

**Duty of Disclosure and the Suitability Rule in Financial Market:
An Analysis of Insurance Distribution Based on Behavioural
Economics**

Hsin-Chun Wang*

Abstract

Because insurance products are inherently complex for most people, consumers may find themselves make errors in decisions with inadequacy of information and may easily be deceived by insurers and their agents. Even with an increase in the quantity of information available, it can lead consumers to misuse information. That will only force consumers to sign the relevant documents with complex of terms and condition. In this regard, insurance law and regulation should not only address on the disclosure of information regarding insurance products but also focus on how to prevent consumers from misjudging.

With regard to adequacy of information and consumer behavioural biases, several duties of insurers will be further discussed in this work. In according to Article 11-1 of Consumer Protection Act, insurers may be required to provide the relevant documents concerning terms and condition of insurance contracts before the conclusion of insurance contract. In some types of insurance contracts such as long-term life insurance policy, a consumer has a right to cancel without penalty and without giving any reason. The current legal issue mainly concentrates on the function of consumer's cancellation right and the necessity of the review period before the conclusion of the contract. From the perspective of behavioural economics, however, it is questionable whether these duties of insurers could provide an appropriate environment for a consumer to make a

* Professor, College of Law, National Taiwan University.
E-mail: hcwang@ntu.edu.tw

reasonable choice. Furthermore, insurers as financial service providers are also under the duty of disclosure and are required to make sure of the suitability of insurance products in accordance with Article 9 and 10 of Financial Consumer Protection Act. Based on behavioural economics using insights from psychologists and economists to explain and identify "behavioural biases", this work will analyze the legal issues mentioned above and propose workable suggestions for an appropriate choice environment to mitigate a consumer's biases.

Keywords: insurance product, insurance regulation, behavioural economics, behavioural biases, information disclosure, suitability