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Statement of Chairman William O. Douglas
of the Securities and Exchange Commission
before the Temporary National Economic
Committee at the opening of the hearings
on the insurance business.

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Today, if the Committee please, the Securities and Exchange Commission commences the presentation of facts relating to certain aspects of the insurance business.

The President, in his message to the Congress, spoke of the tremendous investment funds controlled by our great insurance companies and asked that authorization be given to investigate the manner in which these investments are used as "an instrument of economic power". It is on this broad problem that we will present to the Committee facts concerning the insurance business.

Our study to date has had the cooperation of the insurance companies. The Commission has already assembled much factual information for its study. Part of this has been supplied from answers to questionnaires; much of it has come from the files of the companies. We have also gathered facts from public reports and documents. We are now at a stage where additional information must be sought from officers, directors and others who formulate and carry out the policies of the insurance companies. This information is of such a character that necessarily it lies only in the minds of those who have been called to testify.

At the outset I want to make clear that this inquiry does not attack (and in no way questions) the adequacy of the reserves of any insurance company within its scope. Under state laws the legal reserve companies are required to set aside in restricted investments, funds sufficient to assure that each policyholder will receive the amount of his policy when his risk matures. No policyholder need have any concern that any fact brought out in this inquiry will in any way jeopardize the protection which he counts upon through his insurance policy.

The last comprehensive appraisal of the life insurance business by an agency of the government was the study made by the so-called Armstrong

Committee, of which Charles Evans Hughes, now Chief Justice of the United States, was counsel. This Committee, functioning under authority of the New York State Legislature, inquired in 1906 into the practices of companies chartered or authorized to do business in the State of New York. That study was broad in scope. It covered the activities of insurance companies from such details as the provisions of insurance policies to the methods by which companies were organized and the manner in which they participated in investment syndicates. The Armstrong Committee recommended certain reforms, some of which were translated into legislation. Following the hearings conducted for the Armstrong Committee, similar inquiries were begun in other states and there resulted a general tightening of state regulation of insurance companies. Leaders of the life insurance business have likewise recognized the salutary effect of the Armstrong Report on insurance in the United States and the lasting importance of the contribution which was then made.

I earnestly recommend to each member of this Committee a careful reading of the Armstrong Report. The work of the Armstrong Committee, its findings and report, have over the years been recognized as an outstanding contribution to an understanding of the problems of finance. Its thoroughgoing fairness and competence are well-known.

It has been the desire of the Securities and Exchange Commission, in conducting the present inquiry, to adhere to the standards established by the Armstrong Committee and to follow, insofar as changed conditions permit, the pattern so ably laid down by that Committee.

It is our present task to survey the economic power inherent in the vast investment funds controlled by insurance companies and to study

the impact of that power upon our national economy. The scope of our problem is as broad as the sphere of influence of the insurance companies themselves. Inquiry into that problem of necessity takes us from Wall Street to Main Street, from the capital markets and financial centers of the East into the farm lands of the West and South. It will properly bring us in time to a consideration of the extent to which insurance company influence permeates areas of national importance, such as the capital markets, the supply of mortgage funds available to farmers, railroad reorganization, and perhaps the financing of low rent housing. It will of necessity demand inquiry as to the future of investment banking and, indeed, the extent to which insurance companies have come to dominate security issuers, underwriters and investors. These are not boundaries of our making. They inhere in the character of the insurance business.

Today we take as our starting point a consideration of insurance company managements and how they are elected. This is a logical point of approach, since management formulates investment policy. That, incidentally, was one of the principal problems of the Armstrong Committee. It studied the responsibility of life insurance company managements to their policyholders, and the extent to which the policyholders were really able to control the managements of their companies. The Armstrong Committee particularly considered the election machinery of mutual life insurance companies. We, too, will be concerned with this problem. Nearly ninety per cent of the assets of our life insurance companies are controlled by mutual companies.

This question of how insurance company managements come into power is itself of great significance. Yet, in a study as broad as this one it constitutes but a beginning. But it will be a significant first chapter of our total study.

As you know, a mutual life insurance company is a company which is legally owned and theoretically controlled by its policyholders. In such a company the policyholders combine to insure each other against death with the understanding that such savings as result from the mutual operation of the company will be equitably distributed among the policyholders. The control of a mutual company rests legally with the policyholders who are given the opportunity of voting for the directors and, through the directors, of appointing those who are to run the affairs of their company. The Armstrong Committee reported that the election machinery of the mutual companies was such as to prevent any independent expression of policyholder viewpoint. Notwithstanding their theoretical rights, policyholders were found to have no effective control over the management of their companies. Through the device of proxies and otherwise, the then officials of such companies were found to occupy, as the Armstrong Report put it, "unassailable positions" and to exercise "despotic powers" over the companies. Only an extremely insignificant number of policyholders exercised their right to vote. The Armstrong Committee stated that the most fertile source of abuses in life insurance administration had been the sense of irresponsibility of the officials then in power. That was in 1906.

Since 1906, there has been a tremendous and spectacular growth of insurance. At that time there were 138 legal reserve companies with aggregate assets of \$2,924,253,848. That was on December 31, 1906. On December 31, 1937 there were 308 legal reserve companies with aggregate assets of \$26,249,049,219, and by the end of 1938 the amount of those total assets had further increased by nearly \$1,500,000,000.

Three individual companies in 1908 each commanded approximately one-half billion dollars in assets. The Armstrong Committee recommended that they should not be permitted to grow beyond reasonable size.

Yet today, each of these three companies commands well over a billion dollars in assets. One of them, the New York Life Insurance Company, has grown from approximately \$474,000,000 in assets to \$2,520,000,000 in assets. The Metropolitan Life Insurance Company, which then had assets of only \$178,000,000, now has assets totalling close to \$5,000,000,000. This tremendous growth is itself cause for inquiry. It provides ample occasion for taking stock of the changes which have occurred in the three decades since the Armstrong Committee made its survey. To that end, we shall re-examine many of the problems studied by the Armstrong Committee including the methods by which the management of these companies is elected and thereafter continued in office and the extent to which the democratic principles of mutuality are in fact preserved in operation.

During these first hearings we will concentrate upon testimony indicating the extent to which policyholders actually exercise control over the management and policies of the large mutual life insurance companies which they are said to own and control.

This inquiry will, of necessity, demand some examination of individual directors with a view to determining the facts and motives lying behind their nomination and election to the Board of Directors of their respective companies and their continued participation on such Boards following election.

The first day of the hearings will be devoted to the testimony of members of the Staff of the Commission who will present to the Committee,

through graphs and schedules, background information indicating the size and growth of the life insurance business and its importance in our national economy. We believe that this background material will become of increasing significance as the hearings progress.

One word more. Throughout the course of these hearings, it will be our endeavor to present the Committee with facts and facts alone. From the start it has been our desire to conduct this inquiry in as scientific a spirit and in as objective and impartial a manner as possible. The material which we will present to the Committee either will rest on incontrovertible fact or will be proven in the course of the hearings.

Our sole interest at this stage is the facts - a thorough and complete examination and presentation of all the facts pertinent to this vital problem - facts to indicate the manner in which insurance companies employ the vast economic power they hold.

Mr. Gesell, who will conduct the examination of the witnesses on behalf of the Commission, is ready to proceed.

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