The Evolution of a Life Insurance Policy

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The subject of this paper should, perhaps, have been "Some Changes Noted in the Last Quarter of a Century in Life Insurance Policies;" and the changes noted will apply particularly to the practice of the company with which the writer was associated for that period.

Before dwelling on this matter it may be well to say something respecting life insurance in the early days in North America. At the time of the Revolution life insurance was practically unknown in the United States. There existed a strong prejudice against insurance. The country was not at all prosperous. The people looked upon insurance as immoral. It was difficult to allay the superstition respecting the securing of money by the death of an individual. Then, there was a great uncertainty as to the stability of the few companies in existence at the time. Public lotteries and tontines took the place of life insurance. The best illustration of the tontine system is the tontine coffee house in New York City, where two hundred people subscribed for a certain amount on their lives with the understanding that the fund was not to be divided until only seven remained. When this fund was divided there was $1,000,000 available.

A number of companies secured charters by which they were permitted to transact an annuity and trust business, as well as life assurance. The first company which exclusively devoted itself to life insurance was the "Pennsylvania Company for Insurance upon lives and for the granting of annuities." This company issued its first policy in 1813, having a capital of $500,000. Their rates were based on the Northampton table on a 4 per cent. basis with a loading of 33 1-3 per cent. In 1837 the company reduced its rates. In 1844 they adopted the Carlisle table and again reduced the rates. The Carlisle table was first published in 1815. In 1845, they began to declare dividends to their policyholders, and did so every five years in the nature of reversionary additions. They sold supervisorship annuities, as well as children's policies. Gradually they retired from the life business, but continued as a trust company.

The State of Massachusetts had no public hospital in 1811, and the Legislature granted a charter authorizing the General Hospital to issue annuities and life insurance and the profits were to go towards the upkeep of the Massachusetts General Hospital. In that State they had a monopoly of the life insurance business. This was transferred by them in 1818 to the Massachusetts Hospital Life Insurance Company, which received a charter under which they were to pay one-third of the gross profits on the life insurance business to the hospital. This monopoly lasted for 18 years.

The Mutual Life of New York received its charter in April, 1842, but it was February, 1843, before they organized. Their charter provided that when $500,000 of insurance had been subscribed for the subscribers could meet and organize as a company. They subsequently increased it to $1,000,000. It took them from April, 1842, to February, 1843, to secure subscribers to this amount. The history of that intervening period shows lack of interest and indifference, and it was only by the great efforts of Morris Robinson, a Nova Scotian, its first president, that the company was organized.

The Nautilus Insurance Company received its charter in 1841 to transact fire and marine business. In 1843 it was changed and they secured the privilege of writing life business, which ultimately became its sole business. They issued their first policy in 1845, and in 1849 changed their name to the New York Life Insurance Company.

For some years a discussion took place between various companies as to the merits of the cash system and the mixed, or note, system. The Mutual Benefit and the Connecticut Mutual, as well as some other companies, accepted a percentage of each premium as it fell due and took the insured's note, which bore interest, for the balance. These notes were held by the companies, and it was understood that the dividends, which would be declared, would ultimately wipe out the notes. If, however, the insured died before the notes were all wiped out the widow would receive the remaining notes of her husband as a portion of her claim. The Mutual Life was the great exponent of cash payments and never took a note.

The stability of life insurance and its strong hold upon the people today were, in a large measure, brought about by the development of State laws which regulated the companies and assured the public of their solvency. In 1840 the State of New York passed an Act by which the benefits of a policy were secured to the wife free from the claims of her husband's creditors. This appealed to a great majority of merchants and was the means of popularizing insurance. In 1854 the State of New York required full reports from all companies transacting business within her borders.

In 1850 throughout the entire United States there were forty-seven companies, including three from England, in the field. The three English companies were the Albion, which was absorbed by the Eagle, the British Commercial, which merged with the British National, and the National Loan Fund, which changed to the International and was later absorbed by the Hercules. Out of these companies there are but a dozen left.

In all probability, no man in America has done more to put life insurance on a safe and sound basis than the late Elizur Wright. The tables he prepared for the valuation of policies created a new era in life insurance. He insisted that all companies doing business in Massachusetts report the values of their policies in accordance with the standard set up by him. One English company—The National Loan Fund—failed to give the data required. Their license was cancelled, and upon the information being supplied by them according to Elizur Wright they were bankrupt by $1,000,000. This was quite a shock to the people in England, who were interested in the company, and it was taken over by the Hercules.

The first American Life Insurance Convention was held at the Astor House, New York City, on May 25th, 1859. Twenty-three delegates — representing seventeen American and English companies — attended. The object in meeting was to have a better understanding with one another as to the requirements of the business, and to lay the foundation for better statistical information. Their chief discussion was in connection with extra rates, renewals, vital statistics, lapsed policies, and to consider legislation which, even at that early date, had caused companies great anxiety. These subjects were more fully discussed in the following year when there were twenty-two companies represented. It appeared that the assets of these twenty-two companies represented $22,000,000; their premium income amounted to $7,000,000; and the insurance in force was approximately $180,000,000. At this convention five British companies — The British Commercial, The Eagle & Albion, The International, The Liverpool & London, and The Royal — were represented, but all have since withdrawn.

In 1859 there appeared a bright star in the insurance firmament in the person of Henry B. Hyde, who organized the Equitable Life Assurance Society. He was content to become its Vice-President, although in reality he was the whole company. So much energy and ability was exhibited