Thrift in a time of war and influenza: American mutual life insurance companies, 1917-1920

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Summary

The mutual life insurance companies of early 20th-century America demonstrate how preparedness in the form of surplus reserves and values in the form of social and economic 'thrift' positioned these companies to thrive in increasingly uncertain global environment. Managers now confronted with the economic impact of the COVID pandemic can take a lesson from these companies by (1) developing and implementing the systematic accumulation of 'reserves' in periods of growth to prepare for periods of emergencies and (2) integrate social values inspired by a notion of 'thrift' that contribute to reducing the impact and likelihood of future crises. Some firms will find themselves already so prepared, as well as positioned to benefit from the changes in stakeholder values brought about by the crisis; others will learn a lesson in 'thrift' that, if implemented swiftly, will sustain them in the coming decades.

The experiences of American mutual life insurance companies during the period of the First World War and the influenza epidemic provide a model for the design of their organizations – their values, operations, and management – that prepare them to respond to unexpected crises, even of unprecedented magnitudes. The principle behind this design was the early 20th century idea of 'thrift, and one of the key aspects of thrift as put to action was the accumulation of a surplus reserve for contingencies such as war and other higher-than-expected death rates, such as the influenza of 1918 and 1919. At the same time they paid claims to the families of deceased policyholders, the life insurance companies were also heavily invested in the modernization of American society (governments, transportation, infrastructure, real estate, agriculture). Managers of businesses now facing a global pandemic of COVID-19 will either find themselves prepared financially and also positioned well as proven 'essential,' socially and economically, in increasingly tumultuous times, or they will learn a lesson in 'thrift' with a sense of both social and economic benefit that aims at survival, as well as prevention, of future crises.

In 1920, in the wake of the unusually large losses of life resulting from the World War and the influenza epidemic, the president of one American life insurance company made a proclamation in a tone familiar to that industry: "The watchword of the hour is 'thrift' – and the embodiment of thrift is life insurance" (Northwestern Mutual, 1920, p. 5). The idea of thrift was by no means new to this period or to the institution of American life insurance;

indeed, with origins in English Puritanism, thrift was connected to a condition of thriving and carried with it a strongly religious connotation (Hunter & Yates, 2011). It was in its translation into late 19th- and early 20th-century America that thrift attained a prominence in American economic life.[1] With mutual life insurance companies espousing the virtues of thrift with messages of savings and safety, frugality and foresightedness, calls for the practice of thrift also developed into programs for the teaching of thrift (i.e. 'thrift education') [Hunter, 2011]. For the life insurance companies, events like the World War and the influenza outbreak, more than any education program, "brought to the minds of the people of the country the necessity of protection by life insurance, and the amount of insurance written by the various companies of the United States has exceeded their most ardent expectations" (New England Mutual, 1919, p. 3).

What were by 1918 the 'old-line' companies of American mutual life insurance, which were founded in the two decades prior to the start of the Civil War, had been growing steadily for six to seven decades. Founded in 1843 and the oldest of the companies, Mutual Life of New York had made the pioneering contributions to actuarial science and the development of the mortality tables that were the basis for the evaluation of risks (lives) to determine the proper premium to charge. The statistical bases for the tables and the subsequent collection of data over several decades (actual death rates, according to age, health, cause of death, race, gender, occupation, etc.) were combined with a mutual form of organization – policyholders owned the company, elected a board of trustees, and pooled their premiums into investments designed to advance 'civilization' and modernize the United States. The annual reports of a set of early life insurance companies[2] list these investments in detail: government bonds (federal, states, municipalities, cities), railroad bonds, farm mortgages, public utilities such as electricity and water, real estate properties, some stocks, and policy loans to policyholders (though this last was discouraged). The 5-6% average returns that the mutual companies were earning on these investments in the period of America's participation in the World War and the epidemic (19171921) combined with the premiums paid by steadily growing and migrating populations of policyholders allowed the companies to cover all proven death claims, fund a nationwide network of agents of the company and administration, pay taxes (a 'tax on thrift' [Mutual Life, 1918, p. 18]), and pay 'dividends' (a repayment to policyholders of a part of the premiums not needed to cover the death claims relative to the expected mortality derived from the tables – the 'surplus'). At the same time, especially when in years of 'favorable mortality,' the companies would continually add a calculated amount of the surplus to reserves for contingencies – there are various names given to this reserve based in state regulations (e.g. 'Contingency Reserve,' 'Contingency Fund,' 'Suspended Mortality Fund').

In 1918, with the increased mortality caused by the war and, then, the far more costly influenza epidemic in the last three months of the year, the life insurance companies went to these reserves in every case; some (though not all) of them needed to reduce or suspend the refund of 'dividends.' Especially noting the importance of the reserves, the companies' reports boasted of the wisdom of the simultaneously conservative and liberal design of life insurance: make liberal estimates of the expected death rate (that is, usually charging too 'much' for premiums), but be conservative in both investments (secure assets), 'dividend' payments, and, most importantly, the accumulation of the surplus reserve – "for just such emergencies as that created by the war and the epidemic of 1918" (Mutual Life, 1918, p. 13). To illustrate: the average death rates (actual to expected) for National Life of Vermont for 1914 to 1917[3] were consistent with the average for their previous fifteen years (1902-1917): 62.85% (National Life, 1918). In 1918, the National's actual mortality was 84.05% of the expected, the increase coming primarily from the influenza epidemic across the country, which also accounted for half of the war losses. Other companies witnessed death rates approaching or exceeding 100%, with the epidemic months of the year (October to December) seeing hundreds of thousands of policyholders, mostly between ages 20 and 40, die of influenza and the related pneumonia. The life company presidents as well as American newspapers (e.g. St. Louis Post, 1918) remarked upon the disparity between the relatively few deaths from war losses compared to the onslaught of the pestilence, which the president of New England Mutual thought compared most recently with the Plague of London of 1665 (1918, p. 3). With the epidemic raging into the first months of 1919, costs mounted for the life companies as hundreds of thousands died, losses not seen since the Civil War, and the reserves proved their usefulness.

And, just as the growth of new life insurance (both policies and companies) surged in the periods during and immediately after the Civil War (and again during Spanish-American War) [Mutual Life, 1918], the American companies witnessed exceptional growth in new policies in the years 1919 and 1920 (Wall Street Journal, 1919; New York Times, 1920). They pointed to a number of causes, such as the post-War American prosperity, record low death rates, and inflation of the US dollar which deflated the value of insurance policies – but especially the 'lessons' taught by the War and the epidemic. Additionally, there appears a consensus across companies that the adoption by the US Government of taxpayer-funded War Risk Insurance for soldiers and sailors worked to educate people in the value of life insurance, provide a reputable endorsement, and relieve the private insurance companies of some of the risk. At the behest of the US Government, the life companies reciprocated with hundreds of millions of dollars collectively invested in four separate Liberty Loans to fund the government's war effort. The president of Northwestern Mutual, looking back on 1919, remarked how "it may well [have been] that the war was required to bring home to an enlightened public a realization of the true value of thrift (p. 5)" and, further, how "[t]he plague of influenza, indiscriminate in the choice of its many victims, awakened even among the strongest of men a realization of the uncertainty of life and of the often neglected duty to provide for the future" (p. 11).

These uncertainties, always destined to arise, were factored into the design of the business of life insurance itself – a design that overestimated risk as a proxy for measuring uncertainty, while at the same time investing in the modernization of society to reduce that risk, earn returns for policyholders, and set aside reserves for when the unexpected occurs – in their word, 'thrift.' For the managers of businesses outside of life insurance and in other time periods and countries, the principles inherent in the design can still apply, and the nature of the 'reserves' built up during favorable years may take different forms (e.g. insurance, cash, etc.). However, it is clear the life insurance companies also viewed the social function of their investments as acting as a kind of reserve, by also reducing the actual mortality rates for the country and its multiplicity of localities. There are companies in the midst of the COVID-19 pandemic suitably prepared with 'reserves'[4] and, also like the life insurance companies, positioned to benefit from the new view that the public develops of certain industries in the midst of crisis ('essential' or businesses). While many (perhaps most) firms will not be so prepared for the breadth or depth of this crisis, managers and society at large can take the experiences of COVID-19 as a hard lesson in the value of thrift – and with a meaning closer to that espoused by life insurance companies in the midst of the First World War and the 1918-1919 epidemic.[5] If we are indeed well into an extended period of deglobalization (see interview with Geoffrey Jones: Agarwal & Raje, 2017), analogous to the period of war, economic crisis, and militant nationalism that would characterize the middle of the 20th century, then the value of reserves for contingencies as part of a turn towards 'thrift' will be of unparalleled importance for those firms (and industries) that are to survive (and thrive) in the next few decades.

Endnotes

1 A google n-gram search, which attempts to measure (imperfectly, of course) the frequency of use of certain words in texts over time (1800 to 2019), indeed shows a rise in the use of 'thrift' in texts steadily from about 1840 only to rise dramatically in the decade of the 1910s to peak in 1920. Google n-gram: 'thrift'

2 For this research, I primarily used the annual reports (as well as some newspaper articles) from 1917 through 1921 for the following life insurance companies: Aetna (founded 1859), Connecticut Mutual (1846), John Hancock (1862), Massachusetts Mutual (1851), Mutual Life (1843), Mutual Benefit Life (1845), National (1850), New England Mutual (1844), New York Life (1845), Northwestern Mutual (1857), Penn Mutual (1847), Prudential (1875), and Traveler's (1864). Obviously, this set is biased to life insurance companies that thrived during the period in question, including some which continue to thrive today, though in largely in the form of stock, rather than mutual, organization (see Zanjani, 1997).

3 Not only had the United States not yet entered the war prior to the end of 1917, but the relatively few major companies – Equitable Life, Mutual Life, and New York Life – that had once held large business in Europe and countries worldwide had stopped the growth of new foreign business by 1914, with only New York Life the most active up to the start of the war when it ceased writing new policies (Wilkins, 1970; 1974; 2009) Wilkins attributes the withdrawal from foreign business to the concern over the exchange of currencies and overly stringent requirements that foreign governments placed on the investments firms could make, essentially government bonds only. Most of the European policyholders that the companies still insured during the War were older, which meant they were beyond the age of military service and were not as hard hit by influenza as well.

4 Companies such as Apple, known (and sometimes criticized) for holding large amounts of cash as a result of Steve Jobs' legacy, are cited as prime examples of preparedness in the present crisis, with cash reserves just under $300 billion (Francis & Gryta, 2020).

5 Hunter and Yates (2011) detail how the meaning of 'thrift' in America began to drift towards the notion of debtdriven 'consumer thrift,' which is in many ways opposed to the idea celebrated by life insurance companies. Indeed, several of the reports from 1919 and 1920 criticize the 'extravagance' of spending in post-War America and the increasing tendency for policyholders to take out policy loans.

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Published on the History Lessons Covid Website https://www.historylessonscovid.org (1 May 2020).