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By: **Senators Kelley, Astle, Exum, Hafer, Hooper, and Klausmeier**

Introduced and read first time: January 26, 2006

Assigned to: Finance

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A BILL ENTITLED

1 AN ACT concerning

2 **Life Insurance - Insurable Interests - Trustees, Partnerships, Limited**  
3 **Partnerships, and Limited Liability Companies**

4 FOR the purpose of providing that the trustee of a trust has an insurable interest in  
5 the life of an individual insured under a life insurance policy owned by the  
6 trustee if, on the date on which the policy is issued, certain conditions are met;  
7 providing that a partnership, limited partnership, or limited liability company  
8 has an insurable interest in the life of an individual insured under a life  
9 insurance policy owned by the partnership, limited partnership, or limited  
10 liability company if, on the date on which the policy is issued, certain conditions  
11 are met; providing that this Act shall apply to all trusts existing before, on, or  
12 after a certain date, regardless of the effective date of a certain governing  
13 instrument, but only as to certain life insurance policies; and generally relating  
14 to insurable interests in the life of an individual insured under a life insurance  
15 policy.

16 BY repealing and reenacting, with amendments,  
17 Article - Insurance  
18 Section 12-201(b)  
19 Annotated Code of Maryland  
20 (2003 Replacement Volume and 2005 Supplement)

21 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
22 MARYLAND, That the Laws of Maryland read as follows:

23 **Article - Insurance**

24 12-201.

25 (b) (1) With reference to personal insurance, an insurable interest includes  
26 only the interests described in this subsection.

27 (2) (i) For individuals related closely by blood or law, a substantial  
28 interest engendered by love and affection is an insurable interest.

1 (ii) For the prospective parent of a prospective adoptive child, an  
2 insurable interest exists in the life of the child as of the date of the earlier of:

3 1. a placement for adoption, as defined in § 5-301 of the  
4 Family Law Article, provided that:

5 A. any consents required under § 5-311 of the Family Law  
6 Article have been given; or

7 B. a decree awarding guardianship has been granted under §  
8 5-317 of the Family Law Article; or

9 2. an interlocutory or final decree of adoption.

10 (3) For persons other than individuals closely related by blood or law, a  
11 lawful and substantial economic interest in the continuation of the life, health, or  
12 bodily safety of the individual is an insurable interest but an interest that arises only  
13 by, or would be enhanced in value by, the death, disablement, or injury of the  
14 individual is not an insurable interest.

15 (4) (i) This paragraph applies only to employees with respect to whom  
16 the corporate employer or an employer sponsored trust for the benefits of employees  
17 is the beneficiary under an insurance contract, if the employer is:

18 1. a private corporation; or

19 2. a public corporation, the stock of which is traded on a  
20 recognized stock exchange or traded in accordance with the National Association of  
21 Securities Dealers Automated Quotation (NASDAQ) Systems.

22 (ii) A lawful and substantial economic interest exists in:

23 1. a key employee of a private corporation or a public  
24 corporation described in subparagraph (i) of this paragraph; and

25 2. a nonkey employee of a public corporation described in  
26 subparagraph (i) of this paragraph if:

27 A. the employee has been employed by the public corporation  
28 for at least 12 consecutive months and consents in writing to the insurance contract;  
29 and

30 B. the amount of insurance coverage on the nonkey employee  
31 does not exceed an amount commensurate with employer-provided benefits.

32 (5) (i) This paragraph applies only to a contract or option for the  
33 purchase or sale of:

34 1. an interest in a business partnership or firm; or

1 2. stock shares, or an interest in stock shares, of a close  
2 corporation.

3 (ii) An individual party to a contract or option described in  
4 subparagraph (i) of this paragraph has an insurable interest in the life of each  
5 individual party to the contract or option.

6 (iii) The insurable interest specified in subparagraph (ii) of this  
7 paragraph:

8 1. is only for the purposes of the contract or option; and

9 2. is in addition to any other insurable interest that may  
10 exist on the life of an individual party to the contract or option.

11 (6) THE TRUSTEE OF A TRUST HAS AN INSURABLE INTEREST IN THE  
12 LIFE OF AN INDIVIDUAL INSURED UNDER A LIFE INSURANCE POLICY OWNED BY THE  
13 TRUSTEE IF, ON THE DATE ON WHICH THE POLICY IS ISSUED:

14 (I) THE INSURED IS:

15 1. THE GRANTOR OF THE TRUST;

16 2. AN INDIVIDUAL RELATED CLOSELY BY BLOOD OR LAW TO  
17 THE GRANTOR; OR

18 3. AN INDIVIDUAL IN WHOM THE GRANTOR OTHERWISE HAS  
19 AN INSURABLE INTEREST; AND

20 (II) THE LIFE INSURANCE PROCEEDS ARE PRIMARILY FOR THE  
21 BENEFIT OF TRUST BENEFICIARIES HAVING AN INSURABLE INTEREST IN THE LIFE  
22 OF THE INSURED.

23 (7) A PARTNERSHIP, LIMITED PARTNERSHIP, OR LIMITED LIABILITY  
24 COMPANY HAS AN INSURABLE INTEREST IN THE LIFE OF AN INDIVIDUAL INSURED  
25 UNDER A LIFE INSURANCE POLICY OWNED BY THE PARTNERSHIP, LIMITED  
26 PARTNERSHIP, OR LIMITED LIABILITY COMPANY IF, ON THE DATE ON WHICH THE  
27 POLICY IS ISSUED:

28 (I) SUBSTANTIALLY ALL OF THE OWNERS OF THE PARTNERSHIP,  
29 LIMITED PARTNERSHIP, OR LIMITED LIABILITY COMPANY ARE:

30 1. THE INSURED;

31 2. INDIVIDUALS RELATED CLOSELY BY BLOOD OR LAW TO  
32 THE INSURED; OR

33 3. INDIVIDUALS HAVING AN INSURABLE INTEREST IN THE  
34 LIFE OF THE INSURED; OR

1                   (II)       THE PARTNERSHIP, LIMITED PARTNERSHIP, OR LIMITED  
2 LIABILITY COMPANY OTHERWISE HAS AN INSURABLE INTEREST IN THE LIFE OF THE  
3 INSURED.

4       SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall apply to all  
5 trusts existing before, on, or after June 1, 2006, regardless of the effective date of the  
6 governing instrument under which the trust was created, but only as to life insurance  
7 policies that are in force and for which the insured is alive on or after June 1, 2006.

8       SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect  
9 June 1, 2006.