

THE ORIGINS, DEVELOPMENT, AND CURRENT SITUATION
OF THE NEGRO LIFE INSURANCE INDUSTRY

The original topic of this paper was to have been the history of the Supreme Life Insurance Company of America. However, the major conclusions of this paper and the method of analysis used make it equally relevant to the entire Negro life insurance industry. Also, the history of Supreme Life involves several facets which provide a good test of the conclusions of other writers whose work in this area has been largely in the form of industry studies or even the entire field of Negro business.

Only in the field of life insurance has there been extensive large-scale business activity by Negroes in the United States. In 1960, the 46 members of the National Life Insurance Association (all firms owned, managed, and operated by and for Negroes), had \$1.65 billion of insurance in force, against which they held over \$300 million in assets.¹ This represents by far the largest concentration of Negro business. While Negro-owned and -operated firms have been successful in a wide variety of fields, only in life insurance has participation been sufficiently widespread and large-scale to justify reference to a Negro industry.

This industry developed because national-market life insurance firms began to refuse Negro applications after about 1880. This refusal to deal with Negroes on any terms was unique. While they often were forced to pay higher prices or accept inferior service, Negroes could generally obtain a wide variety of goods and services. The refusal to accept Negro business was based on a combination of Negroes' higher mortality rates (Negro life expectancy in 1900 was two-thirds that of whites),² and state antidiscrimination laws. Most life insurance firms initially charged higher premiums and after a few years refused to sell to Negroes.³ Negro life insurance firms developed to fill this gap. The first Negro legal reserve company was founded in 1893, and by 1930 there were 15 companies with \$235,000,000 of insurance in force.⁴ These firms often developed from mutual-aid and fraternal organizations, many of which were church-related.

The Liberty Life Insurance Company, predecessor of the current Supreme Life Insurance Company of America, received an Illinois Charter in 1919 and began operations in 1921. Liberty Life was the first Negro life insurance company in the North, and part of a 'second wave' of Negro firms that appeared in the Twenties. These firms tended to be organized by men more motivated by business principles than the altruistic or religiously-oriented founders of many of the early firms. Liberty Life was founded by Frank L. Gillespie, a typical Negro entrepreneur of this period. Born in Arkansas, educated in a wide variety of schools and occupations, Gillespie had the determination and resourcefulness which were necessary to organize, finance, and operate a business under the handicaps faced by Liberty Life. Today the company he founded is third in size among Negro Life insurance firms, with over \$195,000,000 in force, and a firm typifying the Negro industry.

Various observers of the Negro industry have stressed the problems caused by its limitation to operations within the Negro market.⁵ The market offers limited opportunities for growth because of its small size and the low incomes of its members. (In 1966, Negroes comprised about 11 percent of the population and their median family incomes were 59.9 percent of whites'.)⁶ Income differentials were far greater prior to World War II.⁷

This limitation to the Negro market has resulted in a large proportion of industrial insurance (63 percent; the national industry has 4 percent) to total holdings.⁸ Only one Negro firm does not write industrial insurance. This plan of insurance is salable because premiums are small and collected weekly or monthly by the agent, but it provides limited coverage at high cost. The characteristic features of industrial insurance--high collection and recording expenses, small policies, and high lapse rates, all of which are intensified by restriction to the Negro market--make for high operating costs. As of 1954, no Negro firm had costs of less than 36 percent of total income, with an industry average of 46 percent. National-market

firms' operating costs averaged 17 percent at that time,⁹ and by 1960 no significant change in this wide disparity had yet occurred.¹⁰ Supreme Life initially sold only ordinary insurance, but during the Depression and for some time thereafter it found very limited sales opportunities for anything other than industrial insurance, and despite strenuous recent efforts to increase sales of ordinary insurance, over 60 percent of its holdings today are on the industrial plan.

Limitation to the Negro market has also restricted access to capital, at least initially. It took Liberty Life nearly seven years to raise \$700,000 through stock sales in the 1920s,¹¹ and this experience was by no means atypical. From Liberty Life's experience, it would appear that wealthy Negroes do not invest heavily in Negro business ventures unless they are actively connected with the firm. No person not a director or officer of Liberty Life held more than \$500 worth of its stock in the 1920s.¹² This fact raised the cost of stock sales, and lengthened the period required to complete the sales. At least for established firms, however, access to capital is not limited to that available from the Negro community. Many Negro insurance firms received financial aid from white businessmen and bankers from a very early period. Supreme Life negotiated a \$1,500,000 loan from a Chicago bank in the late 1950s, and a number of smaller loans earlier.¹³ Since about twice as many Negro life insurance companies have been founded since World War II as in the preceding 50 years, despite greatly increased legal minimums on capital and surplus, access to capital may be a decreasing problem.

Since World War II began, the increase in Negro incomes has been considerably greater than the national average (525 percent to 309 percent over the period 1939-60)¹⁴ When this is added to the rapid improvement in Negro mortality which has raised Negro life expectancy to about 90 percent of the national average now¹⁵--it is not surprising that over the period 1940-50, the Negro industry grew three times as fast as did all firms. But since 1950, Negro firms have grown at only half the rate of the national industry.¹⁶ Supreme Life shared in both these growth changes, though a series of acquisitions after 1956 masked very slow internal growth.

The reason for these developments is clear. The separate Negro market for life insurance no longer exists. National-market firms are increasingly competing for the Negro market, particularly in its upper- and middle-income segments. In 1940, a survey of 238 firms revealed only 5 that accepted Negroes at standard rates, and 153 that either refused Negro applications or 'did not solicit' them.¹⁷ The number of white firms known to be competing for the market of one Negro firm rose from 57 to 104 in the period 1943-1957, and in the fifties, five large white firms increased their insurance on Negro lives by three times the increase in the holdings of all Negro firms.¹⁸

Supreme Life became acutely aware of this increased competition in the early fifties. Since it sells almost entirely in large Northern cities, where the white firms' sales efforts were concentrated, Supreme Life's market situation and efforts to improve it are typical of the current situation facing all Negro firms. Beginning in 1955, the company began a series of efforts designed to improve its competitive ability. Modern electronic record keeping methods were introduced, employee training programs instituted, executives reshuffled, and various other measures adopted which reduced costs below the Negro industry's average.¹⁹ Partly as a result of the increased administrative capacity resulting from the new measures, and partly due to an aggressive commitment to growth, Supreme Life was able to acquire seven other Negro firms between 1956 and 1962. At the same time, the company completely revised its sales program (an area it, like many other Negro firms, had previously neglected) to put more stress on agent training and quality production, with a much greater orientation toward sales of ordinary insurance. Previously, Supreme had emphasized quantity production, with little or no stress on retention of business. This sales effort had produced a very high lapse rate, high expenses and agent turnover, and a sales force poorly equipped to sell ordinary insurance or compete in a market no longer reserved to Negro firms. Ordinary insurance offers both the greatest potential rewards and the greatest current competition of all fields open to Ne-

gro firms. Industrial insurance offers little opportunity for growth. National firms' industrial holdings peaked in 1957, and Negro firms' recent growth rate in ordinary has been much more rapid than that in industrial.²⁰ The new sales program coincided with a new series of Supreme Life policies, whose features and premium rates reflected the company's lower operating costs, greater attention to recent market developments, and improved Negro mortality. These changes decidedly improved the company's competitive position.

Although Supreme Life and other Negro companies have begun a vigorous reaction to the new market situation, their long-run outlook does not appear bright. Life insurance is essentially an undifferentiated product, where price is a primary sales factor. Since they are restricted to the Negro market, Negro firms have the cost disadvantages inherent in such a restriction. While these can be reduced, they cannot be eliminated completely. Further, although Negro mortality rates have improved, there is still an actuarially significant difference between rates for whites and Negroes, which must be taken into account in computing premiums. Competing white firms, able to be highly selective, can seek only business that would raise Negro firms' overall performance, rather than mass sales. Negro firms have no such option.

The only remaining area of possible savings lies in the return earned on investments. Negro firms' returns on investments have been significantly below the national average. Supreme Life, while an exception to this rule, was able to obtain high returns only through heavy investments in mortgages on Negro housing, where high interest rates reflect high risks, as the company has recently learned. While this investment policy has been an aid to Supreme's insurance sales, a heavy concentration on real-estate connected assets brought the company to the brink of bankruptcy in the Depression, and caused serious problems more recently.²¹ In any case, investment income cannot realistically be expected to be better than the industry's performance, and thus offers no substantial offset to higher costs in other areas.

The Negro life insurance firm thus finds itself facing increasing competition for its only market, while its heritage burdens it with higher operating costs and mortality. It has no choice but to compete on the best terms possible, since there is no longer a market to which it may withdraw. At the same time, recent developments in the Negro market offer the best opportunities for growth in the history of Negro business. If they can hold a major share of the high-quality ordinary insurance market and reduce the competitive handicap of their large share of high-cost business, Negro firms may eventually enter the national market. At the moment, even were there no social barriers to entry, the economic barriers are too high. Moreover, the competitive gap at best does not appear to be closing.

It is essential to note that the disappearance of the separate Negro market has been a decided advantage to the Negro buyer of life insurance. Access to wider markets is seldom harmful to any buyer, and especially in the case of a group concerned with the reduction of its economic disadvantages, an opportunity to increase its purchasing power in any area of expenditure must be welcomed. It would be ironic if Negro firms were to decline as a result of improvements in the incomes and longevity of American Negroes, but such a decline is certainly more desirable than the conditions that forced Negroes to found these firms. If the Negro industry has now served its purpose, it has done well. Negro life insurance firms provided their customers with vital services available nowhere else.

In summary, the Negro life insurance industry was developed because Negroes were denied access to life insurance from white firms. Restricted to the Negro market, Negro firms' development was shaped and limited by that market. The result has been that Negro firms now reflect the years of restriction to Negro markets and are handicapped by this heritage in their efforts to compete in an increasingly integrated life insurance market.

NOTES

- ¹David Abner, III, Some Aspects of the Growth of Negro Legal Reserve Life Insurance Companies, 1930-1960, (Unpublished D.B.A. Dissertation, Indiana University, 1962), pp. 65, 172.
- ²Life Insurance Fact Book, Institute of Life Insurance, New York, 1966 Edition, p. 95.
- ³W. O. Bryson, Jr., Negro Life Insurance Companies: A Comparative Analysis of the Operating and Financial Experience of Negro Legal Reserve Life Insurance Companies, Philadelphia, 1948, pp. 7-9 T. J. Gardner, Problems in the Development of Financial Institutions Among Negroes: Historical Development, Current Trends, and the Future in Business, (Unpublished D.B.A. Dissertation, New York University, 1958), p. 26, R. H. Kinzer & E. Sagarin, The Negro in American Business: The Conflict Between Separatism and Intergration, New York, 1950, pp. 74-75, and Abner, Aspects, pp. 28-29.
- ⁴Abner, Aspect, p. 50.
- ⁵Bryson, Negro Life Insurance Companies, pp. 29-33, 68-83, Gardner, Problems, pp. 56-60, Kinzer & Sagarin, The Negro in American Business, pp. 75-76.
- ⁶U. S. Bureau of the Census, Current Population Reports: Consumer Income Series P-60, #52, Aug. 21, 1967, p. 3.
- ⁷Richard Sterner, The Negro's Share: A Study of Income, Consumption, Housing, and Public Assistance, New York, 1943, p. 60.
- ⁸Life Insurance Fact Book, 1966 Ed., pp. 29-30, and Abner, Aspect, p. 65
- ⁹Gardner, Problems, pp. 56-57
- ¹⁰Abner, Aspect, p. 158.
- ¹¹Robert C. Puth, Supreme Life: The History of A negro Life Insurance Company, (Unpublished Ph.D. Dissertation), Northwestern University, 1967, pp. 16-23, 61-62.
- ¹²Puth, Supreme Life, p. 23.
- ¹³Puth, Supreme Life, p. 203.
- ¹⁴Bureau of the Census, Current Population Reports, Series P-60, #43, 1961, p. 37.
- ¹⁵Life Insurance Fact Book, 1966 Ed., p. 95.
- ¹⁶Abner, Aspects, p. 227.
- ¹⁷Bryson, Negro Life Insurance Companies, pp. 8-9.
- ¹⁸Abner, Aspects, p. 83.
- ¹⁹Puth, Supreme Life, p. 205.
- ²⁰Abner, Aspects, p. 83.
- ²¹Puth, Supreme Life, pp. 98-104, 128-33, 233-37.