African American-Owned Insurance Companies: A Case Study of Economic Triumph and Economic Tragedy

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ABSTRACT

African American-owned insurance companies represented the cornerstone of black economic development in the United States. Established in the wake of Jim Crow racial discrimination in late 19th century America, these firms went on to provide needed, non-discriminatory, insurance coverage to fellow African Americans. Significantly, while most early 20th century African American-owned banks were casualties of the Great Depression, most African American-owned insurance companies survived this severe economic downturn. Moreover, during the 1940s, black insurance companies outperformed their white counterparts in several key areas. Still, while African America-owned insurance companies survived the Great Depression, they would be all but destroyed during the subsequent dismantling of American apartheid. Among other things, while white-owned insurance companies *dramatically* expanded their share of the African American consumer market, black-owned companies were not able to expand beyond their traditional clientele. Although black-owned insurance companies have all but disappeared from the landscape of American business, the insurance company model remains a useful template for contemporary persons of African descent seeking a substantive vehicle for economic development.

INTRODUCTION

African American insurance companies, historically, have represented a cornerstone of black economic development. Evolving from a tradition of mutual-aid, dating back to Philadelphia's Free African Society founded in 1787, black-owned insurance companies have attempted to perpetuate economic and social cooperation among African Americans.[1] These firms came into existence in the late nineteenth century because of the rise of American apartheid.

AMERICAN APARTHEID AND THE BIRTH OF AFRICAN-OWNED INSURANCE COMPANIES

While historians have tended to focus upon the social and educational dynamics of Jim Crow racial segregation, overt racial discrimination also existed in the commercial sphere of American life. In fact, the evolution of the U.S. insurance industry provides a classic example of how the reality of "separate and unequal" operated in the realm of business. As early as 1875, prominent white insurance companies insured African Americans. Moreover, during their initial contact with blacks, companies such as the Prudential Insurance Company of Newark and Metropolitan Life of New York offered blacks and whites identical coverage at identical cost. Nevertheless, in March 1881, Prudential, citing an excessive black mortality rate, began charging blacks higher premiums than their white counterparts (for the same amount of coverage). Other white insurers soon followed Prudential's lead and established their own separate and unequal black insurance programs.[2]

Although Prudential subsequently denied that racism influenced its revised policy toward blacks, the company's later employment of Frederick L. Hoffman demonstrated the racial overtones of that corporate decision. Hoffman, a former insurance agent who joined Prudential in 1894, apparently attracted the company's attention through his 1892 article "Vital Statistics of the Negro." In this essay, Hoffman declared that freed blacks, without the tutelage of their former owners, could not survive in American society. Prudential subsequently placed Hoffman in its actuarial department and provided him the support necessary to transform his 1892 article into a book-length manuscript.[3]

In 1896, the American Economic Association published Hoffman's revised, expanded, project as *Race Traits and the Tendencies of the American Negro.* While this work was replete with statistics, some of his conclusions relied less upon quantitative data and more on personal notions of white supremacy. For instance, Hoffman predicted that whites "will not hesitate to make war upon those races who prove themselves useless factors in the progress of mankind." Consequently, "useless" races, such as African Americans, would suffer a dramatic decrease in their population.[4]

It appears that Hoffman's premonition concerning the future extermination of blacks contributed to Prudential's and several other companies' subsequent decision to sever all ties with African American consumers.[5] However, not all white insurers took this radical step. The most prominent mainstream company that continued insuring blacks was Metropolitan Life. Metropolitan Life's medical director, Thomas H. Willard, drew a different conclusion from Frederick L. Hoffman in assessing statistics demonstrating higher black mortality rates than whites. While Willard believed that blacks were an "alien race, alien in color, alien in thought, alien in education," that did not necessarily mean they were doomed to extinction. This mindset coincided nicely with Metropolitan's plan to continue serving blacks, albeit under discriminatory terms.[6] In this setting of exclusion and discrimination, black-owned insurance companies emerged to provide African Americans with dignified insurance coverage.[7]

AFRICAN AMERICAN INSURANCE COMPANIES OUTPERFORM THEIR WHITE PEERS

It is widely acknowledged that black insurance companies, during the early twentieth century, operated under a variety of racially based constraints. However, even amid conducting business in an overtly racist society, they exhibited the African American cultural trait of "making a way out of no way." In his 1962 study of African American insurance companies during the period of 1930-1960, David Abner found that "the percentage increase in insurance in force, total income, total admitted assets, and policy reserves was substantially greater for the Negro companies than for the industry.[8]

Abner identified the decade of 1940-1950 as being especially profitable for black insurers. Between 1940 and 1950, "insurance in force grew in the Negro companies at an annual rate three times that of the industry: 13.9 vs. 4.4 per cent." Similarly, "total income received by the Negro companies during the 1940-1950 decade increased at an average rate three times that of the industry: 13.4 vs. 4.4 per cent." Moreover, "the average annual rate of growth in total admitted assets was more than twice as high in the Negro companies than in the industry during the 1940-1950 decade: 15.9 vs. 6.7 per cent." Finally, "during the 1940-1950 decade, policy reserves grew in Negro companies at an average annual rate more than twice that of the industry: 14.5 vs. 6.1 per cent."[9] In sum, during the 1940s, African American insurance companies outperformed their white counterparts in several key areas. Moreover, this did not go unnoticed.

White insurance companies, perhaps surprised by their black counterparts' strong performance during the 1940s, began to re-evaluate the African American consumer market during the 1950s. Contrary to Frederick L. Hoffman's predictions, the black population was steadily growing and increasingly proliferating in America's major markets such as Chicago. Table 1 demonstrates the significant growth of Chicago's African American population during the first decades of the twentieth century. Moreover, other large U.S. cities experienced a similar, simultaneous, increase of their black residents.[10]

Not only were mid twentieth-century African Americans increasing their numbers in America's largest cities, but they were experiencing a significant increase in their collective spending power. At the dawn of the twentieth century, most blacks were ensnared as virtually penniless peons and sharecroppers in the southern agricultural economy. Nevertheless, a significant migration of southern blacks to northern cities (such as Chicago) during World War I, World War II, and afterwards, would result not only in a change of address for African American migrants, but also a dramatic improvement in their economic status. Black movement during World War II, to take war-related jobs, appeared especially significant. As an assessment of African American participation in the U.S. economy from 1860 to 1960 noted, between 1941 and 1945 "the number of Negro skilled and semiskilled men doubled." Similarly, African American women benefitted financially because "large numbers shifted from farms and domestic service to other types of personal services, to factories, and to clerical jobs." Moreover, "the postwar years showed continued advances in most regards."[11]

Significantly, there appeared to be a circumstantial linkage between the increased income of African American consumers during the 1940s and the increased profitability of African American insurance companies during the same period. Table 2 provides a graphic depiction of African American economic gains during the mid twentieth century.

THE WHITE RESPONSE TO BLACK BUSINESS SUCCESS

These important demographic and economic developments, coupled with a series of U.S. Supreme Court decisions that supported blacks' quest for equal treatment, prompted Prudential, Metropolitan Life, and other large insurers to end their discriminatory policies toward African American consumers. This would have an increasingly negative impact on black insurers.

In a situation dripping with irony, the historic discrimination practiced by Prudential, Metropolitan Life, and other white insurers against blacks helped them to generate new business in the African American community. Because African Americans had previously been denied equitable insurance coverage with industry giants, it quickly became a "status symbol" to possess a non-discriminatory policy from a mainstream insurance company.[12]

Besides *profiting from previous discrimination*, companies such as Prudential and Metropolitan Life increased their market share in the African American community by recruiting the top agents from black companies. Just as Major League baseball teams secured the best talent from the old Negro Baseball Leagues, insurance industry giants, with promises of financial rewards, were able to secure a cadre of trained black insurance agents.[13]

David Abner's research provides additional verification of the successful quest of white insurers to reach the increasingly important Negro market. For instance, between 1943 and 1957, the number of white companies that insured African Americans nearly doubled from 55 to 104.[14] Moreover, this contributed to a significant profitability shift during the 1950s. Unlike the 1940s, the average annual growth of mainstream insurance companies' insurance in force, during the decade of 1950-1960, "was almost twice that of the Negro companies: 9.6 vs. 5.3 per cent." Likewise, during the 1950s, the broad-based industry's figures for total income "averaged an annual rate more than one and one-half times as great as that of the Negro companies: 7.3 vs. 4.9 percent."[15]

AFRICAN AMERICAN INSURERS FIGHT BACK: THE CASE STUDY OF THE CHICAGO METROPOLITAN ASSURANCE COMPANY

For their part, black-owned insurance companies, by the 1960s, actively responded to increased white competition. The Chicago Metropolitan Assurance Company provides an example of how black insurance companies responded to this situation. At its January 20, 1964 annual meeting, Chicago Met's president George S. Harris squarely addressed the issue of employee defections: "From this moment on, let no one among us look at this company as some sort of stepping stone,

Table 1
Chicago's African American Population
1910-1970

1910:	44,103
1920:	109,458
1930:	233,903
1940:	277,831
1950:	492,265
1960:	812,637
1970:	1,102,620

Source: Jeffrey Helgeson, "Striving in Black Chicago: Migration, Work, and the Politics of Neighborhood Change, 1935-1965," Ph.D. dissertation, University of Illinois at Chicago, December 1989, 6.

Table 2
Median Annual Wage and Salary Income of Nonwhite and White Persons By Sex
1939, 1947, 1957, 1960

SEX AND COLOR	**1939**	**1947**	**1957**	**1960**	**PERCENT RISE, 1939-1960**
Male:					
Nonwhite:	$460	$1,279	$2,436	$3,075	568.5
White:	$1,112	$2,357	$4,396	$5,137	362.0
Nonwhite as a percent of white	41.4	54.3	55.4	59.9	
Female:					
Nonwhite:	$246	$432	$1,019	$1,276	418.7
White:	$676	$1,289	$2,240	$2,537	275.8
Nonwhite as a percent of white	36.4	34.0	45.5	50.3	

Source: Marion Hayes, “A Century of Change: Negroes in the U.S. Economy, 1860-1960” *Monthly Labor Review* 85 (December 1962): 1364.

a kind of training ground for some other job somewhere else…Look not at your company as a minor league outfit where ambitious people prepare for the major leagues. Remember, we are Negroes and any insurance company that employs more than 500 people should not be considered minor league in our eyesight."[16]

Besides appeals to racial pride and unity**,** Chicago Metropolitan and other black insurers sought to counteract growing competition from industry giants by actively seeking white agents to help make inroads in the mainstream consumer market. Chicago Met's board of directors, at its November 22, 1961 meeting, passed a resolution which stated "it would be a future policy of the company to employ competent persons in Agency and Office Administration without regard to race, creed, or color."[17] The Chicago Metropolitan Assurance Company subsequently interviewed several whites for positions in the company's Agency Department. However, this attempt at racial integration proved fruitless. While some of Chicago Met's black agents eagerly defected to white-owned companies, white insurance agents were not similarly attracted to employment with this black firm.[18]

AFRICAN AMERICAN INSURERS FIGHT BACK: THE CASE STUDY OF THE NATIONAL INSURANCE ASSOCIATION (FORMERLY KNOWN AS THE NATIONAL NEGRO INSURANCE ASSOCIATION)

Other black insurers, besides Chicago Metropolitan, were similarly concerned with expanding their client base. In fact, the 1963 convention of the National Insurance Association (NIA), the trade association of black-owned insurance companies, focused on the issue of attracting white personnel. At this meeting, the NIA's newly elected president, North Carolina Mutual's William A. Clement, contended that unless black companies were successful in recruiting, selecting, training and supervising other ethnic groups, "we will be limited in penetrating the total market."[19] Still, despite Clement's exhortations, black companies were subsequently unable to attract white employees and clients. Thus, by 1967, NIA companies were forced to conclude that their future operations would be dictated by ongoing *de-facto,* if not *de-jure*, racial exclusion.[20]

"ONE WAY" ECONOMIC DESEGREGATION AND ITS CONSEQUENCES FOR AFRICAN AMERICAN-OWNED INSURANCE COMPANIES

The last decades of the twentieth century were extremely difficult for black-owned insurance companies. Trapped in the unenviable position of being unable to expand their client base, while simultaneously seeing white competitors secure more and more black policyholders, an increasing number of black insurers disappeared from the landscape of American business. From 1962-1992, the number of African American insurers dropped from *fifty to twenty-three,* a 54 percent decrease. Moreover, those that remained saw a significant decline in their assets and premium income relative to the mainstream insurance industry.[21]

THE NEAR EXTINCTION OF AFRICAN AMERICAN-OWNED INSURANCE COMPANIES

Since mid-to-late twentieth century African American insurance companies experienced an absolute decline in their number, along with a relative decline in total assets and premium income, it should not be surprising that these firms also experienced significant staff reductions. At the end of 1977, America's then thirty-nine black-owned insurance companies employed 7,834 individuals. At the end of 1988, America's then thirty-one black owned insurance companies employed 5,088 individuals.[22] During the 1980s, the number of black-owned insurance companies declined by *7.9 percent* (39 to 31). Yet, during this decade, the number of persons employed by black-owned insurance companies declined by *35 percent* (7834 to 5088).

The 1990s featured an even steeper decline in both the number of African American insurance companies and the number of individuals employed by these enterprises. On December 31, 1988, America's thirty-one African American insurers employed 5,088 individuals. Ten years later, on December 31, 1998, America's ten black owned insurance companies employed 1,801 personnel.[23] Consequently, during the 1990s, the number of black-owned insurance companies declined by *68 percent* (31 to 10). Similarly, during this decade, the number of persons employed by black-owned insurance companies declined by *65 percent* (5088 to 1801).

While many Americans celebrated the coming of a new millennium, the early twenty-first century witnessed a continuation of the black insurance industry's accelerated decline. At the end of 1998, America's ten remaining black-owned insurance companies employed 1,801 individuals. Four years later, at the end of 2002, America's ten black-owned insurers employed 925 personnel.[24] Thus, between 1998 -2002, the number of persons employed by African American insurance companies declined by *49 percent* (1801 to 925). Astonishingly, the number of persons employed by black insurance companies declined by nearly *88 percent* (7834 to 925) during the twenty-five-year period from 1977- 2002. Moreover, it must be noted that many of these lost jobs were professional, not minimum-wage, positions.

ECONOMY OF SCALE AND THE DECLINE AND DISAPPEARANCE OF AFRICAN AMERICAN-OWNED INSURANCE COMPANIES

Economy of scale is an important business principle that has also contributed to the decline and disappearance of black insurance companies. Just as supermarkets can offer more economical prices than "Mom and Pop" grocers, large mainstream insurance companies can offer cost-conscious African American consumers more economical coverage than smaller black-owned insurance companies. On the surface, it may appear that late twentieth and early twenty-first century African American consumers are/were being better served by white insurance companies (with their lower prices) than by historic black insurers. However, a closer look at the previous relationship between black insurance companies and black consumers dispels such a notion. The history of the African American insurance industry reveals these firms' long-time commitment to reinvesting a significant proportion of their premium income back into the black community (primarily in the form of mortgage loans).[25] As these companies have declined and disappeared, there has been a simultaneous decline and disappearance of the money these firms have designated for community reinvestment. Thus, the seeming parallel deterioration of African American insurance companies and urban black America's infrastructure appears far from coincidental. Significantly, while white-owned insurers readily take African Americans' premium payments, they appear far less enthusiastic about investing in African American enclaves.

CONCLUSION

Robert H. Kinzer's and Edward Sagarin's important 1950 book, *The Negro in American Business: The Conflict Between Separatism and Integration* discussed the present condition and possible future of black business in America. As compared to European immigrants to America, Kinzer and Sagarin's analysis included the important disclaimer that "the heritage of slavery on the one hand, and the comparative ease of biological distinctiveness of the Negro, on the other, have made integration [for African Americans] extremely difficult."[26] Considering this reality, Kinzer and Sagarin insinuated that it truly made sense for African Americans to maintain their business infrastructure since custom and law inhibited their quest for more opportunities in the larger economy. In the end, Kinzer and Sagarin argued that, because separatism and integration were not mutually exclusive options for blacks, "*it would be impossible at this time to suggest that either pathway be abandoned, because there would be an obvious sacrifice that the Negro people can ill afford to make.*"[27] (emphasis added)

As this case study indicates, African Americans, for a variety of reasons, did abandon their support of African American-owned insurance companies. Moreover, African American insurance companies were not able to compensate for their loss of black clients by obtaining non-African American customers. Consequently, black-owned insurance companies have all but disappeared from the landscape of American business (North Carolina Mutual and Atlanta Life are the last remaining African American insurers). Nevertheless, the insurance company business model remains a useful template for contemporary persons of African descent seeking a strategy for economic sustainability and empowerment.

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[1] See Jesse E. Gloster, *North Carolina Mutual Life Insurance Company: Its Historical Development and Current Operations* (New York: Arno Press, 1976; reprint of Ph.D. Dissertation, University of Pittsburgh, 1955); Robert C. Puth, *Supreme Life: The History of a Negro Life Insurance Company* (New York: Arno Press, 1976; reprint of Ph.D. Dissertation, Northwestern University, 1968); Walter B. Weare, *Black Business in the New South: A Social History of the North Carolina Mutual Life Insurance Company* (Urbana: University of Illinois Press, 1973); Alexa Benson Henderson, *Atlanta Life Insurance Company: Guardian of Black Economic Dignity* (Tuscaloosa: University of Alabama Press, 1990); Robert E. Weems, Jr., *Black Business in the Black Metropolis: The Chicago Metropolitan Assurance Company, 1925-1985* (Bloomington: Indiana University Press, 1996),

[2] Weems, *Black Business in the Black Metropolis,* 39-40.

[3] Daniel B. Bouk, "The Science of Difference: Developing Tools For Discrimination in the American Life Insurance Industry, 1830-1930, Unpublished Ph.D. dissertation, Princeton University, 2009, 180.

[4] Ibid., 180-182, Weems, *Black Business in the Black Metropolis*, 40.

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[5]Weems, *Black Business in the Black Metropolis,* 40.
[6] Bouk, "The Science of Difference," 184.
[7] Ibid.
[8]David Abner, III, "Some Aspects of the Growth of Negro Legal Reserve Life Insurance Companies, 1930-1960," Unpublished Doctor of Business Administration dissertation, Indiana University, 1962, 226.
[9]Ibid., 227-228.
[10]Robert E. Weems, Jr. *Desegregating the Dollar: African American Consumerism in the Twentieth Century,* (New York: New York University Press, 1998), 11, 12, 13, 79.
[11]Marion Hayes, "A Century of Change: Negroes in the U.S. Economy, 1860-1960," *Monthly Labor Review* 85 (December 1962): 1364.
[12]Weems, *Black Business in the Black Metropolis*, 102-103.
[13] Ibid., 103.
[14]Abner, "Some Aspects of the Growth of Negro Legal Reserve Insurance Companies," 229-230.
[15] Ibid., 227.
[16] Weems, *Black Business in the Black Metropolis,* 104-105.
[17] Ibid., 103.
[18] Ibid.
[19] Ibid., 103-104.
[20] Ibid., 104.
[21] Robert E. Weems, Jr, "A Crumbling Legacy: The Decline of African-American Insurance Companies in Contemporary America," *The Review of Black Political Economy* 23 (Fall 1994): 29-31.
[22] *Black Enterprise* (June 1979): 173; (June 1989): 291.
[23] *Black Enterprise* (June 1989): 291; (June 1999): 220.
[24] *Black Enterprise* (June 1999): 220; (June 2003): 209.
[25] See Weare, *Black Business in the New South;* Henderson, *Atlanta Life Insurance Company* and Weems, *Black Business in the Black Metropolis.* These three primary works related to African American insurance companies reveals these firms' historic commitment to black community economic development.
[26] Robert H. Kinzer and Edward Sagarin, *The Negro in American Business: The Conflict between Separatism and Integration* (New York: Greenberg, 1950), 153.
[27] Ibid., 169.