

Doctrine of Uberrima Fides: Analysis of Reliance Life Insurance V/S Rekhaben

Naresh bhai Rathod (2019)

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Introduction

The foundational principle governing insurance contracts is the Doctrine of Uberrima fides, signifying “utmost good faith” in Latin. In the realm of insurance agreements, both parties are bound to act in good faith and provide a comprehensive disclosure of all pertinent facts outlined in the insurance policy³. Given that insurance involves the transfer of risk on a distinct basis, a heightened level of good faith is imperative in these contracts. It becomes the obligation of the insured party to divulge any significant information within their knowledge. In instances of life insurance, certain generic questions address overarching concerns, yet there may be individual-specific conditions unknown to the insurer, which, if disclosed, would undoubtedly trigger further investigation. Determining the relevance of information to the contract proves to be a nuanced aspect.

The principle dictates that the party entering into the contract must possess the utmost good faith from the other party. Violation of the contract occurs if the proposer conceals or misrepresents material facts. Concealment and misrepresentation of material facts render the contract void. Additionally, the insurer’s innocent misstatements or misrepresentations are

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³ Handbook on Opening of Insurance Sector – Policy, Regulations, Guidelines and List of Foreign Companies, by Centre of Publications

inadmissible for up to two years, at the insurer's discretion. Section 45 of the Insurance Act of 1938 imposes a two-year time limit in life insurance cases for challenging the legality of a policy based on untrue or incorrect statements in responses to questions. The insurer is precluded from asserting that the insurance policy was obtained innocently, and to establish this, one must substantiate the statements made by the insurer.

The case of Reliance Life Insurance Co. Ltd and Anr v RekhabeNareshbhaiRathod⁴ highlights the Supreme Court of India's reaffirmation of a key Insurance Law principle. It emphasizes that the failure of an insured individual to disclose material information during the insurance contract's inception permits a prudent insurer to reject any subsequent claim based on such non-disclosure. This project sees the intersection between the principle and the case laws development on it.

THE DOCTRINE OF UBERRIMA FIDES

Meaning

Uberrima Fides, a Latin expression denoting "utmost good faith," encapsulates a pivotal legal doctrine governing insurance contracts. This doctrine necessitates that all parties involved in an insurance agreement conduct themselves with unwavering good faith, disclosing every pertinent detail in the insurance proposal. The essence of this principle lies in the concept of "firm adherence to promises made to another," encapsulating the complete trust in the fidelity of each party to the contract. The realm of insurance contracts operates under the pervasive influence of the legal maxim, "the utmost good faith." This signifies that the involved parties are obligated to adhere to a heightened degree of good faith compared to general contractual agreements. Insurance, functioning as a mechanism for risk transference,

⁴ Civil Appeal No. 4261 of 2019 (SC)

operates on a distinct basis. Whether the non-disclosure of a material fact by the assured is fraudulent or innocent, the effect is uniform – it can result in the avoidance of the contract. The assured bears a stringent duty to disclose all material facts within their knowledge, placing a significant emphasis on transparency in the exchange of information. In the context of life insurance, specific questions are posed to applicants, addressing points relevant to humanity at large. However, there might be circumstances specific to individuals that are not readily known to the insurer. These circumstances, if disclosed, could potentially impact the insurer's decision-making process. The determination of what information is material to the contract is expansive and may be adjudicated by a court or a committee of arbitrators in cases of dispute. However, leaving such a determination solely to the proposer's opinion is not tenable.

The criterion for materiality is defined as any circumstance that would influence the judgment of a prudent insurer in setting premiums or deciding whether to accept the risk. In the intricate web of an insurance contract, each party relies on the good faith of the other. If the proposer conceals or misrepresents material facts, the very foundation of the contract is compromised. Deliberate misrepresentation constitutes fraud, rendering the policy legally void. On the other hand, innocent misstatements or misrepresentations provide the insurer with the option to void the policy within a two-year timeframe.

In essence, Uberrima Fides stands as a beacon guiding the conduct of parties within the realm of insurance, emphasizing the indispensability of transparent communication, full disclosure, and the highest standards of good faith to maintain the integrity of insurance contracts.

The Doctrine under Insurance Law

Section 45 of the Insurance Act, 1938 introduces a significant safeguard in the context of life insurance policies. It imposes a two-year time limit for insurers to question the validity

of a policy based on misstatements in the proposal form or related documents. According to this provision, once two years have elapsed from the policy's inception, an insurer cannot challenge the policy's legitimacy solely on the grounds of inaccuracies or falsehoods in statements made during the proposal process. Section 45 goes beyond mere inaccuracy or falsity in statements, requiring insurers to establish that the life insurance policy was procured through fraudulent misrepresentation.⁵

In other words, the insurer must convincingly demonstrate that the policyholder knowingly engaged in fraudulent practices to secure the policy. For an insurer to invoke the provision and void a policy on the grounds of fraudulent concealment, it must substantiate several key elements. First, the insurer needs to prove that the statement in question pertained to a material matter or involved the suppression of facts crucial to disclose. Additionally, it must be established that the policyholder made the statement fraudulently, with full awareness of its falsity or the material facts being withheld. The burden lies on the insurer to demonstrate not only the fraudulent nature of the statement but also the policyholder's knowledge of its falsehood at the time of making it. In essence, Section 45 sets a stringent standard, requiring insurers to meet specific criteria to challenge the validity of a life insurance policy based on fraudulent misrepresentation. This provision aims to strike a balance between protecting the interests of policyholders and ensuring that insurers have legitimate grounds and evidence before contesting the enforceability of life insurance contracts.

Indisputability Of Policy

⁵Trakman L.E., 'Mysteries surrounding the material disclosure in insurance law', (1984)

The principle of utmost good faith, while crucial in insurance contracts, has often posed challenges due to potential disputes arising from statements made during the proposal.

To alleviate this difficulty, certain provisions in the relevant legislation address this issue. In India, Section 45 of the Insurance Act, 1938 introduces the concept of the “indisputable clause” to mitigate hardships related to contesting policies based on misstatements. According to this clause, once two years have elapsed from the policy’s initiation, an insurer cannot challenge the policy’s validity merely on the grounds of inaccuracies or falsehoods in statements made during the proposal. However, the insurer retains the right to question the policy if it can demonstrate that the statement in question was material, involved the suppression of crucial facts, was fraudulently made by the policyholder, and that the policyholder was aware of the statement’s falsity or the material facts being withheld at the time of making it. This provision does not preclude the insurer from requesting proof of age at any time if entitled to do so. The indisputable clause under Section 45 thus strikes a balance between providing a safeguard against arbitrary policy challenges after a certain period and allowing insurers the necessary recourse when faced with situations involving fraudulent misrepresentation or material non-disclosure.

This provision aims to ensure fairness and stability in the resolution of disputes related to life insurance policies. Material facts, rooted in the legal principle of “utmost good faith,” mandate individuals seeking insurance to transparently disclose any and all information that an insurer could reasonably consider relevant. These facts, constituting material information, encompass any detail that an insurance underwriter could utilize to evaluate the associated risk in insuring a specific individual. The assessment of this risk forms the basis for determining both the coverage and premium, or cost, assigned by the insurer. In the legal case of *Satwant Kaur Sandhu vs. New India Assurance Co. Ltd.*, the court

elucidated the term “material fact” to encompass any information capable of influencing the insurer’s judgment in setting premiums or deciding whether to accept or decline the associated risk. This underscores the critical role of material facts in the insurance context, where full and honest disclosure by the insured is imperative to ensure a fair evaluation of risk and to maintain the integrity of the contractual relationship between the insured and the insurer.

ANALYSING RELIANCE LIFE INSURANCE V/S REKHABEN NARESHBHAI

RATHOD (2019)

Background of the Case

- On July 10, 2009, the insured acquired a life insurance policy from Max New York Life Insurance Company, amounting to Rs. 11 lakhs.
- Subsequently, on September 16, 2009, the insured applied for a new life insurance policy with Reliance Life Insurance, seeking coverage of Rs. 10 lakhs. Notably, the insured withheld information about the existing Max New York policy when questioned by Reliance Life Insurance regarding previous coverage. Despite specific queries about other insurance plans, the insured responded with ‘not applicable.’
- The proposal form included a declaration stating, “I understand and agree that the statements in this proposal form shall be the basis of the contract... If any statements made by me are untrue or inaccurate... the Company may cancel the contract, and all premiums paid will be forfeited.” The Respondent’s spouse passed away in 2010, leading to a claim on the policy.
- The insured later disclosed the previous Max New York Insurance policy to Reliance Life Insurance. However, the claim was rejected based on the

alleged suppression of facts. Subsequently, the Respondent filed a complaint with the District Consumer Redressal Commission, which was dismissed due to non-disclosure.

- On appeal, the State and National Commissions overturned the decision, stating that the disclosure of the previous insurance policy wouldn't influence a prudent insurer's decision. The Appellant has contested this judgment through an appeal against the State and National Consumer Redressal Commission's ruling.

Analysis

The District Consumer Redressal Forum dismissed the complaint, citing non-disclosure of material facts by the Complainant. The decision aligns with the doctrine of Uberrima fides, a fundamental principle in insurance contracts, emphasizing utmost good faith. This doctrine underscores the obligation to fully and honestly disclose all relevant information, and the Forum deemed the non-disclosure as grounds for denying the policy claim.

State Consumer Redressal Forum: Following the rejection of the complaint by the District Consumer Redressal Forum, the Insured's wife appealed the decision. The State Consumer Redressal Forum heard the appeal and granted approval. The judgment emphasized that the insured's omission to disclose a previous insurance policy wouldn't sway the judgment of a prudent insurer. The Forum speculated that the insured may not have intended to withhold material facts, assuming that a prudent insurer would not be adversely affected.

National Consumer Redressal Forum: The National Consumer Redressal Forum upheld and affirmed the judgment of the State Consumer Redressal Forum.

Supreme Court: In its deliberations, the Apex Court considered crucial aspects, including the insured's disclosure in the policy proposal form. The Court noted a clear non-disclosure of the earlier life insurance cover by the insured. This omission, according to the Court, rendered the claim under the policy invalid. The Supreme Court underscored the Doctrine of Uberrimafidei, emphasizing complete good faith by the insured. It highlighted that the insured must disclose all material facts to the insurer, and a breach of this duty would void the claim. The respondent was granted the option to withdraw half of the decretal sum, as directed by the Supreme Court. To ensure justice, the Court ruled that the withdrawn sum by the respondent should not be reclaimed under Article 142 of the Constitution.

Arguments

Appellant Counsel's Arguments: The respondent deliberately concealed crucial information by not providing required details, placing the responsibility on the insured to investigate. The appellant initiated the claim within two years under Section 45, which does not allow repudiation of misstatement grounds after this period. The State and National Consumer Redressal Forum's judgment contradicts this provision. Additionally, the insurer can reject the claim under Sections 17 and 19 of the Contract Act, citing fraud and voidability of a contract without free consent.

Respondent Counsel's Arguments: The agent obtained a blank proposal from the insured while securing his signature. Emphasizing that the proposal form was blank, the respondent argues that the non-disclosure of the previous policy should not be a basis for rejecting the claim. Furthermore, there is no prohibition on holding any number of life insurance policies from different insurers.

Precedents Referred

- *VK SrinivasaSetty v. Messers Premier Life and General Insurance Co Ltd*⁶ can be discerned in the context of establishing the accountability of an individual who signs a proposal containing false statements. The case highlights that the mere act of signing without reading or comprehending the proposal does not absolve one from the consequences. Notably, the agent, acting on behalf of the insurer during form filling, is assumed to possess the insurer's authority. Therefore, any inaccuracies or untruths in the agent's writing do not impact the policy, given the inherent knowledge of the insurer.
- Similarly, *Satwant Kaur Sandhu v. New India Assurance Co Ltd*⁷ contributes to the understanding of the significance of proposer's actions in relation to non-disclosure, concealment, or falsification of answers. It emphasizes that the responsibility for determining the significance of information lies with the insurer, not the proposer and insurer's obligation to assess all the necessary consequences for the insured. Such an approach, as established in the judgment, ensures a just balance between the interests of both the insured and the insurer.

Implications and benefits of the case

In the court's perspective, an inaccurate response or concealment of a material fact in the proposal form is deemed grounds for the insurer to void the policy. This is not only a

⁶AIR 1958 Mys 53

⁷(2009) 8 SCC 316

breach of the fundamental principle of good faith in insurance law but also challenges the presumption that the information requested is crucial for the insurance contract. The judgment underscores the vital role of good faith in insurance contracts and is poised to be well-received by stakeholders in the industry. It solidifies disclosure obligations for insured parties, thereby enhancing transparency in the insurance sector. The judgment holds notable benefits, particularly in acknowledging that the mere occurrence of non-disclosure of material facts should be scrutinized, recognizing the possibility that the insured may lack sufficient knowledge of the policy. This consideration becomes crucial, especially when dealing with individuals who might be illiterate and face challenges in comprehending complex details. While the judgment emphasizes the importance of addressing the suppression of facts when calling the policy into question, it also highlights that the courts should overlook the insured's intentions. The judgment's provision of a fifty percent decretal amount to the respondent is deemed valid, given that neither party has incurred substantial losses, and it effectively serves to mitigate potential losses for both parties involved.

Conclusion

The primary objective of life insurance is to safeguard the financial well-being of the policyholder's family in the event of an untimely demise. The judgment underscores the necessity for the insured to provide all material facts required by the insurer, restricting the scope to the policy alone. The onus lies on the insurer to prove that no life insurance policy would have been issued if awareness of the situation had been present. Moreover, the judgment emphasizes the importance of a thorough examination of terms and conditions before signing a proposal. Legal assumption dictates that, by signing, one has read and understood all questions and answers therein. This analysis concludes that the court should not merely consider apparent facts but delve into relevant aspects, such as the potential

impact of illiteracy on the person signing and the potential misappropriation by the agent. Thus, a comprehensive perspective, encompassing various factors, should guide the court's considerations.