

HB262 INTRODUCED



1 HB262
2 YLXM222-1
3 By Representative Ellis
4 RFD: Insurance
5 First Read: 12-Feb-25



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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



HB262 INTRODUCED

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



HB262 INTRODUCED

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

64 (d) After satisfaction of the requirements of Section
65 ~~27-17A-32(d)(1)~~ 34-13-232(d)(1), the trustee of a trust
66 established by a certificate holder which complies with the
67 requirements of ~~Chapter 17A~~ Article 5 of Chapter 13 of Title
68 34 has an insurable interest in the life of a preneed contract
69 purchaser or a preneed contract beneficiary. It is the
70 intention of the Legislature that the preceding sentence shall
71 be retroactive and shall also apply to all policies, as
72 defined in this chapter, issued prior to May 6, 2008. It is
73 also the intention of the Legislature that the value of any
74 life insurance policy purchased by a trust pursuant to ~~Chapter~~
75 ~~17A~~ Article 5 of Chapter 13 of Title 34 shall not exceed the
76 lesser of twenty thousand dollars (\$20,000) or 100 percent of
77 the purchase price of the preneed contract regulated under
78 ~~Chapter 17A~~ Article 5 of Chapter 13 of Title 34. Further, it
79 is the intention of the Legislature that any life insurance
80 policy purchased by a trust pursuant to ~~Chapter 17A~~ Article 5
81 of Chapter 13 of Title 34 be used for the sole benefit of the
82 preneed contract purchaser, the preneed contract beneficiary,
83 or the funeral establishment or cemetery providing funeral
84 services, burial services, or funeral merchandise for the



HB262 INTRODUCED

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 26 U.S.C. § 501(c)(3) of the~~
91 ~~Internal Revenue Code of 1986, as amended,~~ may own or purchase
92 life insurance on an individual who consents to the ownership
93 of purchase of that insurance. The charitable organization
94 shall be deemed to have a substantial interest in the
95 individual insured and to have an insurable interest in the
96 individual insured whether the charitable organization
97 originally purchases the insurance or the insurance is later
98 transferred to the charitable organization by the insured or
99 another person. This subsection is intended to clarify and
100 declare existing law.

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

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



HB262 INTRODUCED

113 "§27-15-8

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



HB262 INTRODUCED

141 policyowner and of any assignee of record at the home office
142 of the insurer. The policy shall reserve to the insurer the
143 right to defer the granting of a loan, other than for the
144 payment of any premium to the insurer, for six months after
145 application therefor. The policy, at the insurer's option, may
146 provide for automatic premium loan, subject to an election of
147 the party entitled to elect.

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

151 Section 2. This act shall become effective on June 1,
152 2025.