



SOCIETY OF ACTUARIES

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Book Review

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made "faithful, regular savers of those who were not predisposed to such behavior", and thus contributed to making the industry a supplier of capital.

The author forcefully shows, both with text and with tables, the devastating effect of the protracted depression of the 1870s on the life insurance business. In 1870, the number of legal reserve life insurance companies was 135; by 1880, it was down to 69 (many of the companies that failed during this period were absorbed by others). Company failures were rampant, and state regulators (yes, even then they were a factor) and the press were not reluctant to criticize the management of the fallen companies. As the author states: "Men and firms lauded as statesmen and giants in one year were castigated as crooks and frauds in the next, with no factual change except the press of events and bankruptcy laying open their books to public scrutiny and hindsight."

The author notes how state regulation sometimes worked to the detriment of the companies whose financial solvency it was their duty to protect. State regulation emphatically encouraged investment in real estate; one large company's charter provided that it invest only in real estate or related assets except as otherwise specifically permitted in the charter. But real estate performed more poorly than many other types of investment, and in the 1870s, the companies found themselves saddled with real properties with severely depressed values, many of which were acquired by foreclosing on mortgages.

In this book, which contains 29 tables and 13 graphs, the author has sought to examine three hypotheses:

- "(1) life insurers mobilized a substantial pool of capital from a broad policyholder base, (2) insurers supplied critical infusions of funds to new industries at a formative stage of their development, and (3) the industry channeled capital to developing regions of the country roughly in proportion to regional premium volume."

The first hypotheses is shown to be

MATH ODDITIES

Readers who enjoy number puzzles may like these. Both were submitted by Howard Young, 16269 South Hampton Court, Livonia, MI 48154.

$$\begin{array}{r} \text{MIAMI} \\ + \text{TAMPA} \\ \hline \text{BOSTON} \end{array}$$

$$\begin{array}{r} \text{CANADA} \\ + \text{NIGERIA} \\ \hline \text{FINLAND} \end{array}$$

Within each of the indicated additions, each letter has an unique correspondence with a digit. There are definitely determinable answers. Geographical overtones may be immaterial.

Howard will correspond with interested readers as to his technique for solving these and similar puzzles. He uses a combination of deduction and trial/error, and is looking for some more efficient technique.

Or readers may prefer the square form of the cross-number puzzle, similar to a crossword except that numbers and digits replace words and letters.

1	2	3
2		
3		

1	2	3	4	5
2				
3				
4				
5				

1	2	3	4	5	6
2					
3					
4					
5					
6					

Across or Down

- 1. 19x
- 2. 5x
- 3. 13x

- 1. 16y
- 2. 37y
- 3. y
- 4. 10y
- 5. 18y

- 1. 6z
- 2. 8z
- 3. 2z
- 4. 7z
- 5. 5z
- 6. 11z

Here trial and error will seldom prevail, but there is a principle involved. Clues can be found in this same issue (see "Circular Numbers", page 4.)

valid, while the last two are not. It is hardly surprising that life insurance companies were not a source of venture capital, either then or now. The primary concern of life insurance investment departments has always been preservation of capital, with high rates of return (until recently at least) a secondary concern. (However, as the author notes, this did not stop some companies from trying to earn yields higher than those on investments permissible under law. Even in those days, companies used subsidiaries, which for

this purpose invested in higher-risk, higher-yield securities.) Further, state regulation often had the effect of requiring most investments to be made "close to home", with the effect that very little life insurance funds found their way into the less developed areas of the country, namely the South and the West.

Mr. Pritchett has produced an interesting and readable book on the early days of the business, and a worthwhile addition to the archives of insurance industry history. □