

Superintendent of Insurance

Interpretation Bulletin

Bulletin Number:	04-2022
Title:	Charitable Donations of Life Insurance
Date:	May 27, 2022
To:	All Insurers Licensed for Life Insurance in Alberta

Purpose

In accordance with section 792.1 of the *Insurance Act* (Act), the purpose of this Bulletin is to provide the Superintendent of Insurance's (Superintendent) interpretation that in certain specified circumstances, the donation of life insurance policies to bona fide charities is not trafficking in life insurance.

Background

Monetizing a life insurance policy, also known as "trafficking" in life insurance policies, involves a policyholder selling, surrendering, transferring, assigning, pledging or hypothecating life insurance in exchange for consideration, often at a considerable discount below the face value of the policy.

The prohibition against trafficking or trading in life insurance policies has been in place in Alberta for many years to prevent third parties from taking advantage of vulnerable individuals, such as those facing financial difficulties. Only licensed life insurance companies may buy, sell, or transfer the benefits under life insurance policies.

Section 784 of the *Insurance Act* (Act) states:

784 Any person, other than a licensed life company, who

(a) through advertisements or other means makes it known that the person is willing to purchase life insurance policies or the benefits under those policies, or

(b) traffics or trades in life insurance policies for the purpose of procuring the sale, surrender, transfer, assignment, pledge or hypothecation of the benefits under those policies to any person is guilty of an offence.

For more information, visit [insurance.alberta.ca](https://www.insurance.alberta.ca)



Superintendent's interpretation on donations of life insurance policies

Pursuant to section 792.1 of the Act, the Superintendent issues this Interpretation Bulletin to clarify there are three acceptable methods for donating life insurance to a bone fide charity under the *Insurance Act*. These methods are:

- i) Where a life insured takes out a new policy in the name of a bona fide charity and receives a tax receipt for the premiums paid;
- ii) Where a life insured names a bona fide charity as the beneficiary of an existing policy, the charity receives the benefits at time of death, and the estate receives a tax receipt; and
- iii) Where a life insured transfers ownership of an existing policy to a bona fide charity and receives a tax receipt for the cash value of the policy.

Making a donation using one of these three methods is not trafficking in life insurance under the Act, provided the bona fide charity falls within the definition of "charity" under section 149.1 of the *Income Tax Act* (Canada). For clarity, these methods include the solicitation by bona fide charities of such donations of life insurance policies or benefits.

This interpretation and application of the Act is subject to an assessment of the facts in specific circumstances. While it supports legitimate charitable giving in compliance with the law, the Superintendent's office may review and investigate insurance company conduct, acts or practices that do not support this interpretation of section 784 of the Act. To that end, life insurers are encouraged to adopt best practices that both support charitable giving and protect the interests of donors.

The Superintendent of Insurance encourages charities and persons donating to charities to seek independent legal advice to ensure its activities are structured in compliance with the Act.

If you have any questions regarding this Interpretation Bulletin, please contact my office at (780) 643-2237 or tbf.insurance@gov.ab.ca.

[ORIGINAL SIGNED]

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