities of insurers before accepting insurance applications (Huda, 2017). A thorough underwriting process minimizes the likelihood of disputes during claim settlement because the insured risk has already been assessed based on verified information. Conversely, when insurers neglect proper underwriting procedures and only question the existence of material facts after a claim has been submitted, the legal protection afforded to the insured becomes significantly weakened.

### 4. Protection of the Insured's Rights during the Claim Settlement Process

The implementation of an insurance policy reaches its most critical stage when the insured or the beneficiary submits a claim following the occurrence of an insured event. The findings indicate that insurers are required to examine claims objectively by considering the policy provisions, supporting evidence, and applicable legal regulations (Mulhadi & Harianto, 2022). A claim should not be rejected solely on the basis of an allegation that the insured acted dishonestly. Rather, the insurer must establish that the undisclosed information constituted a material fact that substantially influenced the underwriting decision. Consequently, legal protection extends beyond the insured's right to submit a claim and includes the right to a fair, transparent, and accountable claim assessment process.

### 5. Protection through Dispute Resolution Mechanisms

When disputes arise concerning the implementation of an insurance policy, insured parties are entitled to pursue dispute resolution mechanisms in accordance with applicable laws and regulations. The findings demonstrate that dispute resolution serves not only as a means of obtaining claim payments but also as a legal mechanism for assessing whether insurers have fulfilled their obligations in accordance with the principle of *utmost good faith* (Nugraha, Fadil, Khumairoh, Dikrurahman, & Permana, 2024). In resolving such disputes, courts or other dispute resolution bodies evaluate the conduct of both parties throughout the contractual relationship, including the insurance application process, underwriting procedures, policy issuance, and the legal basis for claim rejection. This comprehensive assessment provides legal protection for insured parties whenever insurers are found to have acted contrary to the principles of fairness, transparency, and contractual balance.

The analysis demonstrates that the effectiveness of legal protection for insured parties depends not only on the existence of legal norms governing life insurance contracts but also on the consistent implementation of the principle of good faith by both contracting parties throughout policy execution (Roosdiono, Subiyanto, & Taqwa, 2022). Legal protection can function effectively only when insurers fulfill their professional responsibilities from the stages of risk acceptance, policy drafting, and claim assessment, while insured parties continue to provide truthful information concerning matters relevant to the insured risk. Such reciprocal conduct reflects the balance of contractual rights and obligations that constitutes one of the fundamental objectives of contract law. Accordingly, the principle of good faith should no longer be understood solely as a legal standard for determining contractual breaches but rather as a legal mechanism that preserves mutual trust while ensuring fair legal protection throughout the implementation of life insurance policies. These findings provide the basis for further

examining how the principle of good faith is applied in judicial reasoning during the resolution of life insurance disputes, as discussed in the following section.

### ***3.3. Analysis of the Application of the Principle of Good Faith in Life Insurance Policy Implementation and Dispute Resolution***

The implementation of life insurance policies does not always proceed in accordance with the contractual terms agreed upon by the parties. In practice, disputes commonly arise due to differences in the interpretation of the respective rights and obligations of insurers and insured parties after the insured event has occurred. The findings of this study indicate that the primary cause of such disputes is not merely the rejection of insurance claims but also differing interpretations regarding the application of the principle of utmost good faith throughout the execution of the insurance policy (Yuniarti, 2020). This demonstrates that disputes arising from life insurance contracts should not be viewed solely as matters of breach of contract but also as issues concerning the quality of legal obligations that must be performed reciprocally by both insurers and insured parties.

The analysis identifies several interrelated aspects through which the principle of good faith is implemented in the execution of life insurance policies.

#### **1. Transparency of Information from the Beginning of the Contractual Relationship**

The principle of good faith requires that all information forming the basis of the insurance contract be disclosed honestly by the insured and explained comprehensively by the insurer. Such information includes not only the prospective insured's health condition but also the scope of insurance coverage, policy exclusions, waiting periods, and claim procedures (Widodo, 2024). A lack of transparency at the pre-contractual stage may give rise to differing interpretations once the policy becomes effective, thereby increasing the likelihood of future disputes.

#### **2. Consistency in the Performance of Contractual Obligations**

The implementation of an insurance policy extends beyond the payment of premiums by the insured and the issuance of the policy by the insurer. Both parties remain legally obliged to perform their contractual duties in accordance with the principles of fairness, reasonableness, and contractual balance. The findings demonstrate that the principle of good faith functions as a legal benchmark for evaluating whether the conduct of each party reflects the objectives of the insurance contract rather than merely complying with its literal wording.

#### **3. Objectivity in Claim Assessment**

Claim assessment constitutes the most critical stage in the implementation of a life insurance policy. The findings reveal that claim rejection must be supported by objective evidence demonstrating a breach of contractual obligations rather than by a mere allegation that the insured failed to disclose material facts (Musjab, 2024). Insurers remain responsible for proving that any undisclosed information genuinely constituted a material fact capable of influencing the underwriting decision at the time the policy was issued.

To further illustrate the relationship between the application of the principle of good faith and the resolution of insurance disputes, the findings are presented in Table 2.

**Table 2.** Analysis of the Application of the Principle of Good Faith in the Implementation of Life Insurance Policies

| Aspect Analyzed              | Implementation in Policy Execution   | Implications for Dispute Resolution   |
|------------------------------|--|---|
| Disclosure of material facts | The insured provides information based on his or her actual knowledge                    | Forms the basis for determining whether contractual obligations have been breached                                  |
| Verification by the insurer  | The insurer conducts professional underwriting and risk assessment                       | Determines the insurer's legal responsibility in claim disputes   |
| Drafting of policy clauses   | Policy provisions are formulated clearly and without ambiguity                           | Minimizes the potential for conflicting contractual interpretations   |
| Claim assessment             | Claims are evaluated based on policy provisions, supporting evidence, and applicable law | Ensures objectivity in claim determination  |
| Dispute resolution           | Courts or dispute resolution bodies assess the conduct of both contracting parties       | Promotes a balanced allocation of contractual rights and obligations in accordance with the principle of good faith |

Table 2 demonstrates that the application of the principle of good faith cannot be assessed solely on the basis of the insured's conduct during the completion of the insurance application form. Rather, the analysis of each stage of policy implementation confirms that insurers bear an equally significant responsibility in maintaining the balance of the contractual relationship (Arofah, Sabila, Luthfiyah, Solichin, & Andri, 2024). Consequently, when disputes arise concerning the execution of an insurance policy, the assessment of good faith should encompass the entire contractual process, beginning with contract formation and continuing through underwriting, policy issuance, and claim submission.

The findings further indicate that life insurance disputes can no longer be resolved through a purely formalistic interpretation of legal provisions. Article 251 of the Indonesian Commercial Code should be interpreted together with Article 1338 paragraph (3) of the Indonesian Civil Code, which establishes the principle of good faith, as well as the broader principle of contractual balance. Such an integrated approach enables a more proportionate evaluation of the conduct of both parties (Zhu, 2020). Accordingly, dispute resolution should not focus exclusively on determining whether the insured failed to disclose material facts but should also examine whether the insurer fulfilled its professional obligations during underwriting, policy drafting, and claim assessment. From this perspective, legal protection for insured parties should not be understood as favoring one contracting party over the other but rather as ensuring a fair balance of contractual rights and obligations, which constitutes the fundamental objective of life insurance agreements (Feinman, 2018; Roosdiono, Taqwa, & Salsabila, 2022).

The analysis reinforces the finding that the principle of good faith performs a broader function than merely governing the formation of insurance contracts. In the implementation of life insurance policies, it has evolved into a comprehensive legal standard for evaluating compliance with contractual obligations while simultaneously providing the legal basis for resolving disputes arising from the

execution of those obligations. Therefore, the effectiveness of legal protection for insured parties depends not only on the completeness of statutory regulations but also on the consistent application of the principle of good faith throughout every stage of the contractual relationship between insurers and insured parties. These findings confirm that policy implementation founded upon transparency, professionalism, and balanced contractual interests is capable of reducing the potential for disputes while strengthening legal certainty for all parties involved in life insurance agreements.

#### 4. CONCLUSION

This study demonstrates that the principle of utmost good faith constitutes the fundamental legal basis for implementing life insurance policies and protecting insured parties within contractual relationships. Rather than functioning solely as an obligation for insured parties to disclose material facts, the principle establishes reciprocal duties requiring insurers to provide transparent information, conduct professional underwriting, formulate clear policy provisions, and assess claims objectively. Consequently, legal protection for insured parties should be understood as the realization of balanced rights and obligations throughout the implementation of the insurance policy rather than as a mechanism limited to dispute resolution. The findings further indicate that the effectiveness of legal protection depends not only on statutory provisions but also on the consistent application of the principle of good faith by both contracting parties. A balanced interpretation of this principle contributes to greater legal certainty, prevents unilateral claim determinations, and promotes fairness in the settlement of life insurance disputes. Accordingly, strengthening good faith in every stage of policy implementation is essential to achieving equitable contractual relationships in the Indonesian insurance sector. Future research may expand this study by examining the implementation of the principle of good faith in different categories of insurance, including health, property, and commercial insurance, or by conducting empirical research on judicial practices and dispute resolution mechanisms to evaluate the effectiveness of legal protection for insured parties in practice.

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