

LECTURES ON LIFE INSURANCE, VOL. I

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649628506

Lectures on Life Insurance, Vol. I by John M. Holcombe

Except for use in any review, the reproduction or utilisation of this work in whole or in part in any form by any electronic, mechanical or other means, now known or hereafter invented, including xerography, photocopying and recording, or in any information storage or retrieval system, is forbidden without the permission of the publisher, Trieste Publishing Pty Ltd, PO Box 1576 Collingwood, Victoria 3066 Australia.

All rights reserved.

Edited by Trieste Publishing Pty Ltd.
Cover @ 2017

This book is sold subject to the condition that it shall not, by way of trade or otherwise, be lent, re-sold, hired out, or otherwise circulated without the publisher's prior consent in any form or binding or cover other than that in which it is published and without a similar condition including this condition being imposed on the subsequent purchaser.

www.triestepublishing.com

JOHN M. HOLCOMBE

**LECTURES ON LIFE
INSURANCE, VOL. I**

LECTURES
ON
LIFE INSURANCE
VOLUME I

Being Lectures and Addresses Delivered by

JOHN M. HOLCOMBE

President of the Phoenix Mutual Life Insurance Company



HARTFORD, CONN.

1908

PREFACE

For a long period the beneficence of life insurance was so evident that people accepted truisms as truisms and came to insure their lives without troubling to analyze the system. As time went on, however, and a multiplicity of forms of life insurance was developed to meet special demands on the part of a few, comparatively speaking, the fundamental principles became clouded in the minds of many. Life insurance remains a benefaction and has progressed with the times. Fortunately, for one cause and another, the people have become more inquisitive concerning it and are seeking exact knowledge as to what it purports to do and the way in which it does it, in the most straightforward fashion.

It is in recognition of this most encouraging attitude on the part of the public that the recent lectures and addresses of President John M. Holcombe of the Phoenix Mutual Life Insurance Company have been collected and put in book form. They take up every phase of the great system in itself and in its relations to mankind in all their conditions and requirements.

This volume will be followed by others, hopefully, all published in connection with the Educational Department of the Company, which aims specifically to train agents in the right line of thinking and acting, for the good of the public as well as of themselves; since inasmuch as the public is now bound to get its information, the men who offer life insurance also must have it in a more complete form than ever before.

Acknowledgment is made of the courtesy of the *Yale Alumni Weekly* in permitting the use of the first three of these lectures from its "Yale Insurance Lectures, Volume I," copyrighted.

THE EDITOR.

100

101

102

103

104

105

106

107

108

109

110

111

112

113

114

115

116

117

118

119

120

121

122

123

124

125

126

127

128

129

130

131

132

133

134

135

136

137

138

139

140

141

142

143

144

145

146

147

148

149

150

151

152

153

154

155

156

157

158

159

160

161

162

163

164

165

166

167

168

169

170

171

172

173

174

175

176

177

178

179

180

181

182

183

184

185

186

187

188

189

190

191

192

193

194

195

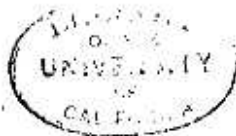
196

197

198

199

200



OBSERVATIONS ON INSURANCE HISTORY

DEFINITION OF AN INSURANCE POLICY

(Delivered in Yale University Course)

A POLICY of insurance is essentially a contract for indemnity and not for profit, and its object is to relieve the individual from the heavy weight which would fall upon him through no fault of his, by distributing the burden over the community.

Insurance is a contract whereby one for a consideration undertakes to compensate another if he shall suffer loss. All that is requisite to constitute such a contract is the payment of consideration by the one, and the promise of the other to pay the amount of loss agreed upon in the contract to the person entitled to claim it, upon the happening of the contingency contemplated in the contract.

It had its origin in the necessities of commerce, it has kept pace with its progress, expanded to meet its rising wants and to cover its ever widening fields, and under the guidance of the spirit of modern enterprise tempered by a prudent forecast, it has from time to time with wonderful facility adapted itself to the new interests of an advancing civilization.

It is applicable to every form of possible loss. Wherever danger is apprehended or protection required, it holds out its fostering hand and promises indemnity. This principle underlies the contract, and it can never, without violence to its essence and spirit, be made by the assured a source of profit, its sole purpose being to guarantee against loss or danger. "Though based upon self-interest," says De Morgan, "yet it is the most enlightened and benevolent form which the projects of self-interest ever took. It is in fact, in a limited sense and a practicable method, the agreement of a community to consider the goods

of its individual members as common. It is an agreement that those whose fortune it shall be to have more than average success shall resign the overplus in favor of those who have less. And it has as yet been applied only to the reparation of the evils arising from storm, fire, premature death, disease and old age, yet there is no placing a limit to the extensions which its application might receive if the public were fully aware of its principles and of the safety with which they may be put in operation."

There exists in the minds of many a distinction between insurance on lives and insurance on visible property, on the ground that the former is simply an agreement to pay a fixed and arbitrary amount at the death of the insured, without reference to any actual damage, and the latter an undertaking of indemnity for loss. This distinction is not based upon a true comprehension of the real principles which underlie the policy of life insurance. In the one case the thing, the loss of which is made good or modified, is capital which produces income, and in the other it is a life with physical and mental vigor sufficient to produce an income over and above the cost of subsistence. Many lives do not possess these qualities, and it is only with those which do that life insurance in its legitimate field has to deal. The termination of a life which can produce a surplus income inflicts a loss upon some one, and the greater the probable length of such production, the greater the loss must be.

It is clear, therefore, that before the insurer can fix the sum to be received for the agreement to pay some amount at an indefinite future time, he must not only know the time when his promise must be fulfilled, but he must be sure that the life upon which it is predicated belongs to the class from which his calculations have been drawn.

A mortality table, therefore, necessarily preceded all contracts involving the length of a human life. The practice of registering births and deaths is a very ancient one, so ancient indeed that no record remains of what people first attained that degree of civilization which must precede the adoption of a plan only

possible in a stable and enlightened community. It is probable that records of this kind were kept by the early inhabitants of Asia and Africa, but it was in Rome that the first occasion, of which there is any authentic knowledge, arose for a reliable measure of the probable future lifetime of persons at various ages.

At the time of the reign of the Emperor Alexander Severus in the third century, it had been a custom of Roman testators to bequeath to legatees provision for life, but by the Falcidian law such legacies were prohibited from encroaching upon the one-fourth of the estate resulting to the heirs-at-law. To carry out this law, some estimate of life duration of the legatees, one with another, from a given age had to be formed. The Roman census enumerated ages of population and Rome had bills of mortality, and it was no doubt from these that the great jurist Ulpian constructed a table which gives evidence of much skill and discrimination. Its results are, under the circumstances, remarkably close to those reached some fifteen centuries later, when Dr. Price classified and moulded into a mortality table the registration of persons living and dying in Stockholm from 1755 to 1763 (which seems to have been the first accurate deduction ever made of the length of life in a city).

At age 30 the Roman *expectation of life* was about 25 years, and by Dr. Price's table about 22 years; at 50 the Roman table gives 10 years expectancy, Dr. Price's 14 years, and at 60 the former shows 7 years, the latter 10 years.

A careful and accurate record of births, deaths and marriages has been kept in the city of Geneva, Switzerland, since 1549, and is the oldest continuous register of this kind now extant. Many other similar records were established in different countries, but it was not until the beginning of the seventeenth century that they were general in Europe. Their adoption was no doubt the result of public necessity.

During the middle ages the ravages of war and pestilence rendered impossible any basis for valuing a human life, but when cities had become established

and governments were growing more secure, the value of records of the various happenings in the life of civilized communities naturally became more and more evident as the value of human life became more clearly the foundation on which must be built all that pertains not only to the commercial prosperity, but also to the happiness and well-being of the race.

The plague, which wrought such havoc in England, was probably the cause of the initiative step which was taken in that country in establishing those records which have made possible the institution of life insurance, for to it must be attributed the earliest bills of mortality. Within a period of seventy years, London had been visited by it five separate times, 145,000 having died from its collective attacks. It always seemed impending, for the intervals between its departure and return were sometimes only eleven years, and had never exceeded twenty-nine. The reports and even the fear of its approach were a commercial calamity, and in 1592, when more than 30,000 died of the disease, appalling as was the reality, the rumors were vastly exaggerated. An attempt to quiet public feeling by correctly indicating its progress was, therefore, made in the bills of mortality, and though they were not at first maintained consecutively, they were afterwards found so useful as to be continued from the 29th of December, 1603, down to the present time. While they served to correct some false notions, they were not made of practical and definite use until 1664, when John Graunt published a book on the population, which contained, as he stated, "a new and accurate thesis of policy built on a more certain reasoning than had yet been adopted." This work met with an extraordinary reception and stimulated the consideration of these subjects by thoughtful men.

He failed in an attempt to deduce a law of life from these records, because they did not specify the ages as well as the deaths of the people, for it was not until 1728 that the ages of the dead were introduced in the London bills of mortality. From his enumeration of his objects, it may be seen that life insurance was not contemplated by him, but he made