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For Release upon Delivery before the
Temporary National Economic Committee,
Monday Morning, February 12, 1940,
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Statement of Commissioner Leon Henderson
of the Securities and Exchange Commission
before the Temporary National Economic
Committee at the resumption of the hearings
on the insurance business.

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The series of hearings which commence today will be concerned with the general subject of investment and operating problems of the larger legal reserve life insurance companies.

It will be recalled that the President in his monopoly message referred to the Securities and Exchange Commission's exhaustive study of investment trusts, which incidentally is now in its final stages, and stated:

> "The tremendous investment funds controlled by our great insurance companies have a certain kinship to investment trusts, in that these companies invest as trustees the savings of millions of our people. The Securities and Exchange Commission should be authorized to make an investigation of the facts relating to these investments with particular relation to their use as an instrument of economic power."

The President's message is replete with references to problems of our economy upon which this study of insurance investments and operating results will throw light. Not least of these are the references to concentration and financial controls.

Unless the TNEC or Congress assigns additional insurance studies to the SEC, this presentation is almost the last on life insurance, which is the only form of insurance which the Commission's staff has studied. Sheer lack of funds has forced the Commission to reject all suggestions of inquiry into fire and casualty and other forms of insurance.

A word of caution about the completeness of the present insurance inquiry, The SEC makes no pretense that every phase of life insurance has been canvassed. There are 306 life insurance companies with assets of $28 billion. We have never had more than ten men in the field, with a limited home office staff. The present investment study covers the 26 leading companies, but no study could be called complete which omits review of the investment experience of 280 smaller companies, having several million policy holders and around four billion dollars of assets.

Mr. Chairman, at the initiation of the insurance presentations almost a year ago, Justice Wm. O. Douglas, then Chairman of the SEC, said: "No policyholder need have any concern that any facts brought out in this inquiry will in any way jeopardize the protection which he counts upon through his insurance policy." I'm happy at this time to reaffirm that statement -- based as it was, I believe, on an abiding belief in the institution of life insurance and a firm sense of confidence in the integrity of the inquiry process, so essential to democratic government.

Though this is almost the last public hearing, the final report of the SEC will contain the results of many staff inquiries, conducted through questionnaires, correspondence, and interviews with insurance company executives.

May I say a few words here on a strong, vigorous and at times overworked topic -- that of cooperation. With but a couple outstanding exceptions, those responsible for insurance company policy have gone far beyond the requirements of formal requests for information. Without the volunteer efforts of earnest executives, our small staff could not have presented as well rounded pictures of those insurance topics we have selected as important. After the current hearings, the staff will continue its conferences.

I have already referred to the fact that these hearings will be concerned with both investment and operating problems. The two are so inter-related they cannot be separated. One example will serve to emphasize the point. Supplementary contracts not involving life contingencies, that is to say special contracts for the disposition of matured policy proceeds, have increased from 241 millions in 1929 to one billion 182 millions at the end of 1938. These contracts grew partly because of management emphasis upon new sales techniques and, though admittedly a logical development in the business, have created many new investment problems. In fact one life insurance official said of these contracts that they "are forcing the life companies out of their primary function of writing assurances and into the investment banking and trust company field." This is a subject we will consider. It is cited here only to demonstrate how closely the investment problem is linked to the operating features of the business.

The problems of insurance operations and investments, of course, cover a broad range and have many ramifications. As the presentation proceeds, it will be apparent that we are obliged at least to touch upon topics ranging from technical accounting matters on one hand to questions of management policy and economic import on the other.

Many aspects of the investment problem have already received attention in the insurance hearings which have been held before this Committee from time to time during the last year. The Committee has heard, for example, evidence with respect to collateral and mortgage loans to "insiders", loans sometimes of doubtful propriety, and occasionally concealed under the names of dummies who had no beneficial interest in the transactions themselves; the use of company funds to further outside business ventures of officers and directors; the methods of promoters who pyramid or consolidate life insurance companies through holding company stock trades or reinsurance and rewriting operations; and, as in the case of recent hearings before the special subcommittee, evidence illustrating some unusual cases where blatant mismanagement of investments has contributed to receiverships and to policyholder losses.

The testimony in the hearings about to commence, which will be concerned primarily with the 26 largest life insurance companies, will have an entirely different emphasis; the effort being more to consider and appraise the operations of the business as a whole. Our approach to the investment problem will be primarily from an economic point of view. In this respect we take a sharp departure from the studies of the Armstrong Committee which were more concerned with an examination of specific abuses. To further an understanding of this broader problem, the Commission secured investment and operating figures many of which were not available in public records, by sending out two detailed investment questionnaires. The figures so secured will be presented to the Committee in the course of the hearings and will provide a frame of references against which the operation of the business as a whole, as well as that of individual companies, may be appraised. Cooperation of the companies in furnishing the required information and in conferring with our representatives on related problems has been commendable and I should like at this time to acknowledge the generous assistance received.

The investment and operating problems of the companies have admittedly become greater in recent years. In 1938, for example, these companies were faced with the gigantic task of finding suitable investments for about $4,000,000,000 comprising $2,500,000,000 that was returned to them through the maturity, sale and redemption of their old investments and $1,500,000,000 of new money receipts. In other words, into the hands of the officials of life insurance companies, there was an average daily flow of over $10,000,000 for which they had to find suitable new investments. Of this amount, $5,000,000 a day was in the control of the five largest companies. The admitted assets of the life insurance companies are invested primarily in bonds, mortgages, real estate and in policyholders' loans. The magnitude of these investments justifies the statement so well as phrased in a recent editorial in the *Wall Street Journal* to the effect that "It would be hardly an exaggeration to say that the assets of the life insurance companies as a whole represent a first mortgage on the country's business and industry". As early as 1906 the Armstrong Report stated:

> "No tendency in modern financial conditions has created more widespread apprehension than the tendency to vast combinations of capital and assets. But while in the case of railroads and industrials these vast amounts are mostly fixed in particular productive activities, the larger part of the huge accumulations of life insurance companies consists of assets readily convertible

> into money and susceptible of application to varied uses. It is this fact which has placed the officers and members of finance committees of life insurance companies in positions of conspicuous financial power..."

These comments are even more pertinent today for the size of the companies has grown tremendously and the degree of concentration within the business has increased. Indeed the prime importance of life insurance company investment practices in the national economy cannot be questioned and as I have indicated it is toward an appraisal of the economic effect of these practices that much of the hearings will be directed. There are many questions upon which some light may be thrown. For example, do farm mortgage and farm real estate policies of life insurance companies benefit or injure the farmer? Or again, has the trend of private savings to accumulate in insurance companies dried up venture capital and hampered the development of new business enterprises? Other similar problems will come to focus as the hearings proceed.

Before calling the first witness, however, it may be well to reemphasize the size and scope of the business and to review developments during the last year. The Association of Life Insurance Presidents recently estimated that as of December 31, 1939, the total face amount of life insurance in force in the United States was $113,000,000,000. This amount represents an increase of about $3,000,000,000 during 1939. Similarly, the Association estimated that the total admitted assets of all United States companies had grown to a new all time high of $29,150,000,000; an increase of over $1,000,000,000 from the previous year. With this increase in assets and insurance in force, there was naturally an increase in premium income and an increase in disbursements to policyholders or their beneficiaries.

In the hearings which commence this morning, we wish to trace in a general way the principal operating and investment problems of the business over the last several decades. In this manner, problems which will be studied in detail in the hearings which are to follow, will be placed in better perspective. As in the past Mr. Gesell will conduct the examination on behalf of the Commission.

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