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# A Half Century of Insurance Progress

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# WEST EAST INSURANCE MONITOR

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## A HALF CENTURY OF INSURANCE PROGRESS

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*We are happy to be able to publish in full for the first time the extensive address of Professor S. S. Huebner, delivered by him before the Hemispheric Insurance Conference in New York. His deep-searching analysis of the development of our insurance industry in the last fifty years is highly instructive not only as a link in the chain of the history of our economy but also as a guide for the future. Especially the new generation of underwriters in all countries will find the exposition of this great teacher of inestimable value.*

—Editor.

consumed. They need also to be protected against hazards of innumerable kinds. Insurance, comprising numerous types of coverage as they relate to human life values, property values, and profits, should be considered the fifth separate division of the science of economics.

Since 1900 the progress of insurance has been astonishingly great. This progress has been an accelerated one, much greater relatively than the forward march in the other main divisions of economics. A late beginner, insurance has come into its own, a giant from infancy in a short forty-five years. The progress has been great in every way, namely, growth in size, private and governmental recognition, extension and liberalization of coverages, establishment of correct underlying principles of procedure, emphasis upon loss prevention (insurance in the first instance), and incorporation within the nation's educational system.

### PLACE OF INSURANCE IN ECONOMIC THOUGHT

Throughout the history of their subject, economists have grouped the economic activities of man under the four time-honored classifications of "Production," "Exchange," "Distribution," and "Consumption." Insurance has been to them a riddle, impossible of assignment definitely to any one of these major divisions. As an economic institution, insurance involves activities and services intimately related to all of the four aforementioned divisions. It aids production tremendously; it expedites exchange and distribution in many ways; and it vitally and beneficially affects consumption. But that line of reasoning does not unfold the distinctive mission of insurance, namely, *risk bearing* and *risk elimination* in our economic affairs. Risk is a universal and fundamental phenomenon in our economic life, as distinctive in its way as are production, exchange, distribution and consumption. Economics should be based upon five grand divisions of thought. Values, and economics has been defined as the science of wealth, are not only produced, exchanged, distributed and

### GROWTH IN VOLUME

Insurance progress is indicated, first of all, by an enormous over-all growth of the institution. In life insurance—relating to the coverages pertaining to human life values—insurance in force in private American insurance companies increased from \$8,562,000,000 in 1900 to \$154,600,000,000 in 1945, an 18-fold increase. Total premium income rose from \$324,723,000 to \$4,793,000,000 in 1944, (nearly a 15-fold growth), with first-year premiums increasing 7-fold, renewal premiums 15-fold, and annuity premiums 83½-fold. Disbursements in the form of annual death claims during 1900-1945 grew from \$100,721,000 to \$1,280,000,000 (nearly 13-fold), while payments to living policyholders increased from \$67,967,000 to \$1,383,000,000, or 20½-fold. It is interesting to note that payments to living policyholders show the following increases: matured endowments from \$18,335,000 to \$406,669,000 (22-fold), annuities from \$4,122,000 to \$185,956,000 (45½-

fold), surrenders from \$22,650,000 to \$241,340,000 (10½-fold), dividends from \$22,860,000 to \$466,072,000 (20½-fold), and disability payments \$87,601,000, such payments being non-existent in 1900. Total admitted assets, owned almost entirely by policyholders, increased from \$1,742,414,000 to \$44,700,000,000, a 25½-fold increase. At present United States life insurance companies have under their protective wing almost one-ninth of all the material wealth of this nation. The late fearful business depression showed this huge investment fund to be eminently sound, the average annual loss per depression year being less than 1/10 of 1% of the portfolio.

The foregoing figures of growth may seem almost incredible. Even making allowance for a depreciation of 47% in the value of the dollar as regards the wholesale price trend since 1900, and of 64% in value in terms of the cost of living, the many-fold increases just enumerated still remain astounding. If there be added to the volume of outstanding life insurance in American life companies of \$155 billions, the \$143 billions of National Service Life Insurance, the \$67 billions of life values involved in the old age and survivor insurance benefits of the Federal Social Security plan, and the \$8 billions of insurance in force of fraternal and assessment societies, we have a grand total of life value capitalization through life insurance of \$373 billions. Even allowing for heavy and tragic lapsation of National Service Life Insurance, the staggering total may still be placed at about \$300 billions, an amount equal to over three-fourths of all the material property values of the nation. If to the premium income of American life companies of \$4,793,000,000 there is added the \$459,000,000 of premiums from ordinary accident and health insurance in 1944 (related essentially to the human life value) and the premium relating to (1) the various governmental plans of insurance, (2) the numerous sickness and accident insurance societies, (3) the enormous number of public and private pension plans, (4) the numerous types of travelers' policies, and (5) the many hospitalization plans, the total annual premiums contributed by American citizens for human life value protection would considerably exceed the \$6,000,000,000 mark.

Such huge totals indicate a rapid recognition of the human life value philosophy, i.e., the obligation of treating the monetary worth of life (the God-given forces within the human being) with the same good sense that we are accustomed to accord to our more easily appreciated material property values. The life value is basic. It is the creator of all property values. It is the income producer for 96% of America's families. It is the vital part (*the person*) in nearly all of America's so-called *personal estates*. Assuming that approximately half of personally earned income goes to the support of family dependents, as distinguished from the cost of self-maintenance of the family head himself, it follows that the capitalized value of this support, at say 4% interest, which ought to be protected against loss through premature death, amounts to well over \$1,000,000,000,000 or about three times the total of the nation's property values. Outstanding life insurance in American life companies of \$155 billions may seem large. Yet it represents only a good scratching of the surface. *The present total is only one-sixth of the total that ought to exist, if every family head endeavored to protect dependents fairly and according to decent standards.* But I am not criticizing the past. We have done wonderfully since 1900. The future is bright indeed, now that the leaven of insurance education in our school system, from colleges and universities downward, is beginning to work in the interest of a broader and more deep-seated realization of what the life

value really means to family, business, and society at large.

In the field of property and casualty insurance the growth has also been immense since 1900—a growth much greater than the increase in national wealth for the corresponding period. For the year 1944 the premium income of stock and mutual property and casualty insurance companies in the United States aggregated approximately \$3,272,000,000. But this total would probably exceed \$4,000,000,000 if we could include the insurance exported to non-admitted alien underwriters, as well as that represented by the large number of public and privately managed self-insurance funds. At the close of 1944 the admitted assets of American stock and mutual property and casualty insurance companies had grown to \$6,876,000,000, and the surplus to policyholders to \$3,270,000,000.

Growth in property and casualty insurance has been tremendous along nearly all lines. But sight should not be lost of the fact that such important divisions of insurance as "Inland Marine Lines" and "Corporate Bonding" were only in their infancy at the beginning of the century and subsequently developed into giants. Moreover, such modern giants as "Automobile Coverages" and "Workmen's Compensation," now representing premium payments of at least \$724,000,000 and \$489,000,000 respectively, were unknown at the beginning of this century.

As regards all forms of insurance — life, property and casualty — it is interesting to note that the insuring American public pays premium today in excess of \$10,000,000,000 a year. It is also interesting to note that the admitted assets of all private insurers in the United States exceed a grand total of \$51,000,000,000, or an amount equal to about one-eighth of the nation's property wealth.

## ENLARGEMENT OF COVERAGES AND LIBERALIZATION OF CONTRACTS

Sheer growth in volume is not the only factor of importance in our half century of insurance progress. Along with increased use of insurance, there has occurred a wide extension in service to the insuring public through increased coverage as well as a simplification and standardization of insurance contracts. In the property and casualty fields, insurance coverage has been extended to almost every conceivable peril and legal liability pertaining to each of the types of insurance. The trend has been distinctly toward multiple-line insurance as contrasted with the mono-line system. Likewise there is a distinct trend toward the writing of comprehensive or all-inclusive risk policies, since policyholders are handicapped in selecting proper coverages within any insurance area if numerous separate contracts are used. Moreover, there has been an ever increasing recognition of business interruption forms of insurance as a means of protecting the time loss factors in business, as distinguished from the loss of actual physical property only. To this end there has been greater emphasis upon rent and rental value insurance, leasehold insurance, use and occupancy insurance, and profits and commissions insurance.

In life insurance the policy combinations of *decreasing term insurance* and of *increasing thrift and investment insurance* have become almost legion. Similarly, an exceptionally large number of annuity contracts have been made available, comprising almost every conceivable combination. Every con-

ceivable set of circumstances surrounding the family head, or the businessman, or the retired aged, can be met with some type of life insurance program, and the problem remains one of good field underwriting only. More and more life insurance is concentrated upon programming, i.e., upon the proper evaluation of the insured's life and the scientific treatment of human life values as they relate to family and business welfare. More and more life insurance is also regarded as serving the purpose of property insurance, i.e., to protect the non-life insurance material estate against loss because of the social and governmental demands that come into play when death claims the owner of a property estate. Increasingly, life insurance is also regarded as (1) a means of protecting thrift and investment, (2) as a *life will* bequeathing to heirs the monetary worth of the insured's life, (3) as a device to settle more promptly and effectively the *property will*, and (4) as a means of constructive and organized philanthropy. Since 1900, there has also been a notable recognition that economic death may assume any one of three forms, namely, premature death, total and permanent disability or the "living death," and the old age retirement death, and that the institution of life insurance is equipped to afford security against all three. Moreover, since 1900 there has occurred a remarkable trend toward the underwriting of groups, such as group life insurance, salaried savings plans, group accident and health plans, hospitalization group insurance, and group pension plans.

### LOSS PREVENTION

When discussing insurance progress, another leading division of effort is the prevention of loss in the first instance. In fact, prevention of loss is the greatest insurance of all. "An ounce of prevention is worth a pound of cure," by way of cash indemnity for a loss needlessly incurred and foolishly unprevented.

Formerly the function of property insurance was regarded primarily as "indemnity," whereas today the emphasis is increasingly upon "risk elimination." In fire insurance, schedule rating as we know it today dates since 1900, and is predicated upon education through the pocketbook, the most effective education ever devised. With some of the leading types of property insurance prevention of loss efforts have become the most important insurance activity of all, and "indemnity" has become a sort of fifth wheel to the wagon. As time passes, an ever larger proportion of the premium income of property and casualty insurers is being spent in the interest of preventing losses altogether. Practically all types of property and casualty insurers—fire, marine, bonding, compensation, liability, accident, steam boiler, credit, title, etc.—are recognizing this special service and their natural fitness and advantage for stamping out as far as possible the causes of loss they are asked to underwrite. Losses actually incurred should, from the policyholder's and social interest point of view, be kept to the irreducible minimum.

Fire insurance companies devote millions of dollars annually to the prevention of loss in the first instance through inspections, general investigations and surveys for recommendatory purposes, educational campaigns along special and general lines, salvage, etc. Marine insurance extends the prevention service to the periodic inspection of hulls, the supervision of packing, the protection and proper stowage of cargo, the safeguarding of passengers and employees, the salvaging of damaged cargo, etc. Bonding companies devote the major part

of their premium income to the prevention of embezzlement and the failure of contractors, and the recovery of such loss as may occur. Credit insurance activities are devoted primarily to the proper regulation of credit extension, the prevention of bankruptcy of debtors, and the efficient collection and salvaging of insolvent accounts. In steam boiler and title insurance losses have been reduced to a negligible quantity and prevention of loss efforts clearly overshadow in significance the payment of claims.

In this important type of insurance effort property and casualty insurers have led the advance, whereas life insurers have been slow to recognize the opportunity. But it is just as important to prevent avoidable impairment or premature destruction of the life value as it is to prevent loss in the field of property. Life companies are just as naturally fitted to promote this service as are property and casualty insurance companies and the service will prove highly beneficial to all parties concerned—to the company, to the policyholder, to his beneficiaries, and to society at large. Much is already being done by certain companies and by the Life Extension Institute by way of thorough periodic medical examinations. An inventory of our health status needs to be taken periodically, just as buildings and stocks of goods are regularly inspected and safeguarded. Why should we not seek to prolong our working life by nipping in the bud those numerous ailments which are easily checked if discovered in time, but which are sure to kill prematurely if neglected too long. Besides encouraging periodic medical examinations, life companies have also recently undertaken, acting jointly, to contribute large sums in the interest of special medical experimentation designed to eradicate certain common sources of premature mortality. It may also be that in due course life companies may see fit to educate policyholders through the pocketbook, as is done in fire insurance, thus motivating policyholders to benefit through periodic medical examinations.

### GROWTH IN INSURANCE EDUCATION

As I have stated previously: "Fortunate indeed is the calling which has succeeded in integrating itself with the higher educational system of the nation so thoroughly as (1) to draw its strength of manpower largely from that system, and (2) to have its usefulness and nobility properly and forcefully reflected through that same educational system to the public at large." Although late in starting a definite public educational program, insurance has made great headway in universities and colleges since the 20's, and bids fair before long to reach the desired goal.

Briefly enumerated, organized public insurance education has assumed the following four main forms of effort:

(1) *Specialized Collegiate Courses Preparing for an Insurance Career.*—A detailed survey in 1940 (by Dr. David McCahan and Miss Anna M. Kelly) showed that 85 colleges and universities offered 99 special courses in life insurance principles, practices and economics, with 75 of the institutions reporting an annual enrollment of 3,429. Prior to 1904 organized insurance courses were non-existent and until 1915 only 5 of the aforementioned courses were offered. In 1940, 68 colleges and universities reported 107 specialized courses in the property and casualty fields of insurance, 53 being devoted primarily to the so-called property lines, 26 to all forms of insurance other than life, and 28 to the "casualty"

lines. All these courses had a reported enrollment of 3,215. The war sadly interrupted many of the aforementioned courses, but all evidence now points to a speedy resumption.

(2) *The American College of Life Underwriters, and the American Institute for Property and Liability Underwriters.*—These two educational institutions, legally organized in 1927 and 1942 respectively, aim to standardize collegiate education for the field underwriter, to cooperate with universities in the organization of specialized Chartered Life Underwriter and Chartered Property Casualty Underwriter courses, and in the finding of competent teachers, to administer a national system of high-grade examinations, and to award to successful candidates the professional designations of C.L.U. and C.P.C.U. Nearly all institutions of higher learning throughout the country gladly cooperate with these two institutions. The American College has already awarded 2,500 designations, and has some 5,000 additional candidates engaged in its program of study. The American Institute, although started only four years ago, already has over 300 candidates taking this year's examinations. Both organizations, operating nationally, emphasize collegiate training in all branches of knowledge closely allied to insurance.

(3) *General Survey Courses for the Lay Student.*—The importance of such courses, covering the basic principles and economic usefulness of insurance, cannot be over-emphasized. At the outbreak of the war, 143 universities and colleges were offering 157 separate insurance courses of a survey character, 131 of the institutions reporting an enrollment of 6,167. Both the American College and the American Institute have as one of their declared objectives the following: "To cooperate with universities and colleges in general insurance education for lay students, since the subject is regarded as fundamentally important and well worthy of incorporation into a business school's curriculum." Lay survey insurance courses have a great utility value to the future personal and family welfare of every college graduate. They also arouse an interest on the part of students who have not yet selected a future life's work, and who, in the absence of such a course, would never receive an introduction to this important calling. They help to enlarge the number of teachers who may teach the subject of insurance in our high schools. They also have a wholesome effect upon the insurance thought of the community in that, as I have stated elsewhere: "The thousands of graduates leaving our universities and colleges each year, having had such a course, will go back to their communities to take their places as leaders in business, teaching, with the press, in the church, with civic and social organizations, in legislative bodies, etc. They will go as friends of insurance along

sound lines, promoting its cause and spreading its beneficent influence far and wide to family, business, the professions, and to social institutions."

(4) *The S. S. Huebner Foundation for Insurance Education.*—Today there is a great dearth of teachers of insurance, and often institutions of learning make the finding of a competent teacher the condition of their willingness to start a program of insurance instruction on a basis of cooperation with the American College and the American Institute. Almost daily the author of this paper is asked by some university or college to recommend a qualified teacher of insurance, and he is driven to his wit's end to be of help. Recognizing this problem of a lack of teachers, a large number of life companies, acting as donors, created the above-mentioned Foundation (under the management of the University of Pennsylvania) for the providing of scholarships and fellowships, together with certain other aids, to carefully select graduate students who have evidenced their intention to engage in the teaching of insurance and who desire to prepare for that calling. Such a plan represents a direct tackling of a most pressing problem of universities and colleges, as well as of the American College and the American Institute, and bids fair before long to produce excellent results.

The aforementioned public educational program is a comprehensive and well-rounded one, to accompany the numerous private training courses operated by the business itself. Education in any calling percolates from the top downward, and the higher educational efforts in universities and colleges will in due course be reflected in our high school system. Moreover, the numerous special courses, motivated by the American College and the American Institute, will redound greatly to the efficiency of field underwriters to render better service to the public, and what greater objective can there be than that. Most departments of an insurance company—Actuarial, Legal, Engineering, Investment, and Medical—have long been thoroughly organized with respect to educational and personal requirements. But what of the vast underwriting field force, which should be similarly organized because of its strategic importance to the whole insurance institution. The present collegiate insurance effort is directed mainly to this vast group, although there is no disposition to minimize the other groups. As I have so often stated: "The large field underwriting and managerial force contacts the insuring public, spreads the service of insurance to the millions of homes and business establishments, and advises and acquires the business upon which nearly all else in insurance home offices depends. In fact, the public knows and looks upon insurance essentially as it knows and looks upon the field representatives of insurance."

*Reprints of this article by Professor S. S. Huebner can be obtained at the price of \$7.50 per 100 copies. On orders of 5000 or more copies the price will be reduced by 10%.*