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STATEMENT ON LIFE INSURANCE DELIVERED
FEBRUARY 28, 1941, BEFORE THE
TEMPORARY NATIONAL ECONOMIC COMMITTEE
By Sumner T. Pike, representative of the
Securities and Exchange Commission on
the Temporary National Economic Committee.

INTRODUCTION

This morning I will present recommendations and suggestions based upon the study of life insurance which the staff of the Securities and Exchange Commission conducted in cooperation with the Temporary National Economic Committee. The Securities and Exchange Commission itself has, of course, never had occasion to consider life insurance problems in detail and as a consequence it should be understood that the recommendations and suggestions which will be presented this morning are my own and those of Mr. Gesell, Special Counsel in charge of the insurance study; not those of the Commission.

When the study of life insurance was undertaken over two years ago, there was much ground to cover. There had not been an over all survey of the life insurance business since a committee of the New York State Legislature, with Charles Evans Hughes, now Chief Justice, as counsel, made an exhaustive inquiry into the operations of the business and in 1906 recorded its findings in what is now known as the Armstrong Report.

At the present time there are approximately 365 legal reserve life insurance companies in the United States. These companies have assets of more than 28 billion dollars. One out of every two people in the country is a policyholder. The income of the companies reaches over 5 billion dollars a year. There are over 124 million policies with a face value in excess of 111 billion dollars outstanding. The rapid development of the insurance business may be seen by comparing the present size of the companies with the situation which existed at the time of the Armstrong Report. At that time there were only 138 companies. The assets, which have since increased by upwards of 800%, were then only 3 billion dollars and the amount of insurance in force was then only 15 billion dollars.

The life insurance testimony fills six volumes of hearings before this Committee and there are two Committee monographs on the subject. We were aided in the inquiry from many sources. Not only did many State Insurance Commissioners give valuable assistance by making statistical data and other information available, but the life insurance industry itself was, with few exceptions, cooperative and generously anxious to assist us in our efforts to present the facts before this Committee. We are confident that the inquiry made was sufficiently broad and penetrating to present a true cross section of the business and adequate to justify the general recommendations and suggestions which follow. As was pointed out in more detail in our monograph report the life insurance business was shown to be generally healthy. Our recommendations are not an attack on the life insurance business. They are made solely because we believe certain improvements in management practices and the supervisory machinery are desirable both from the point of view of the policyholders and of the companies.

STATE REGULATION

Before turning to our specific recommendations and suggestions, it will be desirable to review briefly the existing machinery which the states have set up to regulate life insurance companies. Life insurance has been subject to some form of state regulation throughout its history. As early as 1851 New Hampshire created an Insurance Board to examine companies. At the present time every state in the Union, as well as the District of Columbia, has a governmental unit responsible for regulating insurance. Most states have created separate insurance departments headed by a state official whose title varies but whom we will call, for purposes of convenience, the Insurance Commissioner.

The state Insurance Commissioner is usually responsible for all insurance regulation, including not only life insurance but fire, casualty, health and accident, automobile and perhaps even marine insurance as well. The insurance laws of no two states are identical and as a consequence the duties and responsibilities of

the Insurance Commissioners vary from state to state. By and large, however, state life insurance legislation is comprehensive. The state insurance laws, which it is the duty of the Insurance Commissioner to enforce, are designed to assure, insofar as possible, the financial stability of life insurance companies and to establish standards of business conduct which companies are required to follow. The formation of new domestic insurance companies is subject to the Commissioner's approval and the permission of the Insurance Commissioner must be obtained before an insurance company incorporated outside the state can enter to sell insurance. Each company is obliged to submit annually a detailed statement of its financial condition and business operations in accordance with specifications set up by the Insurance Commissioner. The Commissioner periodically calculates reserves of a company to make certain that they are adequate in accordance with law. The Commissioner has, of course, power to examine the books and records of any company or agent operating in the state and usually may question individual company representatives under oath in connection with official investigations. The Commissioner may suspend a company's license in the event it fails to meet certain financial and business standards or to grant access to its books and records. The investments which a company may make are fixed by statute and it is the Insurance Commissioner's duty to see that only approved forms of investment are made.

In addition most Insurance Commissioners must license agents, approve policy forms and undertake a variety of other duties. Where companies become insolvent or their reserves are impaired, the Insurance Commissioner is usually authorized to administer their affairs for the benefit of the policyholders. Likewise, the approval of the Commissioner must frequently be obtained for consolidations and mergers as well as other types of important transactions affecting the overall operations of the company.

While the foregoing is of necessity somewhat general, it can be seen that the statutory powers of the Insurance Commissioner are considerable. Generally speaking, statutes in the principal insurance states are adequate. Such inadequacies of state regulation as do arise result either because of weaknesses in the existing administrative machinery or because of the interstate character of the problem with which state regulation must contend.

The commissioner of insurance is appointed by the governor or elected by popular suffrage. He usually has a fixed term of office, normally from two to four years. Because of the complexity of the problems of insurance regulation, this short tenure has often been criticized. By the time a man has mastered the intricacies of the business enough to be of real use as a supervisor, his term is up and his place is taken by a new man who may as yet be unfamiliar with the technicalities of the industry. While routine activities may continue with less serious disruptions, the opportunities for the development of new supervisory policies are seriously restricted by the constant turnover of commissioners and continuity of a supervisory program is next to impossible.

In this connection the words of a former Superintendent of Insurance for New York are significant. He stated the problem in this fashion:

"...here is a field where shifting majorities make short terms of office. The competent and incompetent alike biennially meet the scythe that produces havoc in the ranks of supervision. Since I resigned as State Superintendent of Insurance of New York on May 10, 1935 only a little over three years ago the insurance commissionership in at least thirty-one states has changed and rechanged. Now you are in the throes of another convulsion. It needs no argument to point out that no group of officials can carry full responsibility with highest efficiency in a specialized and technical field in the face of any such shifting process."

Our studies show that in several states there have been as many as 7 and in one state even 10 commissioners in the last 20 years.

The responsibilities placed on state insurance commissions by their respective state legislatures are usually very heavy. It must be recognized that the Commissioner has, as a minimum, the duty of supervising all other types of insurance, as well as legal reserve life. In the life field he must also watch the affairs of fraternal benefit and assessment associations of which there are approximately 1,000 operating through the country. In addition, the commissioner is responsible for those of the numerous fire, marine, and casualty companies which may operate within his jurisdiction.

More than this, the insurance commissioner is often burdened with functions foreign to the business of insurance. Of the 21 commissioners answering a question in this connection, only 7 have no official duties other than the regulation and supervision of insurance affairs. In one extreme instance a commissioner listed his duties as follows:

"Paymaster for State (Comptroller equivalent); Collects and disburses 10 million dollars utility taxes to counties and municipalities; collects corporation license taxes; delinquent land tax; keeps set of books of receipt and disbursements of all funds to balance monthly with Treasurer; He is collector of funds and claims due state; sues on behalf of state; is securities commissioner. Member of Board of Public Works for assessment of all public utilities and member of Budget Commission to recommend appropriations to legislature also member of Sinking Fund Commission to collect funds from counties, cities and districts to meet bond retirements and interest."

The monetary compensation for performing the manifold duties thrust upon the usual commissioner is low in the case of most states.

Moreover, considering the large number of insurance companies operating in most states, the staffs of the various departments and their budgetary allowances are surprisingly small. In Arkansas, a fairly representative state, there are 33 domestic insurance companies of all types and 331 foreign (i.e. out of state) companies. The personnel of the insurance department consists of 8 persons and the appropriation amounts to only \$22,635.

The difficulties inherent in these circumstances have often been the subject of comment by those qualified to speak. For instance, the National Underwriter of February 23, 1940, editorialized in this manner:

"With few exceptions most state insurance departments have not sufficient appropriation to carry on their work efficiently and give policyholders proper service. Commissioners have not adequate funds to meet the demands for capable examiners. They are forced in most instances to employ those that may be competent as mine run accountants but they do not have the capacity to go through an insurance company's books and records and interpret them intelligently. Therefore, some of the examinations are cursory and perfunctory. They are of little value in that any signs of weakness are overlooked.

"A thorough going, forthright examiner is able to discern features in a company's operations that need to be changed. He thus becomes a genuine service man for the public in protecting the interests of policyholders and also is able to give a company suggestions of worth."

So much for the principal administrative weaknesses in the present state insurance regulatory system. It can be seen that the state legislatures must share

the bulk of the responsibility for the situation which has been outlined.

There is another circumstance which has tended to detract from the effectiveness of state regulation, namely, the difficulty which is constantly experienced of dealing on a state to state basis with an admittedly national business. The states have made a vigorous though not entirely successful effort to meet this very difficult problem. In the early stages of state supervision, since there was no uniformity of regulation, companies doing an interstate business were subject to confusing regulation in the various jurisdictions where they were active. Moreover, state authorities found it difficult to enforce their statutes or exercise adequate supervision over companies whose principal offices were outside the state.

As early as 1871, the Insurance Commissioners of the several states established an organization, now known as the National Association of Insurance Commissioners, which had as its purpose the development of uniform reporting, examination and valuation procedures, as well as other procedures for handling problems of general concern to the commissioners. The National Association of Insurance Commissioners has had a salutary effect in these and other fields and in its semi-annual meetings which are attended by representatives of 35 states on the average, it has done much to alleviate a condition which otherwise would have certainly brought about a complete disintegration of state regulation. It is not, however, an Association which is as effective as one might desire, for its budget is very limited, it has no permanent paid staff, it has no authority to enforce its resolutions and it is, of course, continually faced with the difficulties inherent in any attempt to standardize the regulatory programs of 49 separate jurisdictions. The high turnover of commissioners also tends to make it less effective. Though it now has 25 or more standing committees, the meetings of the committees are few, for state officials have neither the time nor money to enter into the detailed collaboration which problems constantly before many of these committees require before satisfactory conclusions can be reached.

Perhaps the greatest accomplishment of the National Association of Insurance Commissioners has been the development of the Convention Form Annual Statement. Though this statement still has many deficiencies, it has certainly encouraged more accurate and more thorough reporting on the part of life insurance companies than would have been possible had not the activities of the 49 jurisdictions been coordinated in this respect.

Another problem with which the National Association is constantly concerned is the problem of working out satisfactory methods for examination of companies doing an interstate business. A review of the present procedures for examining interstate companies demonstrates one of the principal weaknesses of existing state regulation.

It is natural that the commissioners of states other than the state of domicile are not willing to rest the safety of the policyholders of their state upon the efficiency of another insurance department for whose activities they were not responsible. The National Association of Insurance Commissioners has sought to devise methods by which all interested state departments may participate in the examination of companies doing an interstate business. There are many difficulties inherent in this problem. The state of domicile is zealous of its prerogatives and frequently resents the appearance of out-of-state examiners. Moreover, it is, of course, impossible to send a representative of each state to participate in the examination of every company which operates throughout the country. As a result, there has been constant disagreement and some jockeying over the question of how out-of-state representatives should be chosen. At the present time the country has been divided into zones and representatives of at least one insurance department in each zone are sent to participate in the examination of companies operating in that zone. This situation is not wholly satisfactory. During the last 10 years there has actually been a considerable group of states which have never participated

in an examination of companies licensed to do business within their borders but with their principal offices outside the state. Not only are many states prevented from participating in examinations of out-of-state companies except on rare occasions, but a single representative sent from a zone is clearly unable to participate in the examination to an extent which enables him personally to make the checks and studies necessary on behalf of the states he represents. The situation is further confused by the failure of states to adopt a uniform standard of examination. The type of examination conducted may vary widely, dependent upon the departments participating. Furthermore, in the case of companies operating only in one zone, the state of domicile is in effect given complete responsibility for the examination and when that state has lax standards, policyholders of several other states may suffer. Some zone examination reports have been held confidential, there being no system of automatic publicity for all such reports which will bring unhealthy conditions to public attention. Moreover, many states do not have trained examiners on their staffs qualified to conduct examinations and the appointment of special examiners, therefore, becomes necessary. Special examiners have little or no responsibility toward the states they represent and are often incompetent. These special examiners, and indeed most regular examiners, are paid by the companies they examine. This system of requiring companies to pay for examinations has several unfortunate features, not least among which is that it tends to prevent the state from maintaining adequate check and supervision over its examiners.

One need only review the testimony concerning the 19 largest company failures to find many instances where failure might have been prevented and losses to policyholders lessened through closer scrutiny of the companies involved. The complete inadequacy of examination reports prepared for such companies as Federal Reserve Life Insurance Company, Illinois Bankers Life Insurance Company, Travelers Life Insurance Company, and Monumental Life Insurance Company throws further light on the deficiencies in present examination procedures. These situations while not typical of the business have a deep significance which cannot be overlooked.

Many states have failed to give adequate attention to insurance operating problems as contrasted with what may be called purely financial questions. For example, the serious consequences which have resulted from the failure of states to examine more closely the activities of life insurance agents and the conduct of agency departments are graphically demonstrated in the testimony before this Committee regarding company programs for the sale of annuities, disability insurance, and for the development of settlement options. In each of these instances there is ample evidence to support the contention that agency pressure for volume led to the serious operating problems which the companies have confronted in these three fields. It is basic to the proper conduct of the life insurance business that the sound selection of risks and other purely technical actuarial considerations, not an agency drive for new business, should control in determination of the type of policy to be sold and the type of benefits to be offered. Nothing of public value is to be gained by encouraging or permitting the continual development of some so called types of life insurance "services" which are in fact nothing more than devices for giving the agents of a particular company a new gadget which they may use for temporary sales advantage before other companies also adopt the new device in order to meet the competition. The end result may be that a new development takes place in a substantial number of companies and if that development is not actuarially sound, the companies are certain to experience operating difficulties in the future. Adequate examination procedures would do much to prevent such developments from gaining a foothold in the business.

In this connection it should also be noted that the zone examination system does not meet with the approval of all state commissioners. Notable among those objecting to this procedure are the Insurance Commissioners of New York and Massachusetts. The present Superintendent of Insurance for the State of New York stated the matter succinctly when he said:

"The advantages of the convention examination are that it, theoretically at least, gives the home state the benefit of expert advice from many other states and gives other states direct access to the original information with regard to the company. The disadvantages are that there is at the present time no efficient machinery to organize and supervise convention examinations of hundreds of companies by various states or zones; that it greatly increases the cost; that it brings in new people not accustomed to work in connection with the examining force of the home state and is to some extent destructive of team work; and that it spreads responsibility among a number of states who can ill afford to take it when they are only represented by one man, who usually is assigned to and is familiar with only a portion of the company's affairs."

TEN RECOMMENDATIONS FOR STRENGTHENING STATE REGULATION

While a thorough study of all aspects of state regulation was not attempted by the Commission's staff, sufficient information was obtained to warrant our making specific suggestions for strengthening state regulation. The following steps are urged for the consideration of state legislatures and state insurance commissioners. It is hoped that this Committee will exert its influence in the direction indicated by these proposals, which are specifically as follows:

1. Insurance Commissioners should be appointed by a responsible executive (in all cases subject of course to confirmation by the proper state body) and their selection should only be made with regard for the appointee's experience and qualifications.
2. The tenure of office of the Insurance Commissioner should be increased substantially and in so far as possible competent commissioners should be continued in office regardless of their political affiliation.
3. The salaries of Insurance Commissioners should if possible be substantially increased.
4. Insurance Commissioners should not be obliged to undertake any duties other than the regulation and supervision of insurance companies.
5. There should be substantial increases in the budget for insurance departments of most states.
6. The personnel of most insurance departments should be increased. The work of an insurance department should be undertaken only by full time qualified employees whose pay is sufficient to make them conscious of their responsibilities and free from insurance company or political influence. The employment of special outside examiners should be discontinued. The development of a civil service in state insurance departments is highly desirable. Companies should no longer be required to pay the salaries of examiners. If they must be charged for examination the necessary amount should either be collected by a lump sum charge set in advance and paid by the company directly to the state treasury or preferably be collected through an appropriate state tax.
7. State insurance supervisory officials should strengthen examination procedures particularly in respect of companies domiciled within their state. The desired improvement would include more frequent examinations in some states, more competent examiners, greater publicity to and full release of all examination reports, and the undertaking of examination which would give greater attention to the insurance operations as contrasted with the purely financial aspects of the business.

8. Closer regulation and supervision of agency practices is required. Present laws for licensing agents are all too frequently administered purely as revenue measures. Agents should be required to show more adequate training, better prospects for financial success, and greater knowledge of the life insurance business. Furthermore, state supervisory officials should give more attention to such matters as company training courses, sales contests, compensation arrangements, etc.

9. The number of policy forms should be reduced and greater attention given to establishing standardized policy forms or policy provisions acceptable in all states. The present confusion in this field is most undesirable.

10. State supervisory officials should more closely scrutinize activities of officers and directors and generally make more thorough checks on the competence and activities of company managements.

There are three additional problems revealed by the insurance study which can appropriately be discussed at this time, since in our opinion they may be met most intelligently through modifications or extensions of the existing state supervisory machinery. These problems are briefly, (a) the necessity of liberalizing the laws governing life insurance company investments; (b) the desirability of placing state supervisory authorities in a position to police inter-company agreements restricting competition; and (c) the development of techniques for giving policy holders greater representation on the boards of stock and mutual companies. We should like to discuss these problems in the order they have been indicated above.

INVESTMENT LAWS

(a) The aggregate size of life insurance companies is such that their investment activities vitally affect the credit and financial structure of the country. The funds which companies invest are trust funds and it is not surprising that state laws regulating life insurance companies have traditionally followed a broad pattern of permitting investments in bonds and forbidding investments in common stocks. Though there is of course some variation between states, most states make government obligations and first lien bonds or mortgages the principal channels of life insurance investment. As was demonstrated in the hearings, as well as through the Securities and Exchange Commission's special studies, the life insurance companies are experiencing great difficulty in investing their funds. Their problem in this regard is threefold. The amount of money they must invest has steadily increased. The available supply of industrial bonds, on the other hand, is gradually decreasing. The interest rates to be earned on all types of debt are inadequate in many cases when measured against the earnings which the reserve requirements of the companies make necessary.

On the other hand, certain other circumstances must be recognized. The life insurance companies, by far our most dynamic savings institutions, are by their operation directing an increasing amount of capital away from semi-speculative or what might be called in the broadest sense of the word venture enterprises. Furthermore, their investment policies actually encourage debt financing and in so doing may eventually seriously disrupt the very business foundation upon which their prime trustee securities rest. Recognizing that life insurance funds should not be recklessly invested in highly speculative securities, there does appear to be room for the long term investment of a portion of their funds in common stocks of substantial corporations with an established record of earnings. The continued flow of funds to life insurance companies which are prevented from purchasing common stocks is certain to have serious effects on the economy. Common stocks of substantial corporations with an established record of earnings are clearly as "safe" as many bonds. A liberalization of investment laws to permit life insurance companies to invest a relatively small percentage of their funds in common stocks would stimulate healthier financial structures and have a wholesome effect on the

economy. Accordingly it is suggested that the respective states give serious consideration to liberalizing in this direction their laws governing life insurance investments.

INTERCOMPANY AGREEMENTS

(b) The Committee will recall that considerable testimony was elicited with respect to various intercompany understandings and so called "gentlemen's agreements" existing among principal life insurance companies. The life insurance business is such that much good can be done through occasional intercompany conferences at which technical problems confronting the business may be worked out on a standardized basis. Mortality tables, for example, represent such an endeavor. It is difficult to define the exact areas within which such conferences should operate. Much can be said, however, for permitting life insurance companies to act occasionally in concert for the purpose of arriving at a certain amount of standardization in respect of specific matters having to do with policy provisions and possibly certain underwriting practices, which have developed in a manner detrimental to policyholders as a result of excessive competition. Of course, no agreements should be permitted where the effect of those agreements is to prevent any one company from developing new services and new sales techniques which are actuarially sound. Similarly, life insurance companies should not be permitted, as they have been in the past, to fix rates through direct or indirect arrangements of any kind. The life insurance business should be conducted on a competitive basis with emphasis on management efficiency rather than sales technique.

It will be recalled that various intercompany agreements were reached at meetings where no state officials were present and in most cases the basis of understandings arrived at were neither publicized nor first submitted to state authorities for their approval. Under any circumstances the continuance of this type of clandestine conferences should be prevented. Whenever agreements within the limited area suggested are arrived at among the companies they should be reached only with the approval of the state commissioners after the commissioners or their representatives have had an opportunity to participate in the conferences and to study the basis for the agreements reached. Moreover, the fact that intercompany meetings have been held should be publicized and the nature of the agreements reached made known.

MUTUALITY

(c) Policyholders must be given assistance so that they may participate more directly in the managements of their companies. It is not necessary to recall here the voluminous testimony on this subject. The self-perpetuating character of the life insurance boards of directors is apparent and the practical difficulties which confront policyholders who seek to elect directors of their own selection are well recognized. Indeed, the problem is one which permeates the entire American corporate scene. The situation is particularly acute in the case of policyholders, and while no single solution can be suggested it is felt that there is much room for experimentation and study in this particular field. A successful effort can, we believe, be made through a combination of devices to increase at least the potential power of the policyholder actually to select and elect directors.

In the first place it would seem desirable for the states to permit policyholders of stock life insurance companies to elect at least a minority of directors to the boards of such companies. As we have pointed out in our report, the policyholders of stock companies contribute the great bulk of the assets and it is to their interest that they be represented directly on the boards of the companies.

Possible steps to be taken by the states to give policyholders greater representation on the boards of mutual life insurance companies would include the development of a more adequate system of notifying policyholders of their right to make

nominations and of the actual results of elections held; permitting policyholders to have access to policyholder lists and to examine the books and records of their companies under restrictions similar to those placed upon stockholders; the possible development of arrangements to assure that some directors, particularly those serving on boards of larger companies, be selected with due regard for their knowledge of and residence in different areas of the country; the elimination of staggered directors' terms; permitting policyholders to have cumulative voting privileges; requiring companies to hold annual policyholders' meetings if possible on a regional basis; adopting schemes patterned on the Policyholder Advisory Committee arrangement used by the Northwestern Mutual Life Insurance Company under provisions permitting state officials to have some general supervision over methods used for selecting the Committee; requiring all directors to be policyholders of the particular company on which they served; giving greater publicity to state examination reports; requiring the submission of more complete and revealing company reports to policyholders; and finally developing schemes for the appointment of one or more public directors to life insurance company boards of directors by the governors of the states in which such companies are domiciled. Nothing should of course be done in this field which would enable irresponsible groups acting from improper motives to seize control of life insurance companies.

SIZE AND NATURAL SCOPE OF LIFE INSURANCE BUSINESS

As the previous discussion has indicated, many states have developed sound and, within the bounds of their jurisdictional limitations, effective systems for supervising and regulating life insurance companies. The deficiencies in state regulation may be classified under two broad headings; first, deficiencies brought about by the failure of certain states legislatures to provide an adequate supervisory machinery or by an occasional complete departure from recognized standards in the conduct of individual departments and second, the deficiencies which inevitably appear as a result of the inadequacy of the states to deal efficiently with every phase of a business which all must recognize as national in scope. While deficiencies classified under each of these headings necessitate some form of federal participation in the supervisory machinery, those under the second heading would appear to be the most cogent.

The national scope of the insurance business is one of its outstanding characteristics. Many of the largest companies operate in every state of the Union. There are on the average 82 companies operating in each state. Seventeen companies operate in over 40 states. Not only is the Life insurance business nation wide in the sense of the geographical scope of its transactions, but it is so huge and its activities are so varied that its operations are of profound national importance. This is especially true in the light of the degree of concentration which exists in the life insurance business today.

Although there are 365 companies engaged in the business, two companies control 32% of its 28 billion dollars of assets; 5 companies control 54% of the assets and 26 companies control 87% of the assets. While these larger companies control the bulk of the assets, we must not fall into the all too frequent error of considering all the other life insurance companies as small. There are 32 such companies each with assets of more than 100 million dollars and at least 40 of which are as large as companies included in the group of 200 largest non-financial corporations which were the subject of special study by this Committee.

The bulk of the business is not only concentrated in the hands of a few companies but these companies are also geographically concentrated. Companies with offices in New York City and Newark, New Jersey control 56% of the assets of all insurance companies. Companies in the New England and Middle Atlantic states control 77% of the assets. Of the 26 largest companies, only 3 have their main offices west of the Mississippi,

It is, indeed, difficult to comprehend the tremendous size and the scope of the influence which insurance companies exercise. We can but recite a few statistics here. In 1938 the leading companies purchased 47.7% of all corporate bonds and notes issued in that year. In the ten-year period from 1929 to 1938, inclusive, over 42 billion dollars were taken in by the companies, of which 30 billion represented premiums from policyholders. The principal companies' assets are so large that they include securities representing 11.6% of the total federal debt, 6.7% of the total state and local debt, 17.4% of the railroad debt, 11.7% of the industrial debt, 18.2% of the public utility debt as well as substantial amounts of the farm and urban mortgages outstanding.

The companies are growing very rapidly and with the growth their economic power increases. Principal companies show an increase of over 50% in their assets in the last ten years. Thus, whereas in 1930 these principal companies controlled only 2.5% of the industrial debt, in 1937, they controlled, as has been indicated, 11.7% of that debt. In the farm mortgage field the companies controlled 19.2% of the farm mortgage debt in the west north central states in 1939 and in that year actually owned 8.1% of all the land in the state of Iowa. Some idea of the extent of the companies' influence in farming communities may be indicated by the activities of the largest life insurance company which is the biggest farmer in the United States today. This company operates over 7,000 farms, ranging in size from 200 acres to as high as 2,000 acres, and extending into 25 different states. Its farming program includes working out with the farmer detailed crop rotation schedules and erosion prevention plans. The company carries out extensive undertakings for the rehabilitation of farm property, repairing barn and homes, building fences, etc. During the year 1937 the company harvested 50,000 bales of cotton, 10,000,000 bushels of corn, 5,000,000 bushels of wheat, 6,000,000 pounds of peanuts and 1,000,000 pounds of tobacco.

The amount of money invested by life insurance companies reaches tremendous proportions, one company alone investing over 2 million dollars each business day. Principal companies are members of 65 different bondholder protective committees and own and operate many apartment houses, hotels, and private dwellings. The extent of the companies' influence may be found not only in their investment activities but elsewhere. The number of their policyholders is significant in itself. One company alone insures every fifth man, woman and child in the United States and actually sells a policy on the life of about one out of every fifth child born before the child reaches one year of age.

Concentration is increased through interlocking directorships. The 5 largest companies interlock with 780 corporations, including 145 banks, and 100 other insurance companies, mostly fire and casualty concerns. By inter-company agreements the larger companies have increased their influence in many fields, entering into rate agreements and other combination restricting competition. Their influence in the field of state legislation is also worthy of note. The activities of their powerful Association of Life Insurance Presidents which represents companies controlling approximately 85% of the business will be recalled in this connection. This Association is active in every state. Here, indeed, is a picture of the concentration of economic power which is not equalled elsewhere in the American economy.

The Committee will recall that the Armstrong Report with its customary foresight recommended placing restrictions on the future growth of life insurance companies. These restrictions were in effect for a short time and eventually almost entirely abandoned. Since 1906, when the Armstrong Report was released, the total assets of insurance companies have increased 800%.

There is no need to discuss here the desirability or undesirability of the Armstrong Report proposal. Had the restrictions on size prevailed, however, this much is clear. Not only would a different type of state regulation have developed,

but it is safe to say that the pattern of our entire economy would be different from what it is today. We do not mean that the size of the principal life insurance companies alone has brought about all of our economic ills. Certainly the size of these companies has, however, been a contributory factor as far as certain of our economic problems are concerned. It may well be that if instead of having such a high degree of concentration there were numerous smaller companies operating in closer contact with their respective communities, such companies would be pursuing investment and managerial policies quite different from those which the larger companies today have been forced to undertake as a result of their great size and probably they would be more closely attuned to the financial needs of their own communities.

Life insurance is not only one of the largest American industries but it has perhaps the greatest potentialities for future growth. Moreover, the very nature of its operations is such that its size raises unique problems not to be found in the case of our larger non-financial institutions. We refer, of course, to its absorption of such large amounts of the Nation's savings and the restrictions which prevent such funds from being invested in anything but bonds and other securities evidencing first lien debt. Industrial enterprises, large or small, create wealth. Insurance companies are simply reservoirs of savings - savings which by law can only flow into debt investment - not into the kind of wealth-creating industrial expansion that equity investment produces.

We make no specific recommendations in respect of this subject of size. The question is one of broad public policy which the Committee itself is alone qualified to consider in the light of its numerous studies of size in other fields. The entire question of size in the life insurance business should be further studied by an appropriate agency of the Federal Government which would be directed to make a report to the Congress on specific aspects of the problem. If, however, this Committee should now determine upon an initial program designed to deal directly with the problem of size, we should like to point out that the life insurance business, because of its immensity and the unique character of its operations, is one of the first industries where some restrictions might well be considered.

While, as has been stated, our studies have not progressed to a stage which would justify our making specific proposals, several possible approaches to the problem are indicated. Among the steps which might be taken to limit the size of life insurance companies or dilute their concentrated economic power are; placing restrictions on insurance companies in respect of the sale of annuities and other policy contracts when the saving element is predominant, encouraging the development of Savings Bank Life Insurance, enacting tax legislation which would make growth beyond a certain point undesirable from a business point of view, restricting the amount of assets which a company may control, limiting the amount of new business which a company may write, encouraging the growth of smaller companies, prohibiting various types of interlocking directorships, restricting the continual development of private placements which are rapidly concentrating many security issues entirely in the hands of the largest companies, preventing insurance companies from organizing subsidiary companies; preventing investment in interlocking companies or limiting the amount of money any insurance company may invest in the securities of another corporation. All such steps are drastic. The extent to which they would reduce concentration of economic power in the insurance business is problematical. As to whether all or any of them should be adopted is a matter of broad national policy which only this Committee with the results of all its studies before it can undertake to decide. In the meantime, we again call your attention to the recommendations we have already made that states should be encouraged to permit insurance companies to make careful investments in high grade common stocks.

EARLY SUGGESTIONS FOR FEDERAL REGULATION

This review of the size and the scope of life insurance company influence should serve to throw further light on the many difficulties which beset state officials in their efforts to supervise the life insurance companies. In fact it is not surprising to find that partially because of these very same factors there has been constant consideration given to the advisability of the federal government playing a role in life insurance supervision. As James M. Beck, former Assistant Attorney General, once pointed out, Alexander Hamilton specifically listed the regulation of policies of insurance among the implied powers he deemed to be included in the grant to the federal government of the power to regulate commerce.

A few of the more significant efforts to obtain legislation giving to federal government authority in the field of insurance may be briefly mentioned. As early as 1865 Congress was memorialized by certain insurance companies and urged to enact legislation regulating life insurance companies. In the same year Elizur Wright, Insurance Commissioner from Massachusetts and one of the early pioneers in the field of state regulation, suggested the need of federal control. The press and trade journals contained other discussions along this line. In 1871 this program secured the support of the then Secretary of the Treasury.

In 1877 a group of policyholders appealed to Congress for assistance and in 1892 a bill was introduced by the president of the Union Central Life Insurance Company providing for a National Bureau of Insurance with power to license companies. This legislation was defeated but was soon followed by much agitation for federal control on the part of state insurance commissioners themselves; and in 1897 the proposal of the Union Central's President was revived in the so-called Platt Bill which also failed of enactment. In 1903 the Department of Commerce and Labor was authorized to gather statistical material relative to life insurance companies. When the revelations of the Armstrong Investigation aroused public interest in insurance problems, new proposals for federal regulation of insurance appeared.

In 1904 President Theodore Roosevelt suggested an inquiry into the constitutional right of Congress to regulate insurance. About the same time the American Bar Association and many trade organizations, including insurance commissioners and company officials, chief among whom was former Senator Dryden, then President of the Prudential, declared themselves in favor of federal regulation. Bills were introduced in 1904 and 1905 but failed of enactment.

In 1914 and 1915 additional legislation regulating the use of the mails by insurance companies and favoring an amendment to the Constitution to give power to Congress to regulate insurance were introduced. This latter proposal was again made in 1933 in a joint resolution introduced by Senator Robinson.

THE ROLE OF THE FEDERAL GOVERNMENT

Today we wish to urge that the question be again considered as to whether the federal government can assist the state with insurance regulatory problems in a manner beneficial to the states, the companies and policyholders generally. We believe it can. Our proposals in this connection are not nearly as far-reaching as many which have been made at intervals since 1865. We propose neither inclusive regulation nor anything approximating wholesale supervision.

While the jurisdiction of the states is limited geographically, that of the federal government is nation-wide. Moreover, the federal government has the resources to make studies for and to lend its expert assistance to the states so that they may be better equipped to cope with the immensely intricate and clearly interstate problem of life insurance supervision. The federal government should not supplant the states, nor should it interfere with their regulatory procedures. It would seem

more desirable that it work with the states on a cooperative basis toward the end that the states may do a better job. The basis upon which the federal government might best participate in the field of insurance supervision would seem to be primarily as an advisor and as a collector and distributor of information. Its functions should closely parallel those of the National Association of Insurance Commissioners which has been handicapped by lack of funds and other conditions which would not be applicable if the federal government sets up machinery to assist the individual states.

Critics of any move which gives the federal government some position in the field of insurance supervision urge that no steps should be taken in this direction for fear that they will be but preliminary to a steady development of federal authority to the eventual elimination of the powers of the states. Not only is this a matter which lies wholly in the control of Congress, but there are certain conditions in the insurance situation which also cannot be overlooked. As we indicate, there are grievances in the insurance business with which the states, no matter what their good intentions, are unable to cope. Moreover, there are certain states where for various reasons regulatory standards have fallen so low that policyholders of companies domiciled in such states have sometimes failed to receive the minimum protective supervision they have a right to expect no matter whether living in that particular state or elsewhere. If some steps are not taken now to plug the gaps where state regulation cannot do an effective job or where standards may become unduly relaxed, the weaknesses in the existing state regulatory system may lead to its eventual decay and public clamor will then arise for an all inclusive federal regulatory system. We suggest that if this is to be prevented, now is the time to act before insurance business is subjected to the heavy financial strains and substantial readjustments which may be attendant upon economic difficulties created by the war abroad.

PHANTOM COMPANIES

An example of the manner in which the federal government may use its powers to strengthen the states is well illustrated in the case of the so-called phantom insurance companies. This is really a bootlegging business. There are life insurance companies which sell insurance in states where they are not licensed or admitted to do business by using the mails, the radio, telephone or telegraph to make contact with their prospective policyholders. This situation has been severely criticized not only by policyholders who are the victims of such activities but by various state insurance officials who find themselves unable to cope with the problem primarily because of the interstate nature of the companies involved. During our investigation, for example, the Commissioner of West Virginia advised us that the Department had had many complaints from people who had bought insurance contracts through the mails from unauthorized companies and who found that the companies had not lived up to their promises. The Commissioner of West Virginia pointed out that not only was this situation "entirely beyond the control of any state" but he went on to demonstrate that those policyholders seeking recourse against such a company must go to the state within which that company is organized or chartered to do business in order to bring legal action and that the expense and difficulties attendant upon this procedure made any action practically impossible. Apparently, there has recently been considerable sale of this type of insurance through broadcasting stations and this kind of selling activity is particularly difficult for state authorities to control effectively. In the past bills have been introduced in the Congress from time to time to prohibit life insurance companies from using the mails or the means and instrumentalities of interstate commerce to sell insurance in a state where they have not been authorized to do business. Legislation of this character will be highly desirable to strengthen state supervision.

Some designated agency of the federal government should be empowered to take appropriate action to prevent companies from using the mails, the telephone, the

radio, or other means and instrumentalities of interstate commerce to sell insurance in a state where they have not been lawfully admitted to do business.

INFORMATION

It would also seem desirable to give the federal government a means for obtaining complete information concerning the operations of life insurance companies. Any legal reserve life insurance company doing business in more than one state should be required to notify an appropriate agency of the government of its intention to do an interstate business. This notification would be perfected by filing data concerning the history of the company, its organization and the type of business done. Following notification, companies would be required to file with whatever agency was designated duplicate copies of the completed Convention Form Annual Statement which must now be submitted to authorities of the states where they do business, together with copies of other periodic reports filed with state regulatory bodies. Thus, except for the original notification, current information concerning the companies would be filed with the federal government without the necessity of setting up two separate systems of reports. The federal government would thereby be placed in a position to keep check on the activities of interstate companies and to assemble from the data submitted detailed reports and information which it would have authority to disseminate for the benefit of companies, policyholders and state and national officials.

As has been indicated in detail in our monograph report, the existing Convention Form Annual Statement is deficient in many respects. It would be hoped that the designated agency of the federal government might exercise an influence toward the modification and strengthening of the Convention Form Annual Statement. Such a program would be a cooperative program worked out with the states. To the end that a gradual improvement in the reporting system now employed might be accomplished, the designated agency of the federal government should be empowered to require companies to file additional information with it if, after full hearing at which company officials and state officials would be specifically invited to attend, it was found that the strengthening of life insurance company reports in certain respects was essential in the interests of the policyholder. This agency should also have the right to call for any reasonable additional information from any interstate company where it felt after full hearing such information was necessary in the interest of policyholders. Any company doing an interstate business should be required to notify the designated agency of the federal government whenever it sought to merge with another company by reinsurance, that is to say by assuming its policy liabilities and taking over its assets in an amount equal to accumulated reserves and should be required to provide the agency with detailed information concerning the proposed reinsurance plan. The giving of publicity to such reinsurance schemes would do much to prevent the unethical practices of a small group of promoters whose interstate activities brought about heavy policyholder losses - losses against which the policyholders were helpless to protect themselves.

In this manner the federal government would be placed in a position to have complete information concerning life insurance companies. The availability of such information has many advantages. Not only can the federal government give greater publicity to significant facts concerning life insurance company operations in general, but data would be on hand which would be unquestionably of great benefit to the Congress and existing agencies of the state and federal governments which are all constantly concerned, either directly or indirectly, with problems affecting the life insurance business.

LIQUIDATIONS AND REORGANIZATIONS

The problem of liquidating or reorganizing insurance companies whose reserves are impaired also deserves the attention of the federal government in order that the policyholders of such companies may receive fairer treatment in the working out of whatever adjustments are necessary. At the present time insurance companies are not included within the scope of the National Bankruptcy Act. A detailed statement of the many problems incident to the liquidations or receiverships of interstate insurance companies is contained in the statements of George S. Van Schaick, former Superintendent of Insurance for New York State, which are printed in Part 13 of the hearings. The pressing need for reform in this field has been recognized by the American Bar Association and leading insurance experts. Efforts to obtain uniform state legislation have failed almost completely.

The National Bankruptcy Act should be amended to permit any State Insurance Commissioner or the designated federal agency to apply to the United States District Court within whose jurisdiction an insurance company is domiciled to bring about that company's liquidation or reorganization. Such an application could be granted by the court if, after hearing, it finds the company's reserves impaired. Upon an adjudication to this effect a court would be required to appoint the federal agency or its nominee which might in certain cases be the insurance commission of the state of domicile to act as conservator pending the readjustment of the company's affairs. Subject only to the general jurisdiction of the court, the conservator would work out a program for readjustment of the affairs of the impaired company. When actual liquidation of the company proves to be necessary this would be accomplished in accordance with an equitable basis of distribution established in the Bankruptcy Act Amendment to govern creditor participation in the Company's assets.

The designated federal agency should also be empowered, with the approval of the President, to prohibit insurance companies from paying surrender values of the policy benefits during a limited period not to exceed 90 days or to place restrictions on such payments. This moratorium power would be exercised only in time of severe economic stress resulting in serious dislocations of our entire banking and financial structure. The power is comparable to that which may now be exercised in respect of stock exchanges and national banks.

OFFICERS AND DIRECTORS

Another problem arises from the necessity of placing greater restrictions on those few insurance promoters and officials who ignore this high position of trust and use their positions for improper gain. Such individuals usually operate across state lines. They are rarely prosecuted under prevailing state laws. To check the activities of such unscrupulous life insurance promoters and to place restraints on those officers and directors of insurance companies who use their positions for ulterior purposes, sometimes wrecking their companies in the process, a further step is necessary. Officers and directors of companies operating in more than one state should be prevented by statute from using their positions for improper personal gain either directly or indirectly. Such a statute should also clarify the responsibilities and duties of life insurance officials generally making them not only in fact but in the eyes of the law, trustees required to adhere at all times to the strictest fiduciary standards. While it is true that it is impossible to legislate honesty or by laws alone to raise the quality of management, the mere statement of public policy which such statutory provisions would embody, would do much to establish higher fiduciary standards for insurance officials. Statutory sanctions in this field would be burdensome only upon those companies whose officials profess to follow the highest standards but who in fact ignore them.

VISITORIAL POWERS

Finally, in order that it may operate efficiently, the designated federal agency should perhaps be given some reasonable and clearly defined visitorial powers over all interstate companies. Though the right to examine companies doing business in more than one state should be exercised only with considerable restraint it would enable this agency to determine whether an impairment of reserves exists in the case of any particular company. Furthermore, the agency must have such powers if it is to curb activities of phantom companies or to police the statutes governing conduct of officers and directors. The agency would also be implemented in its endeavors to strengthen existing systems for reporting life insurance transactions and, when the occasion arose, would be able to check the accuracy of items contained in the information filed with it.

The power of the designated agency to visit any registered company would also permit it to test occasionally the efficiency of state regulation in a particular area and if unhealthy conditions were found, publicity attendant upon disclosure of such conditions would serve to bolster standards in the wayward states.

Moreover, the agency should be required to undertake a more detailed examination of any interstate company when such an examination was requested by the Insurance Commissioners of two or more states and no examination of the same company had been made by the agency within 12 months prior to the request. Indeed, examinations might frequently be conducted in cooperation with the insurance authorities of the state of domicile with the hope that the system would eventually eliminate many zone examinations - the agency undertaking examinations as the representative of policyholders resident in states away from the company's state of domicile.

The agency would require few rule-making sanctions and its powers would be clearly confined to the areas indicated above.

We have not specified the particular agency of the Federal Government in our opinion best qualified to undertake this task and this is a matter on which we do not wish to make any recommendation. It should be made clear at this stage, however, that in offering the above suggestions, there is no desire on our part to increase the powers of the Securities and Exchange Commission. The Commission has already several Acts to administer and the addition of insurance problems to its already complex duties would so overburden the staff and commissioners as to prevent the Commission from doing an adequate job in the fields to which it is already assigned. Perhaps because of the many unique and technical problems which will be encountered, serious consideration should be given to the desirability of creating a new commission. If this step is not deemed desirable, we are confident that there are existing agencies competent to undertake the task outlined above. Whatever agency may be selected should consist of impartial, able men with technical training and facilities at their disposal which would assure their making a definite contribution in the field of insurance.

INSURANCE ADVISORY COUNCIL

In order to give every possible encouragement to state regulation and to assist insurance company managements in solving their own problems without legislative compulsion, it is recommended that there be created an Insurance Advisory Council which would function in close cooperation with the designated federal agency. This Insurance Advisory Council might consist of 3 representatives of the designated federal agency, 3 state insurance commissioners elected by the National Association of Insurance Commissioners, 3 company officials and 3 policyholders. The company officials and policyholders' representatives to be appointed by the President by and with the consent of the Senate. Appointments to the Council should be made with due regard to sectional interests and the different types of companies involved.

As the name of the Council indicates, its functions would be solely advisory. It would meet regularly, the members receiving expense money and a modest per diem compensation for their services. The Council would be required once a year to submit a written report to the Congress on the state of the insurance business. The Council could use the facilities of the federal agency to make such factual studies as it required as the basis for its reports.

The annual reports from the Insurance Advisory Council to the Congress should be of great value in many different respects. First, such reports would serve to point out to insurance company managements conditions requiring their attention, thus providing an opportunity for correcting abuses from within the business itself. Second, the reports would serve to call attention to areas where state supervisory activities could be strengthened in order to promote the efficiency of the insurance regulatory process generally. Third, the reports might be used on occasion to call attention of the Congress and policyholders generally to conditions in the life insurance business considered harmful and possibly requiring legislative correction. It is clear that the activities of the Insurance Advisory Council would not only do much to obviate the necessity of additional legislation, but also they would be of great value in the determination of many matters of national policy where the interest of insurance companies are vitally, though sometimes indirectly, affected.

The Insurance Advisory Council would also serve to strengthen state regulation. Having at its disposal the facilities of the designated federal agency, it would be well equipped to advise the states on many important matters. For example, the Council might, among other things, consider and suggest the best means for integrating the federal and state examination systems; it might make recommendations looking toward the revision and standardization of life insurance accounting practices; and it might from time to time give technical suggestions to the states as to what concrete steps they should take to better integrate their statutes.

INDUSTRIAL INSURANCE

In outlining the foregoing proposals no reference has been made to industrial insurance. This important problem requires special consideration. The committee will recall that industrial insurance is a type of life insurance sold in small amounts primarily to persons of little means. Premiums are paid weekly or monthly to collectors who call at the homes of the insured.

A considerable amount of time was spent in the study of this type of insurance which is held by approximately 50,000,000 people in the United States. It will not be possible to make a detailed review of the facts disclosed through the hearings. Only a few aspects of the problem may be mentioned at this time. For many reasons, including its high agency expenses and mortality experience, this type of life insurance is the most expensive form of life insurance sold. It is sold almost entirely to low income families. When sold by stock companies it has resulted in enormous profits many times over the shareholders' original investment. By reason of the method used to compensate agents, sales contests, quota systems, prizes and other devices, industrial insurance is frequently sold by undesirable high pressure methods. Many agents selling this type of insurance are untrained or for other reasons unqualified to deal with the public. Because of their high cost and the selling practices employed industrial policies are rarely kept in force long enough to accomplish their essential purpose. In the ten year period ending 1937 only slightly more than 5% of the policies terminating terminated by death or maturity. The selling procedure is characterized by a "squirrel cage" operation where the public is sold policies which lapse only to be sold again. Moreover, the policies are often poorly distributed within the family group with protection on infants over-emphasized and protection on the breadwinner under-emphasized. The companies have not provided satisfactory means for readjusting policyholders

programs to meet changing economic circumstances. The fact that a single family may frequently hold policies in several different companies adds to the confusion. State laws for this form of insurance are inadequate. Industrial endowment policies, for example, though outlawed in New York, are still frequently sold by companies not subject to the jurisdiction of that state. Finally the number of policy forms available and variations in policy provisions are highly undesirable and conducive to misrepresentation and misunderstanding on the part of the policyholder.

The three largest companies selling this type of insurance and several smaller companies have, partly under the pressure of public opinion and partly at their own volition, instituted many industrial insurance reforms. The quality of their service in this field is far better than the other 100 odd companies and indeed many of the abuses indicated above are less apparent in their operations. About 50% of the new business is being written by companies not in this category, however, and as to all companies the evils apparently of necessity inherent in industrial insurance remain.

The Armstrong Report stated over 30 years ago that from its study of industrial insurance, there remained but two alternatives - to permit the continuance of that type of business with the weaknesses inherent in the system or to prohibit its sale altogether by private companies. The alternatives which were then so frankly recognized remain in our opinion the only alternatives today.

The question is again presented as to whether the sale of industrial insurance should be prevented since the number of reforms in this field which might be made by the states would, though desirable, be insufficient in our opinion to eliminate the basic difficulties. In this connection it should be acknowledged that if industrial insurance is to be eliminated, satisfactory substitutes must first be found. In spite of its high cost, excessive lapsation, maldistribution and other evils, industrial insurance now provides a type of protection earnestly desired by great segments of the population. Private companies cannot provide a substitute. True, the situation will be alleviated to some extent by the development of monthly debit ordinary insurance and an extension and development of Savings Bank Life Insurance. It appears to us that the only adequate substitute can be obtained either through extension of federal and state social security programs to provide a lump sum death benefit for all the populace in an amount sufficient to cover burial and to compensate for expenses attendant upon the last illness, or through the development of a system for selling burial benefits through the facilities of the postal system. Such programs are feasible and would give wider protection at far less cost than is now possible under industrial insurance.

In the light of these considerations, we recommend the extension of social security benefits or the development of some other program such as the sale of insurance through the postal system to the end that industrial insurance would gradually disappear. Nothing should be done to cancel outstanding policies or to cause a serious dislocation in the insurance programs of policyholders now holding this type of insurance. Furthermore, the plan should not be so drawn that it would place the federal government in competition with those companies selling ordinary life insurance. The problem is complex and will require careful study. It would be a proper subject for consideration of the Insurance Advisory Council should such a body be created.

FIRE, CASUALTY AND MARINE INSURANCE

Finally, it is recommended that the appropriate committee of Congress or some designated agency of the federal government be directed to conduct a thorough investigation of all forms of fire, casualty and marine insurance.

CONCLUSION

As we have stated these suggestions and recommendations are not to be considered as an attack on life insurance. The life insurance business has had a remarkably consistent development and has in most cases fully justified the confidence of its policyholders. In bringing a greater measure of security to millions of policyholders, the life insurance business has performed a useful service which makes its continuance a social necessity. Indeed, there can be no question of the soundness of the basic principles upon which the institution of life insurance is founded. There is no desire on our part to place the federal government in a position to tamper with insurance investments, to control investment policies, or to interfere in any way with the companies free exercise of managerial judgment. That certain practices and tendencies have developed in the business which, upon objective analysis, appear undesirable from the point of view of broad public interest is, after all, not surprising. One would expect to find that certain procedures and types of insurance inaugurated many years ago would with changing times have a different effect and emphasis than was originally expected and, of course, the great growth of the companies would create new regulatory as well as new operating problems. Furthermore, the activities of a particular company may have an entirely different aspect when viewed not from the point of view of an individual company but from the point of view of the combined effect of insurance practices generally upon the national economy. In broad outline our recommendations sum up as follows:

First - That the respective states make strenuous and prompt efforts to strengthen their existing machinery for regulating and supervising life insurance companies. We have offered several specific suggestions to guide state commissioners and state legislature. In most cases, if not all, the commissioners will, we believe, be ready to accept the proposals provided they receive adequate financial support and backing from their respective legislatures.

Second - That the Federal Government assist the states in their efforts to strengthen their existing regulatory machinery by giving advice, disseminating information and exercising some slight supervision over certain primarily interstate aspects of the business. The Federal Government should render such assistance without supplanting the basic jurisdiction of the states.

Third - That the gradual disappearance and eventual elimination of industrial insurance be encouraged by developing a plan for paying lump sum death benefits under social security programs or by making arrangements for the sale of insurance providing such benefits through the facilities of the postal system.

We do not recommend or suggest any form of strict, all inclusive federal regulation. On the contrary, the entire purpose of our proposals is to demonstrate that such regulation can be avoided by strengthening the existing state regulatory machinery. If realistic steps are taken by state officials, state legislatures, and company managements acting in cooperation with the Federal Government, we may expect not only the continuance of state regulation but may look forward to increased efficiency and public usefulness in the life insurance business.

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The above statement is to a large extent based upon the hearings on life insurance before the Temporary National Economic Committee which are printed in Parts 4, 10, 10-A, 12, 13, and 28 of the proceedings of that Committee. The staff of the Securities and Exchange Commission also submitted two reports on the insurance

study to the Committee. These reports are designated as Monograph No. 2, "Families And Their Life Insurance," and Monograph No. 28, "Study of Legal Reserve Life Insurance Companies." The latter monograph summarizes all facts developed in the course of the study. It may be purchased for fifty cents from the Superintendent of Documents, Washington, D. C. The other volumes listed above may also be purchased from the Superintendent of Documents at a nominal cost.