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THE HISTORY OF LIFE INSURANCE IN THE UNITED STATES TO 1870

With an Introduction to its Development Abroad

BY
CHARLES KELLEY KNIGHT

Book review: Great Quote : Jnl of Political Economy 1922

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The Journal of Political Economy

CHARLES KELLEY KNIGHT. Privately printed, Philadelphia, 1920. Pp. 160. (Doctoral dissertation at the University of Pennsylvania.)

This is a fairly complete survey of the development of insurance in the United States, including the organization of the individual pioneer companies of various standard types, the evolution of company organization, the progress of actuarial science, and the development of the policy contract. Comparatively little attention is given to public control of life insurance. An introductory chapter furnishes a useful survey of the beginning of life insurance in Europe and traces its progress through the eighteenth century.

Teachers of life insurance will find this a useful contribution. Most professional historians will doubtless disagree with the author's conception of the historian's duty, as stated in the Preface: "All who are acquainted with the institution (life insurance) agree that it should be encouraged by every legitimate means. It is useless, therefore . . . . to portray disreputable practices that have been permanently abandoned. On the other hand, false practices that might recur at some future time require the boldest exposition."

There is no bibliography and no index but a very detailed table of contents.

C. O. HARDY

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Early Books of LI Law - pg 98

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drawn to protect a person in violating a law.

Works on insurance law began to appear during this time, an American edition of Marshall being published in Boston in 1805 and in Philadelphia in 1810 to meet the needs of marine underwriters, Phillips on Life Insurance appearing in Boston in 1823, and the four volumes of Chancellor James Kent's Commentaries, containing discussions of the law of life insurance being produced in the years 1826–1830.

General Conditions. *The Standardization of Rates.* Fri

IMP Court Case Dall sister brother- ins interest-pg 96

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served as a stimulus to its development.

The only life insurance case of importance before the courts of the country during this period, was that of Lord V. Dall, decided by the supreme court of Massachusetts in 1815. Although the first case ever tried in the United States, its importance can scarcely be over-estimated and on at least two points it is still followed as a leading authority today.[69] It appears that Dall, an individual insurer, had underwritten a $5,000 policy in favor of Nancy Lord on the life of her brother who was about to embark on a voyage, for seven months, from December 16, 1809 to July 16, 1810, at noon—the premium being 7 per cent of the sum insured. The claim arose and Dall

[67]Laws of New York, 1840, C. 80.

Pg 12-gibbons/gybbons

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wager policies predominated.

Early Life Insurance Policies.—The earliest known life insurance policy was effected June 18th, 1583, in London. It appears that for some reason[21] a man named Richard Martin secured a policy on this date payable to himself in case one William Gibbons should die within the ensuing twelve months. The policy reads as follows:

"In the name of god amen. Be it knowne vnto all men by theise psents that Richard Martin Citizen and Alderman of London doth make afsurance and causeth himself to be afsured vpon the naturall life of William Gybbons Citizen and salter of London, for and during the space of xij monethes next ensuinge after the vnderwriting hearof by the assurers heareafter subscribed fullie to be complete and ended. The wch assurance wee the psons heareafter named mchantes of this Citie of London for and in consideracon of certeine currant money of England by vs received at the subscribing hereof, of the said Richard Martin after the rate of viij[li] sterling p cent (whereof we acknowledge ourselves and everie of vs by these psentes trulie satisfied & paid) do take vpon vs to beare. And we do assuere by thiese psentes that the

99-early reserve requirements sort of

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Valuation.—While the formulation of the principles of net premium valuation appears to have been in progress in England during the latter part of this period,[77] gross valuation seems to have been the method used by American companies. That is, they were apparently content if their reserves added to the present value of future gross or office premiums due equalled or exceeded the present value of future death claims due. America's claim to a contribution to valuation rests on the introduction of legal reserve requirements, but this subject belongs to the next period.

99-early price competition

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basis for the calculations. Competition between companies in the matter of premiums appeared about this time, the American Life and Trust Company of Baltimore having become an indirect solicitor (heavy taxation of foreign companies prevented direct solicitation) for Philadelphia business in 1836 at rates considerably lower than those asked by the Girard and Pennsylvania Companies. As a result the latter company reduced its rates in March, 1837, and the Girard followed by adopting the scale of the Baltimore company, which was also that of the New York Life and Trust Company. The Massachusetts Hospital Life alone held aloof from the movement toward standardization, adhering to rates much higher than the others, except at the older ages. [See table, p. 100, below.]

100-early distribution system/ stock vs mutual co's

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stock companies that also engaged in the administration of trust funds and estates. One mixed company, introducing the practice of sharing profits with policyholders, met with considerable success. But the total amount of insurance written was not large. While there were instances of companies using an agency system, intelligent publication was largely depended on to introduce the business and familiarize the public with its advantages. Applicants were generally expected to appear

100-early surrender value/ co buy back policy

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was then satisfied the policy was granted—the proposal being a part of and the basis of the contract.[78] The policies were quite restricted in character compared with present standards. A few companies agreed to repurchase them under certain circumstances if the insured should so desire, thus constituting a

sort of indefinite surrender value. Policies could also be sold provided the companies agreed to the assignment, a rough surrender value being realized in this manner.[79] A deep re-

101-LI seeen as anti-religious

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surrender value being realized in this manner.[79] A deep religious prejudice prevailed in most communities against life insurance, although the published pamphlets and articles of the period indicated that its purposes and advantages were well understood, at least in some quarters. Of the business

101-most popular policies at the time

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well understood, at least in some quarters. Of the business done, seven year term insurance seems to have been the more popular, followed by whole life; while children's endowments, reversionary annuities and survivorships were of rare occurrence.[8n] Little progress was made in legislation, one court de-

101-early legislation-not much happening

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ence.[80] Little progress was made in legislation, one court decision which has since proved of importance was rendered, the mortality was found to be similar to that of England so that premium calculations could be refined with the more accurate tables of the latter country as the basis, and progress was made in the standardization of rates among American companies. Participation had been introduced, the mutual idea pervaded all branches of insurance, and the nature and benefits of the institution were becoming sufficiently well understood by the general public to make possible the great progress which began

102 -1843-Mutual companies appear

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upon the actual experience of the Company.

Our First Mutual Companies.—The New England Mutual Life Insurance Company was the first to be projected under the mutual plan, having obtained its charter in 1835, but for reasons previously stated it did not begin business until the latter part of 1843. In 1841 a joint stock corporation known as the Nautilus Insurance Company was chartered.[1] Two years later it changed to a mutual company and acquired all the privileges granted to the New York Mutual Insurance Company,[2] an organization doing a life as well as a fire and marine business.[3] The company got under way in 1845, issuing life policies, to which it has since confined itself, under the name of The Nautilus (Mutual Life) Insurance Company of New York.[4] The name of this concern was changed in 1849 to the "New

York Life Insurance Company,"[5] under which name it has grown to be one of the foremost institutions in the country. But the distinction of having been the first to put the mutual plan into practical operation belongs to the Mutual Life Insurance Company of New York. It was chartered by the legislature of that state, April 12, 1842.[6]

The Mutual Life Insurance Company of New York.—No guarantee capital was stipulated in the charter, but the operation of the law of average was assured and funds sufficient to meet whatever claims should arise in the immediate future were

104-first people to start mutual companies

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some serious difficulties. The idea of founding the company seems to have originated with Mr. Alfred Pell of New York, who associated with himself Messrs. Morris Robinson, Joseph Blunt, and John V. L. Pruyn. These men prepared the charter and Mr. Pruyn secured its passage through the legislature. Little interest was as yet manifested in it, however, as it was only with the greatest difficulty that twenty-one out of thirty-six corporators were induced to attend a meeting to accept the charter and form an organization. The meeting was finally held May 9, 1842, and Mr. Morris Robinson was elected its first president. Other meetings followed at which other officers were elected. But no salaries were provided for officers and no business office was obtained, so for several months it looked as though the project might be abandoned. But on December 21, a meeting was held at the urgent request of President Robinson, and Messrs. Shipman, Ayres & Company, were appointed agents to solicit applications. It was due largely to their efforts that the required amount of insurance

105- LI ready on a big scale in america

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fessional men, a majority being for the whole of life.

The immediate success which followed the organization of this company indicates that the time was now ripe for the development of life insurance on a large scale. The ground had been well prepared, and the diligence and prominence of the organizers of the Mutual supplied the driving force to make the business a success. The attention which the company attracted rapidly overcame all obstacles and resulted in the immediate triumph of the participating plan. Of the companies which were actively engaged in life insurance at the time the Mutual Life was founded, all retired from the field within ten years, except the Girard and the Pennsylvania Company, and the insurance activities of the latter two were greatly curtailed. But its success also led others founded on the mutual plan to enter the field in a short time

105/6+-beginning of part premium/note system

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The Beginning of the Part-Note Premium Plan.—The latter company introduced a new feature into the business from the beginning of its career which was destined to play an important role in the history of life underwriting. It was known as the limited credit or part-note premium plan. Instead of insisting on the full premium being paid in cash, as the Mutual Life required, the New England offered to acept the policyholder's note for a part of the premium during the first five years, on the theory that during these years the mortality would be less, due to medical selection, than the death rate provided for by the full premium. It was by no means intended by this company that insurance should be granted on credit. The plan was adopted merely to facilitate the placing of policies among those who could not be induced to pay the whole premium in cash. Thus one of the directors stated, "The object of this practice is to afford a temporary facility for making a policy for the whole of life and not to encourage insurance on credit, and the managers so consider it, for they generally prefer to pay the premium instead of giving a note, except in case of an occasional and temporary exigency. Excessive facility of credit is no less inexpedient and delusive in insurance than in buying and selling."[13] While the New England itself never has been accused of pursuing any but the most prudent practices, other companies at a later date grossly abused the note system.

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(Of the foregoing five companies, all but the Mutual Life of New York adopted the part note system. This system had been in use abroad, and had been an integral part of the mutual fire companies in this country where it had wrought a great deal of harm. Because of the difference in character of the risk, the notes did not immediately result in harm to life companies. In fact if notes were used with caution there is no reason why they should produce any evil effect, as has been demonstrated by the more conservatively managed companies. The amount of the premium accepted by the companies in the form of notes varied from 15 to 75 per cent. The latter figure was allowed by the Mutual Benefit of New Jersey at first, but was afterwards reduced to 50 per cent. The notes bore interest and could be collected in whole or in part by the company if necessary, or failing in this the company could declare the policy null and void and also sue for payment of the note.[22] Dividends were supposed to take care of the notes. The State Mutual of Worcester stated in 1849 that the notes were taken to provide for a possible deficiency in the amount of cash premiums, but that for the past five years the cash premiums had been sufficient, and no demand was made for the payment of the notes. The one object was to make insurance more popular. The dividends of the note companies, were applied to a reduction of the notes. and when they were all paid off, for the reduction of the cash premium. In the company which did not use notes, dividends were applied to increase the amount of insurance in force.

105-New England Mutual enters LI biz officially

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The New England Mutual Life Insurance Company.—The charter of The New England Mutual which had remained dormant for so long was now availed of, and that company opened for business in Boston at the close of 1843, its first policy being issued in February 1844, or about one year after the Mutual Life began business. This marked the beginning of practical life insurance in New England. While some individual underwriting had been done early in the century on short time risks, and a few marine companies had prior to 1810 been granted the privilege of making life insurance the only company east of the Hudson to whom a New Englander might apply for insurance prior to 1843 was the Massachusetts Hospital Life. As has been noted, the latter charged very high rates and in consequence did very little life business. By 1843 its business was confined almost wholly to the management of trust funds and estates. The New England, then, commenced business in a very promising, thrifty, and practically new, territory.

107-early marketing/LI as an Investment

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Realizing that the task before them was largely an educational campaign, the officers of the company made special efforts to familiarize the public with the principles of the business. One form which the efforts took was that of an annual report. These reports constitute one of the sources from which information regarding the subject of insurance at that time may be obtained. They were largely devoted to popular explanations of the principles upon which the business is founded, but in connection with the explanations the company gave a fairly complete account of its own experience each year. Not only did they strengthen the public confidence in the company, and extend its reputation generally, but they were also an important factor in showing how life insurance is an investment and in this manner served to encourage business men to take policies.

106/7-New England "changing the Rules"

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Other Features of the New England Mutual.—As regards the other features of the company, a guaranty of $100,000 capital was required, half of which was to be paid in before commencing business. The capital paid in was to bear interest at a rate not greater than 7 per cent. One fourth of the net profits were set aside each year to redeem the capital, which might be done any time after ten years. The charter carefully provided for taking care of the interests of the policyholders.[14] Dividends were to be apportioned every five years, and special provisions were made for reimbursing older policies for their contribution to the redemption of the guaranty fund.[15] One-third of the net profits, which were defined as the excess over six per cent on the guaranty capital, were paid to the General Hospital the first year. But the next year the company refused to make the payment, "unless the same exaction were made from competitors from other states," and the hospital abandoned its claims. The charter was amended March 11, 1844, so as to allow non-participating as well as participating insurance to be issued.[16]

112/3-"unsound companies" "LI bubble" agents problems/ knowledge

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one in New Jersey, and one in North Carolina. These were also very short-lived. The first era of bubble companies in the history of life insurance in this country was now in full progress. In 1850 no fewer than fourteen companies were chartered, two of which were in the West, and two in the South. Seven of these soon disappeared, but five of the Eastern com-

time and the sudden popularity of life insurance. Many of them combined life with fire and marine insurance, or with trust business. Their officers had no adequate knowledge of the work before them, and often attempted to carry on the life business in the same manner as fire insurance. Some of the

107-women can get LI on their husbands

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tual basis. The Mutual Benefit inserted a clause in its charter permitting it to issue policies for the benefit of married women on the lives of their husbands, free from all claims of creditors.[20] This was a substitute for the general law in New York which made similar provisions, and was inserted because New Jersey had not at that time enacted such legislation. Several compan-

ies which followed the Mutual Benefit made similar arrangements in the absence of a general law protecting widows against the claims of creditors to the proceeds of life policies. The companies seem to have attached great importance to the provision possibly because many merchants in country towns would insure for some small amount if their policies were made free from the contingencies of their trade. The Mutual Benefit was also granted power to receive notes for a part or the whole of the premium.[21]

Of the foregoing five companies, all but the Mutual Life of New York adopted the part note system. This system had been

108/9-Connecticut Mutual - Dr. guy r phelps founder-1846

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above. The aims of the company, however, were somewhat different. Dr. Guy R. Phelps, its founder, saw that cautious underwriters were inclined to regard ample security as far more important than equity among policyholders. While he recognized that safety was absolutely essential, he also perceived that if certain improvements in the business as it was then conducted could be made so as to bring about greater equity, its popularity might be greatly enhanced. And if this could be accomplished, he was convinced that the United States with its rapidly increasing wealth and population presented a field in which the business might eventually assume vast proportions. He therefore determined to put his ideas to a practical test, and secured a charter from the legislature in May, 1846.[23]

The charter provided for no guarantee capital and required no minimum of applications before commencing business. No territorial limits were set for investments and the company was authorized to take promissory notes or other obligations for the whole or any part of the premium. In case funds were not sufficient to cover losses at any time the notes could be assessed to make up the deficiency. If the assessment was not paid within sixty days the policy was forfeited and the company could collect the note by process of law, if that were deemed feasible. The company was also given authority to accept notes or other securities for premiums in advance from persons

Two distinguishing features are thus observed, a credit premium system, and a return of surplus payments to the members by crediting it to them annually instead of retaining and applying it toward reversionary additions These two features were really but parts of one scheme, then novel in life insurance, whereby policyholders might be enabled to anticipate future surplus by taking a larger policy in the first place.

113-LI co failures - reduction in premiums / not sustainable

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business in the same manner as fire insurance. Some of the failures may apparently be traced to a general reduction in

premium rates that took place among the new companies after 1848. Unfamiliarity with methods of securing business and a

114- LI Agent not specialists/strong arm clients into buying

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But in those days the life agent was seldom a specialist in that field, being in most instances more prominently identified with some other business. Nor could he have been expected to devote much time to pushing insurance in preference to his regular business. In order to persuade a person to sign an application he usually had to break down a strong antagonistic prejudice and superstition about its effects, overcome suspicions against the company's character, and remove strong doubt regarding the ultimate payment of the proceeds, before he could begin to talk about the personal advantages of the policy to his prospect. And once all these things were accomplished and the policy accepted and paid for, the agent then received a commission seldom averaging above ten per cent of the first premium, and not more than five per cent on renewals. In view of these facts the wonder is not that so many companies failed, but that so many should have survived and increased their business. Permanent success seems to have been won by those companies whose organizers and managers were well known in other lines of business, and whose practices became favorably known in their respective communities.

114- Manhatten co-scrip div-sbli-Elizur Wright-New York Deposit Law - 1851

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of the modern companies to revive the so-called "mixed" system. In 1850 the bulk of the business, as has been noted, was in the hands of the purely mutual companies, and many of these were without adequate security or competent managers. The want of the conservative element was emphasized by the fact that the New York Deposit Law was passed in 1851[32] with a view to curbing the recklessness of some of the companies, especially the newer organizations. To supply stability, therefore, the organizers of the Manhattan sought to create a stock company controlled by a board of directors having a personal pecuniary interest in the management, while at the same time protecting the interests of policyholders by giving them the

116-Panic of 1857

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Effects of the Panic of 1857.—The Ohio Life and Trust Company of Cincinnati failed in 1857 due to banking speculations, and while it had discontinued its insurance business sometime previous, the magnitude of its trust and banking operations in the West was so great that its fall did much to precipitate the general financial panic which began there and spread rapidly

over the entire country. But the life insurance companies were well prepared for such a contingency, so the number of failures among them was very small. By process of elimination previously noted, those companies that probably would have been unable to withstand the pressure had disappeared. While

prises. There were two primary reasons why the existing companies were able to stand the strain so well. First they were institutions whose maturing obligations were for the most part incurred by the deaths of policyholders and these were not increased by the panic, and second the companies had been content or had been obliged by law to invest their funds in safe, low interest bearing securities which did not materially decline in value. Of course the companies were indirectly effected.

increase in new business written. That these comparatively new and somewhat distrusted institutions stood firm throughout such a financial reaction was sufficient to attract the attention and win the confidence of the public. By 1859 the country had sufficiently recovered for life insurance to forge ahead once more. According to the first report of the New York Insurance

116- Other co's taking on customers of failed LI co's

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whole. The number of applicants of the failed companies was small, and their policies were in most instances transferred to the more stable companies who were willing to take them when the assets of failed companies were sufficient. The failures served to check the progress of the rapidly increasing over-supply of organizations, and led people to be more cautious in choosing companies in which to insure. Hence, the failures tended to increase the business as well as the confidence of the public in the older and more carefully managed institutions.

118-term used to be main policy, now 90% was whole, confidence in insurance companies

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at the close of this period differed radically from that in force at its beginning. As noted, term policies predominated in 1843. But now over ninety per cent of the business consisted of insurance for the whole of life.[42] In part, the change may be explained by the growing confidence on the part of the public in the safety and permanence of life companies. Also, a decrease in term policies occurred when those granted to persons going to California in the gold rush of 1849 began to expire. And companies having found the mortality among term policyholders to be higher than among those insuring for the whole of life, due to the fact that those seeking short-time insurance were often contemplating hazardous undertakings of a temporary[43] nature, determined to discourage term business and confine their atten-

118-endowment policies now being written

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made in endowment insurance. Prior to about 1850, an "endowment" meant a "children's endowment," or what today would be called a "pure endowment." That is, they were contracts providing that if children survived to (say) age twenty-one, certain sums should be paid by the insurance companies. But in 1853, the Mutual Life quoted rates for insurances payable to the party insured on his attaining a certain age, or to his representatives in case of death before attaining the age specified.[44]

119-Actuarial scientific advancements/ premium rates/ reserves

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Progress Along Scientific Lines.—Progress on the scientific side of life insurance during this period consisted in the compilation of statistical data which was used for the further refinement of premium estimates, and in the very important development that took place in valuation, or the calculation of reserves. As

118/119- Northwestern(1858-wi) and Equitable 1959-ny) are formed

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tined to become prominent in life underwriting circles. The first was the Northwestern Mutual Life Insurance Company of Milwaukee, Wisconsin, which began business in November, 1858. It was chartered in 1857 under the name of the Mutual Life Insurance Company of the State of Wisconsin,[45] but took the name of Northwestern Mutual in 1865.[46] It was formed as

The second company referred to above, was the Equitable Assurance Society of the United States. It was chartered in

120- Census Bureau info for LI Deaths Statistics. Not useful

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in Baltimore from the record of interments from 1826 to 1848,[49] and from the census returns of 1830 and 1840. The interests of life insurance were first recognized in the Federal census in 1850. At that time additional blanks were furnished requiring information concerning mortality during the different months of the year together with important facts concerning those who had died, such as age, occupation, cause of death, etc. No satisfactory information was obtained, however, as Superintendent DeBow of the Census Bureau stated in his report. A system for recording births and deaths had been placed in operation in but few states, and without such a system the efforts of the Census Bureau proved futile. At this time also some of

120/121 - dr wynn / mr homans

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121- The American Life Convention- Start of Collusion with LI Companies->1980 SOA Report-What's the problem??

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The American Life Convention.—The efforts of individual companies to obtain a better statistical foundation for their business were followed in 1859 by a combined movement in this direction which culminated in the first American Life Convention, held May 25 of that year. Twenty-three delegates, representing seventeen American offices and British agencies met in New York to consider the matter. Three other topics were taken up by the Convention. They were, extra rates, renewal of lapsed policies, and state legislation. Of these the latter was of most importance at that particular time. A committee on vital statistics was appointed, and in rendering a report this committee recommended that the country be divided into seven geographical divisions, and that the mortality be ascertained in each. The reasons assigned for this were that all tables in use were defective, having been deduced for miscellaneous observations in different communities, or deducted from European tables which could not hope to be applied generally in this country, since there were so many different conditions and climates here. To carry out the work the committee recommended that each company contribute data so that the combined experience of all American companies could be deduced, having special reference to the comparative mortality in the different divisions of the country at different ages or epochs of life, and under whole life and term policies.[51]

At the next meeting of the Convention, held in May, 1860, statistics had been furnished by thirteen companies, and were promised by nine more. The work was interrupted, however, due to several causes, so that nothing of a very practical nature came of it directly. Indirectly the results of this labor may have been of assistance to actuaries acting individually in determining rates for their companies. It shows the clear view taken at that time, of the problems confronting those who were responsible for the fixing of premium rates.

122-Co Reserves Valuation--twisted and faked

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Valuation.—As regards the subject of valuation or the calculation of the reserves which should be held against policies, each

company had been permitted to estimate the value of its liabilities according to whatever standard it might select, down to 1858. Prior to that date the principle of gross valuation, based for the most part on the Carlisle table and four per cent, appears to have been the basis, both in this country and in England.[12] A few of our companies, however, reported reserves calculated on the net premium basis,[13] and all of the better managed ones made some allowance for future expenses. Had they not done so they would not have been able to meet the legal standard imposed during the latter part of the present period. But beyond all doubt, all of them would have insisted, had it been necessary, that they could meet future liabilities on policies if their reserves plus the present value of future gross premiums due equalled the present value of outstanding insurances.

122-English actuaries say it's too laborious to get accurate numbers

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In England an attempt was made in 1853 to secure the investigation of companies and the valuation of their life policies by government officials, but it failed because the English actuaries pronounced it impracticable on account of the magnitude of the labor involved and the intrusive nature of the work. Subsequent attempts failed for similar reasons.[34] But in this

Enter Elizur Wright

122-Elizur Wright - Massachusetts Valuation Law - 1958

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Subsequent attempts failed for similar reasons.[54] But in this country, Elizur Wright computed a set of valuation tables from the English Combined Experience Table of Mortality in 1854, for the use of six of our larger companies. This was the first step taken to systematize the labor of valuation. Then in 1858 came the famous Massachusetts Valuation Law,[55] giving authority to the insurance commissioners to examine the character of the business and assets of the companies and to determine their liabilities. The law did not prescribe the standard of valuation but left this to the discretion of the commissioners. The latter

123- E. Wright Quote -2 Dangers of valuation of Mutual comp. to policyowners (new and old)

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required.[56] But it was clearly understood by them that net valuation was the only means of determining equity between the present and future policyholders in a mutual company. Thus in the Fourth Report, Commissioner Wright stated that, "every mutual life insurance company is exposed to two opposite dangers; over-accumulation on the one hand, by which the earlier members may be defrauded to enrich the later ones; and excessive dividends, by which the earlier members are benefited to the injury of the latter and perhaps to the bankruptcy of the company." By accurate valuation according to a correct standard both dangers could be avoided since any surplus shown by the valuation belongs to those who are, rather than to those who are to be, insured; and less than the correct reserve a company could not have without compelling new members to contribute to supply the deficiency of the old ones.[57]

out. The Massachusetts standard of valuation proved to be a safe and equitable test of solvency, and the principle of net valuation in the determination of legal reserve requirements has been generally adopted. The credit for its establishment belongs to Elizur Wright.[58]

Mr. Wright's method of calculating reserves on the basis of net premiums was immediately put to a practical test, when he reported in 1859 that several companies failed to meet the legal requirements, the most prominent among them being the International Life Assurance Society of London. This company had been considered down to the time of the report as one of

OB 123-E. Wright- International Life Assurance Society of London -valuation put to the test. He was right.

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The History of Life Insurance in the US 1870-1920

Mr. Wright's method of calculating reserves on the basis of net premiums was immediately put to a practical test, when he reported in 1859 that several companies failed to meet the legal requirements, the most prominent among them being the International Life Assurance Society of London. This company had been considered down to the time of the report as one of

the most powerful financial institutions in England. It denied the charge of insolvency and secured calculations and statements from Mr. Woolhouse and Mr. Neison, two of England's most noted actuaries, and from Professor Pierce of Harvard, recognized as America's foremost mathematician at that time, refuting the statements of the Massachusetts Commissioners. But their refutation was based on gross valuation without adequate allowance for collections and other expenses.[59] Certain American actuaries supported Mr. Wright,[60] and the failure of the International a few years later in all probability vindicated his position, although the failure may have been hastened by his action.

124-"premium Note Controversy"

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The Premium Note Controversy.—An agent of the Mutual Life unsupported by the board of trustees of that company, made an attack in 1850 upon the Mutual Benefit of New Jersey, basing his charges upon the part-note premium plan as practiced by the latter company.[61] While the controversy over premium notes was not new, it appears to have taken a more violent form from this time forward, growing more and more intense toward the close of the present period. In its earlier stages it was conducted chiefly by means of pamphlets put out for agency circulation, and in newspapers, but with the advent of insurance journalism in 1852, the advocates and opponents of the plan transferred their attention in large measure to the columns of the insurance press.[62] The strife seemed to be intensified by

the publication of the first Massachusetts report, which showed that about one-sixth of the assets of seventeen New York and New England companies consisted of notes. It was argued on the one hand that premium notes tended to decoy applicants into taking larger policies than they could pay for, so that a debt was immediateiy created against the policy. Interest on the note was then added annuaıly to his cash payment, and at death, the family received less than was expected owing to the deduction of the notes. As regards the effects upon the company it was contended that the notes enabled it to swell its annual statements, showing large profits or surplus, of which one-half consisted of the notes. Furthermote, it was pointed out that the companies needed about all the cash premiums to meet claims as they arose.

As opposed to this it was maintained that the notes rendered it less difficult for the man of moderate means to protect his family with insurance, and that the reduction in the amount paid the family at the death of the insured wa

effect than an unpaid mortgage on any other f

The Period Of The Civil Wa

125-Cash Notes Premiums then VUL/UL Premiums now different/same?

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insurance instead of requiring him to wait for dividends.

If kept within proper limits there is no doubt but that the note plan is mathematically safe, as was demonstrated by the experience of our most successful companies, a majority of which used it in their early years. But as policies grew older and the cash payments were increased by the annual interest on the notes, policyholders became dissatisfied, and this along with other causes led several of the older companies to demand all cash premiums from new applicants. In other cases dividends

were sufficient to redeem the notes after a few years, and hence their use was continued for some time. Later, excessive notes received by new companies caused several failures and brought about legislation prohibiting their use.

1920 OB The History of Life Insurance Kelley Knight 126-Dividends

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Dividends.—Dividends paid to policyholders throughout this period ranged from 15 to 40 per cent of the annual premium. Some companies declared them annually, some every three years, and other quinquennially. Most of them consisted in interest bearing scrip, redeemable at the discretion of the company. Some companies allowed them to be used to purchase additional insurance, others permitted their use to reduce the cash premiums, while a majority confined their use to the cancellation of premium notes. Various methods of determining dividends were used, the percentage of the premium paid being the generally established basis.[64]

The History of Life Insurance in the United States to 1870: With an Introduction to Its Development Abroad, Charles Kelley Knight, University of Pennsylvania, January 1, 1920

From <https://play.google.com/store/books/details/Charles_Kelley_Knight_The_History_of_Life_Insuranc?id=ECkKAAAAIAAJ&hl=en>

Dividends BK History of Life Insurance Kelley Knight p126

125- Premium Notes - Legislation prohibiting their use

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were sufficient to redeem the notes after a few years, and hence their use was continued for some time. Later, excessive notes received by new companies caused several failures and brought about legislation prohibiting their use.

126-Endowment Policies-First by Mutual Life of New York (1855)

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Endowment Insurance.—Endowment insurance was beginning to attract attention during the latter part of the fifth decade. The first endowment policy to be issued in this country was granted in 1855 by the Mutual Life of New Yrok. In 1858 it had 156 of these policies in force.[65] From 1860 on these policies increased rapidly in popularity, but this development belongs to the next period.

126-Agents and Commissions - 10% New Biz / 5-10% Renewals

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Agents and Commissions.—The companies formed during this period used an agency system from the beginning. But the general agency system as now understood was then unknown, the agents being appointed and instructed in most instances directly by the home office, or by a person employed especially for that purpose known as a "Life Insurance Lecturer." This was the title of Mr. H. H. Hyde, who was employed by the Mutual Life of New York. This company began paying commissions of ten per cent on first premiums and five on renewals, except in one case—the St. Louis agent who was paid ten per cent on renewals also. This was considered quite adequate at that time. Calculations for new business and other expenses were based on the same general principles as at the present time, the gross premium being in most cases derived by loading the

net premium one-third.[66] The Mutual Benefit, New England Mutual, and the Connecticut Mutual followed the Mutual Life by adopting the same scale of commissions for both new business and renewals. These rates as well as the system of agency organization and management, continued until the general agency system was introduced at the beginning of the next period.[67]

128-Legislation-NY Deposit Law- Didn't work like they thought it would.

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Deposit Law," and while it was passed to protect the citizens of the state from the numerous companies of doubtful financial stability then operating in New York, and to discourage the formation of new companies without sufficient resources to assure stability, it led to far-reaching results, many of which were of a most unfortunate character. Of the latter the vigorous spirit of retaliation engendered among other states was perhaps the most important. Other states looked upon the law as an attempt to drive out their companies and preserve New York business for her own insurers. And in New York, the maller companies were inclined to view it as having been designed by, and for the interests of, the larger companies. It virtually prohibited the formation of any new mutuals. Many foreign companies refused to comply and withdrew from the state.[73] One of the better features of the law provided that foreign companies should render complete statements to the Comptroller, as was required of domestic companies, but the act received general condemnation. So great was the opposi-

128-"Retaliatory State Legislation"

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removed. But other states were left with the impression that New York had deliberately discriminated against their companies, and the precedent thus established resulted in retaliatory state legislation becoming quite general, and it has remained to this day as one of the greatest obstacles to the progress of the business.

128- 1855- First State Insurance Dept. Massachusetts

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Massachusetts codified all the insurance laws of the Commonwealth remaining in force in 1854,[75] and established the first state insurance department in this country in 1855.[76] Three

129-Life insurance co taxation/ retaliatory taxation

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Life insurance companies were subject to general taxation throughout this period, retaliatory taxation playing an important part. In fact at the meeting of the first life insurance convention previously referred to, unfavorable legislation was one of the principle topics of discussion. For instance, the report of the committee on state legislation pointed out that the laws of the various states were quite dissimilar, thus making it necessary for companies to understand the laws of all states in which they contemplated or had established agencies. Complications also grew out of the different forms to be filled out for the various state officers. Uniformity and simplicity of state legislation was recommended as a remedy, and it was suggested that proper laws requiring the collection of vital statistics would benefit not only the companies but the public at large.

129- state laws (yes-protect consumers), deposit rules (=harrassing the companies)

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At the second meeting, while all agreed that state laws which would enable people to rest assured of the solvency of companies were desirable, deposit laws were condemned as affording no adequate security and merely served to harass the companies.

130-Massachusetts rules people generally agreed on

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The Massachusetts laws were generally agreed upon as being most satisfactory to both the public and the companies.

130-litigation-suicide clause--sane or insane

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litigation. The cases of Lord v. Dall[82] and Gray v. Murray[83] occurred in the previous period. In 1843 a case of suicide arose in the New York courts. The policy involved specifically stated that should the insured die "by his own hand" the company would not pay the claim. Yet the court held the company liable on the grounds that the insured was insane at the time the act was committed.[84] This pointed out to the companies the importance of the words "whether sane or insane" in the suicide clause. The Louisiana courts brought

130-Types of litigation -cases increasing

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the same subject was rendered in Maryland in 1847.[86] The Married Women's Act of 1840 was up before the New York courts in 1846.[87] So far as the present writer is aware this completes the list of cases decided prior to the year 1850.[88] But in the eleven years from 1850 to 1860 inclusive, more than fifty cases were decided in various parts of the country. Most of them involved questions of insurable interest, assignment, or premium payment, the collection of premium notes being the cause of several cases on the latter point. But numerous other matters were the subject of litigation, such as the authority of agents, waiver, contract (when complete), statements of health, increase in hazard, suicide, proof of death, renewal, what constituted the "settled limits" of the United States, and usury.[89] So by the close of the period enough cases had been decided to indicate the general attitude of the courts in this country. In

brief, insurable interest was required, the courts were inclined to deal leniently with insured persons and give them the benefit of the doubt if any existed as to the meaning of contracts but held that persons seeking insurance should make known all material facts regarding health.[90]

132-William Barnes NY Superintenden Quote- >"solid companies"

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in process of incorporation, thus indicating the "onward progress of Life Insurance in this country "[1] The Superintendent of Insurance, Mr William Barnes, further remarked that there were "probably no companies in the world more sound and reliable."[2] The Massachusetts Department reported nineteen

132- biggest year of LI sales..94% whole life

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in force.[4] The report states that "in no year since the business commenced in this country has it advanced so rapidly as in the one just closed." Ninety-four per cent of all business consisted of whole life policies by equal annual premiums

136-New CO. -John Hancock of Boston

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in other lines of endeavor. These influences operated to bring about the formation of several new companies during the year, among others the John Hancock Mutual Life Insurance Company of Boston.[17]

136- War is good for LI Companies-buying stock cheap. Pay higher dividends to policyowners/stockholders

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Dividends.—The companies during the year "bought up a considerable amount of depreciated U. S. Stocks,"[18] and earned a high rate of interest on investments generally so that from this as well as from other sources, their assets considerably increased.[19] Hence they were enabled to pay large dividends.

OB The History of LI In the US Kelley Knight 137-25% lapse rate in second year..How does that compare to today?

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the year until they amounted to about eleven or twelve per cent of the receipts,[23] and about one-fourth of the new policies written were lapsed by the non-payment of the second premium.[24]

137-big increase in endowmen and limited pay policies. Why? Non-forfeiture element and higher commissions for agents.

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the beginning of the year to $260,000,000 at its close. The most remarkable progress was made in endowment and limited payment policies, endowment policies having doubled and those issued on the limited payment plan having increased in a still greater proportion.[25] This appears to have been due to the attractive investment element added by the non-forfeiture feature and the additional incentive to agents because of the commissions on the higher premiums. The latter consisted almost wholly of ten-payment life policies, which were first introduced by the New York Life Insurance Company in 1860.[26] But whole life policies still formed the greater portion of insurance. There was a large increase in the expenses of securing new business, but these were offset by gains from the forfeiture of Southern policies. The probability of death, according to the experience of the year, had increased a "perceptible shade."[27]

137 - large increase in securing new biz…commissions?? offset by "forfeiture of Southern policies>

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But whole life policies still formed the greater portion of insurance. There was a large increase in the expenses of securing new business, but these were offset by gains from the forfeiture of Southern policies. The probability of death, according to

138- competition increasing, increase in commissions..10% to 50% , higher lapse rates, twisting, the fun begins....

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of the country.[28] Sharp competition was developing among companies and agents, the Massachusetts Commissioner complaining about agents besieging his office for information recommending their companies, or depreciating others,[29] and the New York Superintendent protesting against agents' commissions of from twenty-five to fifty per cent of first premiums, which resulted in the selling of policies by any and all methods, followed by a sad lapse record.[30] Complaints of "twisting," also began to arise during this year.[31]

137-new-> 10 pay life - 1860- NY Life- Higher commission to agents

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greater proportion.[25] This appears to have been due to the attractive investment element added by the non-forfeiture feature and the additional incentive to agents because of the commissions on the higher premiums. The latter consisted almost wholly of ten-payment life policies, which were first introduced by the New York Life Insurance Company in 1860.[26] But whole life policies still formed the greater portion of insurance. There was a large increase in the expenses of securing new business, but these were offset by gains from the forfeiture of Southern policies. The probability of death, according to

134-Southern Policies-forfeiture ???

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sufficient.

Another problem which confronted the companies at the outbreak of the war was the questionable status of Southern policyholders. About $12,000,000 was at risk on Southern policies by Northern companies. Nearly all of these policies provided that should the insured enter any military or naval service, or die in violation of any national law, the policy should be void. Legally, therefore, the liability attaching to these policies was for the most part swept away by the declaration of war,[8] and the

reserves on them forfeited to the companies.[9] But policies of those who did not enter the Southern armies, or violate any law of the nation, presented a somewhat different problem. The attitude of the companies generally was that such policies would be paid as promptly as expedient. Of course, the premiums could not be kept up nor could any claims be paid without "giving aid and comfort to the enemy," in each case, and in consequence, many of the lapsed Southern policies were forfeited to the Northern companies, even though the insured did not enter any military force. A considerable number of Southerners had surrendered their policies before hostilities began, however, and large amounts were paid by some companies, even afterwards.[10] Also a considerable number of Southern policies were reinstated after the war.

1920 OB The History of Life Insurance Kelley Knight 138 - agents overestimating dividends, Policyowners "dissappointed"

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insured. In consequence, there was a noticeable increase in the ratio of cash premiums to the amount insured. Agents were inclined to over-estimate dividends, especially those who represented companies receiving a large portion of the premium in the form of a note, and policyholders were thus often disappointed. War risks now produced no considerable effect,

138- 1864- business increase "geometric ratio"

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The business continued to increase in 1864 "in geometric ratio,"[32] the insurance on the books of companies reporting to Massachusetts being $382,570,190, at the close of the year, compared to $259,725,189 at its beginning.[33] Over ninety per cent of the policies were for the whole of life, but ten-payment life and endowment policies were gaining rapidly, while short term insurance was decreasing relative to the total amount insured. In consequence, there was a noticeable increase in

138-increase in ratio of cash premiums to amount insured

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insured. In consequence, there was a noticeable increase in the ratio of cash premiums to the amount insured. Agents

138- affect of lowering medical standards of policy owners-bigger payouts?

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appointed. War risks now produced no considerable effect, but the ratio of death losses to the amount insured had increased, due to the lowering of the standard of medical selection.[34]

138/9-1865-LI companies do well, everybody has a lot of money.

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The Great Gains Following the War.—But the real effects of the war and attendant circumstances began to make themselves felt in 1865. In that year the successful conclusion of the war,

from a Northern viewpoint, found all branches of business in a most flourishing condition. Enormous sums of money were seeking investment, and many who before the war could not have paid premiums for life insurance were now able to provide protection to the extent of several thousands of dollars. The companies were able also to put their accumulations out at high rates of interest. These conditions gave assurance therefore that the life offices might expect patronage far exceeding anything that had yet been experienced. The hopes began to be realized at once. Six companies were started in 1865, three of them in the West, and business increased by leaps and bounds. Companies reporting to the Massachusetts department had $382,570,190 of insurance in force at the close of 1864, but at the end of 1865 this had grown to $563,396,862 or an increase of nearly fifty per cent.[35] But even this was surpassed the following year when the business on companies reporting to the latter state increased to $871,863,925, or nearly fifty-four per cent over that at the close of 1865.[36] Thirteen companies were formed during the year in various parts of the country, some of

139-1866-67 - huge gains in LI biz, # of companies, assets, policies,etc.

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on a sound basis. Eleven more were added in 1867, most of which were started in the South and West. In fact, the rise of companies in the Western states was one of the features of the years 1866 and 1867. At the close of the latter year the Massachusetts department reported $1,234,630,474 of insurance in force an increase of about forty-one per cent over 1866. Thus considering the life business of the entire country, it had increased on an average of about thirty-three and one-third per cent per year during 1862, 1863, and 1864,[37] but during the years of 1865, 1866, and 1867, the gain had been nearly fifty per cent per annum.

In the year of 1868 the business continued to increase in substantial proportions,[38] the Massachusetts department reporting fifty-six companies with $1,566,901,509. Mr. Walter S. Nichols, writing in the Insurance Blue Book, 1876 states that, "Offices were run on high-pressure system. Solicitors extolled

139- LI companies becoming very "high pressure". CO's saying all the good things, without any of the bad.

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stantial proportions,[38] the Massachusetts department reporting fifty-six companies with $1,566,901,509. Mr. Walter S. Nichols, writing in the Insurance Blue Book, 1876 states that, "Offices were run on high-pressure system. Solicitors extolled

of their own and depreciated those of rival companies in almost every town and village in the country, aided by pamphlets, periodicals, and prospectuses, picturing in magnificent figures the attractive features of the new philanthropy. Railroads and the national debt were about the only things deemed worthy of comparison with such a business. Excessive outlays and defective management were alike concealed by the enormous volume of new business which every enterprising office was able to report at the end of successive years, and the suggestions of speculation, reaction, and a possible collapse were unheeded in the rich harvest that was being reaped."[39]

139- bad stuff about co's concealed by huge amount of biz they told the public.

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worthy of comparison with such a business. Excessive outlays and defective management were alike concealed by the enormous volume of new business which every enterprising office was able to report at the end of successive years, and the suggestions of speculation, reaction, and a possible collapse were unheeded in the rich harvest that was being reaped."[39]

140-*** the talk is too good, misleading,

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Some of the "suggestions of speculations, reaction," etc., to which the above author referred were published in the reports of state insurance departments. The Thirteenth Massachusetts report issued January 1, 1868, questioned whether the unprecedented growth in 1867 was "spasmodic or healthy," and called attention to the enormous amount of insurance lapsed as a result of the "forcing methods of too many agents who mis-represent, hold out false or exaggerated inducements," which ended in disappointment and the abandonment of policies. He also questioned whether companies were prepared to meet their huge future obligations, in view of the "temptation to pay large dividends, large commissions to agents, large salaries to officers, and large royalties to stockholders," and concluded that while there was no justification for forbodings, skepticism as to the future was not to be denied plausibility. And in the Fourteenth report, 1869, the commissioner stated that the expense ratio had increased from ten to eleven per cent of receipts in 1858 to twenty per cent in 1868, and expressed his fears that expense and extravagance might lead to the failure of companies, in this country, as in England. His words are well worth repeating in view of later developments when he remarked that it "will not be a matter of surprise if the companies and the public conclude that eager haste for growth is costing more than the results are worth."

141- Need to read between the lines, what is unsaid.

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Things are sound and healthy, concerned about bad things

insured during 1869 was $218,195,280 or nearly $30,000,000 less than the gain during the previous year. As had been the case for some years the larger part of this business was done by a few of the older and larger companies; but newer and smaller companies obtained a greater proportion of the new insurance written than they had done in 1868. And while the insurance commissioner of that state maintained that the business as a whole was "sound and healthy," he continued to point out certain alarming tendencies and practices,[40] mentioned in previous reports. Lapses and forfeitures had come to be of such common occurrence, and disappointment so wide-spread because of false impressions concerning dividends and other matters, that in almost every community the agents had to work against a strong undercurrent of dissatisfaction on the part of those who had real or fancied grievances. The rivalry among companies and agents, their attacks upon one another, and the statements of insurance commissioners, all tended to bring about unfavorable criticism on the part of the public. And in addition to these adverse influences, the high tide of general business prosperity due to war inflation and other causes had been reached and evidences of an impending decline became more and more apparent. With the close of 1869, therefore, the powerful impetus generated by the war and its attendant circumstances may be said to have spent its force.

Conditions at the Close of 1869 Compared to Those at the End

141- increase in biz. Between 1960-1970 ten fold

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$163,703,455 and $1,836,617,818 respectively.[41] There are 75 different companies covered by the Massachusetts and New York reports for 1869. These did nearly all of the nation's life business, but a conservative estimate of the insurance written by outside companies indicate that the business of the entire country increased from $200,000,000 in 1860 to $2,000,000,000 at the end of the decade—a ten-fold gain. Receipts, claims, assets, reserves, and all other items covered by the reports increased, but not in the same proportion. As regards

142-general notes - types of policies sold, premium notes,

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from 11.21 in 1860 to 17.31 at the later date.[43] About one-half of the policies issued in 1869 were endowments, whereas in 1860 nearly all had been for the whole of life. Premium notes amounted to about 37 per cent of the gross assets of the 51 companies[44] using the premium-note system in Massachusetts, but the commissioner remarked that "the tendency of the business seems clearly towards reduction, which may gradually work out a complete establishment of the cash principle."[45]

142-General Notes-Expenses, reserves,

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As regards the lowering of the relative assets and reserves, it may be stated that the possibilities of the business had been more accurately ascertained, and it was conducted on a larger scale so that a large surplus over the safety margin was not so important with a well managed company as it had been in 1860. But the item which compared most unfavorably in 1869 with 1860 was that of expense. The larger part of this increase was due to the advance in agents' commissions. Of course, the period was one of extraordinary inflation and the cost of conducting other forms of business rose, and the rivalry which incited the companies to offer and agents to demand an increasing percentage was materially aided by the high rewards which could be obtained in other lines of endeavor. Office expenses were also materially increased.[46]

143-1965-revival of non-participating policies-why and who

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144-Universal Life-

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144-(1968) National Life Insurance CO-Jay Cooke

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Cooke, then at the height of his financial power, conceived the idea of organizing a huge stock company for dealing in life insurance in much the same manner as was the custom in ordinary business. With a charter from the Federal Government, a capital of $1,000,000, the country's foremost financier as its founder and the leading bankers of the various states as its general agents, the company aroused public interest to a degree never before equalled by a life insurance company. It even claimed that compliance with state laws was unnecessary, but the superintendent of the New York insurance department soon demonstrated the absurdity of this claim.[49] Its premiums being very low and its contract liberal, it met with immediate success. And being the champion of the stock or non-participating plan, threatened to make serious inroads into the field of the mutuals.[50] A storm of opposition arose from the advo-

of the mutuals.[50] A storm of opposition arose from the advo-
cates of participation but the success of the National and other stock companies coupled with the illusory dividends that had been made such a prominent talking point by agents of mutuals, gave the stock principle a new lease of life which has been continued to the present day.[51]

146-(1868-69) Cooperative Insurance-"cheap Insurance" for the poor-assessment societies, NOT like Fraternals although some similarities

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tinued to the present day.

Co-operative Insurance.—In spite of the tremendous gain in the amount of life insurance in force during this period and the great increase, both actually and relative to the population, in the number of persons who secured policies, practically no progress had been made toward furnishing insurance on terms within reach of the comparatively poor. So in the latter part of this period the remarkable success of the old line companies and the thorough diffusion of knowledge concerning the benefits to be derived by those who could afford protection, induced certain unscrupulous adventurers to organize societies to provide so-called "cheap" insurance. In 1868 and 1869 numerous

plans[52] to meet claims and expenses, and promised nothing in case the funds were not sufficient to make death payments. They provided no reserve, and when interferred with by state legislation they organized as charitable institutions and continued to offer what they termed "Insurance at cost." The insurance superintendent of New York remarked in 1870 that these institutions were "well calculated to deceive the unsuspecting,"[53] and the Massachusetts Commissioner condemned them in no uncertain terms.[54] The latter state also passed an act suppressing them in 1870.[55] Since they contracted to pay only such sums as might be collected and the total collections decreased with the decline in membership due to deaths and withdrawals caused by increasing assessments, all failed after a very brief existence. Similar schemes have continued to spring up at different times and under different guises, however, down to the present day but with the same result—failure after a short period of time.

146-Fraternal-

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Fraternal Insurance.—The above account of the co-operatives in no way applies to fraternal insurance. Probably because of the similarity in plans of the early fraternals and the sad record of failures among them, many persons have confused them (some perhaps intentionally) with the assessment societies proper. The first fraternal insurance society came into existence when the Ancient Order of United Workman adopted an article of their constitution providing for an insurance fund in 1869,[56] While similar in plan, and containing many of the inherent defects in assessment life insurance, the motives for the formation of this society appear to have been sincere and it had a great advantage over assessment societies organized solely for so-called insurance purposes since its members were held

together by other ties. But the main developments in fraternal insurance belong to a later epoch.

147-new features -

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