Article - Insurance

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§12–201.

(a) (1) An individual of competent legal capacity may procure or effect an insurance contract on the individual's own life or body for the benefit of any person.

(2) Except as provided in subsection (c) of this section, a person may not procure or cause to be procured an insurance contract on the life or body of another individual unless the benefits under the insurance contract are payable to:

(i) the individual insured;

(ii) the individual insured's personal representative; or

(iii) a person with an insurable interest in the individual insured at the time the insurance contract was made.

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

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

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

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

A. any consents required under Title 5, Subtitle 3 or Subtitle 3A of the Family Law Article have been given; or

B. a decree awarding guardianship has been granted under Title 5, Subtitle 3 or Subtitle 3A of the Family Law Article; or

2. an interlocutory or final decree of adoption.

(3) For persons other than individuals closely related by blood or law, a lawful and substantial economic interest in the continuation of the life, health, or bodily safety of the individual is an insurable interest but an interest that arises only

by, or would be enhanced in value by, the death, disablement, or injury of the individual is not an insurable interest.

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

1. a private corporation; or

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

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

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

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

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

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

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

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

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

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

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

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

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

(6) The trustee of a trust has an insurable interest in the life of an individual insured under a life insurance policy owned by the trust or the trustee of a trust if, on the date on which the policy is issued:

(i) the insured is:

1. the grantor of the trust;

2. an individual related closely by blood or law to the grantor; or

3. an individual in whom the grantor otherwise has an insurable interest; and

(ii) the life insurance proceeds are primarily for the benefit of trust beneficiaries having an insurable interest in the life of the insured.

(7) A partnership, limited partnership, or limited liability company has an insurable interest in the life of an individual insured under a life insurance policy owned by the partnership, limited partnership, or limited liability company if, on the date on which the policy is issued, substantially all of the owners of the partnership, limited partnership, or limited liability company are:

(i) the insured;

(ii) individuals related closely by blood or law to the insured; or

(iii) persons having an insurable interest in the life of the insured.

(c) (1) This subsection applies only to a charitable, benevolent, educational, governmental, or religious institution that is described in § 170(b)(1)(A) or § 501(c)(3) of the Internal Revenue Code, or a trust for the benefit of that institution that is qualified as a pooled income fund under § 642(c)(5) or a charitable remainder trust under § 664 of the Internal Revenue Code.

(2) An institution or trust described in paragraph (1) of this subsection may procure or cause to be procured an insurance policy on the life of an individual if:

(i) the institution or trust is designated irrevocably as the beneficiary of the insurance policy; and

(ii) the application for the insurance policy is signed by the individual whose life is to be insured or the individual's legal guardian.

(3) This subsection does not prohibit the institution or individual from being the beneficiary or owner of the policy or paying the premiums for the policy.

(d) If a beneficiary, assignee, or other payee under an insurance contract made in violation of this section receives from the insurer benefits that accrue on the insured's death, disablement, or injury, the insured or the insured's executor or administrator may bring an action to recover benefits from the payee that receives them.

(e) Notwithstanding subsection (b)(4) of this section, a corporate employer with an insurable interest in employees described in subsection (b)(3) or (4) of this section may not retaliate against an employee who refuses to consent to an insurance contract being purchased in the employee's name.

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