

HB221 INTRODUCED



1 HB221
2 D5Y6NHH-1
3 By Representative Ellis
4 RFD: Insurance
5 First Read: 22-Feb-24



SYNOPSIS:

Under existing law, the insurable interest law and the life insurance policy loan law contain antiquated internal citations to sections of the Code of Alabama 1975, relating to preneed insurance and life insurance.

This bill would correct those internal citations to refer to the correct sections of the Code of Alabama 1975.

A BILL
TO BE ENTITLED
AN ACT

Relating to insurance; to amend Sections 27-14-3 and 27-15-8, Code of Alabama 1975, to correct internal citations to the code contained in those sections.

BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

Section 1. Sections 27-14-3 and 27-15-8 of the Code of Alabama 1975, are amended to read as follows:

"§27-14-3

(a) Insurable interest with reference to personal insurance is an interest based upon a reasonable expectation of pecuniary advantage through the continued life, health, or



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29 bodily safety of another person and consequent loss by reason
30 of his or her death or disability or a substantial interest
31 engendered by love and affection in the case of individuals
32 closely related by blood or by law.

33 (b) An individual has an unlimited insurable interest
34 in his or her own life, health, and bodily safety and may
35 lawfully take out a policy of insurance on his or her own
36 life, health, or bodily safety and have the same made payable
37 to whomsoever he or she pleases, regardless of whether the
38 beneficiary so designated has an insurable interest.

39 (c) A corporation, foreign or domestic, has an
40 insurable interest in the life or physical or mental ability
41 of any of its directors, officers, or employees, or the
42 directors, officers, or employees of any of its subsidiaries
43 or any other person whose death or physical or mental
44 disability might cause financial loss to the corporation; or,
45 pursuant to any contractual arrangement with any shareholder
46 concerning the reacquisition of shares owned by the
47 shareholder at the time of his or her death or disability, on
48 the life or physical or mental ability of that shareholder for
49 the purpose of carrying out the contractual arrangement; or
50 pursuant to any contract obligating the corporation as part of
51 compensation arrangements or pursuant to a contract obligating
52 the corporation as guarantor or surety, on the life of the
53 principal obligor. The trustee of a trust established by a
54 corporation for the sole benefit of the corporation has the
55 same insurable interest in the life or physical or mental
56 ability of any person as does the corporation. The trustee of



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a trust established by a corporation providing life, health, disability, retirement, or similar benefits to employees of the corporation or its affiliates and acting in a fiduciary capacity with respect to the employees, retired employees, or their dependents or beneficiaries has an insurable interest in the lives of employees for whom the benefits are to be provided.

(d) After satisfaction of the requirements of Section ~~27-17A-32(d)(1)~~ 34-13-232(d)(1), the trustee of a trust established by a certificate holder which complies with the requirements of ~~Chapter 17A~~ Article 5 of Chapter 13 of Title 34, has an insurable interest in the life of a preneed contract purchaser or a preneed contract beneficiary. It is the intention of the Legislature that the preceding sentence shall be retroactive and shall also apply to all policies, as defined in this chapter, issued prior to May 6, 2008. It is also the intention of the Legislature that the value of any life insurance policy purchased by a trust pursuant to ~~Chapter 17A~~ Article 5 of Chapter 13 of Title 34, shall not exceed the lesser of twenty thousand dollars (\$20,000) or 100 percent of the purchase price of the preneed contract regulated under ~~Chapter 17A~~ Article 5 of Chapter 13 of Title 34. Further, it is the intention of the Legislature that any life insurance policy purchased by a trust pursuant to ~~Chapter 17A~~ Article 5 of Chapter 13 of Title 34, be used for the sole benefit of the preneed contract purchaser, the preneed contract beneficiary, or the funeral establishment or cemetery providing funeral services, burial services, or funeral merchandise for the



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85 preneed contract purchaser, and not for the benefit of another
86 person who otherwise lacks an insurable interest under this
87 section.

88 (e) Any provision of this section and chapter to the
89 contrary notwithstanding, a charitable organization that meets
90 the requirements of Section 501(c)(3) of the Internal Revenue
91 Code of 1986, as amended, may own or purchase life insurance
92 on an individual who consents to the ownership of purchase of
93 that insurance. The charitable organization shall be deemed to
94 have a substantial interest in the individual insured and to
95 have an insurable interest in the individual insured whether
96 the charitable organization originally purchases the insurance
97 or the insurance is later transferred to the charitable
98 organization by the insured or another person. This subsection
99 is intended to clarify and declare existing law.

100 (f) An insurable interest shall exist at the time the
101 contract of personal insurance becomes effective, but this
102 requirement need not exist at the time the loss occurs.

103 (g) Any personal insurance contract procured, or caused
104 to be procured, upon another individual is void unless the
105 benefits under the contract are payable to the individual
106 insured, or his or her personal representative, or to a person
107 having, at the time when the contract was made, an insurable
108 interest in the individual insured. In the case of a void
109 contract, the insurer shall not be liable on the contract but
110 shall be liable to repay to the person, or persons, who have
111 paid the premiums, all premium payments without interest."

112 "§27-15-8



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(a) In case of policies issued on and after the operative date of Section ~~21-15-28~~ 27-15-28, amended and renumbered as Article 3 of Chapter 15, there shall be a provision that after the policy has a cash surrender value and while no premium is in default beyond the grace period for payment the insurer ~~will~~ shall advance, on proper assignment or pledge of the policy and on the sole security thereof, at a specified rate of interest not exceeding eight percent per annum, payable in advance, an amount equal to or, at the option of the party entitled thereto, less than the loan value of the policy. The loan value of the policy shall be at least equal to the cash surrender value at the end of the then current policy year, provided that the insurer may deduct, either from ~~such~~ the loan value or from the proceeds of the loan, any existing indebtedness not already deducted in determining ~~such~~ the cash surrender value including any interest then accrued but not due, any unpaid balance of the premium for the current policy year and interest on the loan to the end of the current policy year. The policy may also provide that if interest on any indebtedness is not paid when due it shall then be added to the existing indebtedness and shall bear interest at the same rate and that, if and when the total indebtedness on the policy, including interest due or accrued, equals or exceeds the amount of the loan value thereof, then the policy shall terminate and become void, but not until at least 30 days' notice shall have been mailed by the insurer to the last known address of the insured or policyowner and of any assignee of record at the home office



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of the insurer. The policy shall reserve to the insurer the right to defer the granting of a loan, other than for the payment of any premium to the insurer, for six months after application therefor. The policy, at the insurer's option, may provide for automatic premium loan, subject to an election of the party entitled to elect.

(b) This section shall not apply to term policies nor to term insurance benefits provided by rider or supplemental policy provision."

Section 2. This act shall become effective on June 1, 2024.