LIFE INSURANCE AND CREDIT FABRIC OF BUSINESS.

(Hon. A. Barton Hepburn, N.Y.)

The large American life institutions are the greatest investment banks in the world; and indeed they practice a measure of commercial banking, since life insurance companies have adopted the policy of loaning to the insured upon their policies as collateral. A contractual obligation is written into the policies, whereby they agree to loan a certain percentage of the surrender value at a fixed rate of interest at any time when the insured may require the same. Policyholders are coming to realize this privilege and the volume of these loans is constantly on the increase. The aggregate amount of such loans, according to the 1913 reports of five companies was $356,280,312.92. Such loans, of course, offset and reduce the amount of insurance. Such disadvantage must be more than counterbalanced, in the opinion of life insurance managers, by the commercial value, the availability as collateral, which the borrowing privilege gives to the policy.

LIQUID ASSETS.

The asset side of life insurance may be classified as banking—in one form or another. Should not the banking character of life insurance companies impose upon them, measurably, the same obligation to support the credit fabric of the country as rests upon other forms of banking? If savings banks, trust companies and commercial banks are required by law to keep a reserve against their liabilities, should not life insurance companies, in the conservatism of good management, keep liquid funds available in case of need? Should not the liquid character of their assets contribute to the general protection of the public credit in times of stress and stringency? I by no means lose sight of the differentiation between life insurance and banking, and I am not advocating fixed legal requirements of reserve, but in view of the policy loans to the insured, it can no longer be said that a man must die before any demand upon the company can result from his policy of insurance.

My understanding is that the wisdom of such a general policy was recognized and practiced up to the time of the recent insurance investigation. Then large bank balances were paraded, coupled with the charge that they were excessive, maintained as a matter of favoritism in institutions whose stock was largely owned by the trustees, or where the trustees were especially favored in respect to loans. To the extent to which such charges were true, it represents, of course, a wrong which rightly called for correction. That time and those conditions have passed, however, and the proper relation of life insurance management to the credit fabric of the country is, it seems to me, a question of importance calling for careful consideration on the part of life insurance managers.

MUTUALISING STRENGTH.

As to the liability side, the functions of an insurance company are not eleemosynary; they do not give alms, but they do sell protection, they insure against the extremes of misfortune and graduate the vicissitudes of life; they are not money-making institutions, but enable the general public to mutualize their strength and helpfulness, and minimize the loss and hardship which would otherwise exist. That is the attitude which the companies have assumed and which the public have accepted, and now insist that such relationship shall be maintained.

Some companies are capitalized, but public sentiment limits dividends to a very moderate percentage, and insists that all overplus earnings be held for the benefit of the policyholders. All companies are essentially mutualized in their administration; the amount received in premiums exceeds the amount paid for losses only by an amount representing the cost of management and a proper and wholesome reserve. All benevolent work deserves commendation. The figures showing the growth of life insurance in force, show the public appreciation of this greatest of all humane instrumentalities for equalizing the burdens and alleviating the sufferings of mankind, which would otherwise exist. Time was when a life insurance agent had to weave a spell, to fascinate with fluent phrase to induce the sale of a policy. Now, if a business man is known not to have a life insurance policy, it excites the query, "I wonder why?" Of course, the premiums exceed the death losses, and long years of payment enable the companies to meet the presently occurring losses. I have never known anyone to regret these constantly recurring payments, year after year, and all the while the insured has had protection. Anxiety and worry yield to the comforting conviction, day by day, that his insurance will enable his estate to make full restitution to those who have given him their confidence and credit, or better still, that his insurance will care for and maintain his loved ones when his supporting hand no longer avails.

IMPORTANCE OF CHARACTER.

Life insurance companies and banks both deal in credit and subsist upon credit, and both draw from the public the financial resources with which they in turn serve the public. The reservoir, filled by the inflowing stream of premiums, is drained by the outgoing current of ascertained losses. The asset side of life insurance deals wholly with credit; on the liability side, your outstanding insurance depends upon your credit with the general public, upon their belief in the honesty and efficiency of your management and your financial ability to meet the obligations contained in such insurance. You would not insure a known crook, however flattering your physicians might report his physical condition to be, nor would a bank make a loan to a known crook, however choice the collateral offered might be. To quote the late J. P. Morgan, "Character is fundamental in all business transactions, or should be." The exigencies of business compel us to have arm's length relations with all sorts of people, but we establish a community of interest only with those whom we trust and whose character we believe to be worthy and well established.

Fifty or sixty years ago banks of this country did business upon their capital, reinforced, in many instances, by the issue of bank note currency. The money of the people and corporations was in active use—bank deposits were negligible. The wealth of the country has changed this, and now the business of banking is done upon deposits, capital and surplus being only sufficient in amount to margin the business and command public confidence.

The individual wealth of our citizens has made bankers more and more dealers in credit, by furnish-