

The Urgency of The Principle of Interest In Insurance Agreements

Siti Mariyam

Faculty of Law, Universitas 17 Agustus 1945 Semarang, Semarang, Indonesia.

 : sitmauntag@gmail.com

Corresponding Author*



Abstract

Introduction: This article explores insurance agreements as distinct contracts that facilitate the transfer of risk from the insured to the insurer. It delves into the critical factors ensuring the validity and sustainability of such agreements, emphasizing the role of legal principles in maintaining fairness and stability within the insurance framework.

Purposes of the Research: The study aims to evaluate the urgency of the principle of interest in insurance agreements through a thorough literature review and juridical analysis. It examines how this principle prevents unethical practices like speculation, gambling, and fraud, ensuring that insurance contracts remain equitable and aligned with legal and ethical standards.

Methods of the Research: The research employs a qualitative approach, combining a comprehensive literature review with juridical analysis. It examines legal texts, case studies, and scholarly articles to assess the application of the principle of interest in insurance agreements, focusing on its legal implications and practical effectiveness in the insurance industry.

Results Main Findings of the Research: The findings highlight that the principle of interest serves a dual purpose: protecting insurers from fraudulent claims while fostering trust and integrity across the insurance system. This principle ensures that only legitimate interests are insured, promoting fairness and reducing systemic risks, thus enhancing confidence in insurance as a reliable risk management mechanism.

Keywords: Principle of Interest; Insurance Agreement; Risk.

Submitted: 2025-04-30

Revised: 2025-07-12

Accepted: 2025-07-27

Published: 2025-07-31

How To Cite: Siti Mariyam. "The Urgency of The Principle of Interest In Insurance Agreements." PAMALI: Pattimura Magister Law Review 5 no. 2 (2025): 230-243. <https://doi.org/10.47268/pamali.v5i2.3034>

Copyright © 2025 Author(s)  Creative Commons Attribution-NonCommercial 4.0 International License

INTRODUCTION

Insurance, in the modern financial landscape, has become a crucial instrument that not only offers financial protection but also becomes an integral part of the risk management strategies of individuals, families, and corporations around the world. The dynamic development of the insurance industry reflects the increasingly complex needs of society for financial security guarantees amid increasing life uncertainty. In this context, an in-depth understanding of the legal aspects underlying the insurance agreement is essential to ensure fairness, certainty, and balance in the relationship between the parties involved.¹

Insurance agreements, as the foundation of insurance transactions, have unique characteristics that set them apart from other types of agreements. Its essence lies in the transfer of risk from the insured (the insured party) to the insurer (insurance company), where the insurer promises to provide financial compensation for losses that the insured may suffer as a result of the occurrence of uncertain events. This risk transfer process is

¹ Navisa, F. D., & S. H., M. K. (2022). *Insurable Interest in Insurance Agreements*. Thalibul Ilmi Publishing & Education. p. 49.

embodied in a legally binding contract, which sets out the rights and obligations of each party.² However, the dynamics of the relationship between the insured and the insurer are often colored by an imbalance of power. Insurance companies, with greater resources and expertise, tend to have a more dominant position in formulating the terms and conditions of agreements. This can lead to the potential for unfair practices, where the insured's rights are neglected or violated.³ In the context of civil law, insurance agreements in Indonesia are regulated by the Civil Code and the Commercial Law Code. The Civil Code provides a general framework on the law of the agreement, including the conditions for the validity of the agreement, the rights and obligations of the parties, and the legal consequences of default. Meanwhile, the Criminal Code specifically regulates insurance agreements, including special principles that must be fulfilled in the agreement.

One of the fundamental principles in insurance law is the principle of utmost *good faith*. This principle requires both parties to act honestly, openly, and trusting each other in every stage of the insurance agreement, from the negotiation stage, to the formation of contracts, to the execution and settlement of claims. The Insured has an obligation to disclose all relevant and material information regarding the insured object, while the insurer must also provide clear and complete information regarding the terms and conditions of the insurance policy.⁴ However, in practice, the application of the principle of good faith often faces challenges. The imbalance of information and power between the insured and the insurer can open up opportunities for misuse or interpretation that is detrimental to one of the parties. In addition, the complexity of insurance products and the legal language used in insurance policies are often difficult for the insured to understand, leaving them in a vulnerable position. In recent years, the issue of fairness in insurance contracts has increasingly surfaced. The Constitutional Court's Decision Number 83/PUU-XXII/2024 against Article 251 of the Criminal Code is an important milestone in efforts to realize better justice in the contractual relationship between the insurer and the insured. This ruling affirms the importance of applying the principles of fairness and proportionality in insurance contracts, as well as stronger protection for the insured.

Previous studies have made significant contributions to understanding the various legal aspects of insurance agreements. However, the dynamics of the insurance industry that continue to develop, the emergence of new insurance products, and the complexity of legal issues that arise require continuous and in-depth research. Like: a) Hifni (2024) in the journal "Legal Aspects of Insurance Agreements in the Perspective of Civil Law in Indonesia" provides a comprehensive review of the legal principles underlying insurance agreements in Indonesia. This research provides an in-depth understanding of how Indonesian civil law views and regulates insurance agreements, including the principles of freedom of contract, consensualism, and good faith. These findings are relevant for the development of fairer and more transparent insurance practices;⁵ b) Safitri, Gultom, & Sudaryat (2025) in "Implementation of the Principle of Justice in Insurance Contracts After the Constitutional Court Decision Number 83/PUU-XXII/2024 on Article 251 of the Commercial Law (KUHD)" highlights significant changes in the Indonesian insurance legal landscape after

² Rambe, S. H., & Sekarayu, P. (2022). Legal protection of customers for failed insurance claims due to non-transparency of insurance policy information. *USM Law Review*, 5(1), 93-109.

³ Firmansyah, D. A. (2023). Review the conception of the Principle of Utmost Good Faith in the Insurance Agreement. *Media Justice: Journal of Legal Science*, 14(2), 177-192.

⁴ Saputra, A., Listiyorini, D., & Muzayanah, M. (2021). Insurance Responsibility in the Claim Mechanism in the Insurance Agreement Based on the Principle of Utmost Good Faith. *Journal of Civic Education Undiksha*, 9(1), 211-222.

⁵ Hifni, M. (2024). Legal Aspects of Insurance Agreements in the Perspective of Civil Law in Indonesia. *Al-Ahkam Journal: Journal of Islamic Criminal Law*, 6(1), 25-32.

the Constitutional Court's ruling. The focus is on the implementation of the principle of justice in insurance contracts after the Constitutional Court's decision to annul Article 251 of the Criminal Code. This study highlights how the ruling shifts the burden of responsibility for disclosure of information and emphasizes the importance of fairness in assessing the rights and obligations of the parties;⁶ c) Rambe & Sekarayu (2022) in "Legal Protection of Customers for Failed Insurance Claims Due to Non-Transparency of Information in Insurance Policies" examines legal protection for health insurance customers related to failed claims caused by non-transparency of information in insurance policies. This research highlights the importance of information transparency in insurance policies to protect the rights of customers. These findings are relevant in the context of consumer protection and ethical insurance business practices;⁷ d) Firmansyah et al. (2023) in "Reviewing the Conception of the Principle of Utmost Good Faith in Insurance Agreements" delves deeper into the principle of good faith in insurance agreements. This study highlights the difference between the principle of good faith in general agreements and the principle of *utmost good faith* in insurance agreements, as well as its implications for the rights and obligations of the parties.⁸

Therefore, this research aims to make further contributions in understanding and analyzing the legal aspects of insurance agreements in Indonesia. This research will examine in depth the legal principles underlying insurance agreements, the challenges faced in their implementation, and the efforts that can be made to realize justice and legal certainty in the relationship between the insured and the insurer. Through a comprehensive and in-depth analysis, this study is expected to provide a better understanding of the legal dynamics of insurance agreements in Indonesia, as well as provide constructive recommendations for future improvement of insurance regulations and practices.

LITERATURE REVIEW

The principle of *insurable interest* is a fundamental concept in insurance law that requires that the party applying for insurance must have a financial relationship or other legitimate interest in the insured object. In other words, the insured must have something to stake in the insured object. This principle prevents the use of insurance as a means to gamble or profit from losses that may occur to objects that are not related to the insured.⁹

The insurable interest must exist at the time the insurance agreement is made. This is to distinguish insurance from gambling, where one can bet on events that have no direct financial impact on themselves. In insurance, the insured has legitimate financial risks related to the insured object. Some of the key elements contained in the principle of importance include:¹⁰ 1) Legitimate Relationship: There must be a legitimate relationship between the insured and the insured object. This relationship can be in the form of ownership, contractual rights, or legal liability; 2) Potential Financial Loss: The Insured must have the potential to suffer financial losses in the event of an insured event. These losses must be measurable or valued in monetary terms; 3) Time of Interest: The interest must exist

⁶ Safitri, N. F., & Gultom, E. (2025). Implementation of the Principle of Justice in Insurance Contracts After the Constitutional Court Decision Number 83/PUU-XXII/2024 on Article 251 of the Commercial Code (KUHD). *Lex Stricta: Journal of Legal Sciences*, 3(3), 131-144.

⁷ Rambe, S. H., & Sekarayu, P. (2022). Legal protection of customers for failed insurance claims due to non-transparency of insurance policy information. *USM Law Review*, 5(1), 93-109.

⁸ Firmansyah, D. A. (2023). Review the conception of the Principle of Utmost Good Faith in the Insurance Agreement. *Media Justice: Journal of Legal Science*, 14(2), 177-192.

⁹ Ganie, A. J., & Se, S. H. (2023). *Indonesian Insurance Law*. Graphic Rays. p. 59.

¹⁰ Ali, H. Z. (2023). *Sharia insurance law*. Graphic Rays. p. 49.

at the time the insurance agreement is made. In some cases, an interest must also be present at the time of the claim.

The scope of the principle of interest is very broad and covers a wide range of situations, including:¹¹ 1) Ownership of Property: The owner of property such as a house, vehicle, or merchandise has an insurable interest in the property; 2) Contractual Relationship: The parties to a contract may have an interest in insuring the performance of the contract or the object related to the contract; 3) Creditors and Debtors: Creditors have an interest in the debtor's assets that are used as collateral for the loan; 4) Legal Liability: A person has an interest in insuring themselves against potential lawsuits due to their actions; 5) Life Insurance: In life insurance, a person has an interest in insuring the life of themselves or others with a legal financial or family relationship (e.g., spouse, children, or employees).

The principle of interest is very important in insurance law because:¹² 1) Preventing Gambling: This principle distinguishes insurance from gambling by ensuring that the insured has legitimate financial risks associated with the insured object; 2) Preventing Fraud: This principle reduces the risk of fraud in filing insurance claims. A person will have no incentive to destroy or damage the insured object if they have no financial interest in it; 3) Maintaining Contract Balance: This principle helps maintain balance in insurance contracts by ensuring that only parties with a legitimate interest can insure the object.

METHODS OF THE RESEARCH

This study employs a normative juridical approach to examine the critical role of the insurable interest principle within insurance contracts, focusing on its legal underpinnings and implications in the Indonesian legal framework. By analyzing relevant legal norms, doctrinal perspectives, and judicial precedents, the research draws on secondary data sourced from primary legal materials, including the Indonesian Civil Code, the Commercial Code, and Constitutional Court Decision Number: 83/PUU-XXII/2024, alongside secondary sources such as scholarly books, peer-reviewed journals, and industry reports. Data collection was conducted through a systematic literature review, accessing digital libraries, academic databases, and official repositories of regulatory bodies like the Financial Services Authority. The qualitative analysis adopts a descriptive-analytical method, interpreting statutory provisions, synthesizing doctrinal insights from authoritative works, and comparing the application of the insurable interest principle across jurisdictions to contextualize its evolution. To ensure robustness, source triangulation was applied, cross-referencing primary, secondary, and tertiary materials, supplemented by expert consultations where feasible. The study is confined to normative analysis within Indonesia's civil and commercial law framework, excluding empirical investigations of industry practices, while prioritizing national legal contexts with selective references to global developments.

RESULTS AND DISCUSSION

A. Legal Implications of the Absence of a Basic Interest

The principle of *insurable interest* is one of the main pillars in insurance law that determines the validity of an insurance agreement. This principle requires that the insured

¹¹ Suma, K. M. A., S. H., M., Amin, I. Q. I., & AAIK, A. (2021). *Sharia Insurance in Indonesia: Theological, Historical, Sociological, Juridical and Futurological Studies*. Amzah (Bumi Aksara). p. 16.

¹² Sari, T. N., Rasmiaty, M., & Anggraini, D. P. (2023). *Insurance and Financial Literacy*. Publisher of Tahta Media. P. 49.

party must have a legitimate financial or other interest in the insured object. This relationship must be such that the insured will suffer economic losses in the event of an insured event that befalls the object. In other words, the insured must have an "interest" in maintaining and protecting the object from the risk of loss. The absence of a principle of interest in an insurance agreement carries very significant legal implications and can have fatal consequences for the validity and execution of the agreement.¹³ The main legal implication of the absence of the principle of interest is that the insurance agreement is *null and void*. Null and void means that the agreement is considered to have never existed in the first place. The consequences of the cancellation of this agreement are far-reaching and affect the rights and obligations of the parties involved.¹⁴

First, the insurance policy becomes invalid. A policy is a document that proves the existence of an insurance agreement. If the agreement is null and void due to the absence of a principle of interest, then the policy has no legal force. This means that the insurer (insurance company) has no obligation to pay the claim in the event of an insured event, and the insured is not entitled to compensation.¹⁵ Second, the payment of the claim can be denied. If the insured submits a claim to the insurer, the insurer reserves the right to reject the claim if it is proven that the insured does not have a principle of interest in the insured object. The denial of this claim is based on the fact that the insurance agreement was invalid in the first place, so there is no obligation for the insurer to pay compensation.

Third, the premiums that have been paid may not be refundable. In some cases, premiums that have been paid by the insured to the insurer may not be refundable. This is especially true if the insured knows from the beginning that he or she does not have a vested interest but still buys an insurance policy. However, there are also situations where the refund of the premium may be possible, for example if the absence of the principle of interest is not realized by both parties.¹⁶ Fourth, the insurer can file a lawsuit. In certain cases, the insurer may even file a lawsuit against the insured. For example, if it is proven that the insured intentionally falsified or concealed information in order to obtain an insurance policy without a basis of interest, the insurer may sue the insured on the basis of fraud or unlawful acts.¹⁷

Fifth, the insurance agreement can be canceled. In addition to being null and void, in some situations, insurance agreements that do not meet the principle of interest can also be canceled. Cancellation is different from null and void. If null and void, the agreement is considered to have never existed in the first place. While cancellation requires further legal action to declare the agreement invalid. The party who has the right to apply for cancellation is usually the insurer.¹⁸ These legal implications show how important the principle of interest is in insurance agreements. This principle not only protects the insurer's financial interests, but also prevents unhealthy practices in the insurance industry, such as gambling and speculation.

It is important to distinguish between the principle of interest and the principle of *utmost good faith*, even though both are fundamental principles in insurance law. The principle of

¹³ Untung, B. (2024). *A smart insurance book, carefully invest in protection so that you don't regret it later*. Andi Publisher. p. 77.

¹⁴ Sumriyah, S. H., & Djulaeka, S. H. (2023). *Capita Select Covenant Law*. Scopindo Media Pustaka. p. 49.

¹⁵ Sumriyah, S. H., & Djulaeka, S. H. (2023). *Capita Select Covenant Law*. Scopindo Media Pustaka. p. 98.

¹⁶ Nurwanti, Y. D., Zaelani, M. A., & Pramesti, E. D. (2022). Sharia insurance is reviewed from Islamic law. *Proceedings*, 95-101.

¹⁷ Asya, J., Pragiswa, R., & Amroyasir, I. (2024). Perspective of Profit-Lucency Agreement on the Settlement of Life Insurance Claim Payments (Case Study Decision No. 2207/Pdt. G/2023/PA. JB). *Journal of Law, Humanities and Politics (JIHHP)*, 5(1).

¹⁸ Rambe, S. H., & Sekarayu, P. (2022). Legal protection of customers for failed insurance claims due to non-transparency of insurance policy information. *USM Law Review*, 5(1), 93-109.

interest is related to the legal relationship between the insured and the insured object, while the principle of good faith is related to the honesty and disclosure of information between the insured and the insurer.

The goodwill principle requires both parties to disclose to each other all material information relevant to the insurance agreement. The insured must provide correct and complete information about the insured object, while the insurer must provide clear and complete information about the terms and conditions of the insurance policy. Violations of the principle of good faith may result in the insurance agreement being canceled or the claim being rejected.¹⁹ Although different, the principle of interest and the principle of good faith are interrelated. Both aim to create fairness and balance in the relationship between the insured and the insurer. The absence of any of these principles can be detrimental to one party and disrupt the integrity of the insurance system.

In the development of modern insurance law, the concept of the principle of interest continues to evolve. Courts and legal experts continue to strive to interpret and apply this principle in diverse contexts. Some of the important issues that come up in the discussion on the basis of importance include: 1) Expansion of the Concept of Interest: The concept of "interest" is no longer limited to direct ownership of the insured object. In some cases, courts have recognized the existence of indirect or other legitimate economic interests. For example, a creditor has an interest in the debtor's assets that are used as collateral for the loan; 2) Interest in Life Insurance: In life insurance, the principle of interest has become more complex. In general, a person has an infinite interest in one's own soul. However, in order to insure the life of someone else, there must be a legitimate financial interest, such as a family relationship or financial dependence; 3) Time of Existence of Interest: The principle of common interest must be present at the time the insurance agreement is made. However, there are some exceptions. In some types of insurance, such as freight forwarding insurance, interest may arise after the agreement is made, i.e. at the time the goods begin to be transported; 4) Proof of the Principle of Interest: The burden of proving the existence of the principle of interest lies with the party who claims the existence of the interest. In the event of a dispute, the party must be able to prove to the court that he or she has a legitimate interest in the insured object.

These developments show that the principle of importance is a dynamic concept and is constantly adapting to the needs and practices in the insurance industry. The absence of the principle of interest in insurance agreements has very serious legal implications. The agreement can be null and void, the insurance policy is invalid, the claim can be denied, and even lawsuits may arise. Therefore, a deep understanding of the principle of interest is essential for all parties involved in an insurance agreement. This principle not only protects the interests of the insurer, but also maintains integrity and fairness in the insurance system as a whole.

B. Philosophical and Juridical Reasons for the Existence of the Principle of Interest

The principle of *insurable interest* is one of the main pillars in insurance law that regulates the validity of an insurance agreement.²⁰ Its existence is not just a legal formality, but has a strong philosophical and juridical basis. This principle is the foundation that maintains the

¹⁹ Putri, R. Z., & Nasution, K. (2025). Legal Analysis of The Regulation of The Insured's Notification Obligation In Life Insurance Application. *Quantum Juris: Journal of Modern Law*, 7(1). p. 7.

²⁰ Bernard, A. (2022). *Legal protection for policyholders due to default related to the standard agreement in the life insurance policy*. Andi Publisher. p. 67.

integrity and essential functions of the insurance institution. In this section, we will elaborate in depth on the philosophical and juridical reasons behind the importance of the principle of interest in insurance agreements.

1. Preventing Gambling (*Anti-Gambling Rationale*)

One of the most important philosophical reasons behind the principle of interest is to prevent the practice of gambling that is disguised in the form of insurance agreements. Gambling and insurance may seem similar at first glance, as they both involve an element of uncertainty and financial exchange. However, the fundamental difference lies in the purpose and the consequences.²¹ In gambling, a person bets on an uncertain event solely to gain financial gain. The bettor does not have any relationship or interest in the object at stake. The profit made by one party is a loss for the other. This activity is speculative and economically unproductive.²² On the other hand, insurance aims to provide financial protection against losses that may arise due to uncertain events. The insured (the insured party) has an economic interest or a legitimate relationship with the insured object. The losses suffered by the insured will be compensated by the insurer (insurance company) in accordance with the agreement. Insurance serves as an important risk management mechanism in the economy.

The principle of interest is a crucial differentiator between insurance and gambling. By requiring the existence of a legitimate interest, the law ensures that insurance is not used as a means to bet or speculate on the losses of others. A person cannot take out an insurance policy on an object that has no financial or legal connection to it. This prevents the occurrence of an incentive to deliberately cause the insured event to occur in order to obtain claim payment.²³ For example, a person cannot insure their neighbor's house without a legal or financial relationship. If this is allowed, then the person will have a financial interest in the occurrence of a disaster that befalls his neighbor's house, which is clearly contrary to moral and ethical principles. Thus, the principle of interest is to keep insurance on the right track as a risk protection instrument, not as a gambling tool that harms society.

2. Preventing Fraudulent Actions (*Anti-Fraud Rationale*)

Another philosophical and juridical reason that is no less important than the principle of interest is to prevent fraudulent acts in the insurance industry.²⁴ Insurance fraud can occur in various forms, both at the time of policy submission and when submitting a claim.²⁵ Without the principle of interest, the potential for fraud at the time of policy application will be very high. A person can easily take out an insurance policy on an object that he does not own or does not have a legitimate relationship with. Then, the person can intentionally cause the insured to risk the insured to get a claim payment.²⁶ For example, a person can insure a car that doesn't belong to them, then report the car as lost or stolen to get insurance money. This action not only harms the insurance company but can also harm others. The principle of interest minimizes the potential for fraud by ensuring that only parties who

²¹ Pratiwi, G. *Legal Impact for Sharia Insurance Companies That Are Members of the State Property Insurance Consortium* (Master's thesis, Faculty of Sharia and Law UIN Syarif Hidayatullah Jakarta). p. 185.

²² Hariati, S., Salat, M., & Surayya, I. (2024). Legal protection for Islamic banking customers in Indonesia. *Journal of Notary Treatises*, 5(2), 341-361.

²³ Cahyandari, R., Rahmawati, N. H., & Girana, I. (2024). *Sharia Insurance Model Integration with Python*. RajaGrafindo Persada-Rajawali Pers. p. 95.

²⁴ Georgiadis, G. (2022). Contracting with moral hazard: A review of theory & empirics. Available at SSRN 4196247.

²⁵ Sirait, I. S., & Esther, J. (2024). The Role of Advocates in Handling Consumer Protection Cases in Insurance Applications Containing Fraud Elements. *Bulletin of Community Engagement*, 4(3), 805-811.

²⁶ Wulandari, L., Amin, I., & Ardyansah, R. (2021). Criminal Acts in the Insurance Sector. *Journal of Legal Compilation*, 6(1), 17-26.

have a legitimate interest in the insured object can take out an insurance policy. Thus, the motivation to commit fraud is reduced.

In addition, the principle of interest also plays a role in preventing fraud at the time of filing a claim. Insured who does not have a legitimate interest in the insured object may be tempted to exaggerate the value of the loss or even make false claims. For example, the owner of the insured item may report the loss of items that are not actually lost, or exaggerate the value of the damaged item. This action aims to get a claim payment that is larger than it should be. The principle of interest helps prevent such actions by restricting the right to file claims only to those who actually suffer losses due to the occurrence of the insured risk. Thus, the principle of interest serves as an effective control mechanism to prevent various forms of fraud in the insurance industry, both by the insured and other irresponsible parties.

3. Reduce Moral Hazard

Moral hazard is a phenomenon in which a person tends to behave more carelessly or increase the risk after getting insurance coverage. The principle of interest indirectly plays a role in reducing *moral hazard* by creating incentives for the insured to maintain the insured object.²⁷

When a person has a legitimate financial interest in an object, he or she will have the motivation to maintain and protect the object from damage or loss. For example, a homeowner will strive to take good care of his home, make necessary repairs, and take preventive measures against fire or theft. However, if someone insures an object that has no financial connection to him, the motivation to take care of the object will be reduced. The person may become less concerned about the care or safety of the object, as he or she will not incur financial losses if something happens.²⁸ For example, if someone insures their neighbor's car without having a legitimate interest, they may not care if the car is damaged or stolen. He will not feel responsible for maintaining or protecting the car, as the financial losses will be covered by the insurance company. The principle of interest encourages the insured to act with caution and responsibility towards the insured object. Thus, this principle helps reduce *moral hazards* and maintain efficiency in the insurance industry.

4. Maintaining the Principle of Indemnity

The principle of *indemnity* is a basic principle in loss insurance, which aims to restore the insured's financial position after the loss has occurred to the original position before the loss occurred. This principle prevents the insured from benefiting from the occurrence of the insured event.²⁹ The principle of interest has a close relationship with the principle of compensation. The principle of interest ensures that the insured has real financial losses due to the occurrence of the insured event. Thus, the payment of insurance claims will actually serve as compensation, not as a profit.

For example, if someone insures an item that they don't actually own, and then the item is damaged, the person will not suffer financial losses. If the person still gets the claim payment, then the payment will be an advantage for him, which is contrary to the principle of indemnity. The principle of interest limits the right to get compensation only to parties

²⁷ De Donder, P., Leroux, M. L., & Salanié, F. (2022). Advantageous selection without moral hazard (with an application to life care annuities). Available at SSRN 4274372.

²⁸ Bianco, G. (2021). Moral hazard at the IMF: An analysis of the Fund's policies and status. In *Moral Hazard* (pp. 105-129). Routledge.

²⁹ Zulkifli, S., Stefanie, S., Philip, M. C., & Purba, J. H. (2022). Juridical Analysis of the Application of the Principles of Indemnity and Insurable Interest in Fire Insurance at PT. Tokio Marine Insurance. *Legal Standing: Journal of Legal Sciences*, 6(1), 98-104.

who actually suffer financial losses due to the occurrence of the insured event. Thus, this principle keeps the principle of indemnity effectively applied.

5. Legal Certainty and Justice

From a juridical point of view, the principle of interest provides legal certainty and justice in the relationship between the insured and the insurer. This principle provides clear guidance on who is entitled to take out an insurance policy and file a claim.³⁰ Legal certainty is very important in the world of business and finance. With the principle of interest, the parties to the insurance agreement have a clear understanding of each other's rights and obligations. This reduces the potential for disputes or disputes to occur in the future. In addition, the principle of interests also reflects the principle of justice. This principle ensures that only the parties who are truly harmed by the occurrence of the insured event are entitled to compensation. This is fair to all parties involved in the insurance industry, both the insured, the insurer, and the community as a whole.

The principle of interest is an important pillar in insurance law that has a strong philosophical and juridical basis. This principle serves to prevent gambling, fraud, reduce *moral hazard*, maintain the principle of compensation, provide legal certainty, and realize justice. In the development of modern insurance law, the principle of interest remains relevant and continues to evolve to respond to new challenges. A deep understanding and proper application of the principle of interest is essential to maintain the integrity and effectiveness of the insurance industry.

C. Legal Implications If the Principle of Interest Is Not Fulfilled

The principle of *insurable interest* is one of the main pillars in insurance law that determines whether or not an insurance agreement is valid. This principle emphasizes that the insuring an object must have a legitimate financial or other interest in the object. This relationship must be such that the party will suffer economic losses if the object is damaged, lost, or destroyed. In other words, the insured should not only speculate or bet on the occurrence of risks to objects that have no financial or legal connection to him. The legal consequences of not fulfilling the principle of interest in an insurance agreement are very serious. Non-compliance with this principle can result in the null and void of the insurance agreement. This means that the agreement is presumed to have never existed in the first place, and the parties have no binding rights or obligations under the agreement.

1. Null and void of the insurance agreement

The most important consequence of the non-fulfillment of the principle of interest is the nullity of the insurance agreement for the sake of the law. An agreement that is null and void is considered to have never existed, so no rights or obligations arise from the agreement. In the context of insurance, this means that the insured is not entitled to reimbursement in the event of an insured risk, and the insurer is not entitled to premium payments.

The cancellation of an insurance agreement due to the absence of a principle of interest has far-reaching implications. Not only is the insurance claim rejected, but the entire agreement becomes invalid. This is different from the cancellation of an agreement for other reasons, such as a default, where the agreement may remain valid until the time of

³⁰ Salindeho, J. C. L. (2024). *Juridical Analysis of the Principle of Indemnity in the Practice of Ship's Hull Insurance in Legal Perspective in Indonesia* (Doctoral dissertation, Universitas Kristen Indonesia). p. 162.

cancellation. In the case of the absence of a principle of interest, the agreement is never valid from the start.

2. No Claim Payment Obligation

One of the main functions of insurance is to provide financial protection to the insured in the event of an insured risk. However, if the principle of interest is not met, this function becomes obsolete. The insurer has no obligation to pay the claim to the insured because its insurance agreement is invalid. The rejection of an insurance claim is a direct consequence of the cancellation of the agreement. The insured who has paid the premium in the hope of obtaining financial protection will lose his right to compensation. This can cause significant financial losses to the insured, especially if the insured loss actually occurs.

3. Potential Loss of Premiums Paid

In some cases, insured who has paid insurance premiums before knowing of the cancellation of the agreement due to the absence of a principle of interest may face difficulties in obtaining a refund of premiums. Even if the agreement is invalid, the insurer may argue that the premium has become his or her right or that administrative costs have been incurred. However, in some jurisdictions, the court may order the return of premiums to the insured, especially if the insured did not know or should not have known about the absence of a principle of interest. The court's decision in this case may vary depending on the circumstances of the case and the interpretation of applicable law.

4. Other Legal Implications

In addition to the main consequences above, the absence of the principle of interest in the insurance agreement can also lead to other legal implications, including: 1) Lawsuits: In certain cases, the insurer may file a lawsuit against the insured if it is proven that the insured has committed fraud or provided incorrect information related to the principle of interest; 2) Criminal Implications: In more extreme cases, the insured's actions of insuring objects without a principle of interest with the aim of unlawfully obtaining financial gain may be considered a criminal act of fraud; 3) Reputational Loss: Both the insured and the insurer can suffer reputational losses due to legal disputes related to the absence of the principle of interest.

5. Case Studies and Examples

To provide a more concrete understanding of the legal implications if the principle of interest is not met, here are some case studies and examples: 1) Example 1: A person insures his neighbor's house without the knowledge or permission of his neighbor. If the house burns down, the person is not entitled to compensation because he does not have a principle of interest in the house. The insurance agreement is null and void; 2) Example 2: A company insures a ship that it has sold to another company. If the ship is lost at sea, the selling company is not entitled to compensation because it no longer has a principle of interest in the ship; 3) Case Study: In a court case, a creditor insures the debtor's life without having a legitimate economic relationship with the debtor. The court ruled that the insurance agreement was null and void because the creditor did not have a principle of interest in the debtor's life.

6. Legal Remedies That Can Be Taken

In the event of a dispute related to the absence of a principle of interest in the insurance agreement, the parties can take various legal remedies to resolve the dispute. These legal

remedies include: 1) Negotiation: The parties can try to resolve the dispute amicably through negotiations; 2) Mediation: If negotiations fail, the parties can use the services of a mediator to help reach an agreement; 3) Arbitration: The parties may agree to resolve disputes through arbitration, in which an arbitrator will make a binding decision; 4) Courts: If an out-of-court dispute resolution attempt fails, the parties may file a lawsuit with the court.

The principle of interest is a fundamental concept in insurance law. Non-compliance with this principle can lead to serious legal consequences, including the cancellation of insurance agreements, denial of claims, and potential lawsuits. Therefore, it is important for all parties involved in an insurance agreement to understand and adhere to the principle of interest in order to ensure the validity and enforceability of the agreement.

D. The Relevance of the Principle of Importance in the Modern Insurance Industry

In the era of rapid globalization and digitalization, the insurance industry has undergone a significant transformation. Product innovations, new business models, and technological developments have changed the way the industry works.³¹ However, in the midst of these changes, the principle of *insurable interest* remains a relevant and crucial fundamental pillar. This principle not only serves as the legal basis for insurance agreements, but it also plays an important role in maintaining integrity, stability, and trust in the modern insurance industry.

The development of increasingly diverse insurance products, such as unit-linked life insurance,³² health insurance with various additional benefits, and technology-based insurance (*insurtech*), demands a deeper understanding and more flexible application of the principle of interest.³³ In these products, the relationship between the insured and the insured object becomes increasingly complex and is not always limited to physical ownership or direct financial relationships.³⁴

For example, in unit-linked life insurance, there is an investment element in addition to life protection. This raises the question of how the principle of interest is applied in the context of such investments. Does the policyholder have a legitimate interest in the investment funds managed by the insurance company? What if the policyholder transfers the policy to another party? These questions show that the application of the principle of interest in modern insurance products requires careful interpretation and a deep understanding of the characteristics of such products.

In addition, technological developments also raise new challenges related to the principle of importance. Technology-based insurance, such as vehicle insurance with telematics or health insurance with wearable devices, collects highly detailed data about the insured's behavior and conditions. This data is used to determine insurance risks and premiums. However, the question arises about who has an interest in the data? Does the insurance company have a legitimate interest in using the data for purposes other than underwriting and claims? What about the privacy and confidentiality of the insured's data?

³¹ Suseno, J., Asyhari, H., & Saputra, M. A. (2025). The Impact Of Digitalization On Economic Growth In Indonesia. *Journal of Social Dynamics and Science*, 2(1), 432-438.

³² Siswanto, A. H., & SH, M. (2022). Unit Link Life Insurance Reviewed from Insurance Law and Investment Law. *Journal of Legal Sciences*, 19, 405.

³³ Mulyana, A., Ramadhani, W., Lestari, S., Nugrahani, A. G., Fransisca, Y., & Hassanah, H. (2025). *Commercial Law*. Publisher Qriset Indonesia. p. 12.

³⁴ Saksono, H., Yessy Kusumadewi, S. H., Flora, H. S., SH, M., Kn, M., Koynja, J. J., ... & S.H., M. (2024). *Introduction to Business Law*. Independent Noble Scholar. p. 42.

In the global context, the principle of interest also faces challenges related to the differences in legal systems and insurance practices in different countries. Cross-border insurance agreements often involve parties subject to different laws, raising questions about which laws apply to determine the validity of the insured interest. Legal harmonization and international cooperation are essential to ensure the consistent and effective application of the principle of interest in global insurance transactions.

Despite facing various challenges, the principle of importance remains relevant and important in the modern insurance industry. This principle provides legal certainty, prevents harmful practices, and maintains trust in the insurance industry. Therefore, a deep understanding and proper application of the principle of interest is crucial for all parties involved in the insurance industry, including regulators, insurance companies, insureds, and third parties.

Regulators have an important role to play in ensuring that the principle of interest is applied consistently and relevant to the development of the insurance industry. Regulators need to issue clear guidelines and regulations on how the principle of interest is applied in new insurance products and innovative business models. In addition, regulators also need to work with supervisory authorities in other countries to ensure the application of the principle of harmonious interests in cross-border insurance transactions.

Insurance companies also have a responsibility to understand and apply the principle of interest well. Insurance companies need to train their agents and employees on the importance of the principle of interest and how to apply it in practice. In addition, insurance companies also need to develop effective internal systems and procedures to verify the existence of the insured interest before issuing an insurance policy.

The Insured also needs to understand the principle of interest and its implications for their rights and obligations. The Insured must provide accurate and complete information about their interest in the insured object. In addition, the insured also needs to understand that they cannot transfer the insurance policy to another party without meeting the applicable legal requirements.

Third parties, such as insurance brokers, consultants, and technology service providers, also have a role to play in ensuring the proper application of the principle of interest. They need to provide advice and services that are in accordance with the principles of insurance law, including the principle of interest. In addition, they also need to maintain the confidentiality of the information they obtain from the insured and the insurance company.

In conclusion, the principle of interest remains a fundamental pillar in the modern insurance industry. Despite facing various challenges due to product development, technology, and globalization, this principle remains relevant and essential to maintain integrity, stability, and trust in the insurance industry. A deep understanding and proper application of the principle of interest is the shared responsibility of all parties involved in the insurance industry.

CONCLUSION

The principle of insurable interest is an irreplaceable foundation in the law and practice of insurance agreements. Its existence has enormous urgency in preventing gambling practices, fraud, and maintaining the integrity of the insurance system as a whole. The absence of the principle of interest can result in the insurance agreement becoming null and

void and causing various negative consequences for the parties. In the face of the dynamics of the modern insurance industry, understanding and applying the right and consistent principles of interest remains key. Regulators, businesses, and consumers need to recognize the importance of this principle in creating a fair, transparent, and trustworthy insurance environment. Thus, insurance can continue to carry out its function as an effective risk protection mechanism and contribute to economic stability and public welfare.

REFERENCES

- Ali, H. Z. (2023). *Sharia insurance law*. Graphic Rays.
- Asya, J., Pragiswa, R., & Amroyasir, I. (2024). Perspective of Profit-Lucency Agreement on the Settlement of Life Insurance Claim Payments (Case Study Decision No. 2207/Pdt. G/2023/PA. JB). *Journal of Law, Humanities and Politics (JIHHP)*, 5(1).
- Bernard, A. (2022). *Legal protection for policyholders due to default related to the standard agreement in the life insurance policy*. Andi Publisher.
- Bianco, G. (2021). Moral hazard at the IMF: An analysis of the Fund's policies and status. In *Moral Hazard* (pp. 105-129). Routledge.
- Cahyandari, R., Rahmawati, N. H., & Girana, I. (2024). *Sharia Insurance Model Integration with Python*. PT. RajaGrafindo Persada-Rajawali Pers.
- De Donder, P., Leroux, M. L., & Salanié, F. (2022). Advantageous selection without moral hazard (with an application to life care annuities). Available at SSRN 4274372.
- Firmansyah, D. A. (2023a). Review the conception of the Principle of Utmost Good Faith in the Insurance Agreement. *Media Justice: Journal of Legal Science*, 14(2), 177-192.
- Ganie, A. J., & Se, S. H. (2023). *Indonesian Insurance Law*. Graphic Rays.
- Georgiadis, G. (2022). Contracting with moral hazard: A review of theory & empirics. Available at SSRN 4196247.
- Hifni, M. (2024). Legal Aspects of Insurance Agreements in the Perspective of Civil Law in Indonesia. *Al-Ahkam Journal: Journal of Islamic Criminal Law*, 6(1), 25-32.
- Mulyana, A., Ramadhani, W., Lestari, S., Nugrahani, A. G., Fransisca, Y., & Hassanah, H. (2025). *Commercial Law*. Publisher Qriset Indonesia.
- Navisa, F. D., & S. H., M. K. (2022). *Insurable Interest in Insurance Agreements*. Thalibul Ilmi Publishing & Education.
- Nurwanti, Y. D., Zaelani, M. A., & Pramesti, E. D. (2022). Sharia insurance is reviewed from Islamic law. *Proceedings*, 95-101.
- Putri, R. Z., & Nasution, K. (2025). Legal Analysis of The Regulation of The Insured's Notification Obligation In Life Insurance Application. *Quantum Juris: Journal of Modern Law*, 7(1), 7.
- Rambe, S. H., & Sekarayu, P. (2022a). Legal protection of customers for failed insurance claims due to non-transparency of insurance policy information. *USM Law Review*, 5(1), 93-109.
- Saksono, H., Yessy Kusumadewi, S. H., Flora, H. S., SH, M., Kn, M., Koynja, J. J., ... & S.H., M. (2024). *Introduction to Business Law*. Independent Noble Scholar.

- Salindeho, J. C. L. (2024). Juridical Analysis of the Principle of Indemnity in the Practice of Ship's Hull Insurance in a Legal Perspective in Indonesia (Doctoral dissertation, Universitas Kristen Indonesia).
- Santri, S. H., Salat, M., & Surayya, I. (2024). Legal protection for Islamic banking customers in Indonesia. *Journal of Notary Treatises*, 5(2), 341-361.
- Saputra, A., Listiyorini, D., & Muzayanah, M. (2021). Insurance Responsibility in the Claim Mechanism in the Insurance Agreement Based on the Principle of Utmost Good Faith. *Journal of Civic Education Undiksha*, 9(1), 211-222.
- Safitri, N. F., & Gultom, E. (2025). Implementation of the Principle of Justice in Insurance Contracts After the Constitutional Court Decision Number 83/PUU-XXII/2024 on Article 251 of the Commercial Code (KUHD). *Lex Stricta: Journal of Legal Sciences*, 3(3), 131-144.
- Sirait, I. S., & Esther, J. (2024). The Role of Advocates in Handling Consumer Protection Cases in Insurance Applications Containing Fraud Elements. *Bulletin of Community Engagement*, 4(3), 805-811.
- Siswanto, A. H., & SH, M. (2022). Unit Link Life Insurance Reviewed from Insurance Law and Investment Law. *Journal of Legal Sciences*, 19, 405.
- Suma, K. M. A., S. H., M., Amin, I. Q. I., & AAIK, A. (2021). *Sharia Insurance in Indonesia: Theological, Historical, Sociological, Juridical and Futurological Studies*. Amzah (Bumi Aksara).
- Sumriyah, S. H., & Djulaeka, S. H. (2023a). *Capita Select Covenant Law*. Scopindo Media Pustaka.
- Sumriyah, S. H., & Djulaeka, S. H. (2023b). *Capita Select Covenant Law*. Scopindo Media Pustaka.
- Untung, B. (2024). *A smart insurance book, carefully invest in protection so that you don't regret it later*. Andi Publisher.
- Wulandari, L., Amin, I., & Ardyansah, R. (2021). Criminal Acts in the Insurance Sector. *Journal of Legal Compilation*, 6(1), 17-26.
- Zulkifli, S., Stefanie, S., Philip, M. C., & Purba, J. H. (2022). Juridical Analysis of the Application of the Principles of Indemnity and Insurable Interest in Fire Insurance at PT. Tokio Marine Insurance. *Legal Standing: Journal of Legal Sciences*, 6(1), 98-104.
- Suseno, J., Asyhari, H., & Saputra, M. A. (2025). The Impact of Digitalization On Economic Growth In Indonesia. *Journal of Social Dynamics and Science*, 2(1), 432-438.

Conflict of Interest Statement: The author(s) declares that research was conducted in the absence of any commercial or financial relationship that could be construed as a potential conflict of interest.

Copyright: © AUTHOR. This work is licensed under a Creative Commons Attribution-NonCommercial 4.0 International License. (CC-BY NC), which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

PAMALI: *Pattimura Magister Law Review* is an open access and peer-reviewed journal published by Postgraduate Program Magister of Law, Universitas *Pattimura*, Ambon, Indonesia.

