Elizur Wright: The ‘Father of Life Insurance’ in the US

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Elizur Wright (born February 12, 1804; died November 22, 1885) was the insurance commissioner of Massachusetts in the United States for eight years, from 1858 to 1867. He was appointed by Governor Nathaniel Banks. It is notable that Massachusetts was the first state to have an insurance department established in 1855. Elizur was a mathematician. He is regarded as the “father of life insurance” in the U.S. for his many reforms in the industry. Among these reforms are the requirement for reserves and provisions for cash surrender values. He was a mathematics professor at Western Reserve College from 1829 to 1833. He graduated from Yale in 1826.

In 1844, while serving as a consultant of New England Mutual Life Insurance Company (established in 1835 in Boston, Massachusetts), the young Elizur was sent to London to learn about English practices. There, Elizur witnessed how old men auctioned off their life insurance policies because they could no longer afford to pay the premiums but could not collect the benefits for they were still alive. The buyers took over the payment of premiums and became the beneficiaries. The number of insurance policies that lapsed was staggering. The shocked Elizur was convinced that insurers should pay “surrender values” to policyholders and for this purpose should hold adequate reserves. Elizur saw the absence of “surrender values” as a form of cheating on the part of insurance companies. He vowed to make life insurance “safe for its buyers and fair to those who could no longer pay their premiums.” Of course, during this time, there was yet no organized association of actuaries in the U.S. and the Institute of Actuaries in Great Britain was just newly formed. More importantly, there were no state regulations at all.

In 1852, an insurance broker “placed an advertising booklet in his hand . . . Elizur Wright looked it over and perceived quickly enough that no company could undertake to do what this one pretended to and remain solvent.”

Upon becoming insurance commissioner, a law was passed in 1858 by the Massachusetts legislature requiring insurance companies to hold reserve funds for the benefit of policyholders. In 1861, a law was passed forbidding the appropriation of the reserve funds. Thus, the birth of reserving with a mathematical basis. No company was allowed to sell insurance “unless their assets were sufficient to establish net level premium reserves.” This requirement led to the eviction of International Life Assurance

Society of London, a British company, from Massachusetts which failed to meet his reserve standard. Elizur had argued that the company’s reserve should be $1,684,000 while the company contended that less than 30% of that figure was sufficient. Ten years later, International Life would be in receivership. The economic crises of the 1870s wiped out several insurance companies, while almost all Massachusetts insurance companies survived the crises.

In 1860 New York Life was the first company to guarantee the non-forfeiture of policies in case of default in premium payment. In 1861, Massachusetts passed the Non-Forfeiture Act. It was the first state to pass such reform legislation. New York State would pass a similar law in 1879.

In 1880, though no longer insurance commissioner, Elizur was instrumental in the legislation that required companies to pay the cash value of lapsed policies. Thus, policies could always be converted into cash.

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