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B.C. Regulators Ban Charitable Gifts of Life Insurance

Life insurance and Estate Planning professionals across the country were recently shocked to discover that traditional gifting of life insurance policies to charity is now considered "trafficking" by the British Columbia Financial Services Authority.

It's always unnerving when a regulator makes a brusque decision for no logical reason, and it's especially off-putting when an abrupt pronouncement impacts your own occupation. Add to the mix a potential loss to registered Canadian charities of generous donations amounting to hundreds of millions and you have the current situation causing much concern and uncertainty in the Canadian life insurance industry.

We don't know how or why the B.C. regulators arrived at their draconian decision. News stories about redacted information obtained by a Vancouver law firm reveal that the regulators ruled it an offence to gift a life insurance policy to a B.C. charity in exchange for a donation receipt.

Many estate planning professionals, life insurance advisors, generous donors and charities are now led to believe this stunning ruling forbids buying a life insurance policy for charitable reasons and naming a charity as owner of the policy.

Also, apparently offside is a simple policy ownership transfer to a charity.

According to some, however, designating a charity as the beneficiary of a life insurance policy is still allowed.

There has been some speculation that the B.C. regulator's new position stemmed from the activities of a single, for-profit company that was trafficking in insurance policies. As of today, the regulators haven't explained their rushed reasoning.

Nor has Canada Revenue Agency uttered a word (at least publicly) that these practices are against the law. As we all know, it can often take months to get an answer back from a regulator as to why it has made a ruling.

Worse, some fear that the B.C. decision might creep into the provincial legislation of other insurance regulators, spreading from one end of the country to the other.

In the meantime, some lawyers are suggesting that registered charities that have traditionally used life insurance as an important source of funding immediately cease and desist, removing all references from their websites and suspending discussions with potential donors of life insurance policies - at least until more information is available.

But let's take a deep breath. We in the life insurance industry know there is no better way to maximize giving to deserving charities than through life insurance. As an industry, we have helped thousands of clients use their policies as charitable gifts, aiding countless numbers of generous donors while at the same converting estates taxes into charitable gifts, all with the blessings of the Canada Revenue Agency. Our government wants us to be generous and has introduced many pieces of legislation that make it easier to give.

I am confident that our professional organizations such as The Financial Advisors Association of Canada (ADVOCIS), Conference for Advanced Life Underwriting (CALU), the Society of Trust & Estate Practitioners (STEP), Toronto Estate Planning Council, and Canadian Association of Gift Planners (CAGP), will do all they can to lead the charge against the BC ruling.

Using life insurance to fund charitable legacies continues to be the philanthropic cornerstone of our practice. Our 2020 goal is to create $100 million of charitable gifts every year for generous clients, charities donors and their boards, and by educating and collaborating with aligned professionals.

We don’t believe the sky is falling, and believe this issue will be resolved soon, allowing our well-regulated industry to continue bringing billions of dollars of gifts to legitimate charities across the country.

Looking ahead, our industry must move quickly and transparently to prevent a tiny minority of profit-motivated “bad guys” from destroying so much of the good we do for the registered charities that depend on the largesse of generous Canadian donors.

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