



We've Gotcha Covered: The Iowa Insurance Story

Grade Level **5-12**

Class Periods **2**

Goals/Objectives/Student Outcomes:

Students will:

- Understand the relationship between financial risks and the development and growth of the insurance industry in Iowa.
- Identify types of risks faced by Iowans, past and present.
- Discuss ways Iowans have protected themselves against these risks.
- Discover ways in which insurance companies measure risk.
- Explore the different types of insurance available.
- Recognize Iowa-based insurance companies.

Materials:

1. Telephone directory yellow pages for Insurance Companies
2. Sanborn Fire Maps
3. Samples of Insurance Policies from local insurance companies

Background:

Loss of property, health, or the life of a loved one can be financially devastating. Insurance provides a way of dealing with such losses by sharing the financial costs among a group of individuals. Insurance operates on a principle called risk sharing. One person's loss is compensated by contributions received from the other policy holders.

The practice of risk sharing began more than 5,000 years ago when Chinese merchants split their wares among many Yangtze River boats. This way, no single merchant would suffer a complete loss if a few boats sank. In the 1300s Italian merchants obtained insurance policies to protect against losses resulting from ships that were plundered by pirates. The term "policy" is believed to derive from the Italian "polizza," which means promise or understanding.

After 1500 the English also insured their ships. A ship owner would post an agreement, and those interested in sharing the profit (or loss) would write their names under the agreement. This is where the term "underwriting" comes from. Edward Lloyd's London coffee house was a gathering point for shippers and sailors. It also became a good place to conduct insurance and business. Today Lloyd's of London is one of the world's most recognized insurance companies.

The first successful fire insurance company in America was started in Philadelphia in 1752 by Benjamin Franklin. Some types of insurance, such as fire insurance, were slow to become accepted.

In Iowa, insurance played a vital role in the expanding commerce of frontier communities. The Mississippi River was an important transportation route for goods and people. It also contained treacherous currents and hazards such as uprooted trees and sandbars and winter ice. Insurance eased the risk of loss for merchants and steamboat owners. As commercial operations expanded, so did the need for insurance.

In 1837, a fire destroyed the territorial capitol, five stores, and two groceries in Burlington. This disaster inspired community business leaders to form Iowa's first insurance company. In the following decades more companies were established.

Few of Iowa's early farmers purchased fire insurance. Instead, they took safety measures to inhibit prairie fires. Often they would surround their farms with furrows of land, or prairie breaks that protected valuable buildings.

New technologies created new risks of fire in homes, businesses, and farms. Some of these hazardous items included electrical appliances, gasoline, heating fuel, and Christmas decorations. Iowans sought ways to reduce these risks. Home safety items used over the years include containers of sodium carbonate (baking soda), carbon tetrachloride globes, fire extinguishers, lightning rods, and smoke detectors.

Underwriters Laboratories, a national group founded in 1894 by insurance underwriters, was formed to ensure that house-hold items met fire safety standards. Community maps helped fire insurance companies determine the degree of hazard associated with each property and also showed the location of water mains and hydrants and fire alarms. One Iowa fire insurance map company, the Bennett Map Company, was based in Cedar Rapids.

Despite the growing availability of fire-prevention methods, tragic fires haunt Iowa history. Dubuque's St. Cloud Hotel, once called the "largest building in the entire west," was destroyed in an 1858 fire. In 1889, 41 buildings in downtown Grinnell burned in less than 3 hours. Fireworks nearly destroyed downtown Spencer in 1931.

"Mutual" insurance thrived in Iowa. Iowans, especially farmers, liked mutual companies because such firms were small, locally owned, and their fees were relatively low. Church congregations, immigrant groups, and farmers' organizations (like the Grange) started mutuals.

Unlike other insurance companies, mutuals charged policyholders only after a loss occurred. If there was no loss, there was no charge. Insurance companies, on the other hand, collected premiums in advance.

By 1920, 162 mutuals operated in Iowa. Some of them were formed to insure a specific industry or hazard. Mill Owners Mutual Fire Insurance Company was created in 1875 to provide insurance for grain mills. Other insurance companies had refused to insure the mills, which were considered a high risk for fire.

Tornadoes, common in this part of the country, caused much destruction. Some insurance companies allowed their policyholders to cover any tornado damage through their fire insurance. The mutuals, however, were too small to cover such losses. Iowa Mutual Tornado, Cyclone and Windstorm Insurance Association was a statewide mutual established to protect against these expensive disasters.

Life insurance began as a way to provide two simple benefits: to pay for burial costs and to provide financial security for one's dependents. The large number of casualties during the Civil War underscored to many the need for life insurance. America's bloodiest conflict, it claimed the lives of 13,000 Iowans. In Iowa, where no life insurance companies had existed before the Civil War, the industry expanded dramatically after that tragic conflict.

Life insurance also can be used as a savings plan and to provide financial help in case of disability or long-term care.

Other events and innovations increased the need for life insurance. For instance, the Spanish Flu (1918-1919) killed 7,800 Iowans. The flu caused a 25 percent drop in the average life expectancy of Americans. New methods of transportation, such as the automobile, resulted in the rise of accidental deaths. Today, the high cost of treating AIDS, heart disease, and cancer are of concern to insurance companies.

Automobiles created new risks. Their great speed and size made them dangerous to people and property, and expensive to repair when damaged. In 1898 Travelers Insurance Company of Hartford, Connecticut, issued the first automobile insurance policy. Many insurance companies that once sold only fire insurance now began to sell automobile insurance. At first, rates were based solely on the characteristics of the vehicle. Today other things affect car insurance rates, including the age, driving record, and residence of the insured.

Iowa insurance companies developed safety standards, which they also used to advertise their company. The State Auto Insurance Association placed "X marks the spot" signs at the scenes of fatal accidents to remind people to drive safely. IMT Insurance Company (Mutual) instructed children on traffic safety. Allied Mutual Automobile Association lent special dual-operated cars to driver-education classes.

One of the greatest struggles of the industry has been to reduce the number of drunk drivers. Drunk driving is a leading cause of automobile accidents. In 1947, The Preferred Risk Mutual Insurance Company insured only non-drinkers, whom they believed caused fewer accidents. In 1980, a California mother whose daughter was killed by a drunk driver founded Mothers Against Drunk Driving (M.A.D.D.). This group receives support from the insurance industry for its work in preventing drunk driving and helping its victims.

Many car safety devices were designed to reduce injury. These include brake lights, turn signals, bumpers, seat belts, air bags, and anti-lock brakes.

After the Civil War, the invention of many new machines created new jobs for millions of American workers. But these new jobs, often involving unsafe machines, caused injuries for many workers. By 1900, the rising number of serious injuries caused Iowa to begin investigating the working conditions in the state's factories. By 1905, a commission documented about 140 accidents weekly.

In 1913, Iowa joined a nationwide trend when it passed worker's compensation laws. Now employers were responsible for injuries caused by defective machinery or negligence by the company's management. The Employer's Liability and Workmen's Compensation Act obliged Iowa employers to buy liability insurance. Companies often hire specialists to advise them how to reduce accidents and, therefore, claims. Injury claims have changed over the years. Early claims were most often the result of amputations. Today's claims largely involve medical problems related to repetitive movement ailments, such as carpal tunnel syndrome.

Health insurance has revolutionized peoples' lives during the last 50 years. As medical advances have dramatically increased life expectancy, the costs of medicine, hospital services, and surgery have skyrocketed. Health insurance, along with Medicare and Medicaid programs, helped Americans cope with this revolutionary change.

Around 1888 residents of Muchakinock, Iowa, a coal-mining town, created one of Iowa's earliest forms of health insurance. The Society of the Muchakinock Colony was formed to provide burial expenses and pre-paid medical care. Single miners paid 50 cents, families paid \$1 per month. This covered 80 percent of a doctor's bill. A miner also received \$3 a week during an illness.

About the same time the Iowa State Traveling Men's Association was one of the nation's first insurance companies to provide protection for men who traveled for business. The Interstate Businessmen's Accident Association, formed in 1908, paid both death benefits and "loss-to-income" benefits to businessmen suffering either accidents or ill health.

One of the nation's earliest forms of health insurance for hospital care began in Grinnell in the 1920s. Grinnell College offered hospital care to students and faculty for a fixed monthly fee.

The Depression forced many people to go without medical care. Many hospitals nationwide faced bankruptcy. Unemployed people paid for hospital care with goods or services. Blue Cross and Blue Shield of Iowa and South Dakota, began in 1939. Its pre-pay plan was designed to provide affordable health care and to save hospitals from bankruptcy. Members paid regular dues in exchange for hospital care. Blue Shield formed in 1945. It offered doctor-care benefits, with the doctor receiving payment directly from Blue Shield. This form of health insurance became a popular employment benefit for many companies. As health insurance increased in popularity, many other companies offered competitive plans.

By 1920 the world was on the verge of significant medical breakthroughs. Pathologists could now diagnose diseases, although effective treatments often were unavailable. By the middle of the 20th century, treatments were invented for diabetes, polio, and kidney failure.

Despite these medical advances, health risks still abound. The extensive use of narcotics, alcohol, and tobacco contributes too many illnesses and increases the expense of medical care.

Vocabulary:

Actuary: Person who computes insurance risks and premiums.

Agent: Person representing an insurance company to a customer.

Beneficiary: Person named in an insurance policy to receive the proceeds or benefits.

Coverage: All risks covered by the terms of an insurance contract.

Insurance: Contract by which a company guarantees a person or group that a certain sum of money will be paid in case of a loss by fire, death, accident, theft, or another similar event.

Law of large numbers: A mathematical concept of risk sharing. One loss is compensated with contributions received from the large number of other policy holders.

Mutual: A locally owned and operated insurance company that charges policy holders for losses only after they occur. If there is no loss, there is no charge.

Policy: A written contract between the insurer and the insured.

Policy holder: The individual or group owning an insurance policy.

Premium: A payment for insurance coverage.

Reinsurance: To transfer some or all of the coverage from the original insurer to a second company.

Risk: The possibility of loss or injury; source of danger.

Risk sharing: Sharing the financial loss or group among a large group.

Procedure:

Have students work in groups to develop answers to the following questions. The results may be presented in both a written and an oral report.

What major catastrophic events have happened in your community? Check city or county histories to help you locate such events (these can often be found at your public library). Then check local newspapers for those dates to learn more about the event. What happened? Who was involved? Do the articles mention insurance coverage?

The Civil War and the losses faced by people during that period increased the awareness of the need for insurance. How did the Civil War affect your community? How many local people went to war? Did most of them return?

What occupations exist in your community? Which are perceived as being the most dangerous? What hazards are associated with the occupations? Keep in mind that most jobs have some risks involved.

Take a look at your family car. How many safety features can you find? Which ones are required by law? Find out when these features were introduced. When did they become required? Who was involved in their development? Can you find any references to involvement from insurance companies?

What insurance companies are now, or have been located in your community? How did they become established? Where did the company originate?

Assessment of Outcomes:

Have each student group present its small group discoveries in panel discussion format.

Extensions and Adaptations:

Find out how much it would cost to replace the items in your school room. A local insurance agent might help you figure out how much insurance coverage you would need.

Write an insurance policy for your class. What are the odds of someone being injured in your classroom or on the play-ground? Your teacher may be able to give you figures from past school years. Use this information along with the help of a local insurance agent.

Check your school and home for hazards. What can you do to eliminate those hazards and reduce your risk? Make this a class project.

Locate Sanborn Insurance maps. There is probably a map for your community. Try your public library, local museum, or county courthouse. From these maps you can recreate areas of your community. Try making a three-dimensional model of your community. How has your community changed? What effect might this have on the types of risk prevalent in the area?

Create your own insurance company. Design ads and a logo. What type of insurance will you provide? What type of premiums will the insured pay? How will you market your service?

Resources:

Books and Articles, Grades 4-8

"Health in Iowa." *The Goldfinch* 9 (April 1988). (SHSI, PL)

Dorothy Schwieder, Thomas Morain, and Lynn Nielsen. *Iowa Past to Present*. Ames: Iowa State University Press, 1991. (SHSI, PL)

Books and Articles, Grades 9-Adult

John Bainbridge. *Biography of an Idea: The Story of Mutual Fire and Casualty Insurance*. Garden City, NJ: Doubleday, 1952. (SHSI)

William H. Cumberland. "Iowa Fights the Spanish Influenza." *The Palimpsest* 62 (1981) 26-32. (SHSI, PL)

Henry Giese. *Of Mutuals and Men: The Story of the Rise of Mutual Insurance In Iowa*. Des Moines: Garner Publishing, 1955. (SHSI)

Barbara Beving Long. *Des Moines and Polk County: Flag on the Prairie*. Northridge, CA: Windsor Publishing, 1988. (SHSI)

George Sexton Pease. *Patriarch of the Prairie: The Story of Equitable of Iowa 1867-1967*. New York: Appleton-Century-Crofts, 1967. (SHSI)

John L. Stanford. *Tornado: Accounts of Tornadoes in Iowa*. Ames: Iowa State University Press, 1965. (SHSI)

Marjorie Vandervelde. "Iowa's First Fatal Auto Accident." *Iowan* 7 (Aug.-Sept. 1959). (SHSI, PL)

Joseph F. Wall. *Policies and People: The First Hundred Years of The Bankers Life*. Englewood Cliffs, NJ: Prentice-Hall, 1979. (SHSI)

It's a Risky Life

Name _____

Date _____

Directions: List 10 risks you and your family and friends may face on any given day in Iowa, what may cause each risk, and how to avoid each danger. (Look for examples of these risks when you visit "We've Gotcha Covered.")

Risk	Possible cause	How to avoid risk
(example) Car accident	Drunk driving	Don't drink and drive
1. _____	_____	_____
2. _____	_____	_____
3. _____	_____	_____
4. _____	_____	_____
5. _____	_____	_____
6. _____	_____	_____
7. _____	_____	_____
8. _____	_____	_____
9. _____	_____	_____
10. _____	_____	_____

