

# THE HISTORY OF LIFE INSURANCE

Preserving what you've built has always been a wise move

In today's day and age, life insurance is something that most people are aware of and value as part of a sound financial plan. It offers a way for a parent to help ensure their spouse and/or children will be cared for financially in the event of the insured's death. In addition to providing additional financial protection for its beneficiaries, certain types of life insurance can even serve as a vehicle for cash accumulation. The options for life insurance coverage often seem endless – with different policy terms, endorsements, product structures and a variety of underwriting processes. However, this evolution and progression in the variety and complexity of life insurance products over the years has



resulted in consumers having more access to cost-effective coverage to meet their individual needs.



## 100 B.C. – when Life Insurance was born

Ancient Romans believed that anyone who was not given a proper burial (regardless of social stature) would return as an unhappy ghost, so it was imperative to ensure that every single person who died was buried in the correct manner. Just as they do today, funerals cost money in ancient Rome. And in order to ensure that cost would not be a barrier to following proper burial protocol; Caius Marius (a Roman military leader) started a “burial club” among his troops. According to an article written in *LifeHealth Pro* about the history of life insurance, Caius Marius's scheme worked as follows: should one member die or be killed, the remaining members would pool together to pay for his funeral expenses. Over time, this practice even evolved to provide a sum of money to any survivors of the deceased.<sup>1</sup>



## Modern evolution of Life Insurance

This ancient attempt at formalizing life insurance eventually faded away after the fall of the Roman Empire. But the concept of putting a value on human life was revisited again in the early 18th century when the Amicable Society for a Perpetual Assurance Office was formed in London.

Members each made a yearly payment for each share they owned. At the end of the year, a portion of this group contribution was divided up among the wives and children of any member who had died during the year. The payment was proportionate to the amount of shares owned by the member.<sup>2</sup> The idea that a human life had value and that it was possible to provide for beneficiaries and cover funeral-related expenses with insurance was becoming more evident.



In the United States, life insurance came into being in 1759, through the Presbyterian Synods in Philadelphia and New York City. The widows and children of Presbyterian ministers were the beneficiaries in the event of the death of a Presbyterian minister.<sup>1</sup>

Toward the late 19th century, the concept of sharing risk and reward was revisited when “tontines” became available through the Equilife Assurance Society. They were developed primarily to allow Equilife to compete in the market and they revolutionized the insurance industry at the time because they offered an investment option to middle-class Americans.<sup>3</sup>



With a tontine policy, participants paid premiums that were split between traditional insurance that paid a death benefit and a limited group investment fund that deferred dividend payments for a term of usually 10-20 years.<sup>3</sup> At the end of the term agreement, only the surviving participants received the deferred dividend proceeds as either a lump sum or an annuity.<sup>3</sup>



## Economical coverage is underestimated today

While we may no longer believe that the unhappy ghost of the dearly departed will come back to haunt us if we don't provide a proper burial, it is clear that today's consumer understands the importance of life insurance.

After all, according to a report released by LIMRA:<sup>5</sup>



**60% of Americans** own a life insurance policy.



However, **25% of people** know they need more life insurance.

When asked why they don't purchase more (or own any at all),



**64% of respondents** indicated it was too expensive.

However, the perception of what life insurance costs and the reality are very different.

Life insurance continued to change and develop as the population grew and was faced with risks such as war. In the 1870s, military officers formed the Army and Navy Mutual Aid Association (now known as AAFMAA or American Armed Forces Mutual Aid Association) to benefit children and widows after seeing first-hand the plight of those left behind after the many deaths at the Battle of Little Big Horn.<sup>4</sup>

After WWII, America experienced an economic boom that resulted in a boost in life insurance sales. By the mid-1970s, almost 90% of husband/wife households had life insurance and 72% of adults owned a policy.<sup>1</sup> Over the years, this number has dropped dramatically (now 60%), despite the cost-effective coverage of life insurance today.<sup>5</sup>

Survey respondents were asked to estimate the annual cost of a **\$250,000 term life policy** for a healthy 30-year old consumer.<sup>5</sup>



**Americans estimated the cost at \$400 - more than twice the actual cost.**<sup>5</sup>



Younger adults, who are most likely to qualify for preferred pricing, overestimate the cost by nearly **three times the actual cost.**<sup>5</sup>



of an appropriate life insurance proposal, consumers will be able to see that the value of a policy cannot be underestimated. With the right insurance financial planning partner working with them to present appropriate insurance options, they will also begin to understand that life insurance can be cost-effective, as well.

1. LifeHealthPro.com, "Timeline: The History of Life Insurance." Accessed June 2016.
2. Amicable Society, "The charters, acts of Parliament, and by-laws of the corporation of the Amicable Society for a perpetual assurance office," Gilbert and Rivington, 1854 Amicable Society, article V p. 5. Accessed June 2016.
3. NAIC "State of the Life Insurance Industry: Implications of Insurance Trends." Accessed July 2016.
4. Aafmaa.com, "Mission & History." Accessed June 2016.
5. LIMRA, "2016 Insurance Barometer Study." April 2016.

## Shifting the paradigm

Ongoing education and awareness campaigns can help to educate consumers about the need for life insurance coverage. However, it's critical that the cost-effective aspect is communicated in the same way.

By demonstrating the need for additional protection through a comprehensive understanding of individual circumstances and financial planning sessions and then illustrating the solution through the presentation



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