

# HB221 INTRODUCED



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



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

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



## HB221 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



## HB221 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  
69 contract purchaser or a preneed contract beneficiary. It is  
70 the intention of the Legislature that the preceding sentence  
71 shall 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



## HB221 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 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



## HB221 INTRODUCED

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



## HB221 INTRODUCED

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

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

150 Section 2. This act shall become effective on June 1,  
151 2024.