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## One of The Biggest Impediments to Increased Life Insurance Sales

September 11, 2001 was one of the darkest days in American history. Images of the World Trade Center towers afire and then collapsing will be etched in our minds forever. Property losses and losses due to business interruption, liability and workers compensation amounted to an estimated USD 30 billion. Whereas buildings can be rebuilt relatively quickly, the families of the 2,966 people that died that day and 6,000 others that were injured will be shattered for decades to come. While all losses of life are horrific, the most notable fatalities occurred to a Wall Street bond trading company named Cantor Fitzgerald. On September 10, 2001, Cantor Fitzgerald had 960 employees<sup>1</sup>. The attack on the World Trade Center towers killed 658 employees of this firm, about 2/3 of the entire work force. Cantor Fitzgerald occupied office space on five top floors of the North Tower, the first tower to be hit.

US President George Bush delivered an inspiring speech not long after the attack. It was meant to reassure the world that the terrorists who planned the attack would be brought to justice. *“The search is underway for those who were behind these evil acts. I have directed the full resources of our intelligence and law enforcement communities to find those responsible and to bring them to justice<sup>2</sup>.”* It was also meant to unify the US and the world. *“I appreciate so very much the members of Congress who have joined me in strongly condemning these attacks. And on behalf of the American people, I thank the many world leaders who have called to offer their condolences and assistance. America and our friends and allies join with all those who want peace and security in the world, and we stand together to win the war against terrorism<sup>2</sup>.”*

In the aftermath of the attack, the personal stories began to emerge. Following the initial shock of losing loved ones, reality settled in. How were new widows and widowers supposed to continue to buy groceries, pay mortgages, fund for retirement and save for their children’s educations? Funds were set up by charities, companies and non-governmental organizations to help ease some of the financial burdens associated with this terrorist attack on the US. However, the most notable means of support was the Victim’s Compensation Fund set up by the US Federal Government and administered by Ken Feinstein. It was Feinstein, an arbitration attorney by trade, who was asked to evaluate all claims and put a price on human life. In an interview with Newsweek magazine, when asked if he thinks that the VCF was a success, Feinstein noted: “People were paid millions of dollars within 60 days of a completed application; no lawyers, no lawsuits, no judge and jury, no trial by battle, no uncertainty about the verdict. Instead, they went into the program, filed an application, and got compensated with public money. It was very unique<sup>3</sup>.” To those of us in the life insurance industry, Feinstein’s comments in this interview could have easily been a description of a typical life insurance policy.

Still, the families of victims were seen on television complaining that the VCF and other support were not enough. In one such interview, a widow of a Cantor Fitzgerald victim and her two young children appeared on CNN saying that the company has not taken enough care of her family. Her husband

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<sup>1</sup> <https://www.bloomberg.com/news/articles/2021-09-10/lutnick-reflects-on-cantor-s-9-11-body-blow-we-lost-them-all>

<sup>2</sup> <https://www.americanrhetoric.com/speeches/gwbush911addresstothenation.htm>

<sup>3</sup> <https://www.newsweek.com/2021/09/17/ken-feinberg-9-11-fund-fights-everybody-counts-other-peoples-money-1627699.html>

was an executive at the firm making millions of dollars a year. They had a big mortgage on their house in the five towns of Long Island, New York. The kids' educations were not yet fully funded. She would have to find a job. The promises made by the CEO of Cantor Fitzgerald were not fulfilled.

While it took a little longer than expected, Howard Lutnick, then CEO of Cantor Fitzgerald, did make good on his initial promises. Over USD 180 million was paid out to the 658 families during the following 10 years<sup>4</sup>. Most of the victims' families have since lauded Lutnick for keeping his promises and more.

Another dark period came less than 20 years later, although this effected the entire world. Many actuaries have been forecasting a major pandemic for decades. These events seem to occur every 100 years and the last one was in 1918-1919. However, paper predictions could not accurately depict the death and financial devastation that has occurred during the past two years. For those who are unfamiliar with mortality statistics, the pandemic mostly effected the elderly. Those of us who are more attuned to these numbers realized that the percentage increase in mortality was fairly consistent throughout most age groups. The pandemic has caused losses to both individual and group life insurers that were previously thought highly unlikely. Still, population mortality increased far more than insured-life mortality. The pandemic has had a much greater effect on the uninsured.

For many, the loss of life of even an elderly family member can be expensive. Burial costs can easily reach USD 10,000 in the US. To compensate, the Federal Emergency Management Agency has set up a program pay up to USD 9,000 for funeral expenses to deaths related to COVID-19<sup>5</sup>. The payout has been slow in coming which makes cashflow an issue for some, but FEMA is dedicated to making good on its promise.

What do these stories have in common? They depict horrible tragedies, natural or manmade, that occurred to unsuspecting people. Each of the outcomes of the events were insurable in some way. Many of those effected chose not to purchase insurance. And, the government paid compensation to these people even though no federal, state or local governmental program existed at the time of the events to warrant such payment. The government paid claims on which it collected no premiums.

These stories are not unique to the US. France paid hundreds of millions of euros to the victims of the Charlie Hebdo shootings of 2015<sup>6</sup>. Germany released aid to recent flood victims<sup>7</sup>. Duterte promises relief for victims of Super Typhoon Rai<sup>8</sup>. Victims of insurable events around the world are being compensated by governments, even if no specific program existed at the time of the event. While this paper will focus on life insurance, governmental programs inhibit the sale of all types of insurance. Why should an individual have to research coverage options, carriers and prices when the government will bail you out?

In the first story, the Cantor Fitzgerald employee had the means and access to large amounts of life insurance. He easily could have purchased a USD 20 million policy that would have paid immediately, once US life insurers agreed to speed claim payments to victims' families without the usual requirements. Assuming he was in good health, a policy could have cost him USD 2,000 per month, less than the property taxes on his home. In addition, a large group insurance policy on all employees would have been a good investment for the company.

And, burial insurance is one of the easiest policies to purchase. While relatively expensive per 1,000 of coverage, the low amounts make the overall policy very affordable to most. These policies can be purchased online, by mail or even by phone without medical exams. Of course, a small life insurance policy with a medical exam will be much cheaper per 1,000 and can be used for more than just the funeral costs. But the smaller funeral policies have a low annual cost. Some policies can even cover

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<sup>4</sup> <https://www.nydailynews.com/new-york/cantor-fitzgerald-commits-family-members-658-workers-lost-9-11-article-1.945159>

<sup>5</sup> <https://www.nytimes.com/2022/02/11/your-money/covid-funeral-aid-fema.html>

<sup>6</sup> <https://www.timesofisrael.com/france-says-97-million-paid-to-victims-of-2015-terror-attacks/>

<sup>7</sup> <https://www.dw.com/en/germany-floods-government-announces-financial-aid-for-victims/a-58572735>

<sup>8</sup> <https://www.abc.net.au/news/2021-12-20/duterte-visits-philippine-communities-hit-by-typhoon-rai/100713474>

inflation since the cost of a funeral has risen more than 6% since 2016<sup>9</sup>. More importantly, the death benefit of USD 255 paid by Social Security in the US might have covered the cost of a funeral in 1935, when this federal program was enacted, but has not kept up with the more than 3,000% rate of inflation (or about 4% annual inflation rate) since that time. People are on their own to cover a funeral of a loved one and probably should have a policy in place if a funeral cannot be funded from savings.

Governments around the world encourage the purchase of life insurance through specific regulations. Most of these regulations allow policyholders to enjoy the build-up of cash values within a policy without having to pay taxes. For example, interest earned on a simple bank account will be subject to taxation each year, but a similar increase within a life insurance policy is only taxed upon withdrawal. Also, proceeds of a life insurance policy are not taxed at all upon death of the insured. These are very favorable incentives provided by governments. And it is exactly these incentives that have caused the life insurance industry to remain relatively passive when it comes to making their collective voices heard on important issues such as the problems with government-provided life insurance benefits.

It is easy to understand why professional politicians want to pay compensation to the families of victims of horrible events. In some cases, such as terrorist attacks, governments feel that they have the moral obligation to protect their citizens. In the case of the pandemic, politicians help families in need to ensure that more families will not lapse into poverty and to prop up the economy. Of course, the main goal is to gain political capital from constituents and get re-elected. Encouraging families to provide for themselves will not win votes. While it appears that people are receiving these benefits “for free,” in actuality, the funds have been collected from the same people who are being compensated. Any shortfall will be collected in the future. There is no free lunch.

Relying upon government-provided support can be quite stressful. Benefits are not set by any formula or individual need. Payments can be slow in coming. Distribution of funds can be logistically tricky. Some families in need may not receive money while other families not in need may receive a benefit. Life insurance policies are much more predictable with respect to benefits, distribution and timing. The stress of whether or not a payment will be made is removed from the equation allowing families to “sleep” well knowing the family is protected.

If the industry would band together, perhaps it could persuade governments to purchase life insurance from the industry to cover events such as terrorist attacks or pandemics. This would simplify logistical problems and ensure speedy payment of claims – exactly what would keep constituents happy. Skeptics can look at terrorism pools around the world such as Pool Re in the UK, the Terrorism Risk Insurance Act (TRIA) in the US or the mandatory terrorism premium collected by the government-backed program in Israel. In fact, when TRIA, a property-only insurance program, was being renewed for the first time in 2005, Swiss Re attempted to negotiate inclusion of life insurance into the program. It argued that there was now precedence for the federal government to make compensatory payments to families of victims. Why not collect premiums and have a structured distribution methodology? While the request was ultimately rejected, a full industry lobbying effort could help persuade governmental officials to include life insurance in the 2027 renewal.

When the next major event occurs causing loss of life, and it will, wouldn't it be better for populations if the government announces that it had purchased coverage from the insurance industry and claims will be paid quickly? The government could laud the insurance industry and what it does for society. And then, the government can encourage people to purchase policies individually to ensure protection in time of need. The life insurance industry protects families from the financial woes of premature death of a breadwinner, disability or outliving one's retirement savings. Governments should do everything in their power to encourage individuals to protect themselves. This will provide a sense of security for policyholders and reduce reliance on governmental support. It will also allow governments to spend our tax dollars on other important programs that are under pressure such as social insurance, health insurance and education.

The life insurance industry has many hurdles to overcome. It battles for “share of wallet” with immediately gratifying purchases such as Netflix and Peloton. It struggles to digitalize which might

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<sup>9</sup> <https://nfda.org/news/media-center/nfda-news-releases/id/6182/2021-nfda-general-price-list-study-shows-funeral-costs-not-rising-as-fast-as-rate-of-inflation>

better attract Millennials and Gen Xers. Regulation changes continue to come at a fast and furious pace. The life insurance industry certainly does not need to compete with governments around the world paying benefits for “free.” Using industry associations as a tool, the life insurance industry can turn this important issue into an opportunity. Instead of competing with governments, why not turn them into clients? Only then will we be better prepared when the next dark days arrive. The life insurance industry can help shine a light during the darkest of times.

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**About the Author:**

*Ronnie has over 40 years of insurance and reinsurance experience having worked and lived in 3 countries. In his current role, Ronnie serves as Executive Director to the Bermuda International Long-Term Insurers and Reinsurers (BILTIR) association. He also is a Collaborating Expert of Health and Ageing for The Geneva Association located in Zürich. Ronnie is Co-Chair of the Programming Committee for the ReFocus Conference and served on the Board of Directors of the Society of Actuaries. Before this, Ronnie worked as the Head of Life Reinsurance for Zurich Insurance Group in Zürich, Head of Life Reinsurance for AIG in New York and Global Head of Life Pricing for Swiss Re in London. Ronnie began his career at Mutual of New York. A little-known fact is that Ronnie holds a patent (US20060026092A1) for the first Mortality Bond issued called Vita when he was with Swiss Re.*