INSURABLE INTEREST

WHAT IS AN INSURABLE INTEREST?

- The main purpose of buying insurance is to compensate for losses - the insured's losses financially.

- To allow someone to be compensated for a loss that does not affect them financially would create a moral hazard.
  - Moral Hazard are losses that result from ***DISHONESTY***!

- Without an insurable interest, buying insurance would be **gambling**—paying premiums in the hope of making a profit, which is not only against public policy, but also against the purpose of insurance, which is to compensate you for ***your*** losses.

- The insured must have an **insurable interest** in the thing being insured.

- A good example of the moral hazard created when there is no insurable interest is the story of the ***Blue-Eyed Six***.

STORY OF THE BLUE - EYED SIX

- In the late 1800's, in Lebanon County, Pennsylvania, there was an old man who looked like he was going to die very soon.

- So 6 men, who were unrelated to the old man and had no financial stake in his death, decided to make money by taking out a life insurance policy on him, which they could do at that time.

- But the old man lived a lot longer that they had expected - and the premiums were expensive.

- So they murdered him to collect the life insurance sooner.

- Subsequently, they were caught and hanged.

- But if the ***Principle of Insurable Interest*** were operating in those days, the old man would have lived longer than he did and the **SIX MEN** would not have been able to take out a Life Insurance Policy on the **OLD MAN's Life**.