

# ALABAMA INSURABLE INTEREST

Title 27. Insurance  
Chapter 14. The Insurance Contract

## § 27-14-3. Insurable interest -- Personal insurance; preneed contracts.

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

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

(c) A corporation, foreign or domestic, has an insurable interest in the life or physical or mental ability of any of its directors, officers, or employees, or the directors, officers, or employees of any of its subsidiaries or any other person whose death or physical or mental disability might cause financial loss to the corporation; or, pursuant to any contractual arrangement with any shareholder concerning the reacquisition of shares owned by the shareholder at the time of his or her death or disability, on the life or physical or mental ability of that shareholder for the purpose of carrying out the contractual arrangement; or pursuant to any contract obligating the corporation as part of compensation arrangements or pursuant to a contract obligating the corporation as guarantor or surety, on the life of the principal obligor. The trustee of a trust established by a corporation for the sole benefit of the corporation has the same insurable interest in the life or physical or mental ability of any person as does the corporation. The trustee of 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), the trustee of a trust established by a certificate holder which complies with the requirements of Chapter 17A 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 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. Further, it is the intention of the Legislature that any life insurance policy purchased by a trust pursuant to Chapter 17A 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 preneed contract purchaser, and not for the benefit of another person who otherwise lacks an insurable interest under this section.

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

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

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