TEXT BOOK OF LIFE INSURANCE, BEING THE FIRST POST-GRADUATE COURSE OF THE PACIFIC MUTUAL SCHOOL FOR SALESMEN; NO. 1

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FORBES LINDSAY

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Trieste

TEXT BOOK OF LIFE INSURANCE

Being the First Post-Graduate Course

OF THE

Pacific Mutual School

FOR

Salesmen

With the Compliments of

THE PACIFIC MUTUAL LIFE INSURANCE COMPANY

OF CALIFORNIA

"Efficiency"

PACIFIC MUTUAL SCHOOL FOR SALESMEN

FIRST POST-GRADUATE COURSE

NUMBER ONE

Origin, Development, Character and Economic Effects of Life Insurance

BY FORBES LINDSAY

DIRECTIONS

In studying these lessons constantly bear in mind their practical purpose. Unless you can make them serve in helping you write Life Insurance they are worthless.

One pamphlet will reach you not later than the 1st and 15th of every month. Answers to the questions must be mailed to the School not later than the 1st or 15th of the month falling two weeks after date of receipt.

Use a typewriter or ink in writing answers. Number each answer to correspond with the number of the question to which it relates, and give the number of the pamphlet to which the answer refers. Questions need not then be repeated. On every answer paper place your name and address, as well as the date on which the paper is mailed.

Make your answers brief and to the point. Use your own words whenever you can. Write to the Superintendent of the School for any explanation or information you may desire.

The regulations are simple. Strict observance of them will be required of students.

I

Origin, Development, Character and Economic Effects of Life Insurance

BY FORBES LINDSAY

With the first recognition of domestic obligations there must have come a realization of the need for provision against the premature death of the head of the family. We find among primitive people at this day various methods of meeting this unavoidable necessity, and it is safe to assume that these methods are survivals of prehistoric practices. The communal system of property ownership may well have had its origin in a design to protect helpless and dependent members of a clan or tribe.

Life Insurance is, in fact, one of the natural institutions which have come into being as inevitable factors in our social evolution. The practical necessity for Life Insurance and the fundamental principle of its operation must have been dimly realized with the first observation of disaster to the welfare of dependents entailed by the death of their former supporter, coupled with the thought that the loss, if distributed over the community, would hardly have been felt by any individual member of it. As the appreciation of universal liability to untimely death deepened and spread, the idea of co-operative provision against its material consequences expanded and crystallized. However, the need of systematic Life Insurance was felt for many centuries before the want was supplied. Fire and marine insurance had been in extensive practice for long before Life Insurance on an organized basis was introduced. This, without doubt, because in the earlier stages of society the economic value of property was relatively greater than that of human life.

The practical application of the principles of insurance, in more or less crude forms, dates back to ancient times. The Phoenician traders and mariners used to put a certain percentage of the profits of each successful voyage into a fund which was drawn upon to relieve the families of sailors who were killed or disabled in service. The Roman Collegia and the associations of Saxon serfs paid death indemnities and benefits in cases of accidents and sickness. (See Anderson, **"History of Commerce"**; Eden, **"State of the Poor"**; Turner, **"History of Anglo-Saxons"**; Walford and Toulmin Smith on the **Guilds**; **Encyclopedia Britannica; Insurance Encyclopedia.)**

From the beginnings of personal protection developed, after the suppression of the guilds at the close of the reign of Henry the Eighth, the Friendly Societies and Burial Clubs, which were the forerunners of modern Life Insurance companies. The history of the former associations is preserved in Parliamentary blue-books and reports of Royal Commissions. These documents throw interesting light on the fundamental defects of the Assessment System and make a lucid presentation of the principles of State or social insurance.

The prototype of the modern Life Insurance contract is a document dated June 18, 1583. It was an agreement on the part of sixteen merchants of the city of London to insure the life of one William Gybbons for a term of twelve months in the amount of 383⅓ pounds sterling, at a premium of 8 per cent. Judicial and other records reveal a few similar transactions during the seventeenth century. All these agreements were essentially in the nature of wagers. The transactions were far too few to be affected by the Law of Averages, and there was no data on which to estimate, even remotely, an equitable charge for the risk. Indeed, Life Insurance had been conducted by corporations for well-nigh a century before reliable mortality statistics were available to their actuaries. The business as carried on at its inception was haphazard and speculative in the extreme. No medical examinations were required, nor was family history taken into account. The same premium was charged at all ages, and the question of moral hazard was ignored. Fortunately for the survival of the institution the estimates of mortality were enormously too high and, despite the reckless acceptance of risks, the profits of the early companies were so large as to stimulate extension of the business.

Annuities, necessarily based on faulty calculations, had been sold by governments and private individuals for long before 1698, when the Mercers Company of London opened the first office for the public sale of Life Insurance. This was followed in the next year by the Society of Assurances for Widows and Orphans. In 1706 the first mutual Life Insurance company was organized under the name of the Amicable Society for a Perpetual Assurance Office.

Strangely enough, the membership was limited to two thousand. A messenger was sent round once a year "to inquire if any of the said members are dead and take care of making such proof of such death as is required by the by-laws of the said corporation in order to pay such claims." Unlike many of the companies which later entered the business, the Amicable scrutinized applicants with considerable care and practiced a system of inspection, if we may infer as much from an entry in its records instructing the auditor of the Society "to write to the Post Master or some other person of Stalbridge in Dorset for an account of a Proposer's Health and Constitution and whether he be a man of sober and regular life." It is surprising to find, as early as 1713, a foreshadowing of the agent's license in the order imposing a fine of five pounds upon any employe found "to trade or intermeddle with the disposal or buying or selling of any policy or policies without an order of the Court of Directors."

"As regards investments, the mention of South Sea Bonds in the list is startling enough in itself; but when one turns to the 'Various Orders of the Board for investing the Society's funds' and reads of purchases and sales of Malt Tallies, Mine Adventure Bonds, Victualling Bills, Hollow Sword Blade Bonds and Tickets in State Lotteries—which are recorded in the Minutes—one is strikingly reminded of the peculiar conditions and limitations of the investment market of those far-off days."

The earliest evidence of formal recognition of occupational hazard is found in a regulation of 1736, barring seafaring men from the "Advantages of Insuring their