STATEMENT OF THE AMERICAN COUNCIL OF LIFE INSURERS

Testimony of James J. Avery, Jr., FSA
President, Individual Life Insurance, Prudential Financial
and
Chairman of the ACLI Life Insurance Committee
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The Principles of Insurance: Insurable Interest

Life insurance has for centuries been respected as a financial instrument protecting families and businesses from potential financial devastation caused by untimely death. Responsible members of society, whose death will likely result in economic hardship to their loved ones and dependents, purchase life insurance in order to address that risk.

A respected and fundamental principle of life insurance, established originally in 18th century English law[1], is the requirement that the policy's initial owner, beneficiary, or both have an "insurable interest" in the continued life of the insured. American public policy has reinforced the accepted wisdom that we do not want one citizen to have a direct economic incentive to see or hasten the earthly demise of another citizen.

In determining whether an insurable interest exists, 21 states have requirements substantially similar to Maryland law which states that a person must either: 1) be "related closely by blood or law;" 2) have a "substantial interest engendered by love and affection;" or 3) have "a lawful substantial economic interest in the continuation of the life, health, or bodily safety of the individual." And, almost every state has some kind of requirement that the purchaser of a policy on the life of another have an insurable interest in that person's life. The Courts in virtually every state have reaffirmed that life insurance policies without an insurable interest are wagering, contrary to public policy and voidable or invalid. *(See Appendix 1)*

Everyone's a Winner

Insurance is not wagering or gambling. It is the pooling of like risks to enable individuals to protect themselves and their dependents from financial hardship in the event of a serious economic or physical event. Products are offered and priced by insurers assuming certain personal characteristics and based upon statistics. For example, in the context of homeowners policies, prices are not set assuming that all polices will pay off due to a fire, but rather using observable data about the probability of a claim.

In life insurance, pricing accounts for the probability of death, surrender and lapse. If winning for consumers was defined as getting a "good return" on their life insurance premiums, then dying early would generate the best result. However, few people would call that winning!

[1] Over three centuries ago, the advent of life insurance in England led to the "dead pool" in which gamblers placed bets as to which of several chosen royals would perish first. This in turn led to speculators taking out life insurance policies on these celebrities. Parliament responded in 1774 with the Life Assurance Act, which prohibited the making of any policy on the life of a person without the existence of an insurable interest.

Those fortunate enough to live long lives buy and receive the peace of mind that comes with knowing that they have provided financial protection for their family or business in the event of their own death. The beneficiaries of those who unfortunately die early receive a benefit much larger than the premiums that were paid in. The source of much of that benefit is the premiums paid by those fortunate enough to live. The premiums collected from those who choose to discontinue their coverage or let it lapse before death are also part of the funding of the benefits paid on behalf of those who die while insured. And insurers, whose block of business performs in the expected manner, also benefit.

The Evolution of Life Settlements

During the 1970s and 1980s, AIDS patients were often in need of access to all of their assets, including the value of life insurance policies. Many patients wished to liquidate their life insurance coverage and thus the "Viatical Settlement" industry was born. Although purchasers of these policies were strangers to the insured, there was generally not a public policy concern with a third party having a financial interest in the life of the insured since the insured was already suffering from a terminal illness and death was imminent

When new drug regimens were introduced that increased life expectancy for AIDS victims, and as insurance companies introduced programs to provide death benefits to terminally ill insureds prior to death, the viaticals shifted to new markets and began offering "life settlements" to longstanding policyowners whose circumstances may have changed and who no longer had the same need for the insurance coverage they purchased earlier. The life insurance industry generally did not react positively or negatively to this new development, other than to support appropriate regulation.

Eventually, a limited inventory of potentially profitable and easily accessible contracts for life settlements led some creative thinkers to the idea of effectuating life insurance contracts solely for the purpose of building an inventory of policies to be settled in order to generate profits for investors. Thus we saw the rise of Stranger Originated Life Insurance or STOLI.

STOLI – There Must Be a Loser for There to Be a Winner

STOLI is the 21st Century equivalent of the wagering abuses prohibited by the British Parliament in the 18th Century. Judicial cases from every decade in between illustrate the innovative persistence of speculators and the persistent vulnerability of consumers to believing valuable things might actually be acquired free. In speculative schemes where the life insurance contract is the asset of desire, however, there must be losers for the speculators to emerge as winners.

Simply put, STOLI schemes are wagering or gambling. They are not genuine insurance transactions because they lack insurable interest -- and "A contract of insurance upon a life in which the insured has no interest is a pure wager that gives the insured a sinister counter interest in having the life come to an end."[2]

In some schemes, individuals are induced by speculators to acquire insurance in an effort to select against the underlying pricing assumptions by way of arbitrage. In still others, the speculators' "arbitrage" is based upon fraud by misrepresenting to the insurance company a purportedly healthy and affluent insurance applicant, usually a senior citizen, when the facts may be very different.

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[2] Grisby v. Russell, 222 U.S. 154 (1922).

Exactly How Does STOLI Work?

Stranger-originated evasions of insurable interest laws, contestability laws, anti-fraud laws and settlement prohibition laws are various and constantly evolving. Some are pure predatory financing schemes. Others misuse trusts to transfer beneficial interests in trust-owned insurance policies to investors without actual settlement of the policy. But a typical STOLI case involves the sale of a policy to an individual 70 years of age or older. A third party loans or arranges a loan to pay the premiums for the first two or three years. If the insured dies during that time, the benefit is payable to the insured's beneficiaries, although they have an obligation to repay the outstanding loan balance with interest. If the insured lives through that period, –- which usually co-insides with the end of the two-year contestability period of the policy -- it is anticipated, although not guaranteed, that the insured will transfer the policy to a third party settlement company or another investor[3]. The loan is then treated as paid and the investors take ownership of the policy. In some cases, the insured also receives an upfront cash payment or other incentives, or is promised a small share of the death proceeds for his/her beneficiary. The investors continue ownership of the policy, pay the premiums, and receive the death proceeds upon the death of the insured.

Obviously, these arrangements undercut state laws requiring that life insurance be purchased by those with an interest in the **continued** life of the insured. A STOLI transaction is wagering on human life, and violates long-standing insurable interest laws. Those who profit from STOLI transactions claim that there is nothing wrong with what they are doing. However, litigation and fraud investigations across the country would indicate otherwise:

- In *Stalsberg v. New York Life,* the insurance company sought rescission of a policy purchased with a non-recourse loan arranged by a financing affiliate of a life settlement provider. The loan had a high interest rate and a 26-month maturity date. The insured was an 81-year-old, who testified that he purchased the policy with the intent from the outset to sell it in the secondary market after about 24 months. He also testified that the provider was paying his legal fees in the litigation. The policy was issued to a Utah trust and the Utah Department of Insurance submitted a brief supporting the position that purchasing a policy with intent to sell from the outset violates the insurable interest rule, even if there was not a binding agreement or an up-front inducement to sell. The case was settled and the policy rescinded.

- In *Life Product Clearing (LPC) v. Angel*, the U.S. District Court for the Southern District of New York denied the stranger-plaintiff a judgment on the pleadings. The case involved a 77 year old retired butcher, who was sold a $10 million life insurance policy, designating a Trust as the sole beneficiary, with premiums for the first year alone of $572,000, an amount he could not afford. Six days later he sold his interest in the Trust for $300,000. Five days later he died, and the insurance company paid the Trust. LPC then sued the daughter of the deceased, the personal representative of the estate, contending that it was the rightful beneficiary of the Trust. The Court found that "these policies are lawful only if the insured purchases the policy with the good-faith intent to obtain insurance for the benefit of his family, loved one, or business; they are not lawful if the insured purchases the policy with the intent to resell to a stranger at the earliest possible moment."

- Many STOLI schemes employ fraud, as well as violation of insurable interest laws. In *American General Life Insurance Company v. Schoenthal*, the application for this $7 million policy, issued

[3] The cost to the insured to repay the loan plus other fees and charges at the end of this period is so high that it is economically infeasible for the individual to pay or refinance the loan. Thus, it is almost inevitable that the insured will transfer the policy to the 3rd party investor.

on an 82-year old man, alleged a net worth of $10.7 million and an annual income of more than $150,000. Upon investigation after the death of the insured, the insurer learned that Mr. Schoenthal's real net worth was only about $160,000, with an annual income of about $7200. The Court granted summary judgment to the insurer, which is currently being appealed.

- After a lengthy investigation, an insurance company reported to the California Insurance Fraud Bureau cases involving 200 applications in which they found that very senior citizens had applied for policies. The applicants did not know the face value of the policies, who was to pay the premiums or who was to be the trustee/beneficiary. The policies all had multi-million dollar face amounts, with some as high as $15 million. None of the clients had a net worth or assets that could justify policies of those values, and some applicants were found to be on Medicaid. Many had applied after attending a seminar at an Assisted Living Facility.

- After Ohio enacted legislation prohibiting STOLI, a 74 year-old Cleveland resident was transported to Pittsburgh, Pennsylvania on a promise of $8-15,000, if she applied for life insurance. The application indicated a net worth of $12,500,000. Due to indicators that this might be a STOLI transaction, a carrier representative met with the applicant – who was shocked to learn that the face amount of the policy was $9 million. The applicant and her husband receive $950 combined income per month from social security and have a net worth of $2,000. The application was rejected, the broker's appointment terminated, and the case reported to Insurance Departments Fraud Units. Understandably and unfortunately, the applicant is now concerned for her personal safety.

Who's the Victim?

Advocates for prohibition of STOLI are frequently asked the question, "Who's the Victim" of a STOLI scheme? Well, there are many "victims":

Seniors may be unwittingly participating in fraud by misrepresenting their health, their financial status and/or the intent of the purchase. If investors lose due to policy application misrepresentation, they may claim damages against the insured or the insured's estate.

The elderly may be exposed to tax consequences from receipt of income from the forgiveness of premium financing loan indebtedness, from two years of "free insurance", and from bonus money or other cash or property incentives (free cars, free cruises, free meals) they receive.

Participants may be ineligible for additional life insurance coverage needed for last expenses, beneficiary support or estate planning because the investors are holding all the coverage capacity for which the senior qualifies.

There may be legal consequences regardless of how things turn out. Since most STOLI transactions involve trusts, the insured's beneficiaries may sue to recover benefits if they feel the transaction transferring the insurance death benefit to investors lacked insurable interest or was not otherwise legally sound.

History demonstrates that when the actual experience of the insured group turns out to differ from expectations, the insurer may suffer unanticipated losses over time. This would be yet another example of where fraud could likely reduce the availability of coverage for a vulnerable market.

If sufficiently aggrieved, the insurer may elect to incur legal costs in the pursuit of contract rescission based on a lack of insurable interest, material misrepresentations in the application, or fraud. As in any business, such costs work their way into higher rates for the classes of risks exhibiting the unpredictable experience.

New underwriting efforts initiated by insurers to detect and deter STOLI applications will result in additional expense to monitor all new business to ensure that only cases with legal insurable interest are effectuated.

And, since STOLI changes anticipated experience, such as mortality and expected lapse rates, life insurance may become less affordable for all Americans. (*See additional commentary in Attachments A and B*).

Where's the Value?

Clearly, life insurance companies that work daily to write as much business as possible would not be trying to stop sales of large amounts of insurance to any market unless they were convinced that STOLI transactions are unacceptable to consumers, to the industry and to society. These transactions:

- Violate the very spirit and purpose of insurance
- Are about investment arbitrage and not insurance protection;
- Generate value only to the transactional intermediaries (via broker commissions, legal costs, trust fees and premium finance costs), as did most sub-prime mortgages. In these cases, both the insurance company and legitimate investors in pension and other funds may be harmed, just like homeowners and legitimate investors were harmed in the sub-prime mortgage fiasco.

Life settlement providers engaged in STOLI claim that they add value for insureds who originally purchased insurance for their own purposes, but who either no longer need the insurance or who have greater current day needs. However, a recent study of 2008 settlements found that 50% of the reported settlements occurred within four years of original policy issuance. Could the reasons for buying insurance in the first place by so many individuals settling their policies really have changed so much, so soon? Even more telling was the finding that over one-third of the settlements were done two to three years after policy origination -- just after the expiration of the insurance policy contestable period[4]. STOLI has to be the reason for the vast majority of this activity.

Regulatory Activity

Prevention of STOLI has been a priority issue for insurance regulators and legislators. The National Association of Insurance Commissioners (NAIC) adopted a Model Act that prohibits the sale of a policy or its benefits for five years after issuance, unless the policy was paid for by the insured or his/her family, or there is a change in family circumstances, such as serious illness or death of a spouse. The National Conference of Insurance Legislators (NCOIL) Model Act took a somewhat different approach and makes entering into any practice or plan which involves STOLI a "Fraudulent Life Settlement Act", subject to civil and criminal penalties. Twelve states enacted meaningful laws in 2008. This session, laws have been adopted in five states, two

[4] Life Policy Dynamics, LLC - 2009

more await gubernatorial signature, and another eleven states currently have legislation pending.

The state legislative battles have been challenging, with the settlement providers, premium financing companies and investors employing scores of local lobbyists to weaken or defeat the Model bills. The NAIC Model's Five Year Settlement Prohibition is clearly the most effective deterrent to STOLI because it operates as a matter of economics, does not impose new enforcement burdens upon regulators, and is more difficult to game. The claim heard most often in opposition to the NAIC restriction on the sale of a STOLI policy before five years is that any limitation on a sale is an interference with the property rights of policy owners. However, property rights are not absolute. Lawmakers have enacted zoning laws, restrictions on the sale of alcohol to minors, prohibitions on resale of prescription drugs – all motivated by concern for the "public good". And, lawmakers and the Courts continue to affirm that the 'public good" requires that there be a legitimate insurable interest when acquiring life insurance. None of the state laws prohibit the sale or transfer of a policy if the premiums are paid with the policyowner's own money, or if there is a significant change in life circumstances, such as the death of the intended beneficiary, divorce or medical expenses. Restrictions on the sale of the policy only apply to STOLI policies. If none of the settlement providers are involved in STOLI policies, why are they working so hard to defeat the legislation?

Bottom Line

The purpose of life insurance is to protect individuals, families and society from the potentially devastating financial consequences of untimely death. The size of the benefits available, as well as the need to make the acquisition process easy and efficient, makes the product vulnerable to fraud and abuse. The industry takes great pains and goes to great expense to protect the integrity of what we believe to be a product that provides considerable value in many ways. We believe that STOLI is an egregious attempt by unscrupulous investors to take unfair advantage of both product providers as well as the elderly for personal profit. It is even worse than the no money down, no principal payment, adjustable rate mortgages that ignited the current economic crisis. There are no gray areas in STOLI and we need strong, clear regulation to prohibit it in every state. We hope that the Senate Special Committee on Aging will advocate that position and the ACLI stands ready to offer its assistance to Congress and the state legislatures.

In closing, let me offer the following. STOLI is not just an issue in the United States. It has spread to civilized countries around the world. A recent story in *The Press* of Christchruch, New Zealand, detailed how to buy and then cash in "the life-insurance policies of rich, elderly and soon-to-die Americans", who are likely to "pop their clogs within a reasonable time frame." The article pondered, "Whatever will the financial world dream of next?" We need to end those dreams to prevent them from becoming one more nightmare for our economy and our society.

Attachment A

STOLI – Who is the Victim?

There are many participants in a Stranger Originated Life Insurance (STOLI) transaction, some understanding the full ramifications of the "deal" and others woefully uninformed. STOLI is not a victimless crime, and it is important to try to understand what the unforeseen consequence may be to parties involved in STOLI.

The Insured who agrees to buy insurance under a STOLI transaction may not be aware that:

- STOLI is fraud – it is theft by deception of the insurer and violates state insurable interest laws – and they may have wittingly or unwittingly participated in insurance fraud, if the insured helped disguise the nature of the transaction or his true state of health or financial condition from the insurer.
- The payments received from the settlement company or investors, as well as the discharge of indebtedness on any related premium financing, may be taxable as ordinary income.
- They may not be able to buy any additional future life insurance for the benefit of family members or business associates, as the STOLI investors are holding all the coverage for which they qualify.
- The "free" insurance for the first two to three years may be taxed each year on the economic value of the coverage.
- Their personal information, including medical records, may be shared with entities not subject to state and federal privacy laws.
- There is no guarantee that the investors will buy the policy at the end of the premium financing period, and the insured may have to pay huge interest charges.
- They will have no way of knowing who holds the policy on their life because it can be resold many times over, and the insured has absolutely no control over who will be the beneficiary.
- They have agreed to receive calls, as often as once a month, to ascertain if they're still alive.
- There is no guarantee they will receive the payout promised, as nothing is in writing, nor can it be, because that would be proof of intent to skirt insurance law.
- An estate may be liable to investors if, for some reason, the investors can't collect for the insurance they expected to receive.

The American Consumer who has never heard or participated in STOLI may:

- Find that life insurance is less available and affordable, as insurers respond to changes in anticipated experience caused by fraudulent STOLI transactions.
- Discover that it is more difficult to purchase life insurance, as agents and brokers abandon traditional sales to engage in the lucrative STOLI business.
- Find that their pension funds have been placed with these questionable "investments".

The Insurance Company whose policies are caught up in a STOLI scheme may:

- Find the underlying economics of its business and its reputation at risk.
- See its fundamental business assumptions undermined. Insurers pool risks of similar nature and charge a premium based on the law of large numbers and expected experience. Investors deconstruct the averages and fraudulently attempt to arbitrage the insurer's projections by targeting policies at specific ages (typically 70–80) and ratings to produce a higher return for themselves.

- Be forced to rescind policies and file litigation when state insurable interest laws have been violated and/or where application data was falsified - a costly response that could diminishes the favorable public image of an industry so dependent on customer trust.

The Investors may:

- Find they hold a worthless security, if the policy is rescinded for violation of insurance law or fraud.
- Find that the value of "mortality futures" is less than anticipated, as the insureds live longer than anticipated, thus requiring continued payment of high premiums.
- Be involved in costly litigation, where profits don't match promises - settlement companies have sued life expectancy evaluators, investors are suing settlement providers and investors are suing investors.
- Find their brand damaged due to negative publicity and litigation involving STOLI investments.

The Brokers/Agents may:

- Find that abiding by the law places them at a disadvantage, including requiring that they spend additional time and expense to avoid participating in STOLI transactions.
- Find themselves involved in fraud and conflict of interest challenges, including civil and criminal legal actions and loss of their insurance license.
- Find commissions recaptured if a policy is rescinded.
- Suffer reputational risk if an agency is associated with one or more STOLI claims.
- Find themselves involved in nasty litigation with former beneficiaries, perhaps without E&O coverage.

The Financial Markets may:

- Be exposed to yet another securitization scheme – similar to energy futures and sub-prime mortgages.
- Not have sufficient familiarity with life insurance underwriting and pricing and lack the knowledge and experience to determine credit ratings for these "investments".
- Not be equipped to identify STOLI fraud, as there is no transparency in these schemes and no Regulator when the portfolio is sold to hedge funds or private equity funds.

Attachment B

The Truth about Lapse Rate

At some point in almost every STOLI legislative debate, the settlement providers, investors and financing entities make the accusation that life insurer's benefit from a high lapse rate[5]. The implication is that life insurer's real intent in pursuing anti-STOLI legislation is to destroy the secondary settlement market – since that market supposedly might decrease lapse rates, thus depressing life insurers' profits.

First and foremost - lapse rates are not the issue. Life insurance is priced taking into account the actual experience that an insurer expects in regards to deaths, lapses, surrenders and the like. This is not a lot different from other forms of insurance. For example, when homeowners purchase fire insurance they have every expectation that they will never collect. And, Property and Casualty insurers price those policies, based on past experience, not to have adequate funds to rebuild every customer's home, but to have the resources necessary to rebuild the homes of those very few who have the misfortunate of having a fire. If the policies were priced to rebuild every home, no one could afford homeowners insurance.

The same is true for life insurance. Insurers never expect to receive a claim from every policy. Most Life insurance customers buy policies to have peace of mind during those periods of their lives when they have financially dependent family and/or businesses. In fact, one of the most common types of life insurance is Term Life, which serves as a safety net and is designed to expire after the need ends, such as when dependent children are educated and grown. Policyholders purchase Term policies with every hope of never having to file a claim. And, the policies are priced based on actuarial experience validating that very few will collect – making them affordable to young and middle age Americans with growing families.

An individual may maintain a policy for 50 years and then decide that they no longer need the insurance protection or have better uses for the money. In that case, they may let the policy lapse. There is nothing "bad" or "wrong" about letting that happen after deriving the intended protective value of the coverage.

The inference in our opponents' accusation is that insurers have collected premiums to cover the payment of a death benefit on each and every policy and that when a death benefit is not paid, the insurer then pockets that benefit. In truth, of course, the total of premiums collected would never cover a death benefit for all policyholders. Life insurance is affordable because, based on actuarial tables; premiums are calculated to pay benefits for only that percentage of the pool that will eventually file a claim. There is no "bonanza" left for the insurer when policies lapse, since the premiums charged assumed a lapse rate in line with actual experience, thus enabling the insurer to reduce the premiums collected for all policyholders in the pool. If insurers did not include that lapse rate in their prices, they would be challenged for over-charging.

The STOLI market is much different than the market described above. The minimum target age for a STOLI transaction is 65, and probably older. In addition, when investors own the policies, with the sole intent of profiting from the death benefits, they are most reluctant to ever lapse a policy. Consequently, lapse rate assumptions based on past experience are no longer valid. If insurers must now presume that a high percentage of sales to seniors are really to benefit a third party investor, prices will have to be significantly increased for all senior sales, including those intended for legitimate family, business and estate planning purposes. This reality was clearly understood by the Fourth Circuit when it opined:[6]

"The insurer is … faced with changed economic risks that were not factored into its calculation of premiums. Under the two-party arrangement that preexisted the viatical settlement, the insured was in a class of persons that statistically surrendered a portion of its policies or let a portion of them lapse. Insurance companies rely on these surrender and lapse rates to calculate premiums to charge for life insurance policies. The viatical provider distorts these rates, however, because it will always hold onto the policy until the insured dies in order to protect its investment. Thus, as the initial actuarial risk is distorted with each new viatical settlement, the risk-spreading profile of the insurer becomes less reflective of its initial calculations."

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[5] Lapse rates include: death, expiration, surrender, exchange or non-payment of premium. (When a policy is replaced with a policy issued by another carrier, because data is collected from each insurer rather than industry-wide, the replacement will be recorded as lapse.)

[6] *Life Partners v. Morrison,* 484 F.3rd 284, C.A.4 (Va.); *cert. Denied,* 128 S.Ct. 708 (December 3, 2007).

Appendix 1

Examples of Court Cases addressing Insurable Interest and Wagering

Alabama: Brewton v. Ala. Farm Bureau Mut. Cas. Ins. Co., 474 So. 2d 1120, 1122 (Ala. 1985); **Alaska:** State Farm Auto. Ins. Co. V. Raymer, 977 P.2d 706, 710 (Alaska 1999) (insurable interest prevents insurance contracts from being used as a means of wagering); **Arkansas:** Corning Bank & Trust Co. v. Foster, 74 S.W.2d 797 800 (Ark. 1934) ("a wagering contract of insurance is contrary to public policy, and void"); **California:** Jimenez v. Protective Life Ins. Co., 8 Cal. App. 4th 528, 536 (1992) (if there is no insurable interest :the policy is a mere wager on the life of the person insured, and…void as against public policy"); **D.C:** Watson v. Mass. Mut. Life Ins. Co., 140 F 2d 673, 676 (D.C. app. 1943) (purpose of an insurable interest is "to limit [the] speculative business of buying and selling insurance…on the lives of others");**Delaware:** Baltimore Life Ins. Co. v. Floyd, 91 A. 653, 656 (Del. 1914) ("insurance procured upon a life by one or in favor of one under circumstances of speculation or hazard amounts to a wager contract and is therefore void"); **Florida:** Life Ins. Co. of Georgia v. Lopez, 443 So. 2d 947, 950 (Fla. 1983) (in "the absence of an insurable interest, the law condemns such policies as mere wagering contracts"); **Georgia:** Burton v. John Hancock Mut. Life Ins. Co., 298 S.E.2d 575, 578 (Ga. 1982) ("wager' contracts procured on another by a beneficiary having no 'insurable interest'…in the life of the insured are void"); Illinois: Colgrove v. Lowe, 175 N.E. 569 (Ill. 1931) ("contract of insurance upon a life in which the [owner] has no interest is a pure wager, that gives the [owner] a sinister counter-interest in having the life come to an end"); **Indiana:** Salem Lodge No. 21, F. & A.M. v. Swails, 197 N.E. 837, 839 (Ind. 1935) (a policy…taken out by one upon the life of another when [there is] no insurable interest in the life [is]…violative of public policy); **Iowa:** Hult v. Home Life Ins. Co., 213 Iowa 890; 240 N.W. 218, 227 (Iowa 1932) (a life insurance contract must be based upon an insurable interest, in the absence of which it becomes a wager contract and void); **Kansas:** Geisler v. Mut. Benefit Health & Accident Ass'n, 163 Kan. 518; 183 P.2d 853, 857 (Kan. 1947) (contracts are against public policy if (a) "they are…wagering in character and (b)…afford an incentive to crime"); **Kentucky:** Ficke v. Prudential Ins. Co., 202 S.W.2d 429, 431 (Ky 1947) ("the lack of an insurable interest creates…wager policies, which are invalid"); **Louisiana:** Adam Miguez Funeral Home, Inc. v. First Nat'l Life Ins. Co., 234 So. 2d 496, 499 (La. Ct. 3d Cir. 1970) ("the public policy purpose of requiring an insurable interest is to prevent wagering contracts on insurance risks"); Maine: Getchell v. Mercantile & Mfrs.' Mut. Fire Ins. Co., 83 A. 801, 802 (Me. 1912)("Wagering policies are forbidden as against public policy"): **Maryland:** Hopkins v. Hopkins, 614 A.2d 96, 100 (Md. App. 1992) (the "requirement of insurable interest was intended to prevent wagering on human lives"); **Michigan:** Hicks v. Cary, 52 N.W.2d 351, 354 (Mich. 1952) ("a life insurance policy naming as beneficiary one who has no insurable interest in the life of the assured is a wagering contract, void as against public policy"): **Missouri:** Estate of Bean v. Hazel. 972 S.W.2d 290, 292 (Mo. 1998) ("one must have an insurable interest in a person's life in order to take out a valid policy of insurance on that person's life"); **New Hampshire:** Mechanics' Nat'l Bank v. Comins, 55 A. 191, 193 (N.H. 1903) ("insurance procured by one person upon the life of another, the former having no insurable interest in the latter, was void as a wager contract"); **New York:** Scarola v. Ins. Co. of N. Am., 323 N.Y.S.2d 1001 (N.Y. App. Term 1971) (the "vice sought to be avoided by requiring insurable interest is to prevent the insurance policy from becoming a wagering contract"); **North Carolina:** Wharton v. Home Sec. Life Ins. Co., 173 S.E. 338, 339 (N.C. 1934) ("a person cannot take out a …policy of insurance for his own benefit on the life of a person in which he has no insurable interest"); **Ohio:** Westfall v. Am. States Ins. Co., 334 N.E. 2d 523, 525 (Ohio Ct. App. 1974) (a "wager policy") is one in which the insured has interest only in the loss or destruction of the property" or thing insured); **Oklahoma:** Delk v. Markel Am. Ins. Co., 81 P.3d 629, 634 (Okla. 2003) (the "insurable interest requirement was to prohibit wagering contracts in the guise of insurance"); **Oregon:** Brett v. Warnick, 75 P. 1061, 1063-64 (Ore. 1904) ("before one can be permitted to take out a policy of insurance upon the life of another for the former's benefit he must have an insurable interest in the life of the latter"); Pennsylvania: Van Cure v. Hartford Fire Ins. Co., 253 A.2d 663 (1969) ("insurable interest is founded upon the public policy against wagering"); **South Carolina:** Warren v. Pilgrim Health & Life Ins. Co., 60 S.E.2d 891, 893 (S.C. 1950) ("one cannot obtain valid insurance upon the life of another in whom he has no insurable interest"); **Tennessee:** Duncan v. State Farm fire & Casualty Co., 587 S.W.2d 375, 375 (Tenn. 1979) (finding an insurable interest "essential" or "the contract amounts to no more than a wager and is void"); **Texas:** Cheeves v. Anders, 28 S.W. 274, 276 (Tex. 1894) (it "is against public policy for one to be interested in the death of another when he has no interest in the continuance of his life"); **Virginia:** Green v. Southwestern Voluntary Ass'n, 20 S.E.2d 694, 696 (1942) ("it has long been held that in the absence of an insurable interest, a policy on the life of another is contrary to public policy and cannot be enforced"); **Washington:** Buckner v. Ridgely Protective Ass'n, 229 P. 313, 316 (1924).