Banks Should Sell Insurance *NOW!*

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Following the terrorist attacks against the United States, a journalist told me several bankers are shelving their plans to start insurance sales programs. What a mistake this is!

There was reason enough for banks to sell insurance before September 11. Apart from banks' needs to offset declining net interest margins, augment their revenue streams, replace lost investment sales and improve their bottom lines, millions of American families and small businesses remain totally uninsured or significantly underinsured.

Take, for instance, the enormous gap in life insurance coverage. More than 40 percent of all Americans and 26 percent of U.S. households have no life insurance coverage whatsoever - no personal, group or credit life insurance. For those covered by life insurance, the median amount of coverage is a meager $30,000. Now, the horror of terrorism further magnifies the importance of insurance.

THE HORROR OF TERRORISM FURTHER MAGNIFIES THE IMPORTANCE OF INSURANCE

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Fox News has reported that, among the families of the more than 730 Cantor Fitzgerald employees who were killed in the World Trade Center, more than 1,000 children are orphaned. How amazingly terrible it is to hear the media refer to "widows and orphans," since so many had dismissed the insurance industry's use of the phrase as anachronistic.

The desolation and destruction of the terrorist attacks should shake the complacency of those who have said that insuring against death and disability is no longer necessary, that it is not in fashion, that people are not motivated by such concerns. The idea that people need not protect, but only accumulate by investing in the stock market, annuities, mutual funds and 401(k) programs was bad advice before September 11. Its false assertions are more obvious today.

Decades ago, Dr. Solomon Huebner, the father of insurance education, noted, "Property values, in fact, are the result of human effort. Were it not for the life value, there would be no property value at all. The human life value is the cause and not the effect, the permanent performer of service and not the temporary product." Huebner calculated the nation's capitalized human life values exceeded by ten times its property values, and he rightly complained the ratio of life insurance premiums to national disposable personal income had been stuck for years at 3.5 percent. He would be chagrined to know that ratio has been halved.

America's seeming distance from danger has bred an unrealistic illusion of safety and a hazardous complacency. In December 1989, three weeks after the fall of the Berlin Wall and a few days after Deutsche Bank Chairman Alfred Herrhausen's assassination, I spoke at a symposium on global insurance ... at the top of the World Trade Center.

Almost everyone attending was ebullient that the Iron Curtain was down, the Brandenburg Gate open, the Soviet Union in retreat, and world peace had come. The false prophecy of "the end of history" sounded good. I suggested we might soon see tanks and people battling in the cities and countryside of Yugoslavia, Bulgaria, and Rumania; but attendees scoffed, and I went home depressed. Three weeks later, Rumanian dictator Nicolae Cauesescu lay as dead as his regime. You know the rest.

History doesn't stop; we live in history. And, history shows that catastrophe and war bring home the precariousness of life. The first great growth period of life insurance followed the War Between the States. In 1860, the New York State Insurance Department recorded 56,000 life insurance policies with a total face amount of $163 million and annual premiums of $4.7 million; insurer assets totaled $24 million. By 1870, five years after the Civil War, insurers doing business in New York State received $90 million in annual premiums on 740,000 policies with $2 billion in face amount. Insurers' assets increased 11-fold to $270 million.

Similar situations occurred after the two World Wars. During World War II, National Service Life Insurance (NSLI) became the largest single life insurance operation in history, peaking at $121 billion of life insurance in force. In the years following, private life insurance grew more rapidly than ever before. Why? Because that generation had relearned that the world is a dangerous place and risks to life and limb, income, property and assets remain.

There's no getting away from it. Uncertainty is a universal and fundamental phenomenon of all aspects of life, including economic life. Recent events have reinforced this reality. Complacency about insurance is gone. We want increased safety and security and the protection insurance provides.

Adam Smith said every person has property in his own labor. Since that labor is the foundation of all other property, it is "most sacred and inviolable." While a special kind of private property, life insurance recognizes the value of the human life. No other financial product recognizes this concept in its individual and social dimensions.

As Huebner explained, insurance transfers and bears risk, beneficially affects consumption, expedites financial exchange and distribution, aids production, is itself productive, and reduces uncertainty in personal and business affairs. As a result, it enhances economic liberty and human freedom since it frees beneficiaries from financial dependence.

Besides insurance agents, bankers should most appreciate the philosophical underpinnings of insurance. After all, it is bankers who assert the importance of another kind of insurance that reduces risk and enhances safety and security … deposit insurance. For these reasons and more, like not allowing our businesses, plans and economy to be derailed, banks should sell insurance … NOW

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