

#### **304.14-040 Insurable interest.**

- (1) An employer or the employer's trustee may procure and effect an insurance contract upon the life or body of an employee for the purpose of funding a pension or other benefit plan established for the employee of the employer. Except as provided in subsection (4) of this section, no employer, nor employer's trustee, shall procure or cause to be procured any insurance contract on the life or body of an employee unless the benefits under the contract are payable to and utilized by an employee pension or other benefit plans. Nothing in this subsection shall be construed to require the employer or the employer's trustee to use or designate the benefits of any employee insurance contract for the specific benefit of the estate of the particular insured on whose life or body the insurance contract producing the benefits was procured.
- (2) Any individual of competent legal capacity may procure or effect an insurance contract upon his own life or body for the benefit of any person. No person shall procure or cause to be procured any insurance contract upon the life or body of another individual unless the benefits under the contract are payable to the individual insured or his personal representatives, or to a person having, at the time when the contract was made, an insurable interest in the individual insured.
- (3) If the beneficiary, assignee, or other payee under any contract made in violation of this section receives from the insurer any benefits thereunder accruing upon the death, disablement, or injury of the individual insured, the individual insured or his executor or administrator, as the case may be, may maintain an action to recover the benefits from the person so receiving them.
- (4) "Insurable interest" as to the personal insurance means that every individual has an insurable interest in the life, body, and health of himself, and of other persons as follows:
  - (a) In the case of individuals related closely by blood or by law, a substantial interest engendered by love and affection;
  - (b) In the case of other persons, a lawful and substantial economic interest in having the life, health, or bodily safety of the individual insured continue, as distinguished from an interest which would arise only by, or would be enhanced in value by, the death, disablement, or injury of the individual insured;
  - (c) An individual heretofore or hereafter party to a contract or option for the purchase or sale of an interest in a business partnership or firm, or of shares of stock of a close corporation or of an interest in the shares, has an insurable interest in the life, health, or bodily safety of each individual party to the contract for the purpose of the contract only, in addition to any insurable interest which may otherwise exist as to the individual; and
  - (d) Any domestic or foreign corporation which provides its active or retired employees with benefits under a retirement or other employee benefit plan governed by the Federal Employee Retirement Income Security Act of 1974, as amended, has an insurable interest in the life, health, or bodily safety of any

active or retired employee of the corporation or of any of its subsidiaries who is covered by a plan, and any trustee of a trust established by the corporation for the sole benefit of the corporation shall have the same insurable interest in the employee as the corporation itself.

- (5) An insurer shall be entitled to rely upon all statements, declarations, and representations made by an individual applicant for insurance relative to the insurable interest of the applicant in the insured; and no insurer shall incur legal liability except as set forth in the policy, by virtue of any untrue statements, declarations, or representations so relied upon in good faith by the insurer.

**Effective:** July 15, 1994

**History:** Amended 1994 Ky. Acts ch. 424, sec. 2, effective July 15, 1994. – Amended 1992 Ky. Acts ch. 203, sec. 1, effective July 14, 1992. -- Created 1970 Ky. Acts ch. 301, subtit. 14, sec. 4, effective June 18, 1970.