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INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

HEARINGS

BEFORE THE

TEMPORARY NATIONAL ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

SEVENTY-SIXTH CONGRESS

FIRST SESSION

PURSUANT TO

Public Resolution No. 113

(Seventy-fifth Congress)

AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO
MAKE A FULL AND COMPLETE STUDY AND INVESTIGA-
TION WITH RESPECT TO THE CONCENTRATION OF
ECONOMIC POWER IN, AND FINANCIAL CONTROL
OVER, PRODUCTION AND DISTRIBUTION
OF GOODS AND SERVICES

PART 12

INDUSTRIAL INSURANCE

AUGUST 23, 24, 25, 28, 29, 30, 31, AND
SEPTEMBER 5, 6, AND 7, 1939

Printed for the use of the Temporary National Economic Committee



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1054. Letter, dated Mar. 14, 1939, from Mr. E. A. Crawford, assistant vice-president of the Life Insurance Co. of Virginia, to Mr. A. E. Call, Washington, D. C., manager for that company, asking for more business from the Washington district.	6032	6032
1055. Letter, dated Feb. 10, 1939, from E. A. Crawford, assistant vice-president of the Life Insurance Co. of Virginia, to A. E. Call, Washington, D. C., manager for that company, advising that a certain allotment of production would have to be reached in order to qualify for a convention in New York.	6033	6033
1056. Letter, dated June 20, 1939, from H. P. Anderson, Jr., general supervisor of districts, Life Insurance Co. of Virginia, to A. E. Call, Washington, D. C., manager for that company, regarding the poor production record of an agent.	6034	6034
1057. Letter, dated Apr. 14, 1939, from H. P. Anderson, Jr., general supervisor of districts, Life Insurance Co. of Virginia, to A. E. Call, Washington, D. C., manager for that company, regarding the necessity of having an agent increase his production if he is to remain with the company.	6035	6035
1058. Letter, dated Apr. 14, 1939, from H. P. Anderson, Jr., general supervisor of districts, Life Insurance Co. of Virginia, to A. E. Call, Washington, D. C., manager for that company, advising that an agent is required to produce both ordinary and industrial business.	6035	6035
1059. Table: Cash dividends paid, 1906-39, the Home Beneficial Association, Richmond, Va.	6039	6325
1060. Letter, dated January 16, 1935, from A. J. Watkins, vice president, Home Beneficial Association, Richmond, Va., to John Wright, Washington, D. C., superintendent for that company, describing the bonus provisions used by that company.	6045	6045
1061. Letter, dated Jan. 25, 1935, from A. J. Watkins, vice president, Home Beneficial Assnociation, Richmond, Va., to John W. Wright, Washington, D. C., superintendent for that company, setting out the company's production allotments for 1939.	6045	6045
1062. Letter, dated July 20, 1938, from M. D. Nunnally, Jr., vice president, Home Beneficial Association, to John W. Wright, Washington, D. C., superintendent for that company, regarding the quota of production in Mr. Wright's district.	6053	6053
1063. Letter, dated May 6, 1936, from E. G. Hobson, assistant superintendent of agencies of the Home Beneficial Association, to John Wright, Washington, D. C., superintendent for that company, regarding extra efforts to be expended during life insurance week.	6054	6054
1064. Letter, dated Feb. 18, 1938, from F. R. Brauer, of Home Beneficial Association, to John W. Wright, Washington, D. C., superintendent for that company, regarding the production allotment for the Washington district.	6054	6326

Number and summary of exhibits	Introduced at page	Appears on page
1065. Letter, dated Sept. 23, 1936, from E. G. Hobson, assistant superintendent of agencies of the Home Beneficial Association, to John W. Wright, Washington, D. C., superintendent for that company, setting out the production quotas for the Washington district for "our president's week"	6054	6327
1066. Letter, dated July 7, 1936, from E. G. Hobson, assistant superintendent of agencies of the Home Beneficial Association, to John W. Wright, Washington, D. C., superintendent for that company, describing a production contest	6054	6327
1067. Form of agents' agreement, Equitable Life Insurance Co., Washington, D. C.	6056	6328
1068. Letter, dated Mar. 1, 1938, from L. H. Hannah, vice president, Equitable Life Insurance Co., to the field force of that company, announcing changes in the company's compensation plan	6056	6336
1069. Table: Analysis of finals, 1934-39, Equitable Life Insurance Co., Washington, D. C.	6057	6336
1070. Letter, dated Dec. 16, 1938, from L. H. Hannah, vice president, Equitable Life Insurance Co., Washington, D. C., to the field force of that company, setting up the quotas of the company for the year 1938	6059	6059
1071. Advertising material used by the Equitable Life Insurance Co., Washington, D. C.	6070	6337
1072. Table: Service record of field men of Monumental Life Insurance Co. as of Aug. 1, 1939	6089	6338
1073. Proxy form used by the Home Friendly Insurance Co. of Maryland	6095	6338
1074. Memorandum, dated Apr. 15, 1939, by Charles H. Taylor, president of the Home Friendly Insurance Co. of Maryland, announcing the 55th anniversary contest of that company	6098	6339
1075. Letter, dated Nov. 4, 1937, from George L. Ward, supervisor of agencies, Home Friendly Insurance Co., to C. C. Cole, Havre de Grace, Md., manager of that company, requesting that insurance production be increased during the semi-annual contest	6099	6098
1076. Letter, dated July 20, 1937, from George L. Ward, supervisor of agencies, Home Friendly Insurance Co., to C. C. Cole, Havre de Grace, Md., manager of that company, setting out production requirements for Mr. Cole's district	6099	6099
1077. Letter, dated June 7, 1938, from George L. Ward, supervisor of agencies, Home Friendly Insurance Co., to T. J. Kelley, Salisbury, Md., manager for that company, describing the prizes to be awarded for high production during June, 1938	6100	6341
1078. Letter, dated Dec. 15, 1937, from George L. Ward, supervisor of agencies, Home Friendly Insurance Co., to C. C. Cole, Havre de Grace, Md., manager for that company, describing a contest to be conducted by the company	6100	6342
1079. Letter, dated Aug. 8, 1939, from George L. Ward, supervisor of agencies, Home Friendly Insurance Co., to T. J. Kelley, Salisbury, Md., manager for that company, regarding the settlement of disability claims	6102	6101
1080. Letter, dated January 25, 1938, from D. F. Zeigler, vice president, Home Friendly Insurance Co. of Maryland, to L. G. Haynie, Washington manager of that company, regarding proxy solicitation	6105	6343

SCHEDULE OF EXHIBITS

Number and summary of exhibits	Introduced at page	Appears on page
1081. Letter, dated July 24, 1937, from C. C. Cole, Havre de Grace, Md., manager for the Home Friendly Insurance Co., to George L. Ward, supervisor of agencies for that company, regarding production of business in his district	6106	6106
1082. Table: Agency turn-over, 1937, 1938, and the first half of 1939, The Baltimore Life Insurance Co.	6113	6344
1083. Letter, dated Feb. 6, 1939, from a vice president of the Baltimore Life Insurance Co., to E. F. Lort, Washington, D. C., manager for that company, setting out the production allotment for 1939	6114	6344
1084. Table: Policies paid for, terminated, and remaining in force, 1932-38, The Baltimore Life Insurance Co.	6117	6345
1085. Copy of agents' agreement, John Hancock Mutual Life Insurance Co.	6123	6345
1086. Memorandum, dated June 28, 1939, from a vice president of the John Hancock Mutual Life Insurance Co., setting out production quotas	6127	6351
1087. Letter, dated Apr. 11, 1938, from Lloyd G. Haynie, manager for the Home Friendly Insurance Co., to F. Chase MacCubbin, vice president of that company, regarding a disability claim	6143	6142
1088. Table: Agency turn-over, 1938, Peoples Life Insurance Co., Washington, D. C.	6147	6352
1089. Table: Collateral loans to Irene T. Reaney, shown upon schedule C of the convention form annual statements of the Monumental Life Insurance Co. for the years 1929-38, inclusive. Entered in the record on Sept. 11, 1939		6352
1091. Circular letter, dated Nov. 1, 1938, from I. T. Townsend, vice president of The Life Insurance Co. of Virginia, regarding additional compensation to agents for weekly premium business. Entered in the record on Sept. 11, 1939		6353
1092. Table: Industrial insurance—insurance in force and new issues; proportion in three largest companies, 1938. Entered in the record on Sept. 11, 1939		6356
1119. Letter, dated Sept. 8, 1939, from C. M. Corey, manager, agency department, John Hancock Mutual Life Insurance Co., to Gerhard A. Gesell, regarding monthly debit ordinary insurance in force and cost of visiting nurse service. Entered in the record on Sept. 13, 1939		6356
1128. Correspondence between Milton Roberts, president of Real Estate Trust Co., Garland F. Ferguson, Temporary National Economic Committee, and Gerhard A. Gesell, regarding transactions between Monumental Life Insurance Co. and the Real Estate Trust Co. Entered in the record on Sept. 22, 1939		6357
1129. Memorandum from James L. Madden, Metropolitan Life Insurance Co., regarding Metropolitan agents enrolled in the course for Chartered Life Underwriters. Entered in the record on Sept. 22, 1939		6359
1130. Table: Length of service of agents of Metropolitan Life Insurance Co. Entered in the record on Sept. 22, 1939		6359
1131. Table: Number of agents employed and duration of employment of agents, Home Friendly Insurance Co. of Maryland. Entered in the record on Sept. 22, 1939		6360
1132. Table: Duration of employment of agents, Peoples Life Insurance Co., Washington, D. C. Entered in the record on Sept. 22, 1939		6361

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, AUGUST 23, 1939

UNITED STATES SENATE.
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 2:40 p. m. pursuant to adjournment on July 14, 1939, in the Caucus Room, Senate Office Building. Subcommittee members: Garland S. Ferguson (chairman), Joseph J. O'Connell and Representative Joseph E. Casey of Massachusetts, requested by the committee to sit on the subcommittee as acting vice chairman.

Present: Commissioner Ferguson (presiding), Representative Casey, and Mr. O'Connell.

Present also: Messrs. Lubin and Brackett; Joseph Borkin, Department of Justice; Gerhard A. Gesell, special counsel, and Michael H. Cardoza, attorney, Securities and Exchange Commission.

Chairman FERGUSON.¹ Mr. Gesell, are you ready to proceed?

INTRODUCTORY STATEMENT

Mr. GESELL. I am and I would like to make a short statement if I may. Today the Commission begins its presentation of testimony relating specifically to industrial insurance. Industrial insurance is an appropriate subject for special study by this committee which is concerned with the causes and effects of concentration of economic power. The two largest life insurance companies in the United States, the Metropolitan Life Insurance Co. and the Prudential Insurance Co. of America, are primarily industrial insurance companies. As the record shows, their combined assets of over \$8,000,000,000 account for about 31 percent of the assets of all United States companies selling either ordinary or industrial insurance. Other companies, considered small only by comparison, are rapidly accumulating substantial assets and surpluses. Many of these companies are stock companies and in addition to the accumulation of substantial surpluses have earned phenomenal returns for their stockholders.

The general subject of industrial insurance has never been intensively studied by any body representing the Federal Government. In England, where modern industrial insurance had its origin, there have been at least two official studies made under the auspices of the British Parliament. Oddly enough, these studies have disclosed practices which are in many cases identical with practices of certain American industrial insurance companies which have been

¹ Note: Commissioner Ferguson is chairman of the subcommittee.

pointed out by present-day critics in this country. On several occasions it is true that committees representing State legislatures have inquired into the conduct of the industrial insurance business in a particular State. The Armstrong committee under Chief Justice Hughes gave some attention to industrial insurance problems, although the scope of the work in this connection was admittedly limited. The committee recommended that a special investigation be made. A significant portion of its report reads as follows:

Apart from what has already been suggested, the committee is not prepared to make recommendations with reference to industrial insurance further than to say that the subject is one deserving of special investigation. The most serious evils which have been disclosed by this inquiry, to wit, the excessive premiums, the enormous lapse rate and the hardships of the agents, seem to be inherent in the system. A great reform could be accomplished if the expense of solicitation and collection could be avoided by the establishment of branch offices where insurance might be obtained by the thrifty poor who desire it. But the opinion of those connected with the companies is that such a plan would be impracticable and the committee is without information which would justify an attempt to compel its introduction. It is insisted that the present method is the most economical that has yet been proved to be adequate to the exigencies of the business. The alternative seems to be presented either of prohibiting altogether industrial insurance by private corporations or of permitting its continuance substantially upon the present basis, subject to those regulations designed to secure economical administration, applicable to all companies alike.

At the present time, the New York State Legislature is studying industrial insurance through a committee of which Assemblyman R. Foster Piper is chairman. This committee is doing significant work and I would like to take this opportunity to acknowledge the cooperation which the Commission has received from Assemblyman Piper. As will be demonstrated, however, industrial insurance is not the peculiar problem of any single State and it is fitting that the operations of the industrial business be examined from a national point of view.

Some phases of the industrial insurance problem have already been brought to the committee's attention from time to time in the course of these hearings. Partial consideration was given to the machinery by which policyholders, including industrial policyholders, select and elect the directors of mutual companies. The committee found that "Directors of such companies are practically self-perpetuating groups."

We will present further testimony relating to problems of election practices in both mutual and stock companies. In the field of lapse and policy terminations in general, substantial evidence was presented indicating what was referred to as a "squirrel cage" operation; that is to say, the continual sale and resale of industrial policies to policyholders who lapse their policies only to take new policies and lapse again. Additional testimony on the subject of lapses will be presented in the course of the hearings. In the course of the forthcoming hearings we will consider among other things the management and organization of certain representative companies, variations in agency and sales practices, and will present material bearing on such matters as net cost and policy terms. In the course of the next 2 weeks, the committee will hear testimony from agents, managers, and company executives. The operations of both the large and smaller companies will be examined.

Today we will call representatives of the staff of the Insurance Section of the Commission who will present background statistical

information. First witness is Dr. Donald H. Davenport who has already appeared before this committee on several occasions.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DAVENPORT. I do.

TESTIMONY OF DR. DONALD H. DAVENPORT, SPECIAL ECONOMIC CONSULTANT, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.

HISTORICAL AND STATISTICAL SUMMARY

Dr. DAVENPORT. As was indicated in the testimony presented before this committee February 6, 1939, there are three classes of life insurance in force in the legal reserve life-insurance companies in this country.¹ These classes are known as ordinary, group, and industrial life insurance. December 31, 1937, there were 138 companies in the United States writing industrial insurance. Many of these are small companies that are not included in the summaries published in the Spectator Insurance Yearbooks. In fact, the official totals for 1937 are based upon the business of only 66 companies. These 66 companies together that year had in force 88,881,000 industrial policies. These policies had a face value of \$20,591,000,000. However, inasmuch as some of these companies carried on business in Canada, a small proportion—less than 5 percent of the total, was on lives outside of the United States.

The relative importance of industrial insurance in comparison with the other classes of insurance may be gauged in several ways. We may look at it from the point of view of the amount of insurance in force. On this basis, as of December 31, 1937, the \$20,600,000,000 of industrial insurance in force accounted for 19 percent of the total life insurance in force in United States companies.

On the basis of the premiums collected the industrial insurance accounted for \$811,000,000 out of a total of \$3,464,000,000; in other words 23.4 percent of the total life-insurance business as measured by premiums collected comes from the industrial insurance policyholders. On the basis of the number of policies, the industrial-insurance policies account for 72 percent of the total.

Mr. GESELL. Let's see; then, in terms of insurance in force, industrial accounts for 19, in terms of premiums collected for 23.4 and in terms of insurance in force measured in terms of number of policies, 72 percent of the total.

Dr. DAVENPORT. That is right, Mr. Gesell.

Mr. GESELL. Are those '37 or '38 figures that you have used?

Dr. DAVENPORT. Those are figures as of the end of the year 1937.

Mr. GESELL. Am I correct in saying that over-all figures for the business for 1938 are not yet publicly available?

Dr. DAVENPORT. That is correct. The official source of this information is the Spectator Insurance Yearbook; the Yearbook of 1939 containing the '38 figures has not yet made its appearance.

¹ See Hearings, Part IV, p. 1166 et seq.

Mr. GESELL. Am I correct in understanding that your figures that you have just mentioned refer to 66 companies rather than the total of 138?

Dr. DAVENPORT. That is correct. There is no detailed information for the remaining companies. The Spectator apparently had detailed information for 66 companies that write industrial insurance.

Mr. GESELL. Have you any idea what percentage these 66 companies represent of the total when measured in terms of, say, number of policies in force?

Dr. DAVENPORT. I should estimate that it would represent probably 95 or 96 percent of the total.

Mr. GESELL. Very well, Dr. Davenport.

Dr. LUBIN. May I ask you to repeat, in terms of the premiums they represent, what percentage of the total?

Dr. DAVENPORT. 23.6 percent, Dr. Lubin, 23.4 percent.

Dr. LUBIN. In terms of face value?

Dr. DAVENPORT. Nineteen percent. In terms of number of policies, 72 percent. You see, the industrial insurance policies are for much smaller amounts than in the case of either the ordinary or the group policies.

There is no question but that from the point of view of the number of lives affected by insurance, that industrial insurance is the most important single form of insurance that we have.

In outward appearances there is a great similarity between industrial insurance and ordinary insurance. However, industrial insurance differs fundamentally from ordinary insurance in the basic purpose which it serves.

Ordinary insurance is based upon the assumption that an individual has an economic value to his dependents and the insurance policy undertakes to compensate them for the loss of that value in the case of an untimely death.

PURPOSE AND CHARACTERISTICS OF INDUSTRIAL INSURANCE

Dr. DAVENPORT. Industrial insurance, on the other hand, was originally designed to provide the very poor with a sum of money sufficient to defray the cost of a decent burial. Organizations to accomplish this purpose are known to have existed among the early Greeks and Romans. In China there are burial tongs today which appear to have been in existence for many centuries. In the Middle Ages many of the religious and craft guilds included provisions for burial in the benefits they offered their members.

Industrial life insurance in its modern form dates back to about 1843, when the Prudential Mutual Investment & Loan Association of London, now called the Prudential of London, undertook the writing of life insurance for small amounts on a weekly premium payment plan. In the United States the first industrial policy was probably written about 1870 by the Mutual Life Insurance Co. of Baltimore, now the Monumental Life Insurance Co.¹

In 1875 the Prudential Friendly Society, which was originally known as the Widows and Orphans Friendly Society, and is now the

¹ A photostatic copy of an industrial insurance policy issued by Mutual Life Insurance Co. of Baltimore, in March 1873, was entered in the record on September 11, 1939, as "Exhibit No. 1090" and is on file with the committee.

Prudential Insurance Co. of America, issued its first industrial policy. Four years later both the Metropolitan Life Insurance Co. and the John Hancock Mutual Life Insurance Co. entered the industrial field.

Mr. GESELL. Now, Dr. Davenport, have you prepared figures which will show the growth of the industrial insurance business in this country since that time, and figures which will also relate that growth to the population of the country?

Dr. DAVENPORT. I have.

Mr. GESELL. Are those figures contained on this chart, entitled "Industrial Life Insurance," and on the schedule entitled "Industrial Life Insurance in the United States 1900-1937," which I now show you?

Dr. DAVENPORT. They are on the table.

Mr. GESELL. Am I correct in saying that this material has been prepared from the sources indicated in each case?

Dr. DAVENPORT. That is correct.

Mr. GESELL. I wish to offer the schedule and chart for the record. (The chart referred to was marked "Exhibit No. 945" and appears on p. 5600. The statistical data on which this chart is based are included in the appendix on p. 6165.)

Dr. DAVENPORT. This table epitomizes the history of industrial life insurance in the United States from 1900 through 1937. The table is divided into two parts. The part at the top is based upon amounts; the part at the bottom presents relatives based upon those amounts, relatives in which the year 1900 is taken equal to 100 percent and the figures for the respective years related to the figures in the year 1900.

Certain significant facts emerge from an examination of this table. In the first column we see the amounts of industrial life insurance in the United States in millions of dollars. In 1900 we had \$1,469,000,000 of industrial life insurance in force. By 1937 that had grown to \$20,591,000,000. In other words, if we look at the figures at the bottom of the chart we can see that the amount of industrial life insurance in force in 1937 was 14 times as great as the amount of industrial insurance in force in 1900.

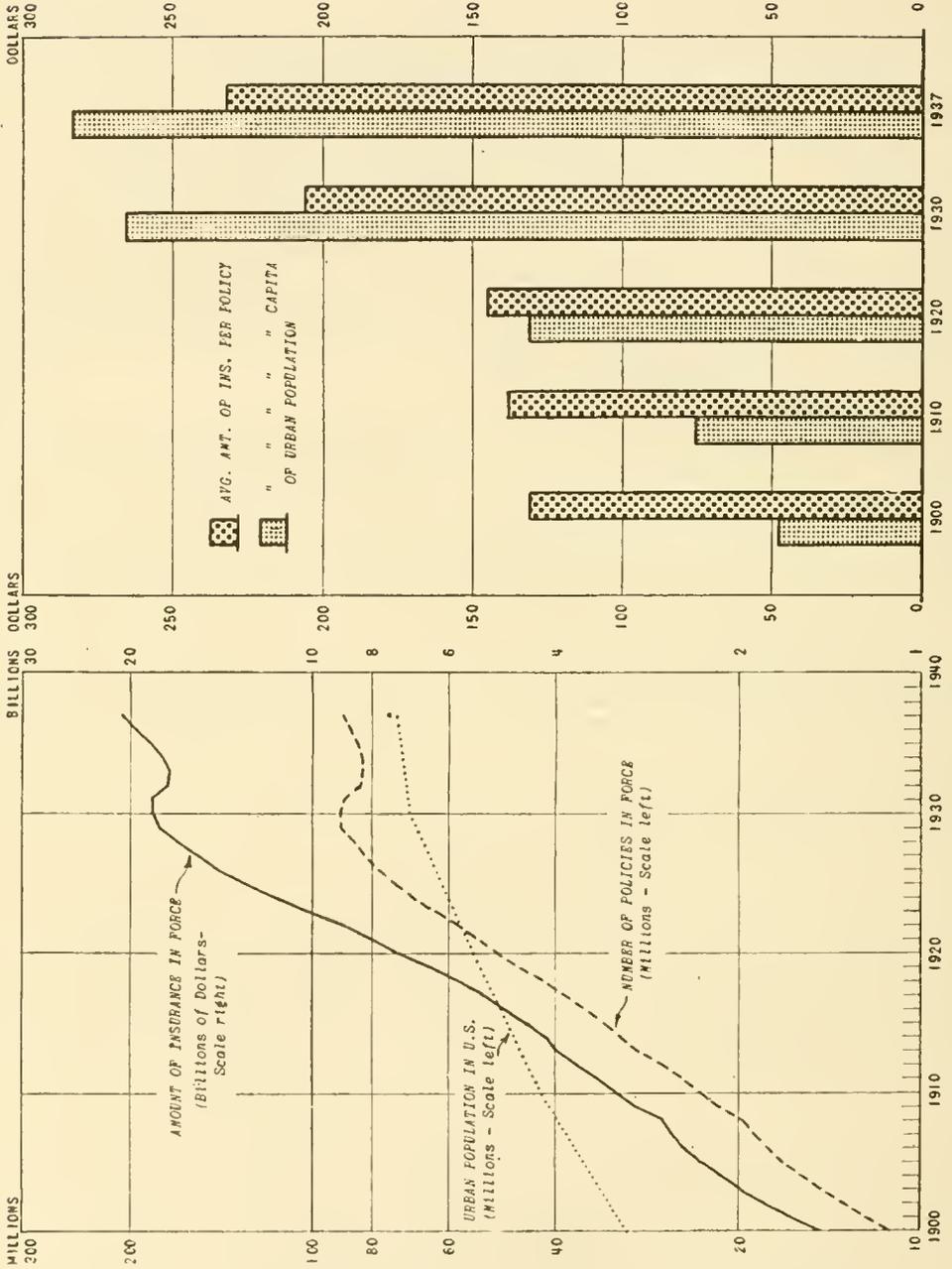
The number of policies is represented in the second column. There were 11,200,000 policies in 1900. That number had grown to 88,900,000 by 1937. In other words, 1937 had practically eight times as many industrial life insurance policies in force as there had been in 1900.

It is interesting to compare the growth of industrial life insurance with the growth of population in the United States during this same period. We have given two sets of figures for population. The total population of the continental United States appears in column 3, the urban population in column 4. The total population grew from 76,000,000 to 129,000,000 from 1900 to 1937. In other words, in 1937 the total population was only 70 percent greater than it had been in 1900.

Industrial life insurance is primarily sold to people who live in highly industrialized, urbanized areas. Therefore it was thought significant to compare the growth of urban population in the country. In 1900 we had 30,400,000 people living in urban areas. That num-

EXHIBIT No. 945

INDUSTRIAL LIFE INSURANCE



Source: Spectator; Insurance Year Book and Statistical Abstract
 * Estimated on basis of ratio of urban to total in 1930

ber had grown to 72,600,000 in 1937. In other words, the urban population was 239 percent of what it had been in 1900.

The last two columns relate the amounts of industrial insurance to the number of policies and to the number of people living in the urban areas. The average policy in force in 1900 was for \$131. That average amount had grown to \$232 in 1937. It was 77 percent greater in 1937 than it had been in 1900.

Mr. GESELL. How do you get that figure of average policy?

Dr. DAVENPORT. That is obtained by dividing the amount of insurance in force by the number of policies in force. It is an over-all average for the country as a whole. A significant figure emerges when we relate the amount of insurance in force to the average person living in the urban area.

In 1900 there was a face amount of \$48 of industrial insurance in force for every person living in the urban areas of the United States. That amount had grown to \$283 by 1937; it had grown to 590 percent as large a figure as it was in 1900.

Mr. GESELL. Are these presented graphically on the chart which was introduced at the same time as the schedule?

Dr. DAVENPORT. The chart presents graphically the figures that are shown in the table.¹ That is correct; Mr. Gesell.

Mr. GESELL. Would you care to point out to the committee the significant ratios in relationships portrayed by that chart?

Dr. DAVENPORT. Certainly. If you will look at the chart, the first part of it is presented on a ratio grid. The lines on this chart, therefore, reveal the rates of change in the respective items that are represented. If you will look at the dotted line first you can see how the urban population of the United States increased from 1900 to 1937. The scale relating to urban population is the scale on the left and is in millions; the figures are presented in the accompanying table.

Both the number of policies in force in the respective years represented and the amounts of industrial insurance in force in those same years appear to have grown at much more rapid rates than is the case with urban population.

Mr. GESELL. Taking the right-hand portion of the chart with the double columns, that again expresses the same result, does it not, that the average amount of insurance per policy is related there to the average amount of insurance per capita of your urban population?

Dr. DAVENPORT. That is right. I call your attention to the fact that the scale for the segment of the chart on the right is an arithmetic scale in dollars, and if you will look at the columns that are represented by the small dots, you have the average amount of insurance per capita. In 1900 that amount was \$48, and it grew rapidly to the present figure, in 1937, of \$283.

The bar immediately to the right of the bar representing the per capita of urban population, the one with the heavy black squares in it, represents the average amount of insurance per policy. This amount, too, has risen from \$131, as you see, to \$232 in 1937.

Mr. GESELL. Now if you had plotted on this chart not urban population but all population, the result would have been to show that

¹ See "Exhibit No. 945." appendix, p. 6165.

more insurance is being sold to the population than is reflected by the charting of the urban population line; is that correct? In other words, the total population has not grown as rapidly as urban population?

Dr. DAVENPORT. The rate of increase, if we had the figures on the average amount of per capita total population, would not have been as great, because total population has not grown as rapidly as your urban population.

Mr. GESELL. Now am I correct in saying that industrial-life insurance is written on the level premium, legal reserve plan?

Dr. DAVENPORT. It is. It is written on the same plan as ordinary insurance—the level premium legal reserve. In this respect it is almost identical with the ordinary life insurance. However, there are certain distinctions which we ought to keep in mind. It is written for much smaller amounts, and usually it is written for the amount of insurance that a given premium will buy at a particular age.

For example, it is written in units of what 5 cents will buy at the age of the applicant for the insurance, and consequently face amounts of insurance represented by these policies are for odd amounts, which is quite different in the case of ordinary insurance, where you buy \$1,000 or \$5,000 or \$10,000 policies and pay whatever premium it happens to figure out for your age. Industrial policies have an average face value, we have indicated on the chart and table a moment ago, of \$232, while the average face value of the ordinary insurance policy is over 10 times as great, about \$2,300.

Most of the premiums on industrial insurance are computed on a weekly payment plan, although some industrial policies call for monthly payments. These premiums are typically collected by agents of the company, who call for that purpose at the homes of the policyholders. In this respect it is quite different, as you can see, from the way in which the companies collect premiums from ordinary policyholders. They send the ordinary policyholders a bill, and the ordinary policyholder sends a check in response to that bill.

Another difference is that industrial insurance is ordinarily written without subjecting the applicant to a medical examination. The premiums are established on the basis of the specific mortality experience with such lives.

This indicates a rate of mortality for practically all ages that is substantially higher than in the case of persons taking out ordinary insurance. Partly for this reason and partly because of the cost of collecting premiums on industrial insurance at the homes of the policy holders, the premiums on industrial insurance are higher than in the case of ordinary insurance.

Mr. GESELL. Now, Dr. Davenport, have you prepared tables showing the relative importance of the 10 largest industrial life insurance companies doing business in the United States?

Dr. DAVENPORT. Yes.

Mr. GESELL. Are those the tables I now show you?

Dr. DAVENPORT. These are the tables, Mr. Gesell.

Mr. GESELL. These tables have been prepared to reflect the relationship of the companies measured in terms of amounts of insurance, rather than numbers of policies in force, have they not?

Dr. DAVENPORT. That is correct.

Mr. GESELL. I wish to offer the schedules for the record.

The CHAIRMAN. They will be received in evidence.

(The schedules referred to were marked "Exhibit No. 946" and are included in the appendix on p. 6166.)

Mr. GESELL. Have you any comments which you wish to make on these tables?

Dr. DAVENPORT. The first table shows the details for the 10 largest industrial life insurance companies. These 10 companies have in force 92 percent of all of the industrial insurance in force, as measured by amounts. I would call your attention to the degree of concentration represented by the largest of these companies. The Prudential Insurance Co. of America, with \$7,574,000,000 industrial insurance in force, has 36.78 percent of all of the industrial insurance in force, reported in the Spectator on December 31, 1937. The Metropolitan Life Insurance Co. has just slightly less than that, \$7,512,000,000 of industrial insurance in force, and that represented 36.48 percent of the total.

The next largest company is the John Hancock Mutual Life Insurance Co. of Boston, Mass., with \$1,684,000,000 worth of industrial insurance, representing a total of 8.18 percent. These three companies together control 81.44 percent of all of the industrial insurance in force in the United States.¹

Mr. GESELL. It is true, is it not, that these three companies are all mutual companies?

Dr. DAVENPORT. That is correct.

Mr. GESELL. They also sell, do they not, ordinary as well as industrial insurance?

Dr. DAVENPORT. They do. The Metropolitan—I have the figures here somewhere—roughly, we can say that both the Metropolitan and the Prudential have in force practically one and a third times as much ordinary insurance as they have industrial insurance.

Mr. GESELL. Have you figures that will show what that is?

Dr. DAVENPORT. Yes; I have; here they are. In the case of the Metropolitan the amount of its industrial insurance is about 65 percent as large as its ordinary insurance. The Prudential industrial insurance is 87 percent as large as its ordinary insurance, while the John Hancock industrial insurance is 80 percent of its ordinary insurance. The second table presents more recent information, which is available for these 10 companies, which is not available for the industry as a whole. It merely adds substantiating detail as to the concentration of the control over industrial insurance by the Big Three.

Mr. GESELL. That schedule is prepared on the basis of the 1938 figures, is it not?

Dr. DAVENPORT. That is correct, Mr. Gesell.

Mr. GESELL. And the percentages there show the relationship of the companies as among themselves, whereas the first schedule shows the relationship of the companies to the total amount of insurance in force?

Dr. DAVENPORT. That is so; yes, sir.

¹ Dr. Davenport subsequently submitted a schedule of industrial insurance in force and new issues—proportion in the three largest companies, which was entered in the record on September 11, 1939, as "Exhibit No. 1192" and appears in the appendix to this Part on p. 6356.

Mr. GESELL. Now, have you prepared a schedule entitled "Industrial life insurance, relative importance in the 48 States and the District of Columbia"?

Dr. DAVENPORT. Yes, sir.

Mr. GESELL. Is that the schedule which I show you?

Dr. DAVENPORT. Yes, sir.

Mr. GESELL. I wish to offer it for the record.

Acting Chairman FERGUSON. It will be received in evidence.

(The table referred to was marked "Exhibit No. 947" and is included in the appendix on p. 6167.)

Mr. GESELL. Have you any comments which you wish to make on that schedule?

Dr. DAVENPORT. The table, "Industrial life insurance, relative importance in the 48 States and the District of Columbia, December 31, 1937," gives the evidence as to the extent of the influence of industrial life insurance companies throughout the United States. For each one of the States, including the District of Columbia, we have presented for the year 1937 the premium income collected by industrial life insurance companies from industrial life insurance policyholders. This appears in the third column on the table. The fifth column represents the amount of industrial insurance in force in thousands of dollars in each one of these States. The seventh column represents the amount of ordinary insurance in force in each one of these States. The column immediately after that shows the ratio of the amounts of ordinary insurance to the amounts of industrial insurance in force. The next column shows the number of industrial policies in force, and the next to the last column shows the total population, of these States in 1937 as estimated by the Bureau of the Census.

In every State there is at least one company that sells this type of insurance. The number of companies selling industrial insurance is given directly after the names of the States at the left-hand end of the table. Here in the District of Columbia, for example, there are 21 industrial life-insurance companies doing business. The largest companies do a nation-wide business. The Metropolitan and Prudential are authorized to do business in every State in the United States. John Hancock operates in 37 States and in the District of Columbia. In contrast there are a number of smaller companies that restrict the areas they cover to states in the immediate vicinity of their home office.

While we speak of these companies as smaller companies, it must not be assumed that they are insignificant in size. They are small in comparison with the big 10 insurance companies, but many of these are large organizations when compared with other kinds of financial and industrial corporations. For example, the Gulf Life Insurance Co. of Jacksonville, Fla., which is the twenty-fifth in order of size on our list of industrial life-insurance companies, has assets of five and a half million dollars.

The Gulf Life Insurance Co. operates in Florida, Georgia, and Alabama, with a total income in 1938 of three and a half million dollars, and that year disbursed a total of \$2,600,000, of which commissions amounted to \$439,000. Its other agency expenses, home-office salaries, medical fees, and so forth, totaled over \$1,000,000. Its total disbursements to policyholders, beneficiaries, that year amounted to \$798,516.

MR. GESELL. Well, now, referring to this table, can you tell us what the most significant States are, in terms of industrial insurance, and give us the reasons why you pick out those States as being particularly significant?

DR. DAVENPORT. There is a series of tables based upon this table which enables us to see in greater detail and greater accuracy the precise importance, relative importance, of the State with respect to industrial insurance. You can look at the column about the middle of the paper, entitled "Amounts of ordinary insurance in force," and pick out the States that have the largest amounts in force, without any difficulty.

Run down the list and pick out California, with over 3,000,000 policies in force; Connecticut, one million eight; Illinois, six million three; Indiana, two million seven.

MR. GESELL. New York is the most important, though?

DR. DAVENPORT. New York is the most important; 13,583,000 policies.

MR. GESELL. Now these schedules to which you refer, are they the four schedules which I have in my hand at the present time?

DR. DAVENPORT. That is correct, Mr. Gesell.

MR. GESELL. Those schedules show the relative importance of the industrial life-insurance sales in the various States relating to premiums collected, population, and some of the other significant ratios shown on this master schedule; is that correct?

DR. DAVENPORT. Yes, sir.

MR. GESELL. I wish to offer these for the record.

THE CHAIRMAN. They will be received in evidence and inserted in the record.

(The schedules referred to were marked "Exhibit No. 948" and are included in the appendix on p. 6169.)

DR. DAVENPORT. An examination of the first table enables one to see that the five largest States from the point of view of the amount of premiums collected from insurance of industrial-insurance policyholders account for over a half of the total premiums collected.¹

MR. GESELL. Those are New York, Pennsylvania, New Jersey, Illinois and Ohio; is that correct?

DR. DAVENPORT. That is right. The 25 largest States, including the District of Columbia as one of the 25, account for 92.8 percent of the total.

MR. GESELL. You refer to the 25 States listed?

DR. DAVENPORT. The 25 States listed. Details were not given for the other States. The second table just introduced into the record shows industrial insurance in several States related to their population in 1937.² The first three columns of this table are identical with the figures that are presented under the same captions in "Exhibit No. 947," amount of industrial premium income collected in 1937, the number of industrial life insurance policies in force in 1937, and the population in 1937. From these figures we have derived the amount of industrial premium income collected per person. That is shown in the next to the last column of this table,³ and

¹ See "Exhibit No. 948," appendix, p. 6169.

² *Ibid.*

³ *Ibid.*

in the last column the number of industrial insurance policies in force per hundred persons in the population of respective States.

MR. GESELL. Now let me see if I understand that schedule. Am I correct, then, in saying that in the State of Rhode Island that there were \$13.86 collected per person in that State for industrial insurance in the year 1937?

DR. DAVENPORT. \$13.86 was collected per person from the population of Rhode Island in 1937. That is right.

MR. GESELL. And in the State of New York the collections were \$11.66 per person; is that correct?

DR. DAVENPORT. Yes.

MR. GESELL. Now, running to the last column it will show in the case of Rhode Island, for example, that there were 123.57 policies per hundred persons in that State?

DR. DAVENPORT. That is correct.

MR. GESELL. And in the State of Maryland, which seems to be the largest there, with 139.14?

DR. DAVENPORT. For every hundred men, women, and children in the State; that is right.

MR. GESELL. How many States had more policies in force than people?

DR. DAVENPORT. There are 8 States in which the number of policies per hundred persons exceeded 100. They were Massachusetts, New York, Rhode Island, Connecticut, Delaware, the District of Columbia, Maryland, and New Jersey. That is given in a summary form in a table, entitled "States classified according to number of industrial policies in force per hundred persons population."

Referring to the other derived figure, namely, the premium income collected per person, we find that there were 8 States likewise in which the premiums collected per person in the population exceeded \$10 in 1937.

MR. GESELL. What are those eight States?

DR. DAVENPORT. They were the District of Columbia, Connecticut, Delaware, Maryland, Massachusetts, New York, New Jersey, and Rhode Island.

MR. GESELL. The other figures broken down in the States are shown on that schedule, are they not?

DR. DAVENPORT. Yes, sir.

MR. GESELL. What is the average amount, if you know, collected per person in the United States for industrial insurance premiums?

DR. DAVENPORT. The average premium per person is \$5.99—that was for 1937.

MR. GESELL. That is assuming, I take it, that everybody in the United States buys industrial insurance?

DR. DAVENPORT. No; that is merely an average figure obtained by dividing the complete total amount of premium collected by these companies, by the total population of the United States.

MR. GESELL. Well, that, in other words, assumes that everybody—in other words, if we take only those persons who buy industrial insurance, the average amount collected would be higher, wouldn't it?

DR. DAVENPORT. That is correct.

MR. GESELL. You have assumed for this figure of \$5.99 that everybody in the United States has an industrial policy, which is not necessarily the case?

Dr. DAVENPORT. Only, 83,383,000 policies, industrial policies in force in the United States. The population of the United States was 129,257,000.

It will be recalled that the testimony presented before this committee on June 12, 1939, contained some facts relating to the termination of insurance policies.¹ That testimony showed the very large percentage of terminations in industrial insurance policies due to lapses and surrenders and the relatively small proportion of the terminations that occur because of the death of the policyholder.

It may be well to refer again to the number of industrial policies terminating in the 10-year period 1928-37. These facts were presented before this committee in table and chart form at an earlier date.² We have some extra copies of those tables with us, I believe. I will summarize briefly the facts.

In the 10-year period just referred to, 1928 through 1937, 187 million industrial policies terminated. Only 4.45 percent of those terminated by reason of the death of the insured, whereas 91 percent of those policies terminated by reason of lapse or surrender; and lapse alone accounted for 70.68 percent of the total. In other words, there were 132,708,000 of these industrial insurance policies that lapsed with no payment to the policyholder, through the nonpayment of premiums by the policyholder out of a total of 187,760,000.

Mr. GESELL. Now have you prepared additional figures relating to this problem of lapse and termination?

Dr. DAVENPORT. Yes, sir.

Mr. GESELL. I show you a schedule entitled "Industrial Life Insurance Amounts in Force, New Issues and Terminated," which appears to cover the years from 1900 to 1937, and ask you if that is a schedule which you have prepared.

Dr. DAVENPORT. Yes, sir. This summarizes by years for this 38-year period the total amount of industrial life insurance in force, the amount newly issued each year, and the amount terminated each year.

Mr. GESELL. I wish to offer this for the record.

The CHAIRMAN. It will be received.

(The table referred to was marked "Exhibit No. 949" and is included in the appendix on p. 6171.)

Mr. GESELL. Have you any comments which you wish to make on that table?

Dr. DAVENPORT. That merely gives additional detail to that given in the other table. The most important information is summarized in a table yet to be identified.

Mr. GESELL. You are referring, are you, to the schedule entitled "Industrial Insurance."

Dr. DAVENPORT. That is right.

Mr. GESELL. Showing information for 84 companies, the number of industrial policies lapsed, the number of new policies written, and the number of policies in force as of the end of 1938?

Dr. DAVENPORT. Correct.

Dr. LUBIN. Dr. Davenport, reverting to "Exhibit No. 949," do you know what the total face value of all policies issued in the 37 years in the State amounted to? Have you got that total?

¹ See Hearings, Part X, pp. 4281, 4287 and 4684.

² Ibid, "Exhibit No. 685," p. 4305.

Dr. DAVENPORT. I believe—I don't understand your question.

Dr. LUBIN. Have you the total of column 3 in "Exhibit No. 949?"

Dr. DAVENPORT. No; I do not.

Dr. LUBIN. Do you have the total of column 4?

Dr. DAVENPORT. I have. The summary figures of terminations, total terminations by 4-year periods from 22 to 37; I have not the figures that go back of 1900.

Dr. LUBIN. Roughly, as you run down the column, it appears that in the last 37 years over \$60,000,000,000 worth of policies have been terminated.

Dr. DAVENPORT. That shouldn't surprise me.

Dr. LUBIN. Which is equal to the national income for several years.

Mr. GESELL. We can compare those for you if you wish.

Dr. LUBIN. I just ran down the column, and it is in that neighborhood.

Mr. GESELL. We were discussing a schedule showing information with respect to 84 companies. I show you that schedule. I would like to offer it for the record.

(The schedule referred to was marked "Exhibit No. 950" and is included in the appendix on p. 6172.)

Mr. GESELL. Will you describe what that schedule shows, Dr. Davenport?

Dr. DAVENPORT. In this table we have assembled the information for 84 companies selling industrial life insurance in the United States. This is the largest number of companies for which information could be obtained.

This exhibit shows the number of industrial policies that lapsed during 1938 the number of new industrial policies written during 1938, and the number of industrial policies in force at the end of 1938. There is a footnote which I should call your attention to which indicates that in some 22 cases the information for 1938 was not available and in those cases we have used the information for 1937 which was available.

Mr. GESELL. Do the new policies issued there include revivals?

Dr. DAVENPORT. They include revivals. That is the total of new policies issued including the revivals.

Mr. GESELL. You have drawn off on the right of that table some significant relationships, have you not?

Dr. DAVENPORT. Yes, sir.

Mr. GESELL. Will you comment on those, please?

Dr. DAVENPORT. I should first like to call attention to the symbol appearing in the second column which indicates whether the company is a mutual company or a stock company.

The third from the last column is entitled "Percentage ratio of the number lapsed to the new issues," and it shows for the Metropolitan Life Insurance Co., which appears at the top, that 48.7 percent is the ratio of the number lapsed to the number of new issues. In other words, almost half as many policies as they sold during 1938 lapsed during 1938.

Mr. GESELL. There are higher ratios than that shown for other companies, are there not?

Dr. DAVENPORT. I merely mention Metropolitan, because it is the first company appearing on the table. There are cases where the number lapsed exceeded the number written. For example, the first one

we come to is for the Afro-American Life Insurance Co. that lapsed 112 percent as many as they sold during 1938. Then we come down to the Globe Life Insurance Co. that lapsed 361 percent as many as they sold during 1938. The Alta Life Insurance Co. lapsed 235 percent as many as it sold. And so on.

Mr. GESELL. How many companies are there that lapsed more than they sold?

Dr. DAVENPORT. If you count those that have ratios over 100 percent, one, two, three, four, five, six companies have ratios exceeding 100 percent.

Mr. GESELL. And am I correct in saying that there are a substantial number of companies with ratios in excess of 75 percent?

Dr. DAVENPORT. I should say that the majority, probably 80 percent of them, have ratios that exceed 75 percent.

Mr. GESELL. How many of those companies are mutual companies?

Dr. DAVENPORT. I count 8 mutual companies out of the 84.

Mr. GESELL. The great bulk of the companies are stock companies, are they not?

Dr. DAVENPORT. May I correct myself? I count 10 mutual companies out of 84 companies. The great bulk of the companies by number are stock companies, the profits from which typically go to the owners thereof. But the great bulk of the insurance, as indicated before, by reason of the large concentration in control of the Metropolitan, Prudential, and John Hancock, all three of which are mutual companies, the great bulk of the industrial life insurance is controlled by the mutual companies.

Mr. GESELL. Have you prepared, Dr. Davenport, any other further relationships on this chart which you wish to call to the committee's attention?

Dr. DAVENPORT. There is one other item on this chart that I call to your attention, and that shows the percentage ratio of the number lapsed to the number in force—the number lapsed during 1938 to the number in force at the end of 1938. Starting with the Metropolitan, because it appears first, we find that as many as 5 percent of the policies that were in force at the end of the year had lapsed during the year 1938. But we come down to the number of companies that actually lapsed more industrial policies during 1938 than they had left on their books at the end of 1938.

Mr. GESELL. How many such companies are there?

Dr. DAVENPORT. All of those that have ratios exceeding 100 percent—14 companies. Again I should like to emphasize that we are talking here about lapsed policies only, not lapsed and surrendered policies, but lapsed policies.

The CHAIRMAN. For nonpayment of premium?

Dr. DAVENPORT. For nonpayment of premium.

Acting Vice Chairman CASEY.¹ In many of those instances I suppose the same person lets the policy lapse, then takes out new insurance and lets it lapse, and the same individual might go along with numerous policies, might he not?

Dr. DAVENPORT. It quite frequently happens.

The VICE CHAIRMAN. It is a sort of on again, off again, on again, off again.

¹ Note: Representative Casey is acting vice chairman of the subcommittee.

Dr. DAVENPORT. It has been referred to as squirrel-cage activity, but the significant thing is that when the policy lapses the policyholder loses all of the reserve, all of the unused portion of the reserve against his policy. He is paid nothing back of the savings element that is involved in this legal reserve level premium scheme of insurance. We have some figures which indicate the extent of that factor of lapse and surrender as a source of gain to the individual insurance companies. For example, for the year 1938 in the gain and loss exhibits of the three largest mutual life-insurance companies, Metropolitan, Prudential, and John Hancock, we obtained these figures: Gains from lapses and surrenders, Metropolitan in its ordinary department, \$4,915,000; from its industrial department, \$13,432,000; the total gains from lapsed and surrendered policies for the Metropolitan in 1938 alone amounted to \$18,347,000. In the Prudential in the ordinary department they reported gains of \$3,665,000, in the industrial department \$19,579,000, a total of \$23,184,000 during the year 1938. The John Hancock, a smaller company, reported \$889,000—

Mr. GESELL. \$899,000.

Dr. DAVENPORT. Thank you. \$899,000 for the ordinary department and \$3,848,000 in its industrial department.

Mr. GESELL. What are the total gains from lapses and surrenders for the three companies in 1938?

Dr. DAVENPORT. \$46,280,000.

Mr. GESELL. How much of that is attributable to the industrial departments of those companies?

Dr. DAVENPORT. Seventy-nine percent, sir.

Mr. GESELL. Referring to Congressman Casey's question, there are no published statistics available, are there, which will enable us to tell how many times a single policyholder may have bought and lapsed and bought and lapsed one or more policies? You just have the over-all figures?

Dr. DAVENPORT. We have the over-all figures. Those are not available from any source that I know of.

Mr. GESELL. I take it that you base your statement that a single policyholder must have bought and lapsed, and bought and lapsed, and bought again and lapsed again on the fact that during that 10-year period which we have been discussing there were one hundred and ninety-three odd million policies written, in excess of the population.

Dr. DAVENPORT. That is correct.

Mr. GESELL. That a figure in excess of the population for all policies terminated was also shown.

Dr. DAVENPORT. It is a fact well known in the insurance business that many of the people can't keep up their policies. They want to hold their policies; they will keep them up until they can no longer make the sacrifice to pay their premiums and then let them lapse. Those policies may be revived after a period of time, in which case there is an addition to the newly issued policies.

Mr. GESELL. I take it your statement with respect to the gains of these three companies from lapses and surrenders is subject to the same qualifications that you made with respect to the over-all figures on gains from lapses and surrenders in a previous hearing, namely, that those figures may not necessarily be a source of profit to the company, but they are definitely a loss to the policyholder.

Dr. DAVENPORT. They are reported on the gain and loss exhibit as one of the four principal sources of profit to the individual companies.

Mr. GESELL. The companies being mutual companies, however, those profits are still available for distribution.

Dr. DAVENPORT. To the remaining body of policyholders, but they are not distributed to those who paid premiums to build up those reserves.

Mr. GESELL. I have no further questions of this witness. Would any member of the committee like to ask a question?

The VICE CHAIRMAN. I should like to know, Dr. Davenport, what is the minimum policy of these industrial policies?

Dr. DAVENPORT. The minimum policy would be the amount of insurance purchased for 5 cents on the life of a child 1 year old.

The VICE CHAIRMAN. What would that amount to?

Dr. DAVENPORT. I haven't the figures precisely in mind, but approximately ten or twelve dollars.

The VICE CHAIRMAN. What is the maximum?

Dr. DAVENPORT. As soon as a policy is written for face value of \$500 or more it is thrown into what is known as an intermediate group which is much more like the ordinary insurance than is industrial insurance, although quite frequently it is handled by the same agents. There is an intermediate area there between \$500 and \$800. The policy that is written for \$1,000 or more is an ordinary policy based on a different mortality table, with different policy provisions.

The CHAIRMAN. With medical examination.

Dr. DAVENPORT. With medical examination. As a matter of fact, in several of the States they require medical examination if the amount of industrial insurance exceeds \$500.

Mr. GESELL. Just one thing. It is true, is it not, that it is very difficult to generalize about what the maximum or minimum policy is or what the maximum or minimum premium is. There may be industrial companies which have a policy as high as \$700, may there not, and there may be companies which collect premiums less than 5 cents?

Dr. DAVENPORT. The definition of industrial insurance varies somewhat in different States. We have tried to take a general average picture of what constitutes industrial insurance. There is this midzone known as the intermediate insurance.

The VICE CHAIRMAN. Are there any companies that use this industrial-insurance method of going around house to house to collect what we know generally as ordinary insurance, in the higher brackets, \$5,000 or \$10,000?

Dr. DAVENPORT. I can't say from personal knowledge.

Mr. GESELL. I believe there are some companies, Congressman, which do collect ordinary policies in the amount of \$1,000.

CHAIRMAN FERGUSON. You may be excused.

(The witness, Dr. Davenport, was excused.)

Mr. GESELL. The next witness is Mr. William Lacy.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth?

Mr. LACY. I do.

**TESTIMONY OF WILLIAM S. B. LACY, FINANCIAL ECONOMIST,
SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.****PROFITS OF COMPANIES WRITING INDUSTRIAL INSURANCE**

Mr. GESELL. Will you state your full name, please, for the reporter.

Mr. LACY. William S. B. Lacy.

Mr. GESELL. You are a financial economist on the staff of the insurance section of the Commission, are you not?

Mr. LACY. That is correct, sir.

Mr. GESELL. Have you prepared certain material indicating the amount of cash, stock dividends, and surpluses, which have been accumulated in certain representative stock companies selling industrial insurance?

Mr. LACY. I have.

Mr. GESELL. Am I correct in stating that that information is contained on the schedule entitled "Forty-four stock companies selling industrial life insurance; amounts of insurance in force, premium income, original paid-in capital, dividends to stockholders, surplus and capital in 1938"?

Mr. LACY. That is the correct title, sir.

Mr. GESELL. Is that a schedule prepared by you?

Mr. LACY. That is right.

Mr. GESELL. I wish to offer this schedule for the record.

The CHAIRMAN. It may be received.

(The schedule referred to was marked "Exhibit No. 951" and is included in the appendix on p. 6174.)

Mr. GESELL. Have you some comment which you wish to make with respect to this schedule?

Mr. LACY. Yes. Dr. Davenport has indicated that there were approximately 138 companies in the United States engaged in the sale of industrial insurance. This figure includes both mutual and stock companies. The exact number, however, of stock companies selling industrial insurance is not known and cannot be obtained from recognized sources, but we have made a special study of the growth of a group of 44 stock companies engaged in the sale of industrial insurance, the total industrial insurance in which represents 15.8 percent of all industrial insurance in force as reported to the Spectator Co., and 90.4 percent of the total industrial insurance in force in stock companies reporting to the Spectator Co.

The group of 44 companies includes all stock companies selling industrial insurance in the United States for which an appreciable amount of the indicated material is available from any source, including the company itself, without prohibitive expense in securing it. We have excluded, however, all companies having less than \$1,000,000 industrial insurance in force as well as all companies whose industrial insurance represents less than 25 percent of their total insurance in force.

Mr. GESELL. Let me see if I get you right. This schedule shows information for 44 companies.

Mr. LACY. That is correct.

Mr. GESELL. They are all stock companies?

Mr. LACY. That is correct.

Mr. GESELL. In many instances the companies sell both ordinary and industrial insurance.

Mr. LACY. That is true.

Mr. GESELL. In no case, however, do any of the companies have less than \$1,000,000 of industrial insurance in force, and in no case does that amount of industrial insurance represent less than 25 percent of the total industrial insurance, total insurance of all kinds in force in the company.

Mr. LACY. That is correct.

Mr. GESELL. Does this include those stock companies which were mentioned among the 10 largest companies in the schedule presented by Dr. Davenport? ¹

Mr. LACY. They are included in this schedule.

Mr. GESELL. Do you know whether all of those companies have been included? I am correct, am I not, that one of them is missing, namely, the Life & Casualty Insurance Co.?

Mr. LACY. That company may have been excluded, the work may have been prepared separately. If it is excluded it is excluded because of the first qualification, that material for it is unavailable from any source.

Mr. GESELL. Will you continue, please?

Mr. LACY. The table lastly presented is prepared to show for each of the 44 companies in the group the following material: The year in which it began business, which is shown in column 2; the relative importance of industrial insurance in its business, which is indicated by columns 3 and 4, entitled "Insurance in force" and "Premium income", respectively, which shows those amounts in force broken down into the ordinary and industrial departments of the business; thirdly, in column 5, the original paid-in capital; in column 6, the total cash dividends and total stock dividends paid to stockholders since the organization of the company; and finally, present surplus and present capital, which are in columns 7 and 8, respectively. The totals or aggregates for each column are found at the bottom of the page.

Mr. GESELL. With respect to the column entitled "Original paid-in capital," are there any qualifications which you wish to make with respect to that item?

Mr. LACY. Yes; the figures representing original paid-in capital may be in some cases larger than actual.

The VICE CHAIRMAN. Larger than what?

Mr. LACY. Larger than the actual.

Mr. GESELL. Why is that?

Mr. LACY. The reason is because the source material available to us does not go back as far as the days of organization of some of the oldest companies. We have reason to believe that the figures quoted us represent in some cases original authorized, or perhaps original subscribed, capital rather than original paid-in capital.

Mr. GESELL. So that, if anything, the total under the column entitled "Original paid-in capital" may be greater than the actual paid-in capital the company has shown.

Mr. LACY. That is correct, sir.

Mr. GESELL. Is it your best judgment that that variation is relatively very small?

¹ See "Exhibit No. 946," appendix, p. 6166.

Mr. LACY. Yes; I should say that variation is small.

Mr. GESELL. Now, see if I understand some of the totals shown in this schedule. Am I correct in saying that for these 44 companies there was a total original paid-in capital of \$4,146,925?

Mr. LACY. That is correct.

Mr. GESELL. Now, if we wanted to find out what the entire paid-in capital of these companies was, it would be necessary, would it not, for us to take the column entitled "Capital," which is totaled at \$39,281,555, and subtract that from the figure of \$32,337,000 shown under "Stock dividends"?

Mr. LACY. That is correct, sir.

Mr. GESELL. Have you made that computation, and can you tell us what the entire paid capital of these companies was?

Mr. LACY. Yes; with a very few qualifications.

The difference between present capital and total stock dividends paid since the organization amounts to \$6,943,605. The figures should probably be qualified very slightly in that some companies may have revised their capital structure so that the difference will not exactly represent total paid-in capital, but that variation would be very small indeed.

Mr. GESELL. The companies, then, have had approximately a paid-in capital of slightly in excess of \$6,000,000?

Mr. LACY. That is correct, sir.

Mr. GESELL. Am I correct in saying that this paid-in capital has produced a return in stock dividends of \$32,337,950?

Mr. LACY. That is correct, sir.

Mr. GESELL. And, in addition, it has produced a return in cash of \$66,238,943?

Mr. LACY. That is correct.

Mr. GESELL. And that, in addition, it has resulted in the accumulation of a surplus now measured at \$44,201,982?

Mr. LACY. That is right.

Mr. GESELL. That surplus is available, I take it, for the stockholders?

Mr. LACY. In a stock company it is available.

Mr. GESELL. Then against this paid-in capital figure of in the neighborhood of 6 million we have a total figure, including stock and cash and surplus, of \$142,778,875, have we not?

Mr. LACY. That is correct, sir.

Mr. GESELL. Are you sure my addition is correct on that?

Mr. LACY. Perhaps there should be some check on it; it appears to be \$142,776,000.

Mr. LACY. Perhaps there should be some check on it; it appears list as an example, Mr. Lacy, and trace through the particular history of that company?

Mr. LACY. Yes; the Life Insurance Co. of Virginia, which appears approximately in the middle of the left-hand side, was organized in 1871. As of December 31, 1938, it had in force slightly over 178 millions of ordinary insurance and slightly over 332 millions of industrial insurance. Its original paid-in capital, according to the best material at our disposal, was \$100,000. The total stock dividends paid to stockholders since organization totaled \$5,200,000. Cash dividends paid to stockholders since organization amount to \$14,177,423.

The surplus accumulated since organization totaled \$6,307,644, and its present capital amounts to \$6,000,000.

Mr. GESELL. Well now, since that company sells both ordinary and industrial, as do most of the companies on this list, is it possible for you to tell us what percentage of the return is attributable to the operations of the industrial department and what percentage of the return is attributable to the operations of the ordinary department?

Mr. LACY. Such a computation is impossible.

Mr. GESELL. Why is that?

Mr. LACY. We have at our disposal no material which is sufficiently complete to make a proportionate assignment of such items as original paid-in capital, present capital, or surplus.

Mr. GESELL. Am I correct in saying that as far as can be determined the companies do not make that type of analysis of their operating results?

Mr. LACY. That seems, in a large majority of cases, to be true, sir.

Mr. GESELL. And these returns that are shown in the totals at the foot of these various columns are then totals for the operations of the business as a whole without regard to whether the profits accrued from the industrial or the ordinary department.

Mr. LACY. That is right, sir.

The CHAIRMAN. Have you any figures which would show the value of the stock per share?¹

Mr. LACY. Figures are available for par value, yes, sir; the annual statements. I don't believe I have them here, but we can supply them later.¹

The CHAIRMAN. I think it would be a good idea.

Mr. O'CONNELL. Is that company a typical company?

Mr. LACY. I think it is typical in terms of its age; its profits are certainly larger than some.

Mr. O'CONNELL. It is the oldest company.

Mr. LACY. Yes; perhaps.

Mr. GESELL. The great bulk of these companies were organized after 1900, were they not?

Mr. LACY. Yes.

Mr. GESELL. Well now, have you assembled information indicating the present holdings of the principal stockholders of these 44 stock-insurance companies?

Mr. LACY. Yes; we have such information.

Mr. GESELL. Is that information contained on the schedule entitled "Forty-four Stock Life Insurance Companies Selling Industrial Insurance as of December 31, 1938, Information Relating to Stock Ownership and Salaries Paid Chief Executives"?

Mr. LACY. That is correct, sir.

Mr. GESELL. I wish to offer that schedule for the record.

(The schedule referred to was marked "Exhibit No. 952" and is included in the appendix on p. 6176.)

Mr. GESELL. Have you any comments you wish to make with respect to this schedule?

Mr. LACY. Yes; first I should like to comment on the source of the material. The material relating to stock ownership, which is con-

¹ Subsequently entered as "Exhibit No. 971." See appendix, p. 6202.

tained in the third column, has been obtained from the companies themselves. The information relating to the five highest paid officials in the company has been prepared from the annual statements the convention form which is submitted by each company to the State authority.

The schedule shows for each of the 44 companies included in the previous table the names of the 5 largest owners of stock outstanding in the company and the names and salaries of the 5 highest paid executives in the company.

Mr. GESELL. The schedule shows, does it not, that by and large the five largest stockholders in most cases have over 50 percent of the stock and in most cases they are also officers and executives of their companies receiving salaries?

Mr. LACY. Yes; I should sum it up by saying that in the majority of the companies included in the group most of the profits of the business went to a small number of people and in a majority of cases the companies were controlled by a relatively small group, and that in most cases this small group of people receive the principal salaries as well as most of the profits.

Mr. GESELL. These are figures showing the situation as of what date?

Mr. LACY. December 31, 1938.

Mr. GESELL. No information is available as to whether this concentrated holding of stock has continued or has been in existence for any period of time?

Mr. LACY. No, sir; that is not available.

Mr. GESELL. I have no further questions on the schedule.

The CHAIRMAN. All right, thank you. Next witness.

Mr. GESELL. That concludes the presentation for the day. I would like to say that tomorrow we will present testimony with respect to the management and operation of the Monumental Life Insurance Co. of Baltimore, now one of the oldest life-insurance companies and, at the present time, one of the fastest-growing industrial companies in the United States.

The CHAIRMAN. I wish to have this inserted in the record. I understand it has been agreed upon.

The committee has received from the Prudential Life Insurance Co. of Newark, N. J., a break-down showing the net rate of earnings on investment portfolio of that company broken down by types of investment. This information was requested by Mr. Joseph J. O'Connell when Mr. R. R. Rogers, vice president of the Prudential Life Insurance Co., testified before the committee on June 29, 1939.¹

The statement is herewith received and ordered printed in the record.

(The table referred to was marked "Exhibit No. 953" and appears in Hearings, Part XI, appendix, p. 5589.)

The CHAIRMAN. The committee will recess until 10:30 tomorrow morning.

(Whereupon, at 4 p. m., a recess was taken until 10:30 a. m. Thursday, August 24, 1939.)

¹ See Hearings, Part XI, p. 5078.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, AUGUST 24, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 a. m., pursuant to adjournment on Wednesday, August 23, 1939, in the Caucus Room, Senate Office Building, Garland S. Ferguson presiding.

Present: Commissioner Ferguson (chairman), Representative Casey, and Mr. O'Connell.

Present also: Messrs. Lubin and Brackett, Commissioner Edward C. Eicher, Securities and Exchange Commission; Gerhard A. Gesell, special counsel; and Michael H. Cardozo, attorney, Securities and Exchange Commission.

The CHAIRMAN. The committee will come to order. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. I am. The first witness this morning will be Mr. Burnett.

TESTIMONY OF PAUL M. BURNETT, CHAIRMAN OF THE BOARD OF DIRECTORS, MONUMENTAL LIFE INSURANCE CO., BALTIMORE, MD.

MONUMENTAL LIFE INSURANCE CO.—HISTORY AND DESCRIPTION

Mr. GESELL. Mr. Burnett, will you state your full name for the record, please?

Mr. BURNETT. Paul M. Burnett.

Mr. GESELL. Are you chairman of the Board of the Monumental Life Insurance Co.?

Mr. BURNETT. I am.

Mr. GESELL. How long have you been associated with that company?

Mr. BURNETT. Since between 1890 and 1895.

Mr. GESELL. How long have you been chairman of the board?

Mr. BURNETT. Since 1936.

Mr. GESELL. Prior to that time you were president of the company?

Mr. BURNETT. For quite a period.

Mr. GESELL. Do you recall how long?

Mr. BURNETT. Well, I was first chairman of the board about probably '22 or somewhere in there; I don't know the exact time—for a

short period—and then was made president and continued as president until '36, when I was made chairman of the board.

Mr. GESELL. The Monumental Life Insurance Co., is a Maryland corporation, is it not?

Mr. BURNETT. It is.

Mr. GESELL. Home offices are in Baltimore?

Mr. BURNETT. Yes, sir.

Mr. GESELL. In how many States does your company operate?

Mr. BURNETT. Twelve or thirteen; thirteen.

Mr. GESELL. Can you tell us in which States your company operates?

Mr. BURNETT. Yes; Maryland, Virginia, Georgia, Louisiana, Kansas, Michigan, Missouri, Kentucky, Indiana, Ohio, Pennsylvania, and Delaware.

Mr. GESELL. How much insurance in force has your company at the present time, approximately?

Mr. BURNETT. About \$300,000,000.

Mr. GESELL. How much of that is ordinary, how much is industrial?

Mr. BURNETT. Well, I would have to refresh my memory on that, sir. May I consult? Two thirty is industrial and seventy is ordinary, Mr. Rock tells me, and I am sure that is correct.

Mr. GESELL. You would consider your company primarily an industrial company; is that correct?

Mr. BURNETT. Yes; I would.

Mr. GESELL. Does your company sell industrial insurance in all the States you have mentioned?

Mr. BURNETT. Yes.

Mr. GESELL. Your company has grown rather rapidly in recent years, has it not?

Mr. BURNETT. Yes.

Mr. GESELL. Can you give us some indication of what that growth has been since, let us say, 1920? Give us some idea of how the company has expanded.

Mr. BURNETT. The growth has been very great since 1920. I would say that at 1920—I can't give you this accurately because I haven't the figures, but I would say we had about three or four million dollars at that time. We now have about 33, assets.

Mr. GESELL. So you have grown about 30 million in assets since 1920?

Mr. BURNETT. Something like that.

Mr. GESELL. During that period have you organized any new branch offices and increased your sales force and opened up new territory?

Mr. BURNETT. At that time I think we had only one office, in Baltimore.

Mr. GESELL. So that it would be fair to say that your company's—almost its entire growth and development has been since 1920?

Mr. BURNETT. Very largely.

Mr. GESELL. When was the company organized?

Mr. BURNETT. In '58.

Mr. GESELL. 1858?

Mr. BURNETT. Yes.

Mr. GESELL. Did it sell industrial insurance right from the time it was organized?

Mr. BURNETT. No; it did not. The original charter permitted it to write all kinds of insurance, but so far as my experience with it is

concerned it has never written anything but the life contracts, and when I became connected with it in the nineties it was kind of small, industrial debit; I couldn't tell you exactly when it began.¹ I heard somebody say yesterday that we had written industrial before I became connected with it, but I don't know just how long.

Mr. GESELL. Now, the company was organized as a mutual company, was it not?

Mr. BURNETT. Yes.

Mr. GESELL. What was its original name?

Mr. BURNETT. Mutual Life and Fire, I think.

Mr. GESELL. I think that is correct.

Mr. GORDON.² Mr. Gesell, is there any objection if any of these gentlemen supply information?

Mr. GESELL. Not at all.

Mr. BURNETT. If I knew it—it is only details; if I want any information, Mr. Gesell.

Mr. GESELL. For what period of time was the company a mutual company?

Mr. BURNETT. Until the change was made in 1928.

Mr. GESELL. February 6, 1928?

Mr. BURNETT. Yes.

Mr. GESELL. Since that time the company has been a stock company, has it not?

Mr. BURNETT. Yes, sir.

Mr. GESELL. How much stock is outstanding now?

Mr. BURNETT. Two million.

Mr. GESELL. How many shares of stock outstanding?

Mr. BURNETT. \$10 a share, that is 200,000 shares.

Mr. GESELL. Two hundred thousand shares the company has capitalized at \$2,000,000?

Mr. BURNETT. We have about \$2,000,000 surplus.

Mr. GESELL. You yourself, I take it, are a stockholder?

Mr. BURNETT. Yes.

Mr. GESELL. Are you the principal stockholder of the company?

Mr. BURNETT. I am perhaps the largest one, but I do not have a controlling interest or anything near it, but I probably am the largest stockholder.

Mr. GESELL. How many shares do you own either in your own name or beneficiaries?

Mr. BURNETT. Well, let me ask just what you mean by "beneficiary."

Mr. GESELL. Take it this way: How many do you own in your own name?

Mr. BURNETT. I think I own in my own name about twenty-three thousand.

Mr. GESELL. Are there any other shares over which you have control in the names of other persons on which you are able to vote?

Mr. BURNETT. No; that is included in this. Some of that stock is in the name of bankers, but that is my entire private holding.

Mr. GESELL. How many shares did you say?

Mr. BURNETT. About twenty-three thousand.

¹ A photostatic copy of an industrial insurance policy issued by the then Mutual Life Insurance Company of Baltimore in March 1873, was subsequently entered in the record on September 11, 1939, as "Exhibit No. 1090" and is on file with the committee.

² Spencer Gordon, of Covington, Burling, Rublee, Acheson & Shorb, Washington, D. C., counsel for Monumental Life Insurance Co.

MR. GESELL. Can you tell us who the other principal stockholders of the company are?

MR. BURNETT. Well, let me see. Mr. Roberts is a comparatively large stockholder.

MR. GESELL. What is his full name?

MR. BURNETT. Milton Roberts.

MR. GESELL. Is he connected with the Monumental?

MR. BURNETT. He is the vice president.

MR. GESELL. Do you know what his holdings are?

MR. BURNETT. I do not.

MR. GESELL. Who are the other principal stockholders?

MR. BURNETT. Mr. A. W. Mears.

MR. GESELL. Is he connected with Monumental?

MR. BURNETT. Only as a director.

MR. GESELL. Who else, sir?

MR. BURNETT. Mr. Howard Emmons. He is the vice president and actively connected with it.

MR. GESELL. You, Mr. Roberts, Mr. Emmons, and Mr. Mears were the four principal stockholders of the company?

MR. BURNETT. Well, sir; yes.

MR. GESELL. Do you four gentlemen between you have control of the company?

MR. BURNETT. No, sir.

MR. GESELL. What percentage of stock do you own?

MR. BURNETT. The four of us?

MR. GESELL. Yes.

MR. BURNETT. I would have to get that information. I couldn't tell you exactly.

MR. GESELL. Can you consult your colleagues and give us that figure?

MR. BURNETT. We have, Mr. Gesell, about 30 percent, but I neglected, when you asked me about the other stockholders, to say that there is a trust I created a number of years ago with safe deposit companies under which they hold 21,000 shares, but I have no voting stock.

MR. GESELL. You have the ownership of the stock, but not the right to vote?

MR. BURNETT. It is an irrevocable trust turned over to the safe deposit company, and I don't think that I have any rights under it at all. It has been so long since I saw the deed, I don't say positively, but I don't think I have any rights.

MR. GESELL. Your best estimate is that you four gentlemen have approximately 30 percent of the stock at the present time?

MR. BURNETT. Yes; 30 percent.

MR. GESELL. You receive a salary as chairman of the board?

MR. BURNETT. Yes, sir.

MR. GESELL. What salary do you receive?

MR. BURNETT. Twenty-five thousand.

MR. GESELL. Are you active in the affairs of the company?

MR. BURNETT. Yes, sir.

MR. GESELL. Has your connection with the company always been on the executive side, either as president or as chairman of the board?

MR. BURNETT. I started as attorney for the company and later became vice president, and then became chairman of the board and president, and then chairman of the board again.

TRANSFORMATION FROM MUTUAL TO STOCK COMPANY

Mr. GESELL. Now, directing your attention to February 6, 1928, at the time the company converted from a mutual to a stock company, can you tell me what the rights of the policyholders were prior to that time with respect to their powers to elect the directors of the company?

Mr. BURNETT. Under special statute the policyholders of a thousand dollars or more only were entitled to vote.

Mr. GESELL. So that at that time prior to 1928 the policyholders who had policies of a thousand dollars or more were the persons who elected the board of directors of the company?

Mr. BURNETT. Yes—

Mr. GESELL. Was your company at that time selling participating or nonparticipating insurance?

Mr. BURNETT. Nonparticipating. Well, the small amount of ordinary we had was participating, but the main part of our business was nonparticipating.

Mr. GESELL. The industrial business was not participating?

Mr. BURNETT. Yes.

Mr. GESELL. Then in effect you might say the company was mutual only as to the ordinary policyholders?

Mr. BURNETT. Yes; and there were not very many of them.

Mr. GESELL. What was the surplus of the company immediately prior to February 6, 1928?

Mr. BURNETT. Six hundred forty-one.

Mr. GESELL. \$641,000?

Mr. BURNETT. Yes.

Mr. GESELL. To whom did that money belong?

Mr. BURNETT. Under the statute it was to be held for the creditors of the Mutual Co.

Mr. GESELL. You are talking about following the conversion. I am asking you, prior to the conversion, who owned that \$641,000?

Mr. BURNETT. I don't know.

Mr. GESELL. What did the charter of your company provide with respect to that?

Mr. BURNETT. I am not familiar enough with it to tell you.

Mr. GESELL. I would like to direct your attention to this portion of the charter, section 14.

Mr. BURNETT. Well, sir; that provision stands for itself, I can only tell you that I don't think that ever contemplated the distribution of everything that was made. An insurance company, like every other company, has to have some backlog; some cushion.

Mr. GESELL. That is a question of the disbursement of surplus. I am asking you who owns this surplus. This section of the charter which you have just read states in part as follows:

The directors at their discretion may reserve from the receipts of each year a reasonable amount for an insurance from risks of policies outstanding, and each member of said company shall thereupon be credited with his or her proportion of the net profits of the premiums earned and of the profits derived from the investments of the company and shall be entitled to assert such amount transferable only to the books of the company and containing a provision that the amount should be subject to any future losses of the company.

That would indicate that the surplus did belong to the policyholders immediately prior to conversion, would it not?

Mr. BURNETT. I hardly think it is fair to ask me to construe it.

Mr. GESELL. You are an attorney, Mr. Burnett.

Mr. BURNETT. Yes; but it stands for itself.

Mr. GESELL. Well let me ask you this: At the time the company converted from a mutual to a stock company, did you and the other officers of the company give consideration as to who owned this surplus of \$641,000 and to whom it should be disbursed or how it should be accounted?

Mr. BURNETT. The statute under which the conversion was made stated it should be held for the creditors of the Mutual Co.

Mr. GESELL. Well, we will come to the statute in a minute; that had to do with how the surplus should be treated following the conversion. My questions are directed as to whether you gave any consideration as to who owned the surplus prior to the conversion.

Mr. BURNETT. You mean did our directors have any discussion?

Mr. GESELL. Did your directors or officers have any discussions, formally or informally, about it?

Mr. BURNETT. I think not.

Mr. GESELL. Did you seek any legal advice as to who owned that surplus and what should be done about it, or did you simply follow the terms of the statute itself?

Mr. BURNETT. Do I have to be photographed? What are my rights here?

The CHAIRMAN. Do you object to being photographed?

Mr. BURNETT. I do object to it; yes. I can't answer the questions if that man is going to stand here and shoot that thing at me.

Mr. GESELL. Do you recall my question?

Mr. BURNETT. I will have to ask for it again.

Mr. GESELL. I asked whether you sought any legal advice as to this matter of the surplus.

Mr. BURNETT. Mr. Gesell, when our directors determined upon this course, under advice that we had and for reasons that I can explain to you if you want to know, we put the matter in the hands of our attorneys, Mr. Arthur Jackson was considered one of the leaders of our bar at the time, and with reference to some features of the conversion he consulted other attorneys, Venable, Baetjer, and Howard, well-known attorneys in Baltimore, with reference to our rights, and the whole scheme for the conversion was with Mr. Jackson.

Mr. GESELL. Now, I intend to trace with you the details of the conversion; but before we do that, I would like to ask whose idea was it to change this company from a mutual to a stock company?

Mr. BURNETT. I think the first suggestion came from the insurance department.

Mr. GESELL. Now, will you tell us how that worked?

Mr. BURNETT. Well, would you like me to explain the whole situation?

Mr. GESELL. Certainly.

Mr. BURNETT. Under the mutual set-up we had a very small ordinary business, and only the ordinary policyholders of more than \$1,000 could vote. We could not properly control our managers in

the field; there were cliques being formed, there were schemes being formed, to secure votes to control the election; they were careless in the handling of our business, they were spending a great deal of money that ought not to have been spent, and we couldn't correct it; they were permitting large balances by agents to accrue that we couldn't collect, and we did not have the proper control over our agency force. In one year—I don't remember what year it was; I could refresh my memory; it was '26—our balance due by agents amounted to considerably over a half million dollars, and it got so bad that we had to do something about it, and the conversion was thought a means of helping us to control our branches and at the same time give us something to work for. When I say "us" I mean those who had been with the company and had built it up.

Mr. GESELL. Well now, I want to understand that very clearly. You say you think the suggestion came from the insurance department. Did the insurance department suggest this or didn't they?

Mr. BURNETT. The insurance department did positively suggest it.

Mr. GESELL. Did they originate the idea?

Mr. BURNETT. They did.

Mr. GESELL. Do I understand that the insurance department came to you without any—

Mr. BURNETT. No; I didn't say that.

Mr. GESELL. Without any previous awareness on your part and made this suggestion?

Mr. BURNETT. I didn't say that. No; in our discussion of matters pertaining to the company with the insurance department it was suggested that we avail ourselves of the statute which had been passed several years before.

Mr. GESELL. Who initiated these discussions?

Mr. BURNETT. I think it came probably through some examination of our affairs.

Mr. GESELL. Then it was some examiner of the company who suggested that you change from a mutual to a stock company.

Mr. BURNETT. No; I would say that my best recollection is that it was the actuary.

Mr. GESELL. What is his name?

Mr. BURNETT. Siegk; Arthur Siegk.

Mr. GESELL. Your impression is that he made the suggestion?

Mr. BURNETT. I think that he got back of it.

Mr. GESELL. That isn't my question.

Mr. BURNETT. Well, I say—I mean to say, I think he was enthusiastic for it; I think he was very anxious.

Mr. GESELL. I don't want to know who went out and beat the drum after it was originated. I want to know who originated the idea, Mr. Burnett.

Mr. BURNETT. I think the idea was originated by a suggestion made by him.

Mr. GESELL. To whom did he make that suggestion?

Mr. BURNETT. I wouldn't remember.

Mr. GESELL. What is your basis for saying that he suggested it?

Mr. BURNETT. Because I discussed it with him. I discussed the matter with him.

Mr. GESELL. Then he came to you to talk about it?

Mr. BURNETT. He came to me, or I went to him, I don't remember which.

Mr. GESELL. That is what I want to know. Did you go to him or did he come to you?

Mr. BURNETT. I don't know. I can't tell you at this late date.

Mr. GESELL. I will give you plenty of time to think about it.

Mr. BURNETT. I don't need the time, sir. I only say that I can't recall. You see, when we had these examinations, at the end of the examinations the papers were turned over to the actuary of the department, and we had frequent interviews with him, and I imagine it was on one of his visits to my office to discuss the question of the examination, although I can't remember the very identical moment that the first suggestion was made; I know it was made in that way.

Mr. GESELL. It occurred in the conversation which you had with him, and you may have suggested it or he may have suggested it. Is that correct, sir?

Mr. BURNETT. I am sure that I did not suggest it.

Mr. GESELL. You are sure he suggested it?

Mr. BURNETT. I am sure that the original suggestion came from him.

Mr. GESELL. Well, now, I understood you to say that one of the things that prompted this change was the fact that your agency force was running away with your business, charging up balances, spending money you couldn't prevent them from spending. What was the matter with the management of your company that they couldn't stop the agents in these excesses?

Mr. BURNETT. Well, we didn't have as good an organization—it was a small company, and the offices were some distance from the home office—and we didn't have as good an organization, naturally, as we had afterward.

Mr. GESELL. Well, you were an officer of the company at the time, weren't you?

Mr. BURNETT. Yes, sir; a very lively one.

Mr. GESELL. You continued to be an officer equally as lively after the conversion, did you not?

Mr. BURNETT. Well, not all the time afterward.

Mr. GESELL. Immediately afterward?

Mr. BURNETT. Immediately afterward; yes.

Mr. GESELL. Now, why was it that you were able to deal with your agents better as a representative of a stock-holding interest than you were able to deal with your agents as a representative of the policyholders?

Mr. BURNETT. We had a far more stable organization.

Mr. GESELL. Will you explain how that is?

Mr. BURNETT. Yes; I can explain it. No clique of our managers or agents could get together and attempt to secure votes to control the company.

Mr. GESELL. Well, your concern was then more the fear that these managers would oust you and your fellow officers from office than it was any overt act that had taken place?

Mr. BURNETT. That is not a fair construction. We had been in control of the company and built the company for many years.

Mr. GESELL. But the policyholders hadn't been—were in control?

Mr. BURNETT. We were in control; we were the ones managing the business and there was always that condition that we had to face.

Mr. GESELL. Now, I wish you would be specific about the condition. Had the managers put men on the board of directors that you didn't want there?

Mr. BURNETT. No; the managers had not.

Mr. GESELL. It was merely the fact that they were threatening to do so, was it not?

Mr. BURNETT. They were forming little cliques and doing various things that were exceedingly annoying to us in the management of our business.

Mr. GESELL. And among those things was the soliciting of proxies from policyholders with a view to putting people on the board of directors?

Mr. BURNETT. I didn't say that because they did not do that. I said it was the fear of that. It was the threat of that.

Mr. GESELL. Is it a fact that you were afraid they might do it?

Mr. BURNETT. They were in a position to do it.

Mr. GESELL. And had they done anything which indicated to you that they might do it?

Mr. BURNETT. Yes; we had known of several meetings that they had had to discuss it.

Mr. GESELL. That is what I am getting at. There were plans afoot, then, by these managers to solicit proxies from the policyholders and oust some of you fellows from the management of this company, weren't there?

Mr. BURNETT. No; I wouldn't say that. I don't know just how far they would have gone. I can only say that there were these cliques formed and they had some meetings for the purpose of discussing questions of that kind. Just how far they went I don't know; I wasn't invited to the meeting.

Mr. GESELL. And you and your fellow officers were fearful lest these plans might mature and result in displacing some of you from your controlling position in the affairs of the company?

Mr. BURNETT. Well, I don't think that is just a fair presumption.

Mr. GESELL. I am not trying to presume anything.

Mr. BURNETT. You are answering the question. You are answering the question.

Mr. GESELL. Will you state it your own way, then?

Mr. BURNETT. Well, I would say this, that in any corporation of that kind a change of management would be disastrous.

Mr. GESELL. Then, the fact that these managers were also spending money that you didn't want them to spend was really not much of a factor in this thing, was it?

Mr. BURNETT. Yes; it was a great deal of a factor.

Mr. GESELL. Couldn't you fire these managers?

Mr. BURNETT. Do what?

Mr. GESELL. Fire these managers.

Mr. BURNETT. Yes; but where were you going to get others? It was a very difficult thing in the expansion of this business to get managers; it is now, but we have better control over them now; the company has grown; we have a better organization.

Mr. GESELL. Did you tell the insurance department that you were afraid that the managers were going to get new directors in?

Mr. BURNETT. No; I don't know that we did.

Mr. GESELL. What did you tell them?

Mr. BURNETT. Well, the examiners saw the condition in the examination. They saw the condition of our balances due by agents and they—probably the conversation resulted from that.

Mr. GESELL. And it was the considered judgment of the insurance department that a management representing a group of stockholders could prevent excesses of the agency force which a management representing the policyholders couldn't prevent?

Mr. BURNETT. Well, that is the truth.

Mr. GESELL. That is your position?

Mr. BURNETT. That is absolutely the truth.

Mr. GESELL. And that position was agreed with and concurred in by the insurance department?

Mr. BURNETT. Yes.

Mr. GESELL. Did you have any talks with any other representative of the insurance department about this, other than this fellow Siegk?

Mr. BURNETT. I did not, but Mr. Jackson did. Mr. Jackson took it up with Mr. Benson, who was the insurance commissioner at the time. After the determination to stock the company it was turned over to Mr. Jackson to work out.

Mr. GESELL. Now you stated that this change was brought about in accordance with statute; the statute had been on the books prior to the time that these discussions took place, had it not?

Mr. BURNETT. Yes, sir.

Mr. GESELL. That was a statute which set up the requirements which a company would have to follow if it changed from the mutual form to the stock form?

Mr. BURNETT. (Nodding head, Yes.)

Mr. GESELL. I would like to read the statute in question for the record. The statute states as follows [reading from "Exhibit No. 954"]:

Any life-, accident-, or health-company heretofore incorporated under the laws of this State without capital stock, and whether conducted upon the mutual, legal reserve, cooperative, or assessment plan, may, with the consent of at least three-fourths of its directors, become a stock corporation, subject to the laws of this State applicable to such corporations, and those prescribing the form and manner of making amendments to articles of incorporation, upon complying with the following conditions and regulations: Notice of the proposal so to change the form of the corporate organization and of the meeting of the members of the corporation, its policyholders or certificate holders, or by whatever name its members are known, to be held for the purpose of taking action thereon, shall be given by publications stating the time, place, and object of said meeting, once a week for six consecutive weeks in at least one newspaper of general circulation published in the city or county in which said corporation has its principal place of business, and in at least two such newspapers if so many are published in said city or county.

At such meeting there shall be required, in order to effect the change proposed, the affirmative vote in person, or the consent in writing, of at least two-thirds of all the members of the corporation and the concurrence of at least three-fourths of the directors. At such meeting, if the proposed change be approved, the amount of the capital stock of the corporation shall be fixed, within the limits prescribed by law for such corporations, and the par value of the shares and number of shares into which the capital stock is to be divided shall also be determined. The members, policyholders, or certificate holders of such corporation shall have the first right to subscribe to said stock, sub-

ject to such equitable regulations as the directors may prescribe, but all subscriptions for shares of stock must be made and paid for in cash and at a price not less than par. Upon the completion of its reorganization as a stock company the assets, if any, of such corporation and its liabilities shall be and become the assets and liabilities of the stock company, except so far as herein otherwise provided. Said company, however, shall not be entitled to do any business as a stock corporation, until the amount of capital stock, determined as herein provided and as authorized by law, shall have been subscribed and paid for at not less than par and in accordance with the laws governing the formation of corporations, and shall have been invested in an amount equal to the par value of such stock in securities mentioned and authorized by Section 20, and deposited with the Insurance Commissioner to guarantee the payment of policies issued by said company, and until the Commissioner shall, upon request, value the assets of the said company, and its outstanding policies, and shall give his certificate that the admitted assets of said company are sufficient to provide reserve upon all outstanding policies as required by the laws of this State in relation to insurance companies, over and above all bona fide and claims against it, exclusive of its capital stock liability. Upon the receipt of such certificate from the Insurance Commissioner, the stockholders may elect from among themselves not less than five or more than twenty-five directors to hold office until the ensuing annual meeting or until their successors shall have been duly elected and shall qualify, and the directors so elected shall have, and they are hereby authorized, to exercise all the rights and powers proper to be exercised by the directors of such stock company under the laws of this State.

There follows additional provision with respect to the valuation of the policies, the handling of dissenting policyholders, and I should like to offer the entire statute.

The CHAIRMAN. The statute will be received.

(The statute referred to was marked "Exhibit No. 954" and is included in the appendix on p. 6184.)

Mr. GESELL. Now, prior to this change had you approached any of your policyholders to find out what their attitude in this matter would be?

Mr. BURNETT. I did not.

Mr. GESELL. Well, did your company?

Mr. BURNETT. Not to my knowledge.

Mr. GESELL. It was simply a decision made by the then management and in consultation with the insurance department?

Mr. BURNETT. Yes, sir.

Mr. GESELL. Did you tell these managers who were kicking up such a fuss that you were planning to change the company from a mutual to a stock company?

Mr. BURNETT. Yes.

Mr. GESELL. Did you tell them that in advance?

Mr. BURNETT. To the best of my recollection; we were having a convention of managers in Baltimore for the purpose of trying to work up a better condition in the company, and the branch offices, and at that meeting we took advantage of their being at Baltimore to notify them of this proposed change.

Mr. GESELL. The formal resolution of the board of directors to initiate this change was made on the 6th day of October 1927, was it not?

Mr. BURNETT. I think so.

Mr. GESELL. And the meeting of managers was held on October 24 and October 25, was it not?

Mr. BURNETT. I imagine you are correct; I don't remember the exact dates; I will take it as being correct.

Mr. GESELL. That is your best recollection?

Mr. BURNETT. Yes, sir. I am quite sure you are right.

Mr. GESELL. Then do I understand that this meeting of managers was held for the purpose of discussing with them the change from the mutual to the stock plan?

Mr. BURNETT. They weren't called for that sole purpose. We have these meetings of managers frequently, once a year, but we took advantage of the business that was being discussed at that meeting to take this up with them.

Mr. GESELL. It was just a coincidence, then, that the convention was called by the directors at the same meeting that the resolution to change the plan was adopted?

Mr. BURNETT. I wouldn't say it was a coincidence. I would say we may have had both ideas in mind at the time. I can't recall myself just now how it happened. I know they were there. We frequently have these meetings of managers and it was at this convention that the matter was brought to their attention.

Mr. GESELL. Then what did you tell them at that time about what was going to be done? Were you at the meeting?

Mr. BURNETT. I don't know whether I was or not; I don't remember.

Mr. GESELL. Do you recall what was said to the managers as to what the procedure would be?

Mr. BURNETT. I think a frank statement was made by somebody, but I don't know who made it. I can't tell you. You see I was not a manager of the agents or the superintendents. We had an agency manager, a vice president of the company who had that under his control. I didn't have it. At these meetings, Mr. Gesell, of managers and other conventions, I am frequently asked to attend to make some remark with reference to the company, but I do not take part as a rule in the work that is done.

Mr. GESELL. Well, following this meeting at which you are certain that the question of the change was discussed, advertisements were placed in both the Daily Record and the Sun in Baltimore, were they not?

Mr. BURNETT. Yes.

Mr. GESELL. This is the form of notice, is it not:

A notice is hereby given under section 8 of Article 48a, Bagby's Code of Maryland, that a meeting of all the members and policyholders of the Mutual Life Insurance Company of Baltimore is hereby called to be held on Thursday, January 5, 1928, at 11 o'clock a. m., at the company's office, northeast corner Charles and Chase Streets, Baltimore, Maryland, to vote in person upon or give their consent in writing to a resolution to change the form of the corporate organization to a stock company.

PAUL M. BURNETT,

President, Mutual Life Insurance Company of Baltimore.

Mr. BURNETT. Yes, sir.

Mr. GESELL. Was that the extent of the notice which was given to the policyholders, other than the notice which came to them through the solicitation of the proxies and consents?

Mr. BURNETT. That was the only notice that we published, a paid notice, but the Sun interviewed me with reference to it and published quite an article. I can show it to you if you would like.

Mr. GESELL. I would be glad to put the article in the record, if you have it there.

Mr. BURNETT. I would like to have it taken care of and have it back, if you don't mind.

Mr. GESELL. I can arrange to have it copied. I think the record should contain this news article.

The CHAIRMAN. See that this is returned to Mr. Burnett.

(The article referred to was marked "Exhibit No. 955" and is included in the appendix on p. 6185.)

Mr. GESELL. That again is a Baltimore paper?

Mr. BURNETT. Yes; the largest circulation in Baltimore.

Mr. GESELL. What percentage of your policyholders lived in Baltimore at this time?

Mr. BURNETT. Well, you see some years before all of our policyholders were in Baltimore, all of those entitled to vote were in Baltimore, and we only had the one office. I don't know at the time this took place how many we had outside of Baltimore.

Mr. GESELL. Your company had expanded in several States by this time, 1928?

Mr. BURNETT. Yes; we had—1920 I can't tell you—Mr. Rock can give you these details, if you examine him, very much better than I can.

Mr. GESELL. I am looking forward to the chance to examine Mr. Rock a little later.

Mr. BURNETT. He is more familiar with these things.

Mr. GESELL. You did have policyholders outside of Baltimore?

Mr. BURNETT. Yes; we did. Would you let me ask how many offices we had at that time?

Mr. GESELL. Certainly.

Mr. BURNETT. We had 27 offices altogether.

Mr. GESELL. You had 27 branch offices?

Mr. BURNETT. Yes.

Mr. GESELL. How many of those were in Baltimore?

Mr. BURNETT. Probably two.

Mr. GESELL. So you had over 20 offices outside of the city of Baltimore?

Mr. BURNETT. Yes, sir.

Mr. GESELL. And unless those policyholders happened to read the Baltimore papers they got no notice of this thing, did they?

Mr. BURNETT. About 70 percent of all of our business was in Baltimore because these branch offices had been established only a short time before this took place. The statute as I understand, required us to publish only in newspapers.

Mr. GESELL. That is just what I am trying to bring out. As a practical matter, you follow just the barest minimum of the statutory requirements?

Mr. BURNETT. We followed the statute. I think when we put it in the Baltimore Sun we put it in the largest and best advertising medium that we knew anything about.

Mr. GESELL. You could have written these policyholders a letter. You didn't do that, I take it?

Mr. BURNETT. No.

Mr. GESELL. Tell me, how were these proxies or consents to this conversion solicited, by mail?

Mr. BURNETT. No, sir; I had absolutely nothing to do with that. The only part that I played in this conversion was to have papers sent to me by Mr. Jackson to be submitted to the directors for the stockholders. I mean the policyholders. Not the policyholders, either.

At the time the directors—and afterward there were some papers passed, I think; some papers that were passed by the stockholders, but anyhow, Mr. Jackson would send these papers and I would see that they were properly passed, and send them back. The mechanics of the thing were worked by Mr. Ewell, the agency manager.

Mr. GESELL. Mr. Ewell is dead, isn't he?

Mr. BURNETT. Yes.

Mr. GESELL. Now you were the president of the company weren't you?

Mr. BURNETT. Yes.

Mr. GORDON (Spencer Gordon, counsel). Had you finished answering your other question?

Mr. GESELL. Have you finished?

Mr. BURNETT. What I was going to say was that the mechanics of the whole thing were turned over to Mr. Jackson and Mr. Ewell and I had absolutely no part in obtaining the proxies.

Mr. GESELL. Now you were president of the company, weren't you?

Mr. BURNETT. Yes.

Mr. GESELL. You were one of the persons named in the proxy?

Mr. BURNETT. Correct.

Mr. GESELL. Now my question was just asking you how were these proxies solicited and it seems kind of surprising to me that you haven't knowledge with respect to that, if you were president of the company and actually one of the persons named in the proxy.

Mr. BURNETT. I can tell you that the proxies were sent out to our managers to be distributed among the agents, and ask them to take them on their debits and to secure the signatures from the policyholders, but I didn't do that. I knew that was done, but I didn't do it.

Mr. GESELL. They were given to the agents?

Mr. BURNETT. They were given to the agents.

Mr. GESELL. Was this in the regular line of their duty or was this some special job that they were to do?

Mr. BURNETT. Well, I would say it was a special job.

Mr. GESELL. Were they paid specially for it?

Mr. BURNETT. It developed several days ago that they were paid \$10, but if I did know it at the time—I probably did—I have completely forgotten it. I don't recall any such arrangement was made but it apparently was made and I don't know whether it was made with my knowledge or without. I probably knew it.

Mr. GESELL. You say it developed the other day. You mean you learned it the other day?

Mr. BURNETT. It developed in the course of conversation the other day with Mr. Rock. I think that there had been \$10 paid to each agent for his extra services in securing these proxies, but I say that I had completely forgotten it if anything ever did take place although doubtless I knew it at the time.

Mr. GESELL. Then you are willing to state now, as a fact for the record, that the agents received \$10 apiece for getting in these proxies and consents. Is that right?

Mr. BURNETT. Probably all of them got it, I am not certain, I don't know enough about it to say. That is the agent.

Mr. GESELL. How many agents do you have?

Mr. BURNETT. A thousand.

Mr. GESELL. So this was an expenditure of about \$10,000?

Mr. BURNETT. Apparently. That is a good calculation.

Mr. GESELL. Where did the money come from, Mr. Burnett?

Mr. BURNETT. I don't know.

Mr. GESELL. Will you consult your colleagues and find out?

Mr. BURNETT. I suppose it came in on the regular voucher for their salaries. The company funds were used.

Mr. GESELL. That is what I am getting at. This was company money that was used to solicit these consents.

Mr. BURNETT. Are you waiting for me to answer? That is the statement I made.

Mr. GESELL. Can you tell me whether there was any time limit placed upon these agents within which they had to get in these proxies signed?

Mr. BURNETT. Why, I think there was, I think it was 2 weeks put aside for the securing of these proxies.

Mr. GESELL. Why was some time limit put upon it?

Mr. BURNETT. So we could get them in as quickly as possible and have it all done and over with.

Mr. GESELL. Would you recognize the form of proxy if I showed it to you?

Mr. BURNETT. Yes.

Mr. GESELL. Is that proxy which you have in your hand such a form as was used?

Mr. BURNETT. Yes, sir; that is correct.

Mr. GESELL. This proxy reads as follows:

I hereby appoint PAUL M. BURNETT, HOWARD M. EMMONS, and MILTON ROBERTS to be my substitute and proxy, to vote on all matters arising at a special meeting of the members of the Mutual Life Insurance Company of Baltimore called, under the Maryland Code (1924) Art. 48 A, Section 99, as advertised in the Baltimore Daily Record of October 13th, 1927, in the same manner as I might or could do if personally present and voting thereat, and I hereby consent to the change of the corporate organization from a mutual to a stock company, and waive subscription to said stock. WITNESS my hand and seal this ----- day of November, 1927.

I wish to offer this proxy for the record.

(Representative Casey assumed the chair.)

The VICE CHAIRMAN. It may be admitted.

(The proxy referred to was marked "Exhibit No. 956" and is included in the appendix on p. 6186.)

Mr. GESELL. I want to call your attention to one part of that. At the same time you solicited the proxy you solicited a waiver from the policyholder of his right to subscribe to any of the stock, did you not?

Mr. BURNETT. Yes, sir.

Mr. GESELL. Will you explain that for us?

Mr. BURNETT. The part that the policyholder would have been permitted to subscribe to would have been so small that it would have been practically impossible to handle it. That did not prevent anybody from subscribing if they wanted to do so, but upon the advice of Mr. Jackson my recollection is there were two or three forms of proxy prepared for consideration and upon the advice of Mr. Jackson this form was adopted.

Mr. GESELL. Your answer, then, I take it, is that it was because the policyholders would get such a small amount of stock that it didn't seem worth while to give them the right to subscribe.

Mr. BURNETT. No; they had the right to subscribe, and any of them could assert that right who wished to, but they were asked to waive that right if they did not want to subscribe.

Mr. GESELL. You were anxious to get those waivers, weren't you?

Mr. BURNETT. Naturally we wanted them. That is the reason it is on there.

Mr. GESELL. Why did you want them?

Mr. BURNETT. We wanted to control the company.

Mr. GESELL. That is a very frank statement, you wanted to control the company.

Mr. BURNETT. Naturally.

Mr. GESELL. This was the policyholders' company that was involved, wasn't it?

Mr. BURNETT. We were proceeding under that statute.

Mr. GESELL. That statute refers rather specifically to an equitable distribution of the stock to be issued following the conversion and it seems to me that even the mildest equities in a situation like this would give to the policyholder some participation in the company that he had helped to build up.

Mr. BURNETT. Any policyholder who applied for it got it.

Mr. GESELL. Do you know how many policyholders actually came out with any stock in the situation?

Mr. BURNETT. Sixty-five.

Mr. GESELL. Subtract from that, if you will, those policyholders who were officers, directors, and employees of the company. How many do you get? It is about three, isn't it? About three policyholders who were not connected with the management of the company who got any stock.

Mr. BURNETT. I am going into that with Mr. Rock.

Mr. GORDON. May I ask while you are on the form of proxy, would it be possible for you to show for the record that that was approved by the Insurance Commission?

Mr. GESELL. Yes.

Mr. GORDON. I think your copy shows that on the foot of it, while we are on that part of the story.

Mr. GESELL. I have a copy of the form of proxy which bears a notation, "This form approved, Joyce, October 13, 1927." Was he connected with the department?

Mr. BURNETT. Yes; he was the deputy commissioner.

Mr. GESELL. And he approved this form?

Mr. BURNETT. Yes.

Mr. GESELL. Was he anxious to see you gentlemen have control of the company, too?

Mr. BURNETT. I imagine so, but I couldn't speak for him; I am quite confident he was very favorable to it but I don't know that I ever had any talks with him on the subject.

Mr. GESELL. Mr. Jackson is dead, isn't he?

Mr. BURNETT. Yes, sir.

MR. GESELL. Mr. Burnett, can you tell me when it was that your company first advised the other State insurance departments that this change from a mutual to a stock plan was in contemplation—I am talking about departments other than Maryland.

MR. BURNETT. Please don't hold me to this, but I don't think they were notified until after it became a fact, and we got the certificate probably from the insurance department and then sent it around to the other departments. Is that correct? Just a moment. I don't definitely know about this, Mr. Gesell. I haven't these dates in my mind. Shall I just read this?

MR. GESELL. Certainly. This is a form letter that went out to the insurance departments?

MR. BURNETT. I don't know whether it is a form letter. This was addressed to Mr. Burford, Insurance Commissioner, Harrisburg, Pa., December 28, 1927.

DEAR SIR: With the knowledge of the Insurance Commissioner of Maryland under whose supervision the change mentioned in this letter was being conducted and to whom any inquiries respecting the same may be addressed, I believe it to be my duty to inform you that the Mutual Life Insurance Company of Baltimore is changing from a mutual to a stock basis and I am sending this notice in order that you may be in a position to answer any inquiries which may come to your department. The change is being made in strict accordance with the statutes of this State, it being made under the direction and supervision of the Insurance Department of Maryland, with whom we are consulting frequently and acquainting the Department with every detail connected with the change. We are convinced that this change will be for the benefit of the policyholders as well as for the financial stability of the company. Without burdening you with unnecessary details I may state that the company has tentatively decided to issue \$500,000 of capital stock which must be paid in cash before the insurance department will approve the change, that separate accounts will be kept of the transaction and equities of policyholders and stockholders and under the laws of Maryland none of the surplus existing at the time of the change can be used for the benefit of stockholders but must be held for the exclusive security of policyholders and creditors.

I will be very happy to give you any further information you may wish. I feel you should be in possession of these facts and the result of the proceedings and change of the legal status of the company will be sent you by certified copy when consummated. The insurance commissioner of Maryland under the law will value policies and assets and determine the surplus existing at the time of the change, and thereafter the surplus and common stock will constitute a separate fund for the additional protection of policyholders.

And it is signed by Mr. Jackson.

MR. GESELL. That form was sent to the departments of the various States in which you operated?

MR. BURNETT. Yes, sir.

MR. GESELL. The following day there was a special meeting of the board of directors of the Mutual Life Insurance Co. of Baltimore at which you were present, was there not?¹

The VICE CHAIRMAN. You mean the day after that?

MR. GESELL. Yes; on the 29th.¹ Do you recall that meeting?

(Chairman Ferguson resumed the Chair.)

MR. BURNETT. It is very difficult to read this, but this is a paper that was prepared by Mr. Jackson and submitted to the directors and passed. This is a resolution that was offered.

MR. GESELL. What was the purport of that resolution, Mr. Burnett?

¹ Minutes of the meeting on December 29, 1927, were entered later as "Exhibit No. 957." See appendix, p. 6186.

Mr. BURNETT. It was to secure the passage of the resolution that Mr. Jackson wanted passed.

Mr. GESELL. That resolution contained, among other things, a resolution of the board that the policyholders should be given a right to subscribe to the stock.

Mr. BURNETT. Yes.

Mr. GESELL. Do you recall that that resolution was rescinded?

Mr. BURNETT. No; I don't know that it was.¹

Mr. GESELL. I would like to show you a copy of a minute of a regular meeting of the board held January 5, 1928, at which you were present.

Mr. BURNETT (examining minutes). Now, what was the question?

Mr. GESELL. After you had an opportunity to refresh yourself with respect to what happened at these two meetings of the board, I was anxious for you to advise us as to why this resolution which was to be read to the policyholders of the company giving information concerning their right to subscribe to the stock was rescinded immediately prior to the meeting of the policyholders.

Mr. BURNETT. Where was it rescinded?

Mr. GESELL. In the minutes you have before you, sir; the minutes of the regular meeting of the board held at 10:30 a. m. on January 5, 1928, following a resolution of Mr. Emmons.

Mr. BURNETT. Won't you point to me the exact language?

Mr. GESELL. The minutes of the board of directors show yourself, among others, being present, and they state as follows [reading from "Exhibit No. 957"]:

Mr. Howard Emmons then offered the following resolution:

"Whereas, at a meeting of this board held on the 29th day of December 1927 a preamble and resolution was adopted in which this board unanimously voted in favor of the conversion of this company to a stock company, and authorized the secretary of this board to present as its proxy and agent at the meeting of the policyholders called for January 5, 1928, a copy of the resolution and to read and file the same as part of the Minutes thereof, Now, Therefore, be it

"Resolved; That the said resolutions be and the same are hereby rescinded and annulled."

That refers to the resolution which was covered by the minutes of the meeting of the board of December 29 which I showed you a moment ago.

Was it that you had some doubts as to the advisability of mentioning the policyholders' rights to subscribe to stock at this forthcoming meeting?

Mr. BURNETT. I think not, Mr. Gesell. I really don't know the reason. That is all new to me.

Mr. GESELL. You were present at both meetings?

Mr. BURNETT. I was, yes, sir; apparently I was.

Mr. GESELL. Have you no recollection as to why the act was taken?

Mr. BURNETT. No.

Dr. LUBIN. Do you have any recollection as to whether you voted for rescinding that?

Mr. BURNETT. I really do not remember this at all; I don't recall it. I would have to refresh my memory on the reason for it.

Mr. GESELL. The minutes state the resolution was unanimously carried.

¹ See infra, p. 5648.

Mr. BURNETT. Would you let me consult? He is reading from page 71 of the Minute Book.

Mr. GESELL. I would be perfectly willing, Mr. Burnett, to pass this point at this time and give you an opportunity to consult with your colleagues during the recess and we will come back to it after lunch.¹

Mr. BURNETT. I wish I could remember it. I think the chances are we determined to find some other way.

Mr. GESELL. What other way?

Mr. BURNETT. I don't know.

Mr. GESELL. I wish to offer these minutes for the record.

The CHAIRMAN. They may be received.

(The minutes referred to were marked "Exhibit No. 957" and are included in the appendix on p. 6186.)

Mr. GESELL. Now, Mr. Burnett, a special meeting of the policyholders of the company was held on January 30, 1928, was it not?

Mr. BURNETT. Yes, sir.

Mr. GESELL. Do you recall what took place at that meeting?

Mr. BURNETT. I would have to refresh my memory.

Mr. GESELL. Do you recall that the minutes of that meeting refer to the fact that there were outstanding at that time 489,073 policies in force?

Mr. BURNETT. Yes, sir.

Mr. GESELL. And that consents or proxy cards had been received from 376,982 policyholders?

Mr. BURNETT. I know it since you refresh my memory, by reading the minutes of that meeting.

Mr. GESELL. You recognize this document I am handing you as a correct copy of the minutes of the meeting of the policyholders held on that date?

Mr. BURNETT. I am quite sure it is correct.

Mr. GESELL. I wish to offer these minutes for the record.

(The minutes referred to were marked "Exhibit No. 958" and are included in the appendix on p. 6188.)

Mr. GESELL. Mr. Burnett, who counted these proxies?

Mr. BURNETT. I think either Miss Sharry or Mr. Ewell.

Mr. GESELL. Mr. Ewell was your agency supervisor?

Mr. BURNETT. Agency manager, Miss Sharry was acting under Mr. Ewell as an actuary assistant. Mr. Ewell had been an actuary. I don't know whether he is an actuary or an assistant.

Mr. GESELL. Did anyone else participate in the count of these proxies?

Mr. BURNETT. I couldn't answer that question; I wasn't there.

Mr. GESELL. Is it your best judgment that nobody else did?

Mr. BURNETT. I wouldn't like to say that.

Mr. GESELL. Did any outside authority participate in the count of these ballots?

Mr. BURNETT. Not to my knowledge.

Mr. GESELL. As far as you know they were counted entirely by employees of the company?

Mr. BURNETT. Yes, sir.

Mr. GESELL. Do you recall that an objection was raised to that question that the policyholders made?

¹ *Infra*, p. 5648.

Mr. BURNETT. That objection was raised to what?

Mr. GESELL. To the fact that these proxies and consents had been counted entirely by persons employed by the company.

Mr. BURNETT. I do not remember anything of the kind. I don't think any such objection was made.

Mr. GESELL. Do you remember comments being made on it by Mr. Pearson at the meeting?

Mr. BURNETT. I remember he attended a meeting, but I don't remember that any comments were made.

Mr. GESELL. Do you remember being at the meeting?

Mr. BURNETT. Yes, sir.

Mr. GESELL. And you have no recollection that any question was raised with respect to that?

Mr. BURNETT. No, sir.

Mr. GESELL. May I ask you to step down a minute and ask Mr. Emmons to take the stand, please.

TESTIMONY OF HOWARD M. EMMONS, VICE PRESIDENT AND DIRECTOR, MONUMENTAL INSURANCE CO., BALTIMORE, MD.

The CHAIRMAN. Mr. Emmons, do you solemnly swear that the testimony you are about to give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. EMMONS. I do.

Mr. GESELL. What is your full name, please, sir?

Mr. EMMONS. Howard Emmons.

Mr. GESELL. Are you connected with the Monumental Life Insurance Co.?

Mr. EMMONS. I am vice president and one of the directors.

Mr. GESELL. Did you preside at the meeting of the policyholders held at 11 a. m. at the company's offices in Baltimore on January 30, 1928?

Mr. EMMONS. I imagine I called it to order, but I don't know whether I presided or not.

Mr. GESELL. Do you recall that the question was raised at that meeting as to whether or not the contents and proxies had been counted by any outside auditor?

Mr. EMMONS. I do not.

Mr. GESELL. I have in my hand a transcript of the meeting held at that time and I would like to read a portion of it to you to refresh your recollection.¹ Mr. Pearson—you recall him?

Mr. EMMONS. I remember—I think I would recognize him if I saw him now.

Mr. GESELL. He was the dissenting policyholder?

Mr. EMMONS. Very much of one; yes, sir.

Mr. GESELL. Mr. Pearson stated he desired to be marked present. You stated, "Would any members like to vote on that?" Pearson stated, "I would like to make a comment on the 376 to you. Have they been audited by an outside auditor?" And you stated, "They have not, sir."

Do you recall that?

¹ The transcript in question was not entered in the record.

Mr. EMMONS. I do not. If I hadn't seen it, I would not realize it took place.

Mr. GESELL. Was there any other objection or discussion raised with respect to that matter at that time?

Mr. EMMONS. I don't recall that there was.

Dr. LUBIN. You would have said that?

Mr. EMMONS. Yes, sir; I know that Mr. Pearson wanted some stock, and he wanted more than was allotted to him, and he was given more; but what his objections were or what he said at that meeting—he may have objected to the change; yes. I don't know that as a positive fact; I know there were one or two recorded votes against him.

Mr. GESELL. Do you know, Mr. Emmons, how these proxies and consents were verified?

Mr. EMMONS. I only know that Mr. Ewell had charge of it.

Mr. GESELL. What did he do?

Mr. EMMONS. I recall going into the room where he was having them counted, and my recollection is there were quite a number of our employees who took the count of the tally.

Mr. GESELL. They were simply piling them up in stacks and adding them up?

Mr. EMMONS. I don't know whether they were stacks or how they were, but I know he had actual charge of that, together with Miss Sharry, who verified the counting.

Mr. GESELL. Was there any verification of the signatures?

Mr. EMMONS. I don't know that personally.

Mr. GESELL. What do you know impersonally about it?

Mr. EMMONS. Only hearsay.

Mr. GESELL. What do you know in the way of hearsay about it?

Mr. EMMONS. Hearsay is, they would pull out the applications; I don't say all of them, but a number of the applications called by number on that proxy, and compare the signatures to see if, in their judgment, they were true signatures.

Mr. GESELL. Where did you get that hearsay? Who told you that?

Mr. EMMONS. I couldn't tell you.

Mr. GESELL. Is Miss Sharry still with the company?

Mr. EMMONS. No.

Mr. GESELL. And this other gentleman is dead?

Mr. EMMONS. Yes.

Mr. GESELL. Do you know anybody else who was present at the count of the ballots?

Mr. EMMONS. No; I was not present. I happened to step in several times, but you can't count on a few hours, it is a hazy recollection.

Mr. GESELL. Do you recall anyone else who is now with the company who was present at that time?

Mr. EMMONS. I do not, because I don't know. I couldn't tell you one person in the room outside of Mr. Ewell, but I know there were others. I just happened to see them when I went in the room.

Mr. GESELL. I have no further questions for this gentleman. Will you resume the stand Mr. Burnett?

(Mr. Burnett resumed the stand.)

Mr. GESELL. When was this plan to change from a mutual to a stock company finally consummated?

Mr. BURNETT. Would you like to know what the attitude of Mr. Pearson was later, before you continue, Mr. Gesell?

Mr. GESELL. Certainly, if you wish to put that in the record now; but I am going to question you later on.¹

Mr. BURNETT. If you would take it up later on and let us tell you the whole story, I will be glad to do so. I would like to let you know what it was that happened with reference to Mr. Pearson and afterward what happened. But if you want to take it up later I will be glad to have you do so.

Mr. GESELL. I am going to take it up later, and now I would like to get an answer to the question I originally asked you. When did this plan go through? When did the change become effective?

Mr. BURNETT. Wasn't it February 6?

Mr. GESELL. I think it was February 6, 1928.

Mr. BURNETT. Yes.

Mr. GESELL. That was following a meeting of the board of directors held on February 4, 1928? "

Mr. BURNETT. Yes, sir.

Mr. GESELL. Do you recall that meeting?

Mr. BURNETT. Yes.

Mr. GESELL. You were present, were you not?

Mr. BURNETT. Which meeting are you referring to?

Mr. GESELL. The meeting of the directors held February 4, 1928.

Mr. BURNETT. Yes; it was a joint meeting, if I remember correctly.

Mr. GESELL. Do you recall that at that time it was announced by you that subscriptions from 63 policyholders had been received and that those subscriptions aggregated \$2,147,600?

Mr. BURNETT. That is right.

Mr. GESELL. The stock of the company was oversubscribed, was it not?

Mr. BURNETT. Yes, sir.

Mr. GESELL. Will you tell us what deliberations took place at the meeting of the board and what decisions were made with respect to the allocation of the stock which was to be issued pursuant to the plan?

Mr. BURNETT. What I would tell you would be from recollection. The minutes will tell you exactly what took place.

Mr. GESELL. I would be glad to let you see the minutes to refresh your recollection.

Mr. BURNETT. I would be glad to have you read them. What was done would be found in the minutes.

Mr. GESELL. I am going to offer the minutes in the record. I am anxious to know what discussions took place among you and your fellow directors at this meeting, and I am sure you will agree with me that minutes of meetings don't relate everything that took place at the meeting. I want to know the discussion and conversation that was held.

Mr. BURNETT. I think at that meeting—I don't remember who was presiding, but I think the meeting was run by Mr. Jackson who did all the talking.

¹ *Infra*, p. 5678.

² Entered later as "Exhibit No. 959." See appendix, p. 6191.

Mr. GESELL. You mean this meeting was a cut-and-dried affair where resolutions were offered and allotments made?

Mr. BURNETT. No; I don't think it was a cut-and-dried affair because if I am not mistaken it was a meeting that was continued from a week before and the reason for the continuance was to give policyholders an opportunity to come in and make any subscriptions that they wanted. I think that was one of the reasons for holding the meeting over.

Mr. GESELL. Now, I want to get this straight. Was the decision that was the effect of the allocation of the stock actually made in the course of this meeting that was held on February 4, 1928? The discussions were all limited to that meeting, you and your directors didn't discuss it before the meeting in any way?

Mr. BURNETT. I think maybe some of us did, Mr. Jackson and some of us may have done so, but I don't remember any of the discussions that took place among the directors themselves.

Mr. GESELL. I want to know what considerations moved the directors in the decisions that they have made with respect to the allocations of this stock.

Mr. BURNETT. It was on the recommendation of Mr. Jackson.

Mr. GESELL. Now that recommendation in effect is this, is it not—

Mr. BURNETT (interposing). I think not only of Mr. Jackson, but I think it was done as a result of a conference between him and Mr. Howard, of Venable, Baetjer, and Howard, on the subject of distribution of stock. My recollection is that there was some dissension at the time about some method that Mr. Jackson had adopted and we were unwilling to go ahead with it without having other counsel consulted and we requested him to take the matter up with Mr. Howard, of Venable, Baetzer, and Howard. If I am not mistaken, it was as a result of that conference that this was done; or maybe this was done and referred to Mr. Howard afterward to find out if it was correct. I don't remember which now.

Mr. GESELL. Now the decision that came out of this meeting was that the subscribing policyholders would get 315 shares, was it not?

Mr. BURNETT. If it says so there, it is correct.

Mr. GESELL. That the employees would get 350 shares, that the managers of offices would get 1,425 shares, that the heads of departments would get 1,100 shares, that the secretary of the company would get 250 shares—who is that?

Mr. BURNETT. Mr. Roth.

Mr. GESELL. That the assistant secretaries would get 300 shares, that the vice president would get 500. Who is that?

Mr. BURNETT. Mr. Emmons.

Mr. GESELL. And that the president—that is yourself—would get 760 shares.

Mr. BURNETT. That is right.

Mr. GESELL. The result of that allocation was to keep the control of the company closely within the then existing management, was it not?

Mr. BURNETT. Yes, sir.

Mr. GESELL. Now I want to know what decisions and discussions took place between you and your fellow directors which resulted in your deciding that that type of allocation was the most equitable

allocation which could be made under the circumstances and in accordance with the provisions of the statute.

Mr. BURNETT. I think——

Mr. GORDON (interposing). Don't the minutes show it?

Mr. BURNETT. That is just what I was about to say. I think you will find the minutes show I was requested to leave the room while this discussion was going on.

Mr. GESELL. I think the minutes show clearly that you left, as far as any consideration of allocation to you was concerned, but you have already testified, if my understanding is correct, that there were discussions over a period of a week with counsel and other people, including similar people who were dissenting with respect to what allocations would be made.

Mr. BURNETT. I don't think I said that.

Mr. GESELL. Well now, let's start all over again fresh, Mr. Burnett.

Mr. BURNETT. I am trying to tell you that so far as I know I do not recall what took place at that meeting sufficiently well to give you details other than the minutes, which seem to be very full, and so far as the allocation is concerned, I want also to say that those minutes show that I was absent from the room when it took place. In that discussion after my being absent from the room, it was determined the value of the services of each one of the officers who were to get a portion of this stock and when I came back into the room the agreement had been made.

Mr. GESELL. Now the directors have, under the statute, do they not, a responsibility for allocating this stock on an equitable basis.

Mr. BURNETT. Yes, sir.

Mr. GESELL. Now, I want to know whether you participated in any way, not just at this meeting, but anywhere, any time, in discussions with respect to the general basis upon which this stock should be allocated.

Mr. BURNETT. I think not. I don't think there was any discussion prior to this meeting. If there was I don't remember it. I can't say what talks we may have had, but I don't recall any.

Mr. GESELL. The thing that surprises me, Mr. Burnett is simply this very plain fact: The result of the allocation was to place the controlling stock in the hands of the existing management. Now, that must have involved a determination of policy which you and your other directors would have discussed.

Mr. BURNETT. Well, we followed the statutes.

Dr. LUBIN. Do you deny that any conversations took place?

Mr. BURNETT. No, I would not; I think it is very likely some conversations did take place among us, but they weren't of such a moment that I can recall them now.

Mr. GESELL. Who would you say was the moving figure in the decisions with respect to the allocation of the stock?

Mr. BURNETT. I don't know; I can't tell you that there was any one person who was responsible for it.

Mr. GESELL. Who would you say knows something about the allocation of the stock and the basis upon which the decision is made?

Mr. BURNETT. I can only ask you to ask the other gentlemen who are here and who were present at this meeting. They may know more about it than I do. I can't recall any one person; I think it was a very full discussion that took place at this meeting.

Mr. GESELL. Well then, I will ask you to step down again and ask Mr. Roberts to take the stand.

The CHAIRMAN. Mr. Roberts, do you solemnly swear that the testimony you are about to give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ROBERTS. I do.

TESTIMONY OF MILTON E. ROBERTS, VICE PRESIDENT AND DIRECTOR, MONUMENTAL INSURANCE CO., BALTIMORE, MD.

Mr. GESELL. Will you state your full name for the record please, sir?

Mr. ROBERTS. Milton Roberts.

Mr. GESELL. Were you a director of the Mutual Life Insurance Co., of Baltimore on February 4, 1928?

Mr. ROBERTS. I was.

Mr. GESELL. You presided in the absence of Mr. Burnett at the meeting of the directors which took place on that date, did you not?

Mr. ROBERTS. Yes, after Mr. Burnett retired.

Mr. GESELL. When did he leave the room, early or late?

Mr. ROBERTS. He left early in the discussion.

Mr. GESELL. Can you tell us what discussions took place?

Mr. ROBERTS. Well, probably no discussions of any import took place. The resolutions were all prepared, the minutes all written up by counsel, prior to the meeting, and the resolutions were offered and unanimously passed.

Mr. GESELL. All right, will you step down please, sir? Mr. Burnett, will you come back to the stand?

(Mr. Burnett resumed the stand.)

Mr. GESELL. Who drew up these minutes, Mr. Burnett?

Mr. BURNETT. Who was the secretary? I think Jackson did, but what is the name of the secretary?

Mr. GESELL. The minutes were drawn up before this meeting as the previous witness has just testified. Who drew them up?

Mr. BURNETT. Mr. Jackson.

Mr. GESELL. Did you see them after they were drawn up and before they were presented at this meeting?

Mr. BURNETT. I didn't know they were drawn up before the meeting and I don't recall having seen them; probably I did.

Mr. GESELL. Did you have any discussions with Mr. Jackson about the question of the allocation?

Mr. BURNETT. Not to my knowledge.

Mr. GESELL. Did Mr. Jackson just undertake this allocation on his own?

Mr. BURNETT. Did I understand you to say that Mr. Roberts testified that these minutes were all written up before the meeting?

Mr. GESELL (to the reporter). Will you read back that part of the testimony, please?

The REPORTER [reading]:

Mr. GESELL. Can you tell us what discussions took place?

Mr. ROBERTS. Well, probably no discussions of any import took place. The resolutions were all prepared, the minutes all written up by counsel prior to the meeting, and the resolutions were offered and unanimously passed.

Mr. BURNETT. We will assume he meant the form of the resolution. I can hardly believe he meant the form of the resolution.

Mr. GESELL. Mr. Roberts, will you resume the stand again, please? (Mr. Roberts resumed the stand.)

Mr. GESELL. Mr. Roberts, were these minutes prepared in the form in which they appear in the minutes book at the present time?

Mr. ROBERTS. The form of the resolution that was to be presented to the meeting, and the proceedings were ordered just the way you see them in this book. Now, with reference to the question of allotments and things of that kind, that all took place in the board. But the method of the procedure was all outlined.

Mr. GESELL. But the allocation was not made?

Mr. ROBERTS. No; the allocations were made in the board.

Mr. GESELL. Now, very well; will you tell us what discussions took place among the members of the board with respect to the allocation?

Mr. ROBERTS. Well, I can only give you the basis of the discussion; the determination was to keep the stock control among the officers, the agents, and the clerks—the employees of the company. That was the basis of the discussion. The allotments were discussed on the basis of keeping that situation just as it is set out in these minutes.

Dr. LUBIN. May I ask a question at this point just to clarify it in my own mind? In view of the fact that the only subscriptions came from employees or officers of the company with the exception of four or five, I understand, why did you have to discuss the question as to whether you are going to keep control of the officers, agents, and managers? You already had it because they were the only ones who had subscribed to the stock.

Mr. ROBERTS. The question of the amounts and how the stock would be distributed, in order to keep out of the same difficulties that we had been in prior to that time so that the management and the operation of the company would be entirely with the officers, the agents, and the men in the key positions.

Dr. LUBIN. They were the only ones who could, because they were the only ones who were subscribing for stock.

Mr. ROBERTS. That is right; the directors subscribed. I don't know the amount of the subscriptions, I can't tell you that, but that was the purpose in the way the allotments were made.

Mr. GESELL. Well, if there were no substantial number of people who were just pure, plain, everyday policyholders of the company who subscribed to the stock; you would simply have the problem of determining what percentage you would give the officers, what percentage you would give the directors, and what percentage you would give to the employees. Is that not correct?

Mr. ROBERTS. Well, the policyholders were allotted five shares, and then the——

The VICE CHAIRMAN (interposing). Mr. Roberts, that seems like a perfectly simple question. Will the reporter read the question, please.

(The reporter read the question.)

Mr. GESELL. Well, now, I want to know what the basis of the determination was for giving 350 shares to employees, 1,425 shares to managers and officers, 1,100 shares to heads of departments, and larger individual blocks to certain officers. What factors were considered by the board in making this equitable distribution of stock?

Mr. ROBERTS. Just exactly as set out in the minutes, Mr. Gesell. The minutes read:

Be it further resolved, That the Board is of the opinion that the balance of the stock shall be allotted to policyholders of the Mutual Life Insurance Company holding an executive position therewith either as an official or departmental manager of the company or other capacities, in order that the present management, control, and operation of the company may continue in the same hands and under the same management which has successfully conducted the company for years past and according to said opinion the board allots the following classes of policyholders and the number of shares.

That was the theory.

Mr. GESELL. And you are unable to assist this committee by giving any further information with respect to the actual discussions that took place between you and your fellow directors other than these stereotyped minutes?

Mr. ROBERTS. Do you mean at this meeting?

Mr. GESELL. Yes.

Mr. ROBERTS. The motive all through the conversion has been set out just about as well as I could state it in these minutes, and that was the thing that we were determined to accomplish.

The VICE CHAIRMAN. That is, the discussions must have taken place prior to this meeting.

Mr. ROBERTS. I was associated, in a measure, with Mr. Jackson, to look after some of the details, not with respect to the legal aspects of it entirely, but simply with reference to consultation as we went along and in order to comply with the law and to do the necessary detailed work that would accomplish the conversion in a legal manner.

The VICE CHAIRMAN. The manner in which the stock should be divided must have been determined before this meeting.

Mr. ROBERTS. I don't recall any discussion as to the manner of the division of the stock except that the stock would be distributed, if possible, among the policyholders who were officers, managers, and executives of the company.

The VICE CHAIRMAN. But you think it was at the meeting that the amounts to be distributed among them was determined?

Mr. ROBERTS. Well, you and I know what directors' meetings are.

The VICE CHAIRMAN. Yes; that is why I asked the question. Wasn't it settled before the meeting pretty well?

Mr. ROBERTS. I wouldn't say it was settled definitely before the meeting, but I think there was a discussion, maybe, as to how the management could be controlled or retained in this group.

The VICE CHAIRMAN. Prior to the meeting you had a discussion, for example, as to what Mr. Burnett's past services for this company might be worth in the manner of stock?

Mr. ROBERTS. I don't think there could be much doubt that we discussed the merits of each executive or each clerk in order to sort of consolidate.

Mr. GORDON. May I suggest when you say "the existing management," you mean the officers, agents, employees, a great number of people who were connected with the company?

Mr. GESELL. Everybody but the policyholders.

Mr. GORDON. All these people were policyholders, Mr. Gesell.

Mr. GESELL. Now, Mr. Burnett, do you recall the question I asked you?

Mr. BURNETT. I do; I recall the question you asked me.

Mr. GESELL. Can you give me an answer?

Mr. BURNETT. I can only say to you that I do not recall having any discussions about the allocation of the stock prior to this meeting, nor did I participate in the discussion that took place on that subject at the meeting.

Dr. LUBIN. Mr. Burnett, as president of the company at that time, as I understand your statement, you weren't interested in how these shares were allocated, and all you did was prove that you took no part in any discussion as to how they should be distributed, or who should get them, but you just said, "Boys, if this is the way you want it, I approve of it"?

Mr. BURNETT. No; I did not make any statement of that kind. I was vitally interested, but where you try to pin me down to conversations, I can't recall it; it has been nearly 11 or 12 years; I can't recall any conversations that we had and I can't recall anything that took place as to the distribution of this stuff prior to this meeting.

The VICE CHAIRMAN. And came to at least an approximation of what each was going to get in the amount of stock?

Mr. ROBERTS. I think undoubtedly there would be a reasonable assumption that there was some idea as to how the allotments would be made.

Mr. O'CONNELL. Was it your theory that the basis of the allocation of the stock was in the nature of additional compensation to the existing officers and management for the services that they had rendered to the company in the past?

Mr. ROBERTS. No; I think because the stock was paid for in cash by these subscribers.

Mr. O'CONNELL. I take it, it was a pretty good buy, too.

Mr. ROBERTS. But the relative importance and the long years of service, the value of the person, all of those things were undoubtedly taken into consideration. I am only saying now what I think I would have discussed at the time the matter came up. I think that is natural to assume, that you would discuss these things.

Mr. O'CONNELL. I think it is, too. It seems to me you are being a little less than frank in telling us what it seems to me you should know, in view of your interest in the situation and the way you came out of it.

Mr. ROBERTS. I didn't get your remark.

Mr. O'CONNELL. It seems to me you have been a little less than frank.

Mr. ROBERTS. A little less than frank?

Mr. O'CONNELL. Oh, yes. It seems to me highly improbable that you could have taken the part that you apparently took in this transaction, and were an active member of the management of the company during this conversion period, and not be in a position to tell us more about what motivated you people; what you had in mind and the basis for what took place.

Mr. ROBERTS. I don't know how much more frank I could be, sir.

Mr. O'CONNELL. I don't, either.

Mr. ROBERTS. We have the very purpose expressed in the minutes as to what we were attempting to accomplish, and that was the motive, and I can only—

Mr. O'CONNELL. Would it be fair to say that your purpose was to transfer the ownership of this company from the ordinary life policy-holders to the existing management of the company?

Mr. ROBERTS. Was it fair?

Mr. O'CONNELL. Would it be fair to say that the purpose of the whole transaction was to transfer the ownership of this company from an individual policyholder to the existing management?

Mr. ROBERTS. You couldn't stop there in answering that question.

Mr. O'CONNELL. Will you add something to it?

Mr. ROBERTS. The purpose, as disclosed, was to insure the growth of the company and the stability of the company and avoid all of the annoyances that we had had up to this time and prior to that.

Mr. O'CONNELL. And you couldn't achieve the growth that you hoped for without transferring the ownership, too?

Mr. ROBERTS. If you will permit me, I will answer you this way, based on events that have transpired: We wanted a capable and efficient organization. Now the gentlemen that were associated in the management of the company at the time were businessmen. I wouldn't say they were skilled insurance men.

Mr. O'CONNELL. You mean the officers of the company at that time? The management of the company were not?

Mr. ROBERTS. I don't say they were skilled insurance men.

Mr. O'CONNELL. They were skilled?

Mr. ROBERTS. They were not skilled insurance men. They had a knowledge of business operations, and we had been sorely put to securing the kind of field service that we needed in order to get the greatest efficiency out of our agents. Now the result of that has been that the man who is now the president of this company came to the presidency as a result of this very act that we did. He was a man that carried a book on the streets in one of our debits in one of our western cities.

Mr. O'CONNELL. Couldn't that man have become president under the mutual set-up?

Mr. ROBERTS. You would not have had a company if a transition of that kind had taken place under the way mutual companies are set up from time to time, and you gentlemen have plenty of precedents.

Mr. O'CONNELL. Was any upset as a mutual company, in terms of its management, other than being upset by the possibility there might be a change in the management?

Mr. ROBERTS. I don't recall any serious movements to oust the management.

Mr. O'CONNELL. Was there any serious change in the management?

Mr. ROBERTS. But we had a continuous more or less, you might call it, conspiracy in the field, among certain managers who wanted to have official positions.

Mr. O'CONNELL. Was there any substantial change in the management of this company after the conversion?

Mr. ROBERTS. Any substantial change?

Mr. O'CONNELL. Change in the management; I mean the board of directors, the officers of the company?

Mr. ROBERTS. No; not substantial, except that Mr. Rock was promoted gradually from the field to the home office, and then finally

to the position of president, and the growth of the company from that time on is entirely accountable to him.

Mr. GESELL. I would like to offer for the record at this time the minutes of the meeting of the board of directors held February 4, 1928, please.

The CHAIRMAN. They will be received.

(The minutes referred to were marked "Exhibit No. 959" and are included in the appendix on p. 6191.)

Mr. GESELL. I also would like to offer for the record a certificate of the State Insurance Department of Baltimore, Md., certifying that the Mutual Life Insurance Co. has complied with all the laws of Maryland in relation to its conversion from mutual to a stock company.

The CHAIRMAN. It will be received in evidence.

(The certificate referred to was marked "Exhibit No. 960" and is included in the appendix on p. 6194.)

Mr. GESELL. Now, if the committee please, I think this might be a good adjourning point.

Mr. O'CONNELL. Just a minute. Mr. Burnett, I understood you to say that you presided over this meeting of February 4 when the meeting opened but that you withdrew before any consideration was had as to the number of shares to be allocated to you. Is that correct?

Mr. BURNETT. Yes, sir.

Mr. O'CONNELL. I take it you withdrew out of a sense of delicacy because of your participation in stock was about to be discussed.

Mr. BURNETT. That is correct.

Mr. O'CONNELL. Was there any distribution of stock made at that meeting to other members of the board of directors or officers who were present at that meeting?

Mr. BURNETT. While I was there?

Mr. O'CONNELL. No; at the meeting, whether you were there or not.

Mr. BURNETT. I think the minutes show that the allocation of all the stock was made at that meeting, doesn't it?

Mr. O'CONNELL. Do you happen to know whether any other members of the board exhibited the same sense of delicacy that you did and withdrew from the meeting before their allocation was discussed?

Mr. BURNETT. The minutes may show it. I don't recall it myself.

Mr. O'CONNELL. All you recall is that you withdrew?

Mr. BURNETT. I know I withdrew.

Mr. GESELL. I believe the minutes show that the vice president withdrew. There was an allocation, was there not, at that time, however, to persons who were present at the meeting?

Mr. GORDON. Mr. Gesell, wouldn't it be well to read the minutes? I don't believe the board knows exactly what happened. There were only five shares given to each director who was not an officer, and the officers who got substantial amounts withdrew. Mr. Gesell told me it would be all right to address him from time to time, with the permission of the Committee, in order to make sure a particular point was covered.

Mr. BURNETT. I think you made a remark just now that you imagined the stock was a pretty good investment. Did I so understand you?

Mr. O'CONNELL. I will say that; I may have said that; I would be willing to say that.

Mr. BURNETT. In Mr. Roberts' testimony I just wanted to say to you that the vice president, who was allowed 500 shares, thought so little of it that he refused to take the 500 shares.

Mr. O'CONNELL. What did you do about your 750?

Mr. BURNETT. I took all of mine; I had enough faith in the company to take it, but I am willing to say to you that even Mr. Rock, the president of the company, refused to take all he could take, because he didn't have the confidence in it, and there were a great many others who refused to take their allotment because they did not have confidence in the success of the company.

Mr. GESELL. As a practical matter, Mr. Burnett, since 1928 your company has accumulated a surplus of over \$2,000,000, declared dividends in the amount of \$1,830,000, and has paid stock dividends in the amount of \$1,500,000. So it was a pretty good investment, wasn't it?

Mr. BURNETT. It was a pretty good investment, but I am only trying to tell you that if it hadn't been a good investment we probably wouldn't be here today. I would also like to compare it with the mutual company that was in existence at the same time. There was a mutual company in Maryland, a very good company; I don't criticize it for one moment. The man who had charge of its destinies was a very good friend of mine and a very prominent citizen in Baltimore. Just prior to this conversion he used to twit me a good deal on the size of our respective companies—that his company was almost double the size of ours—and I had to take a good deal of joshing from him on account of it. It was good-natured and pleasant. We had assets then, probably, of two-thirds the assets of this mutual company.

Now, since this transfer, since this conversion our assets are almost double his today. So it shows that under the conversion and under the stock control we have made a great success, where under the mutual system his company has gone along about on an even keel all the time and has not made any particular success. It is a good company; I am not criticizing it.

Mr. O'CONNELL. I hadn't thought we discussed the relative merits of stock companies against mutual companies.

Mr. BURNETT. The inference from the examiner was that we would have made the same success as a mutual company.

Mr. O'CONNELL. I didn't think that.

Mr. BURNETT. I think that has gone all through. "Why didn't you do this and that, and wouldn't it have been the same if it was a mutual company?"

The CHAIRMAN. Mr. Gordon, the full minutes are inserted in the record.

Mr. GORDON. I wasn't sure the committee knew at this point what was in them, and we had had so much discussion of them, and I thought it would be quite short and make it a little clearer.

The CHAIRMAN. The committee will take a recess until 2 o'clock.

(Whereupon, at 12:20 noon, a recess was taken until 2 p. m.)

AFTERNOON SESSION

The subcommittee resumed at 2:15 p. m. on the expiration of the recess.

The CHAIRMAN. Mr. Gordon, there are only two members of the committee here.

Mr. GORDON. We are happy to do anything.

The CHAIRMAN. Everything will be in the record. The committee will be in order. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes, sir; will you resume the stand, Mr. Burnett?

TESTIMONY OF PAUL M. BURNETT, CHAIRMAN OF THE BOARD OF DIRECTORS, MONUMENTAL LIFE INSURANCE CO.—Resumed

Mr. GESELL. Mr. Burnett, before the recess I called your attention to minutes of the meetings of the board of directors of the Monumental, held on December 29 and January 5; the minutes of the latter meeting rescinding a preamble and resolution adopted by the board at the previous meeting and I suggested that you study the matter over the recess and explain to the committee following recess the reasons that prompted the rescision of that resolution.¹ Am I correct in saying that you have studied the situation and established to your satisfaction why the resolution was rescinded?

Mr. BURNETT. I think I can tell you to a certainty, Mr. Gesell.

Mr. GESELL. I wish you would do so.

Mr. BURNETT. I was a good deal embarrassed when you called that to my attention this morning because it was new to me and I didn't know it was there, to tell you the truth. But on page 70 you will find that the directors rescinded the resolution of its board of December 24 which confirmed or approved the conversion. It is very evident that that was done because in the law it states that the directors must concur in the determination of the policyholders, whatever that might be, as to the conversion.

Mr. GESELL. And this meeting was in advance of the policyholders'?

Mr. BURNETT. This was in advance of it and necessarily when it was called to Mr. Jackson's attention he thought it ought to be rescinded and then passed afterwards, which was done after the policyholders' meeting in which the conversion was approved; the same resolution was passed which had formerly been rescinded.

Mr. GESELL. And it is your belief from reading the minutes and from your knowledge of what took place at those meetings that a resolution on December 27 relating to the subscription rights of the policyholders was never rescinded at the subsequent meeting?

Mr. BURNETT. Let me see.

Mr. GESELL. That the resolution contained in the minutes of December 29, 1927, relating to the subscription rights of the policyholders was never rescinded?

Mr. BURNETT. No; I am quite sure it was not.

Mr. GESELL. Now may I ask you to step down again?

(Witness leaves stand.)

¹ See supra, p. 5634. See also "Exhibit No. 957," appendix, p. 6186.

Mr. GESELL. Will you take the stand, Mr. Roberts?

(Mr. Roberts resumes the stand.)

Mr. GESELL. We were discussing, Mr. Roberts, the meeting of February 4, 1928.¹ Was it the practice in the company, or what was the practice at that time—was it the practice to paste the minutes in the minute book subsequent to the meeting or at the meeting?

Mr. ROBERTS. I really couldn't answer that question, sir. I wasn't entrusted with this book until some years after.

Mr. GESELL. Your signatures appear on this. Did you sign them after the minutes were in the book or at the meeting or when?

Mr. ROBERTS. I would say at the time of the meeting.

Mr. GESELL. And is it your best judgment that the minutes are pasted into the minute book at that time?

Mr. ROBERTS. Or very soon after the meeting, by the secretary.

Mr. GESELL. I was interested to notice that the figures with respect to allotment of the shares appear in type with the rest of the form. I was wondering whether you were still definite in your position that those allotments had not already been typed into the form of resolution at the time the meeting was convened.

Mr. ROBERTS. I wouldn't say that they were not.

Mr. GESELL. You think those allotments were already typed in?

Mr. ROBERTS. I think that the allotments were made and passed on by the board and then I think that the typed copies were made, either simultaneously or shortly afterward.

Mr. GESELL. You don't think the allotments had been already typed into the form of resolution at the time of the meeting?

Mr. ROBERTS. Well, sir; I would be of the opinion that we knew really what we were going to do.

Mr. GESELL. Ahead of time.

Mr. ROBERTS. Ahead of time.

Mr. GESELL. One other thing. I want to direct your attention specially to the allocation of 760 shares to Mr. Burnett. I want to ask you on what basis it was the board of directors determined that that was the amount of shares he should receive?

Mr. ROBERTS. I couldn't give you the basis, Mr. Gesell. It was determined that the allotments as made and set out as you see them there were to the best interest and advantage of the company.

Mr. GESELL. How did you hit on this figure of 760 shares?

Mr. ROBERTS. Well—

Mr. GESELL (interposing). From the problem of equitable allotment you must have had some standard.

Mr. ROBERTS. I can only say that in allotting this stock we considered the service and value of the official, and if you go back over the history of the company you will find that Mr. Burnett's connection with it dates way back in the nineties and he had been practically the man who had carried the burdens of the company for years and had given his time and attention to it, he had gone through all its vicissitudes and exigencies and it probably was determined that that allotment was a fair allotment for him.

Mr. GESELL. And these allotments to the officers and managers and other people in the operation of the company were made on a basis

¹ Supra, p. 5641. Also "Exhibit No. 959," appendix, p. 6191.

of a rough estimate of the value of the various individuals to the work of the organization.

Mr. ROBERTS. I think that was used as a basis, Mr. Gesell.

Mr. GESELL. I have no further questions at this time, unless some of the members of the committee have.

I would like to call Mr. Frank Mormann.

The CHAIRMAN. Do you solemnly swear that the evidence you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth?

Mr. MORMANN. Yes, sir.

**TESTIMONY OF FRANK MORMANN, BALTIMORE, MD., FORMER
AGENT, MUTUAL LIFE INSURANCE COMPANY OF BALTIMORE**

PROXY SOLICITATION

Mr. GESELL. Will you state your full name for the reporter, please, sir?

Mr. MORMANN. Frank Mormann, M-o-r-m-a-n-n.

Mr. GESELL. Where do you live?

Mr. MORMANN. 4526 Schenley Road, Baltimore.

Mr. GESELL. Are you in this business at the present time?

Mr. MORMANN. No, sir.

Mr. GESELL. Did you used to work for the Monumental Life Insurance Co.?

Mr. MORMANN. I never worked for the Monumental; I worked for the Mutual.

Mr. GESELL. That was the name of the company before it was changed to Monumental?

Mr. MORMANN. Yes.

Mr. GESELL. Were you working for the company at the time it changed from a mutual to a stock company?

Mr. MORMANN. Yes, sir.

Mr. GESELL. What was your job?

Mr. MORMANN. I was an agent on the street; at the end of the week I worked in the office part of the time. I just can't give you the exact dates of that period when I worked in the office.

Mr. GESELL. Was that in Baltimore?

Mr. MORMANN. Yes, sir.

Mr. GESELL. Did you sell insurance?

Mr. MORMANN. Yes, sir.

Mr. GESELL. Did you have an industrial debit or an ordinary debit or both?

Mr. MORMANN. Industrial first and then ordinary and industrial later.

Mr. GESELL. To whom were you responsible?

Mr. MORMANN. I was responsible first—

Mr. GESELL (interposing). At the time of this conversion.

Mr. MORMANN. To Mr. Harris, who was in charge.

Mr. GESELL. Was he a manager?

Mr. MORMANN. Yes; I believe he is in Pittsburgh today.

Mr. GESELL. Were you asked in connection with your duties to solicit proxies and consents from policyholders agreeing to the change of the company from a mutual to a stock company?

Mr. MORMANN. Yes, sir.

Mr. GESELL. Who asked you to do that?

Mr. MORMANN. It generally went through Mr. Harris' hands to the assistant superintendent.

Mr. GESELL. You mean Mr. Harris would ask the assistant superintendent to ask you to solicit them?

Mr. MORMANN. Well, the first time it came up on the floor at a meeting.

Mr. GESELL. Tell us about those meetings.

Mr. MORMANN. One man's name I can't recall; there was a Mr. Harris, there were several different ones, Mr. Gesell.

Mr. GESELL. What did they say?

Mr. MORMANN. Well, they more or less gave a sales talk, that is to get these things in, and they made an offer. The first one would tell you to get it in in 2 weeks, I think, if I remember correctly. If you did, you received \$10 bonus. But that didn't go because I know the major part of them did not get in in 2 weeks, because it couldn't be done in 2 weeks anyhow.

Mr. GESELL. So they came back and asked you to do it again.

Mr. MORMANN. Well, no; you just continued. I think I took about 6 weeks myself.

Mr. GESELL. Did they offer any other inducement other than \$10 for getting them?

Mr. MORMANN. No; they paid us \$10 personally. That is the only inducement we got, and then during the talks on the floor they said the company would be in a better position and possibly would be able to pay dividends later on, and so forth, more or less a sales talk.

Mr. GESELL. Well, now, how many of these proxies or consents did they give you?

Mr. MORMANN. Well, I had in the neighborhood of—when I turned them in, I won't say I had them signed, but when I turned them in, I had in the neighborhood of twelve hundred.

Mr. GESELL. You turned in twelve hundred executed?

Mr. MORMANN. About that.

The VICE CHAIRMAN. What were these consents; consents to change from a mutual to a stock company?

Mr. GESELL. That is right.

The VICE CHAIRMAN. On the part of the policyholders?

Mr. MORMANN. Yes, sir.

Mr. GESELL. Have we that form of consent that was introduced in the record this morning?¹ Is this the form of consent which you were asked to solicit?

Mr. MORMANN. Yes, sir.

Mr. GESELL. And you say you had about twelve hundred of those?

Mr. MORMANN. About twelve hundred; yes.

The CHAIRMAN. Where is this gentleman located?

Mr. GESELL. In Baltimore, Md.

Mr. MORMANN. Baltimore, Md., 4526 Schenley Road.

The CHAIRMAN. He is an agent of the company?

Mr. GESELL. He was an agent at that time.

¹ See "Exhibit No. 956," appendix, p: 6186.

Mr. MORMANN. Yes; I was with the company. I went with the company in the fall of 1913 or 1914. I can't remember just when. It might have been 1912.

Mr. GESELL. When did you leave the company?

Mr. MORMANN. I was taken down with heart trouble and a nervous break-down.

Mr. GESELL. When was that?

Mr. MORMANN. That happened just seven years, I think, this Thanksgiving week.

Mr. GESELL. So you stayed with the company for several years afterwards?

Mr. MORMANN. No; I did not after I had my break-down.

Mr. GESELL. No; you stayed with the company after the conversion?

Mr. MORMANN. Oh yes.

The CHAIRMAN. Are you connected with the company now?

Mr. MORMANN. No, sir.

Mr. GESELL. What business are you in?

Mr. MORMANN. Now? None at all. I am not able to work.

The CHAIRMAN. You are retired?

Mr. MORMANN. Yes, sir; you might call it that.

Mr. GESELL. You said that you had twelve hundred of these proxies which you turned in.

Mr. MORMANN. Approximately; yes.

Mr. GESELL. Consents. Did you get bona fide policy signatures on all of them?

Mr. MORMANN. Positively not.

Mr. GESELL. Will you tell us what your practice was in connection with these consents?

Mr. MORMANN. Well, in the first place it was simply impossible to get them. I recall a particular case, I remember this woman paid on 27 contracts and I asked her—I did very little explaining, in fact I wouldn't have had time even in 6 weeks to do proper explaining and get them in. Naturally she asked me, "Is it all right?"

I said, "Yes; it is all right."

She signed for everybody she had insurance for.

Mr. GESELL. You mean she had 27 of them?

Mr. MORMANN. She had two policies out of the whole lot on her own life.

Mr. GESELL. Did you sign some of these yourself?

Mr. MORMANN. I sure did, or I couldn't get them.

The CHAIRMAN. Did you report that to the company?

Mr. MORMANN. No; they wouldn't accept it.

Mr. GESELL. Was that the general practice among the men at the time?

Mr. MORMANN. I believe it was.

The CHAIRMAN. Speak from your own knowledge.

Mr. GESELL. I am asking him with respect to his own knowledge, Mr. Chairman.

Mr. MORMANN. I believe that was general.

Mr. GESELL. How many agents were there in your office?

Mr. MORMANN. I can't recall; I think there must have been somewhere around 50.

Mr. GESELL. About 50?

Mr. MORMANN. I think so; I am not sure about the number.

Mr. GESELL. Did you see other agents sign these proxies?

Mr. MORMANN. Nobody ever signed them in the office.

Mr. GESELL. Did you see any of them sign them?

Mr. MORMANN. No.

Mr. GESELL. Did you hear the men talking about it?

Mr. MORMANN. Oh, here and there; yes, sir; the men talked about it.

Mr. GESELL. I beg your pardon?

Mr. MORMANN. Just here and there men would say, "Well, I got mine"; they would say, "I got 'em"; that is about all. They meant by that that they got 'em and didn't care how they did get 'em.

Mr. GESELL. Have you any reason to know whether or not the managers or the assistant managers knew of this practice?

Mr. MORMANN. If they didn't, they didn't know their business.

Mr. GESELL. What do you mean by that?

The CHAIRMAN. You are not answering his question. He asked you if you knew.

Mr. MORMANN. I don't know personally. They should have known.

The CHAIRMAN. He didn't ask you to guess about it.

Mr. GESELL. Did you ever have any conversation with any managers or assistant managers in which the matter was discussed?

Mr. MORMANN. No.

Mr. GESELL. Was there considerable pressure upon you to get the proxies in within a specified period of time?

Mr. MORMANN. Oh, yes; they wanted them in. There were meetings every week on the floor practically through the period.

Mr. GESELL. Can you give us any idea, more specifically than you have, of the kinds of things which were said by the people presiding at the meetings?

Mr. MORMANN. Well, they told us in a general way that the company would be in a better position to do a bigger business and open up more offices and in a general way enhance the policyholders, and they said it was all along those general lines.

The CHAIRMAN. Who told you that?

Mr. MORMANN. Why, the different ones.

The CHAIRMAN. Name some of them.

Mr. MORMANN. Well, one was Harris.

Mr. GESELL. He was the manager, I believe.

Mr. MORMANN. Yes. There was one man—his name has gone from me; I can't think of it just now—and Mr. Ewell came on the floor, and I don't know whether Mr. Emmons was up there or not. I wouldn't say for sure—different ones.

Mr. GESELL. Do you know whether the other agents in the office where you worked received any compensation for getting consents or proxies in?

Mr. MORMANN. Every one of them got \$10.

The CHAIRMAN. How do you know that?

Mr. MORMANN. I know because I got mine, and it was a general thing that was all paid off at one time.

The CHAIRMAN. I merely asked for the committee's benefit.

Mr. GESELL. I have no further questions.

The CHAIRMAN. How did you come to sever your connection with the company?

Mr. MORMANN. On account of my trouble. I couldn't work any longer on the street.

The CHAIRMAN. Illness?

Mr. MORMANN. Yes, sir.

Mr. GESELL. How long did you stay with the company after the change?

Mr. MORMANN. Well, up to—it will be 7 years this fall, and that was '32.

Mr. GESELL. How long did you say had been your service with the company?

Mr. MORMANN. I went with them, say, in the fall of 1912 or '13; I am not sure of the dates, along in that time.

Mr. GESELL. So you were with them for about 20 years?

Mr. MORMANN. Well, yes; about that time. The only thing I can recall to make it more specific on that point is that I was with them at the time they had that trouble in Mexico, the country trouble, when Pershing went down. I was with them that time.

The VICE CHAIRMAN. During those 20 years you were with the company did you ever have any other proxies to sign?

Mr. MORMANN. No; never.

The VICE CHAIRMAN. Such as voting for a new board of directors?

Mr. MORMANN. No; nothing was said about it at that time.

The VICE CHAIRMAN. This was the only occasion?

Mr. MORMANN. Yes, sir.

The VICE CHAIRMAN. Where did you sign these names of the policy-holders to the proxies?

Mr. MORMANN. At home.

The VICE CHAIRMAN. At your own home?

Mr. MORMANN. Yes; mostly.

The VICE CHAIRMAN. There was nobody else present?

Mr. MORMANN. Well, my family.

The VICE CHAIRMAN. Did you tell any other agents that you had done this?

Mr. MORMANN. Well, usually there were what we would call pigeons around the office, that would come in the office with a story if they could get something on another man, so we kept quiet.

The VICE CHAIRMAN. You didn't want this fact known to the company?

Mr. MORMANN. I didn't let it out; that is, personally.

The VICE CHAIRMAN. Did any other agents talk to you about their signing?

Mr. MORMANN. Just as I said, they would say, "Well, I got mine," and would smile as if to say, "It is none of your business how I got them."

The VICE CHAIRMAN. They got signatures and you got signatures.

Mr. MORMANN. Yes.

The VICE CHAIRMAN. How many signatures did you say you got?

Mr. MORMANN. In the neighborhood of twelve hundred, if I remember correctly.

The VICE CHAIRMAN. Did you make any attempt to disguise your handwriting?

Mr. MORMANN. No; I didn't; I couldn't disguise twelve hundred. I just wrote them; that is all.

The VICE CHAIRMAN. So that the 1,200 signatures were written in the same handwriting with no attempt to change them.

Mr. MORMANN. Just like in the case of this woman signing this; as long as I said it was all right. In fact, 90 percent of those cards were signed on the agent's personality, anyhow.

The VICE CHAIRMAN. You don't know of any that were signed in the company office by any of the agents?

Mr. MORMANN. No. Not in the office; no.

Mr. GESELL. What percentage of yours did you sign yourself?

Mr. MORMANN. Oh, I guess two-thirds.

The CHAIRMAN. Who signed the others?

Mr. MORMANN. I got some just like I said; this woman, where the personality looked good, just signed; nobody ever said anything.

Mr. GESELL. What do you mean, "Where the personality held good?" Where you were good friends of the policyholder?

The CHAIRMAN. Collected from the company?

Mr. MORMANN. Just like this woman signed for the whole 27 policies.

The CHAIRMAN. Was she an employee of the company?

Mr. MORMANN. No.

The VICE CHAIRMAN. You got \$10, the same as all the other agents?

Mr. MORMANN. I sure did.

The VICE CHAIRMAN. Didn't get anything special because of signing these?

Mr. MORMANN. No.

The VICE CHAIRMAN. Did you get a greater number of signatures than any other agent?

Mr. MORMANN. I don't think so.

Mr. GESELL. The next witness is—

Mr. GORDON (interposing). Mr. Chairman, may we be permitted at this point, while this gentleman is still here, to show that he has had a disagreement with the company? Mr. Rock is right here beside him, president of the company.

The CHAIRMAN. Maybe he will admit it.

Mr. GORDON. One of your questions made me think of that.

Mr. ROCK. Mr. Gesell, I may ask Mr. Mormann when he became ill how long he was kept on a pension by the company and why it was terminated?

Mr. MORMANN. I was paid \$25 a week until this occurred the last week, Tuesday before Thanksgiving of that year. I was paid \$25 a week far into March, I think. Then I was reduced to \$15 and cut off entirely in August. If that is a disagreement, I don't know what he means by that.

Mr. GESELL. I didn't ask you the question.

The CHAIRMAN. They are entitled to show prejudice. If he is a prejudiced witness they are entitled to show it.

Mr. GESELL. Have you any prejudice of any sort against the officers and directors of this company?

Mr. MORMANN. Naturally, I didn't like their treatment they gave me. He offered me, after my doctor—I tried to get on again but my doctor positively forbade me doing any such work because it broke me down, and he said it would simply break me down again, and I wouldn't be any good.

Mr. GESELL. Have your feelings in this matter affected the truth or completeness of your testimony in this matter in any way?

The VICE CHAIRMAN. That is, your willingness to come here was prompted somewhat by the fact that you haven't got a very friendly feeling for the company?

Mr. MORMANN. Well, not the company. I don't believe there is anybody ever employed by them thought any more of the old mutual company than I did.

The VICE CHAIRMAN. I am talking about natural reactions, but the fact is that you did make these signatures is the truth, regardless of what prompted you to testify?

Mr. MORMANN. Sure.

The VICE CHAIRMAN. And you don't know—you weren't asked by any managers of the company or anyone in authority by the company to get these signatures in this matter? This was your own idea, getting these signatures?

Mr. MORMANN. Oh, yes; sure.

Mr. GESELL. The next witness is Mr. William Lambdin.

(Witness excused.)

The CHAIRMAN. Do you solemnly swear that the evidence you are about to give before the committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LAMBDIN. I do.

TESTIMONY OF WILLIAM LAMBDIN, BALTIMORE, MD.

Mr. GESELL. Will you state your name, please, sir, for the record?

Mr. LAMBDIN. William F. Lambdin.

Mr. GESELL. How do you spell it?

Mr. LAMBDIN. L-a-m-b-d-i-n.

Mr. GESELL. Are you employed at the present time?

Mr. LAMBDIN. Yes, sir.

Mr. GESELL. Where do you reside?

Mr. LAMBDIN. Baltimore.

Mr. GESELL. For whom do you work?

Mr. LAMBDIN. State of Maryland.

Mr. GESELL. Did you used to work—or what do you do for the State of Maryland?

Mr. LAMBDIN. I am sort of relief manager for the unemployment compensation board.

Mr. GESELL. Did you used to work for the company that is now known as the Monumental Life Insurance Co.?

Mr. LAMBDIN. Yes, sir.

Mr. GESELL. For how long were you with them?

Mr. LAMBDIN. I think I first went with them in 1914.

Mr. GESELL. When did you leave them?

Mr. LAMBDIN. 1934.

Mr. GESELL. Were you with the company at the time it was converted from a mutual to a stock company?

Mr. LAMBDIN. Yes, sir.

Mr. GESELL. In what capacity were you acting?

Mr. LAMBDIN. Chief assistant manager.

Mr. GESELL. Chief assistant manager?

Mr. LAMBDIN. Yes, sir.

Mr. GESELL. For what office?

Mr. LAMBDIN. Baltimore, No. 2, they called it.

Mr. GESELL. Did you have ordinary and industrial policyholders in the office?

Mr. LAMBDIN. Yes, sir; we had ordinary and industrial both.

Mr. GESELL. How many agents did you have?

Mr. LAMBDIN. At that time I believe we had around 44.

Mr. GESELL. Now, will you tell us in your own words when it was you first heard that the company was going to change and relate to the committee the various events that occurred thereafter?

Mr. LAMBDIN. Well, the first that I heard of the conversion was by Mr. Warheim, who was then the agency manager of the Mutual Life Insurance Co.

Mr. GESELL. What was that name?

Mr. LAMBDIN. Mr. Warheim; he was the agency manager at that time. He came to the office with these proxy cards and told them in on each debit that they had their circle to go out and get signed by the policyholders. It was very urgent and very necessary to get these signed, so they could get the conversion ordered and to do it quickly, because they didn't have much time to lose, and by doing this extra performance of duty they gave them \$10 as a sort of bonus or extra salary, so to speak, for their extra work.

Mr. GESELL. Was that before the consents were in, or after they were in?

Mr. LAMBDIN. What do you mean?

Mr. GESELL. Were they paid for soliciting them or paid to get them in?

Mr. LAMBDIN. They were paid to get them in. In other words, they had to get them in first before they were paid.

Mr. GESELL. Very well; what happened after that?

Mr. LAMBDIN. Well, after they weren't coming in as fast as they thought they should come in, Mr. Warheim took the floor and urged the agents to expedite the getting of proxies in as soon as possible so they could complete the deal and get the matter over with.

Mr. GESELL. Did you solicit any of these proxies or consents yourself?

Mr. LAMBDIN. No, sir; I did not.

Mr. GESELL. How many men did you have under you?

Mr. LAMBDIN, I think around 44 or 45, and 5 or 6 assistant managers.

Mr. GESELL. What would you say about the methods of those men, used in soliciting proxies?

Mr. LAMBDIN. I wouldn't be in position to say; I wasn't on the outside; I was on the inside. They would have confided in me what they were doing on the outside. Being I was an executive of the company, they wouldn't give me their reasons for getting things signed or whether they were signed correctly or incorrectly.

Mr. GESELL. What did you think was happening?

Mr. GORDON. Is that a proper question. "What do you think they did?"

Mr. GESELL. I didn't ask him what he thinks now. I asked him what he thought at the time of the solicitation of the proxies.

Mr. LAMBDIN. I don't quite get that question. What do you mean?

MR. GESELL. At that time did you believe the signatures the agents were getting were bona fide?

MR. LAMB DIN. I had no reason to believe they were or weren't; in fact, it was none of my business. All I was authorized to do was get these proxy cards in and signed as soon as possible.

MR. GESELL. Did you ever talk to any of the agents as to how they got signatures?

MR. LAMB DIN. No; I never did.

MR. GESELL. Did you ever hear them talking among themselves as to how they got signatures?

MR. LAMB DIN. No; they didn't talk to me about how they got them signed.

MR. GESELL. Did you make any check-up when these proxies came in as to whether they were properly signed or not?

MR. LAMB DIN. No; we never verified a signature. No signatures were verified. We took the agents' word and sent them through the home office, and that is the last we saw of them.

MR. GESELL. Were you given any right to subscribe to the stock?

MR. LAMB DIN. No, sir.

MR. GESELL. Anybody ever approach you on subscribing to the stock?

MR. LAMB DIN. Nobody in the office, to my knowledge, was ever allowed even to think about buying any stock.

MR. GESELL. What do you mean, "being allowed to think of it"?

MR. LAMB DIN. We never knew we could buy any stock. I would like to have bought some of it.

MR. GESELL. Were any of the agents or any of the people working in your office asked to solicit subscriptions for the stock?

MR. LAMB DIN. No, sir. The only man that I know that bought any stock in their office at that time was Mr. Harris. I believe he bought 70 shares of stock at that time, at \$100 a share.

MR. GESELL. I asked you if you know of any attempt to solicit subscriptions for the stock?

MR. LAMB DIN. No, sir.

MR. GESELL. What was the allotment given to these agents?

MR. LAMB DIN. In reference to what?

MR. GESELL. Consents.

MR. LAMB DIN. You mean proxies—how many did they have to get in?

MR. GESELL. Yes.

MR. LAMB DIN. I don't recall, to be honest with you, whether it was 75 or 80 percent.

MR. GESELL. Seventy-five or eighty percent, you mean, of the policyholders?

MR. LAMB DIN. On their particular debit.

MR. GESELL. How many would that run per man?

MR. LAMB DIN. That would run quite a lot, because some of those debits vary—some 300 debits, some 150, some 200—so it would be pretty hard to even approximate exactly how many would be on a debit, so if there would be 1,000 policyholders on a debit, we would figure 75 or 80 percent would be probably just the number they were required to get in as soon as possible.

The CHAIRMAN. Are you speaking from your personal knowledge?

MR. LAMB DIN. Yes, sir.

Mr. GESELL. Now, how would that run? Would a man get about two or three hundred that he would have to get in?

Mr. LAMB DIN. He would have to get more than that.

Mr. GESELL. About how many? Eight hundred?

Mr. LAMB DIN. We would say, probably, 75 percent. In other words, 300 debits, 1,500, or 1,300, or 1,800 policyholders, and we would expect 80 percent, or 75 percent of the amount of policyholders on that particular debit.

Mr. GESELL. So it might run over a thousand?

Mr. LAMB DIN. That is right; yes, sir.

Mr. GESELL. Now, did you hand these out to the men yourself?

Mr. LAMB DIN. No, sir; I did not. Mr. Wehrheim brought those down and took care of them.

Mr. GESELL. Did you see them handed out to the men?

Mr. LAMB DIN. I saw them passed out; yes, sir.

Mr. GESELL. After this first set hadn't come in very well and there was extra efforts placed on getting them in, were there some men who turned in as many as a thousand all at one time?

Mr. LAMB DIN. Well, I would say some of them saved them up and turned them in at one time; some saved them in blocks.

Mr. GESELL. Was it ever your impression that any agent brought in an unusual number within any given period of time?

Mr. LAMB DIN. Well, I wouldn't be able to tell you truthfully about that, because it has been so long ago I wouldn't recollect exactly what my impressions were at that time. I only knew that we had to get this in at a certain time, and we paid those men to get them in; we wanted them.

Mr. GESELL. You want to state here before the committee that there was no talk around your office or discussion or any other overt act which gave you to believe that these proxies and consents had been gotten in an unauthorized manner?

Mr. LAMB DIN. I couldn't say "yes" to that.

Mr. GESELL. Well, I want to know—was there or was there not?

Mr. LAMB DIN. I couldn't say, because, as I say, I don't remember that far back, and passing judgment like that would be very foolish for me to make that statement.

Mr. GESELL. When did you first speak to our representative?

Mr. LAMB DIN. Last week.

Mr. GESELL. How many officers of the company have you spoken to since?

Mr. LAMB DIN. Of this company?

Mr. GESELL. Yes.

Mr. LAMB DIN. I haven't seen any of them until this morning, when they came in here to testify.

Mr. GESELL. Did you discuss with them what your testimony was going to be?

Mr. LAMB DIN. No, sir.

Mr. GESELL. I have no further questions.

The CHAIRMAN. Are you connected with the company now?

Mr. LAMB DIN. No, sir.

The CHAIRMAN. When did you leave the company?

Mr. LAMB DIN. 1934.

The CHAIRMAN. Did you leave on account of any disagreement?

Mr. LAMBDIN. No. At the time they were making new offices and they created managers for those offices, and I was given a position as assistant manager, and I resigned in 1934, I believe the 1st of May; no particular reason or any difficulty, to my knowledge, when I left. In fact, at that time I was having a little stomach trouble, and I thought the rest would do me good.

The CHAIRMAN. What business are you engaged in?

Mr. LAMBDIN. I am with the Maryland State Employment Compensation, in the State of Maryland.

The VICE CHAIRMAN. Who did you speak to when he says "our representative" in regard to coming here to testify?

Mr. LAMBDIN. I think his name was Peterson.

The VICE CHAIRMAN. Mr. Peterson. Is Mr. Peterson present?

Mr. PETERSON (in rear of room). Here.

The VICE CHAIRMAN. Who is Mr. Peterson?

Mr. GESELL. Mr. Peterson is an employee of the Commission.

The VICE CHAIRMAN. Does the story you have told here this afternoon differ in any material respect from what you told Mr. Peterson?

Mr. LAMBDIN. No.

(The witness Lambdin was excused.)

Mr. GESELL. Mr. William King? We had another witness on this matter, if the committee please, named Mr. William King. We had difficulty serving him because he had left on his vacation before we had an opportunity to get in touch with him, so I would like permission of the committee to present further testimony on this matter as soon as we can locate Mr. King.¹

(Vice Chairman CASEY assumed the Chair.)

The VICE CHAIRMAN. That will be all right.

Mr. GESELL. Mr. Loweree, will you take the stand, please?

TESTIMONY OF F. HAROLD LOWEREE, SECRETARY, MONUMENTAL LIFE INSURANCE CO., BALTIMORE, MD.

The VICE CHAIRMAN. Do you solemnly swear to tell the truth and nothing but the truth, so help you, God?

Mr. LOWEREE. I do.

Mr. GESELL. Will you state your full name, please?

Mr. LOWEREE. F. Harold Loweree.

Mr. GESELL. Are you secretary of the Monumental Life Insurance Co.?

Mr. LOWEREE. Yes.

Mr. GESELL. Do you recall you were served on the 17th of this month with a subpoena, calling for the production of certain books and records of the company?

Mr. LOWEREE. I do.

Mr. GESELL. Directing your attention to paragraph 6 of the subpoena, which calls for the production of all executed proxies and consents of policyholders; have you produced them here today?

Mr. LOWEREE. No, sir.

Mr. GESELL. Why not?

Mr. LOWEREE. I haven't been able to locate them.

¹ Mr. King subsequently testified before the committee. See *infra*, pp. 6161-6163.

Mr. GESELL. Will you tell us what search was made to find them?

Mr. LOWEREE. I have general supervision over all of the files and the filing spaces in the home office of the company, and at different times in connection with my duties there I have occasion to be familiar with what is in these different places. Now, at no time have I ever seen the proxies since 1928, and when the subpoena was served, I inquired of the different officers in the home office if they had any knowledge of their whereabouts and was given a negative answer, and I also myself looked into places where the proxies might be expected to be, if they were there, and did not find them.

Mr. GESELL. Well, did you actually make a room-to-room search yourself for these things, or did you just conduct sort of a general inquiry?

Mr. LOWEREE. No, sir; I didn't make a room-to-room search, because it would be obvious that the proxies would not be in certain of the rooms that I might be in every day, or every other day, places where you would reasonably feel that they couldn't possibly be.

Mr. GESELL. Did you locate anyone who told you that those had been destroyed, or disposed of?

Mr. LOWEREE. I discussed the matter with every officer, and more particularly with Mr. Burnett, Mr. Gans, Mr. Roberts, and Mr. Rock, and I was told that Mr. Burnett was of the opinion that in 1932 the insurance department had given instructions, or given notification verbally, that the proxies might be destroyed. That was Mr. Burnett's recollection of the matter, and I get the impression from him that they had been destroyed at that time.

Mr. GESELL. Did he tell you who it was in the department that gave that verbal authorization?

Mr. LOWEREE. The particular man in the insurance department? No; he didn't mention him by name.

Mr. GESELL. Mr. Burnett, who was that man?

Mr. BURNETT. I think it was Mr. Siegk, but I couldn't say positively.

Mr. GESELL. The same gentleman you talked to about the changes in the company?

Mr. BURNETT. It was at the time of examination of our company by the insurance department, and in the discussion of our reserve with him I asked him how long it would be necessary to keep it; and he said 3 years having gone, elapsed, it wouldn't be necessary to keep them any longer.

Mr. GESELL. No further questions of Mr. Loweree.

Mr. GORDON. Would it be possible for us to show briefly by this gentleman the extent of the records of this company and their policy as to destroying records after a certain length of time, to take away any impression that there is anything unusual about this particular thing? The witness could explain that in just a moment, if the committee would like to hear it.

The VICE CHAIRMAN. If he could explain it briefly, I think it would be permissible.

Mr. LOWEREE. Naturally, there is a great volume of correspondence, papers of every kind, accumulating in the company, and it is quite a problem for us, on account of limited filing space, to sort out and keep what we have to keep and dispose of what we think we won't need any more. Now, in 1935, for example, we had a general con-

ference of all department heads and officers and ordered a great mass of material to be destroyed. Incidentally, it was a result of that particular conference that the records were destroyed pertaining to the payment of the \$10 items to the agents. They were destroyed in 1935. The last meeting was held on June 30, 1939, at which all of these various items were discussed and instructions were given as to how long they should be retained; and as a result of this meeting on June 30, since that time we have destroyed over 15 tons of paper, so you can get some idea that it is very voluminous.

The VICE CHAIRMAN. You keep a record of what has been destroyed?

Mr. LOWEREE. We do now; yes, sir.

The VICE CHAIRMAN. You didn't at the time these proxies were destroyed?

Mr. LOWEREE. The first record that was kept was on May 16, 1935, to my knowledge.

The VICE CHAIRMAN. I understand that your impression was that these proxies were destroyed in 1932?

Mr. LOWEREE. Yes, sir.

The VICE CHAIRMAN. That would be about 4 years after they were obtained?

Mr. LOWEREE. The reason I can identify that time, in addition to what Mr. Burnett has told me, is because in the examination of the insurance department in 1931 it was stated that surplus existing at the time of the conversion had been entirely applied to the payment of claims of the former mutual policyholders, and it was the fact that that surplus was stated to be known existent, which led Mr. Burnett to put the question to the insurance department as to whether the proxies should be retained after that.

The VICE CHAIRMAN. Were you in charge of the files in 1932 that were destroyed?

Mr. LOWEREE. No, sir.

The VICE CHAIRMAN. When did you take over the duties?

Mr. LOWEREE. I don't know that there was any definite time. At that time, I think, I was assistant secretary and Mr. Ewell was vice president in charge of the affairs of the home office, and he remained in that capacity until sometime in 1933, and I think there was sort of an overlapping of the duties; as Mr. Ewell relinquished his duties, due to ill health, I think I gradually assumed larger responsibilities there.

The VICE CHAIRMAN. It wasn't a part of your duty at the time these were destroyed in 1932?

Mr. LOWEREE. No, sir.

The VICE CHAIRMAN. You have no clear recollection of their being filed or where they were filed?

Mr. LOWEREE. I have a recollection at one time they were filed on the mezzanine floor.

The VICE CHAIRMAN. Did you search the mezzanine floor?

Mr. LOWEREE. Yes, sir; and they are not where they were at the time I thought they were filed there. To the best of my knowledge, Mr. Casey, I haven't seen those since 1928.

The VICE CHAIRMAN. Since 1928?

Mr. LOWEREE. Since 1928, at the time they were being counted.

THE VICE CHAIRMAN. How much space did they take up, do you remember?

MR. LOWEREE. When I saw them they were piled on tables and this is a very rough estimate, but I would say if they were piled on this table they would probably run about that high.

MR. GESELL. About 3 feet?

MR. LOWEREE. About 3 feet, if they were all on one table. I will have to ask you to accept that as an approximation and I don't know that what I saw was all of them.

MR. GESELL. Just one further thing, Mr. Loweree. I show you a document captioned "Temporary stock certificates were issued to the following individuals on February 6, 1928," and ask you if you recognize those papers as papers which were checked under your supervision against the records of the company and found to be correct?

MR. LOWEREE. I do.

MR. GESELL. And I ask you the same question with respect to a document entitled "Original stock certificates were issued to the following on February 10, 1928."

MR. LOWEREE. That has been checked by our company.

MR. GESELL. Those two records, then, are accurate statements of what the more voluminous records of your company show with respect to the issuance of stock certificates and temporary stock certificates?

MR. LOWEREE. That is right; yes, sir.

MR. GESELL. I wish to have these introduced in the record at this time.

(Chairman Ferguson resumed the chair.)

THE CHAIRMAN. They will be received and inserted in the record.

MR. GESELL. I would like to have them back now as they are numbered.

(The records referred to were marked "Exhibits Nos. 961 and 962" and are included in the appendix on pp. 6194 and 6195.)

(The witness Loweree was excused.)

MR. GESELL. Mr. Roberts, will you resume the stand?

TESTIMONY OF MILTON E. ROBERTS, VICE PRESIDENT AND DIRECTOR, MONUMENTAL LIFE INSURANCE CO.—Resumed

FINANCING OF STOCK

MR. GESELL. Mr. Roberts, do you know a man by the name of Mr. Albert?

MR. ROBERTS. In the insurance department of Maryland?

MR. GESELL. Yes.

MR. ROBERTS. Yes; I know him.

MR. GESELL. Was his full name John C.?

MR. ROBERTS. John P.; I know him.

MR. GESELL. What is his position in the insurance department?

MR. ROBERTS. I couldn't give you definitely what his position is; he is one of the examiners that comes regularly to look over the insurance company's accounts.

MR. GESELL. He is the representative of the department who has periodically been in charge of the examination of affairs of the Monumental?

Mr. ROBERTS. That is correct.

Mr. GESELL. He was making examination of the company, was he not, at the time of the conversion?

Mr. ROBERTS. I couldn't answer that, even. If there were an examination made just prior to that time, I think he probably would have been in charge of it or one of the men.

Mr. GESELL. The records here that we have, indicate that you transferred certain shares of Monumental stock to Mr. Albert on May 10, 1928. Do you recall that transaction?

Mr. ROBERTS. I personally?

Mr. GESELL. Yes.

Mr. ROBERTS. You mean the trust company acting as agent?

Mr. GESELL. Out of your own shares.

Mr. ROBERTS. I know he has stock but I couldn't tell you whether he got them from me or not; sir.

Mr. GESELL. You don't recall whether he got any stock from you or not?

Mr. ROBERTS. I know he has stock; I know that he had stock acquired shortly after the conversion.

Mr. GESELL. Who did he get his stock from, do you know?

Mr. ROBERTS. Well, if you say he got it from the records from me, he must have got it out of my certificate.

Mr. GESELL. Do you recall the transaction?

Mr. ROBERTS. I don't recall how he got his stock; he paid for his stock in cash if he got it.

Mr. GESELL. Now if he didn't get it from you, how do you know he paid for it in cash?

Mr. ROBERTS. The trust company was a transfer agent.

Mr. GESELL. And you are talking about the Real Estate Trust Company?

Mr. ROBERTS. Real Estate Trust Company; yes.

Mr. GESELL. And did he buy this stock from the Real Estate Trust Company or from you personally?

Mr. ROBERTS. I would have to look at my records to answer that. I would have sold it to him if he asked for it. Now I think probably it may have been a certificate that was in my name that was broken up and he got 10 shares of stock.

Representative CASEY. What was the date of that?

Mr. GESELL. May 10, 1928.

Mr. ROBERTS. He is not the only one in the department that had stock.

Mr. GESELL. I realize that, Mr. Roberts. How many shares has he got?

Mr. ROBERTS. My recollection is that he had 10 of the original shares. Now the record shows clearly what he has.

Mr. GESELL. Now you are connected with the Real Estate Trust Co., aren't you?

Mr. ROBERTS. I am president.

Mr. GESELL. You are president of that company?

Mr. ROBERTS. Yes.

Mr. GESELL. Do you recall that he borrowed on these 20 shares on May 10 from the Real Estate Trust Company?

Mr. ROBERTS. I recall it now after looking at the record of loans that were submitted to me by your agents to ask about the accounts of certain men; yes.

Mr. GESELL. Who arranged that transaction?

Mr. ROBERTS. Why, he came in and borrowed the money and I lent it to him.

Mr. GESELL. Came in and saw you?

Mr. ROBERTS. I think he saw me. I think most of them saw me; I think I made nearly all of the loans or passed on them.

Mr. GESELL. You mean all of the loans to people in the insurance department or all the loans?

Mr. ROBERTS. All the loans, nearly all the loans of the bank would come over my desk.

Mr. GESELL. Well, now, did he have the shares in his hand when he came in to see you?

Mr. ROBERTS. I really couldn't tell you that, sir.

Mr. GESELL. Did he already own those shares or was that a transaction which accommodated him and enabled him to purchase those shares?

Mr. ROBERTS. Well, I don't see how you could answer a question of that kind; Mr. Albert wanted the stock and I agreed to lend him a certain portion of the money on it.

Mr. GESELL. So he could buy it?

Mr. ROBERTS. Naturally, I think.

Mr. GESELL. And did he buy it from you?

Mr. ROBERTS. He bought the stock. Now, if it came out of my certificate he may have bought it from me, or it may have been a certificate that was in my name that was broken up. Now, whether it was any stock that I had gotten—there was no allotment—I received no allotment of stock.

Mr. GESELL. Well, the stock certificate shows, does it not, that it came from you?

Mr. ROBERTS. I acquired those certificates later on. Now whether they were turned in and the certificate broken up—Mr. Albert got whatever he got, 10 or 20 shares, I don't recall now; I thought it was 10. Now, he had it and I lent him the money on it. I made a practice of lending around 80 percent.

Mr. GESELL. I would like to show you the discount register and call your attention to the loan in question and ask you to give us the information with respect to that loan; how many shares there were, what the amount of the loan was.

Mr. ROBERTS. Of course, this record was not kept by me; it was kept by our general bookkeeper, and it shows here on May 10, 1928, John P. Albert hypothecated 20 shares of Mutual Life Insurance Co., and the amount of the stock was valued at \$2,000—the loan was \$2,000.

Mr. GESELL. That wasn't the loan at 80 percent, was it?

Mr. ROBERTS. No; I don't see any other collateral loan here, but that was the practice at that time.

Mr. GESELL. When was the loan due?

Mr. ROBERTS. There was a demand note.

Mr. GESELL. Where do you see that?

Mr. ROBERTS. Wait a minute. It was a 3-month note, due August 10 of the following year.

Mr. GESELL. When was that paid off?

Mr. ROBERTS. It shows here on August 10—

Mr. GESELL (interposing). It shows it was due August 10.

Mr. ROBERTS. Wait a minute. It shows it was due August 10. There is no date in here that shows when it was paid, Mr. Gesell.

Mr. GESELL. The notes were renewed on August 10, were they not? Can you turn the register to the entry date of August 10 and advise us?

Mr. ROBERTS. I imagine it was renewed from time to time. Wait a minute; now, then, the register shows that on August 10 there was 10 shares in Mr. Albert's name, and the loan was reduced to \$1,000.

Mr. GESELL. How long did that loan run?

Mr. ROBERTS. That was a demand loan, and it doesn't show when it was paid.

Representative CASEY. The note on that date was reduced by half?

Mr. ROBERTS. This note shows for a thousand dollars.

Representative CASEY. What date is that?

Mr. ROBERTS. August 10, 1928.

Representative CASEY. When was it in 1928 that the original \$2,000 loan was made?

Mr. ROBERTS. It was made in May—May 10. Three months later it was cut in half.

Mr. GESELL. Do you have any records here that show when that loan was paid off?

Mr. ROBERTS. No; I have no records, but all of those loans have been paid off.

Mr. GESELL. Will you look on the line below and see what happened to 10 of those shares?

Mr. ROBERTS. The line above. The line above: On August 10, 1928, apparently 10 shares—a loan was made to Denton S. Lowe on 10 shares of Mutual Life Insurance Co. stock for \$1,000.

Mr. GESELL. Who is Denton S. Lowe?

Mr. ROBERTS. He is a fellow employee of Mr. Albert.

Mr. GESELL. With the insurance department of the State of Maryland?

Mr. ROBERTS. Yes.

Mr. GESELL. What is his position?

Mr. ROBERTS. I couldn't tell you.

Mr. GESELL. What were the terms of his loan?

Mr. ROBERTS. Apparently the same as Mr. Albert's.

Mr. GESELL. Has that loan been paid off?

Mr. ROBERTS. Yes, sir; it has been paid off.

Mr. GESELL. What other loans were there to representatives of the insurance department?

Mr. ROBERTS. Can you refresh my recollection? You have been through this and I haven't. Those are the only two men that I know that were in clerical positions.

Mr. GESELL. Do you remember an arrangement with respect to a loan to Mr. Siegk?

Mr. ROBERTS. Mr. Siegk? Can you give me a date on that?

Mr. GESELL. February 17. May I refresh your recollection in this way? Did not you loan money to the brokerage firm of Weillepp Bruton Co. to enable them to make a loan to Mr. Siegk on some shares of stock?

MR. ROBERTS. Well, not for that purpose. We did business with the firm of Weilepp Bruton like we did any other broker and we accepted collateral that they would bring in to us that was satisfactory to us.

MR. GESELL. Do you recall that transaction?

MR. ROBERTS. I remember Mr. Siegk having stock. Whether we made a loan to him or not I just can't recall, unless you can tell me the date.

MR. GESELL. I don't believe your record will show any loan to him.

MR. ROBERTS. Well then, we had none.

MR. GESELL. Do you recall, however, loaning money to Weilepp Bruton Co. in connection with a transaction which involved a loan by him to Mr. Siegk?

MR. ROBERTS. I don't know anything about the Weilepp Bruton records at all, but we have been doing business with them ever since we opened. They are friends of mine, boyhood friends.

THE VICE CHAIRMAN. Is he connected with the insurance department?

MR. ROBERTS. He was the State actuary, he was the actuary of the insurance department of the State of Maryland.

MR. GESELL. Well now, would you refer to your records—how many shares did Mr. Siegk have, do you recall?

MR. ROBERTS. I was trying to recall that when you asked me the question. I think it was in the neighborhood of three or four hundred, something of that character. I just can't recall right now. Mr. Rock says 100, but I thought it was more than that.

MR. GESELL. Can you produce your minutes of the Real Estate Trust Co. for February 17, 1928?

MR. ROBERTS. I have here the minute book; loans made from February 14 to February 20.

MR. GESELL. Do you have a loan there to Weilepp Bruton & Co. of \$12,360, secured by 156 shares of Monumental stock?

MR. ROBERTS. On February 17?

MR. GESELL. Or 18.

MR. ROBERTS. Here it is: \$12,360 on February 18 to Weilepp Bruton Co.; collateral, 156 shares of Mutual Life Insurance Co. of Baltimore.

MR. GESELL. Do your records show any certificate numbers?

MR. ROBERTS. No; not in the minutes.

MR. GESELL. Do they show in whose names those shares of stock—

MR. ROBERTS (interposing). No.

MR. GESELL. Do you recall anything about that transaction, now that you have the records before you?

MR. ROBERTS. Not the details of it. They would just come in and present the loan and the collateral and we would make the loan.

MR. GESELL. Do you have any idea who that collateral belonged to, Mr. Roberts?

MR. ROBERTS. I haven't the slightest idea; no. If you will tell me what your purpose is or what you want to show, it would help. I knew Mr. Siegk very well.

MR. GESELL. Did you not know that Mr. Siegk had pledged these same 156 shares of Weilepp Bruton for a loan at Weilepp Bruton

and that Weilepp Bruton had turned on the collateral to you for a loan to them?

Mr. ROBERTS. No; I did not; I don't recall whose stock it was. Is there anything in this record?

Mr. GESELL. Did you handle that loan personally?

Mr. ROBERTS. I would probably handle all of these loans that would come in, unless they would go to the window and present it under the general instructions; they would then call me on the telephone that they had a loan, presented with collateral.

Mr. GESELL. You would know whose collateral it was?

Mr. ROBERTS. No; I would never see the collateral presented by anybody. The teller would tell me there are so many shares of a certain security offered.

Mr. GESELL. May I ask you to step down just a minute, and I would like to call Mr. Leary to the stand.

**TESTIMONY OF ARTHUR J. LEARY, ACCOUNTANT-INVESTIGATOR,
SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.**

The CHAIRMAN. Mr. Leary, do you solemnly swear that the testimony you are about to give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LEARY. I do.

Mr. GESELL. What is your full name?

Mr. LEARY. Arthur J. Leary.

Mr. GESELL. You are employed by the Securities and Exchange Commission as an accountant-investigator?

Mr. LEARY. I am.

Mr. GESELL. Did you have occasion to call at the offices of the Weilepp Bruton Co. at Baltimore, Md., and examine a transaction between that firm and one Arthur Siegk?

Mr. LEARY. I did.

Mr. GESELL. Will you tell us what you found in the records of the Weilepp Bruton Co.?

Mr. LEARY. The records of the Weilepp Bruton Co. disclosed an account by the name of Arthur M. Siegk. According to a record I have here it was a ledger sheet numbered 385. The records indicated that on February 20, 1928, there was an entry showing 158 shares of the Mutual coming in for a debit of \$17,380; on the same date a deposit of cash in the amount of \$5,000, which left a balance of \$12,380. On the same date the firm of Weilepp Bruton Co. borrowed from the Real Estate Trust Co. \$12,380 against which they pledged 158 shares of Mutual Benefit along with 5 shares of Mercantile Trust.

Mr. GESELL. You say Mutual Benefit. Do you mean the Mutual Life Insurance Co.?

Mr. LEARY. Yes; Mutual Life.

Mr. GESELL. Do you gentlemen have any questions?

The VICE PRESIDENT. Those are all on the same date?

Mr. LEARY. Yes, sir; all under the same date.

Mr. GESELL. That is all, Mr. Leary. Mr. Roberts, will you come back please?

(Mr. Roberts resumed the stand.)

ALLOTMENTS OF STOCK

Mr. GESELL. Briefly, Mr. Roberts, I want to ask you about your knowledge of the method by which the various persons who were allotted stock of Monumental at the meeting of February 4, 1936, arranged for payment of their securities through the Real Estate Trust Co.?

Mr. ROBERTS. I can speak only of those to whom we made loans. We were applied by different individuals and if you have a list there, I can go down and tell you just who they are and what their connections are.

Mr. GESELL. Before we get to the specific loans, am I correct in saying that certain of the persons who were allocated or allotted stock of the Monumental arranged to pay for that stock by pledging the stock with the Real Estate Trust Co. and getting a loan against the stock to cover the purchase-price?

Mr. ROBERTS. In many instances they arrange to pay for the stock by borrowing money from us. That was only in the number of instances that you will see on here. Now some of those men who borrowed on the stock were keymen and arranged, when they paid their loans, to pay on account of their loans in monthly installments, which were paid, in some instances, by deductions from their pay.

Mr. GESELL. Well now, the Real Estate Trust Co. is a corporation, is it not?

Mr. ROBERTS. Yes.

Mr. GESELL. It has offices in the Monumental Life Insurance Co. building?

Mr. ROBERTS. On the first floor.

Mr. GESELL. When was it organized?

Mr. ROBERTS. It was organized around September 1926.

Mr. GESELL. In addition to yourself, what other people, as officers or directors, are interested in the Real Estate Trust Co.

Mr. ROBERTS. At the present time?

Mr. GESELL. Yes.

Mr. ROBERTS. Well, at the present time the only director of the Monumental Life is the treasurer, Mr. A. W. Mears, and myself.

Mr. GESELL. In other words, you and Mr. Mears, who are directors or officers of Monumental Life, are also connected with the Real Estate Trust Co.?

Mr. ROBERTS. We are officers of the bank. Now may I refresh my recollection here on the directors' list? Yes, Mr. Alfred J. Tormey, Mr. Mears; Mr. Loweree came on the board 2 or 3 years ago.

Mr. GESELL. So there are now four individuals who are connected in an official way, both with the Real Estate Trust Co. and with the insurance company?

Mr. ROBERTS. That is correct.

Mr. GESELL. Now, at the time of the conversion, back in 1928, to what extent did the Real Estate Co. interlock with the insurance company?

Mr. ROBERTS. Well, if you refer to interlocking by directors who are directors in both—

Mr. GESELL (interposing). Directors or officers.

Mr. ROBERTS. Yes. In 1928 my recollection is that Mr. Burnett was on the board, Mr. Tormey, Mr. Mears—and do you have any others?

Mr. GESELL. Mr. Emmons, was he not?

Mr. ROBERTS. No; I don't think Mr. Emmons was a director at that time at the bank.

Mr. GESELL. Will you look up your list of directors and make sure we have the accurate list?

Mr. ROBERTS. I will look it up. Mr. Alfred Torney was a director in the insurance company and also a director in the bank. Mr. Burnett, Mr. Mears, myself, Dr. J. D. Iglehart. That is five.

Mr. GESELL. Out of a total of how many?

Mr. ROBERTS. Eleven.

Chairman FERGUSON. What bank was that?

Mr. ROBERTS. The Real Estate Trust Co. of Baltimore.

Mr. GESELL. Who had the principal stock ownership of the Real Estate Trust Co. at that time?

Mr. ROBERTS. That was very widely distributed.

Mr. GESELL. Who were the controlling stockholders?

Mr. ROBERTS. There is a control now, but at that time there was no control in any group. The stock was very widely subscribed, too. My holdings at the time—I forget what they were, but they were small, I think only 50 shares, I am not positive about that. The Mercantile Trust Co. of Baltimore subscribed to the stock of the company, I think to the extent of six or seven hundred shares.

Mr. GESELL. Is it fair to say that there was a close connection between the Real Estate Trust Co. and the Monumental?

Mr. ROBERTS. Not as far as control was concerned.

Mr. GESELL. No mutual interest between the two concerns?

Mr. ROBERTS. We were old friends; we were associated together for 50 years.

Mr. GESELL. And the group of five directors who had a common interest in both companies were the active men in the Real Estate Trust Co., were they not?

Mr. ROBERTS. Well, Mr. Fred G. Boyce, the vice president of the Mercantile Trust Co., was one of our directors and I don't know of any better or more astute banker in business today.

Mr. GESELL. Was it contemplated at the time these stock certificates of Monumental were issued that people would be able to negotiate loans to the Real Estate Trust Co. to help pay for the stock?

Mr. ROBERTS. There was no arrangement but I was glad to make the loans.

Mr. GESELL. There was no advance arrangement about it at all?

Mr. ROBERTS. None at all, except this now, I interviewed the men who wanted to borrow, and most of those were our agents—some of them were our agents in the field—and they had been allotted certain allotments. Some of them took what was allotted to them; some of them did not take any, according to my recollection, and some only took part.

I arranged personally with most of those men the loans that we made on their stock.

Mr. GESELL. Well now, will you tell us what loans you made and to whom in connection with assisting in financing the purchase of the original allotment of stock? You may refer to your records or anything you like, Mr. Roberts, to give you this information.

Mr. ROBERTS. I haven't any other records but these that were taken at the time.

I can recall pretty well from memory, if names are called to me, what men we have who were with us.

This is called "A Schedule of Loans Made by the Real Estate Trust Co. Against Stock of the Mutual Life Insurance Co. of Baltimore between February 10, 1928, and March 19, 1928."

James C. Harris, he was one of our managers, I do not think he was an officer at the time.

Mr. GESELL. How much did he borrow?

Mr. ROBERTS. Amount of the loan was \$6,000 and he pledged 75 shares.

Mr. GESELL. And will you give us similar information with respect to the other loans, telling us in each case what the connection of the individual with the insurance company was?

Mr. ROBERTS. Clarence H. B. Long, assistant secretary.

He was in one of the other departments, \$2,000 on 30 shares; Andrew J. Parr, he was one of our oldest men who had been with the company, I believe, for about 35 years and now I believe he is retired. He borrowed \$3,950 on 50 shares. Roland O. Wehrheim, manager, borrowed \$5,450 on 50 shares. Millard S. Wheeler, \$150 on 10 shares.

Mr. GESELL. Who was he?

Mr. ROBERTS. Underwriter. Howard H. Emmons, \$33,000 on 300 shares. He was vice president. Harry C. Roth, who is now the comptroller, at the time he was a clerk.

Mr. GESELL. These positions you are stating are all positions with the insurance company?

Mr. ROBERTS. Yes. \$3,950 on 50 shares. E. C. Brockenborough, inspection department, \$2,250 on 30 shares. Irene T. Reaney, \$375 on 5 shares. Adelbert W. Mears—

Mr. GESELL (interposing). Who is Irene T. Reaney?

Mr. ROBERTS. Secretary to Mr. Burnett.

Mr. GESELL. Please give the connection.

Mr. ROBERTS. I beg your pardon. Mr. Mears, \$20,000 on 225 shares, and 30 on Conservation Co. and some New Amsterdam stock. The Conservation Co. is another insurance company in Maryland.

The CHAIRMAN. Who is Mr. Mears?

Mr. ROBERTS. Mr. Mears is one of the directors of the insurance company and also treasurer of the bank. Paul M. Burnett, \$6,900. This looks like 5 shares of Monumental and 100 New Amsterdam Casualty Co. Weilepp Bruton Co.—you have on here "for account of Arthur Siegk."

Mr. GESELL. That is the transaction we discussed.

Mr. ROBERTS. That is not in our records, that is your notation; \$12,380 on 158 shares.

Mr. GESELL. Your records show Weilepp Bruton.

Mr. ROBERTS. Well, if the loan to Weilepp Bruton is in our minutes, it is correct. You will find them all through our loans. Jessie M. Munn, \$450 on 5 shares.

Mr. GESELL. Who is she?

Mr. ROBERTS. She is not an employee, she is an outside person. Her husband was formerly employed by the company. Weilepp Bruton Co., \$7,000. You have a notation here "For account of Milton Roberts, special account."

Mr. GESELL. We will come back to that later.

Mr. ROBERTS. Emily T. Crowley, \$400 on 5 shares. She is a book-keeper in the auditing department, I think. F. H. Vinup, \$1,700 on 25 shares. He is the medical director. William J. Leimkuhler was a manager at that time, \$2,500 on 30 shares. Frederick L. Schneider \$4,450 on 50 shares. He is an assistant secretary. John C. Kulp, he was a manager, \$2,500 on 30 shares. Leroy Baxter, a manager, \$3,450 on 50 shares. Carl C. Wachtel was a manager, \$1,950 on 20 shares.

The CHAIRMAN. Mr. Roberts, is a manager the same as a general agent in an insurance company?

Mr. ROBERTS. The manager has charge of an office in a city.

The CHAIRMAN. It would be about the same function as an ordinary general agent?

Mr. ROBERTS. Practically. He has charge of that office in the city where he is located. He is a company representative.

Carl M. Kron, he was a manager, \$3,250 on 30 shares of Monumental. A. Claude Reader, \$1,700 on 20 shares. He was a manager. Leo Rock, I believe you were a manager, were you not?

Mr. ROCK. Yes.

Mr. ROBERTS. \$3,450 on 50 shares. Albert J. McNally, a manager, \$1,700 on 20 shares. Charles H. Mund, Jr., he was a cashier, \$1,650 on 20 shares. Raymond Smith, \$2,500 on 30 shares. He was a manager and still is, I believe. Clarence W. Bowen, \$2,250 on 30 shares. He is a manager. Robert L. Peck, \$800 on 10 shares, he is a manager. William J. Hanley was a manager, \$1,700 on 20 shares.

Mr. GESELL. I believe that is all.

The VICE CHAIRMAN. Those are loans from the insurance company are they?

Mr. ROBERTS. No; from the trust company.

The VICE CHAIRMAN. To insurance company employees?

Mr. ROBERTS. On the collateral of the Monumental Life Insurance Co.

Mr. GESELL. In other words, Mr. Roberts, at the time that these persons took up their allotment of their shares of Monumental stock, they arranged to purchase the number of shares involved in the collateral behind these loans by making loans at the Real Estate Trust Co.?

Mr. ROBERTS. That is true.

Mr. GESELL. I noticed that the total amount of those loans is up in the neighborhood of \$143,000.

Mr. ROBERTS. Today or at that time?

Mr. GESELL. At that time. The total paid-in capital was \$500,000.

Mr. ROBERTS. No; the total paid-in capital was 600 and the surplus was 125. Seven hundred fifty thousand was what we opened with. Oh, I see; you mean the Monumental. Total paid-in capital total was some 500,000.

Mr. GESELL. So about \$143,000 of that came through these loans which were arranged by legalities at the Real Estate Trust Co.?

Mr. ROBERTS. I haven't totaled it, but the figures are probably correct.

Mr. GESELL. I understand this was all just chance that this happened. There was no previous arrangement that persons could borrow in this manner?

Mr. ROBERTS. It was not chance and it was not previous arrangement, Mr. Gesell. We knew the men and I was satisfied with the collateral; the executive committee passed it and the board ratified it and we today have on our books I think in excess of \$100,000 in loans; we have had as high as \$300,000 in loans in the last 3 years on this very collateral, and I credit that as being as good as you can get.

Mr. GESELL. I am not challenging the value of the collateral, I am simply trying to find out whether my impression is correct that you and the other officers and directors of Monumental preferred to assist people you knew to purchase this stock, rather than to permit this stock to get out into the hands of policyholders and other persons.

Mr. ROBERTS. I can answer that this way: I have never seen any of these men to whom these loans were made prior to the time of conversion, and when it came down to the question of lending them money, I was perfectly willing to lend it to them.

Mr. GESELL. Did they all just drop in to see you?

Mr. ROBERTS. No; I want to see some of them personally. I visited I don't know how many offices. I think I was away 3 or 4 days and made these arrangements with some of these men who couldn't get in.

Mr. GESELL. Why was that? Because you wanted to get the stock into their hands?

Mr. ROBERTS. Primarily we wanted to know that the men would take the stock if they had the opportunity to get it, if they wanted it, and they subscribed to it.

Mr. GESELL. You see what concerns me, I am sure.

Mr. ROBERTS. Yes; I see that it is a prearranged thing, that the whole matter was all set up and cut and dried and we knew where the stock was going. Now in effect you might say that is true, but we wanted our men in the field—we didn't limit it particularly to managers or assistant managers, if there were agents or people in our offices, cashiers, and other people—

Mr. GESELL (interposing). What about policyholders?

Mr. ROBERTS. Those that came in got anything they wanted.

Mr. GESELL. Did you go to see policyholders?

Mr. ROBERTS. I had nothing to do with interviewing anybody.

Mr. GESELL. You did go to see the agents and the managers?

Mr. ROBERTS. And they were all policyholders too, these agents.

Mr. GESELL. Did you go to see them because they were policyholders?

Mr. ROBERTS. No; I went to see them because they were keymen in the company.

Mr. GESELL. And it was your activities in this connection that at that time were known to the officers and directors of the insurance company?

Mr. ROBERTS. I don't see how they could help but know what I was doing.

Mr. GESELL. You weren't undertaking this as an entrepreneur interested in banking activities.

Mr. ROBERTS. I was interested in seeing just what I said to you, that the keymen in our organization had this stock.

Mr. GESELL. And you think that in a conversion of this sort it is better to finance your own people for stock purchase than to increase

the allotments to outsiders who may be able to purchase the stock without having financial assistance?

Mr. ROBERTS. I don't think that was even a consideration. The bank was in the business to lend money and we considered the collateral good, and I was glad to know where the stock was personally. That is my personal opinion.

Mr. GESELL. Now I said I would come back to this transaction involving your loan with the Weilepp Bruton Co. Can you tell us about that?

Mr. ROBERTS. I probably borrowed some money from Weilepp Bruton at the time, or may have lent them money on the stock.

Mr. GESELL. You were allotted five shares, weren't you?

Mr. ROBERTS. As a policyholder, yes.

Mr. GESELL. You subsequently purchased additional shares, did you not?

Mr. ROBERTS. Up to 500.

Mr. GESELL. Well now, that was purchased with funds that you obtained through a loan at Weilepp Bruton Co., was it not?

Mr. ROBERTS. I borrowed money wherever it was necessary to borrow it to finance my transactions as I made them.

Mr. GESELL. Did you know that your collateral—your collateral was, was it not, stock which was placed against these loans, Monumental stock collateral?

Mr. ROBERTS. I imagine that was true. You have the details of the records there.

Mr. GESELL. Were you aware that that stock subsequently came from Weilepp Bruton to the Real Estate Trust Co.?

Mr. ROBERTS. I wouldn't say that I was or wasn't at that time. All I know is that the loans were all paid.

Mr. GESELL. What was the date of your loan at Weilepp Bruton?

Mr. ROBERTS. I don't know.

Mr. GESELL. It was February 4, was it not?

Mr. ROBERTS. I don't remember the dates.

Mr. GESELL. Would that refresh your recollection?

Mr. ROBERTS. It wouldn't refresh my recollection to say yes, but if you have the dates from the records it must be true.

Mr. GESELL. Our records indicate that loan was February 4.

Mr. ROBERTS. What is the stock, Monumental Life stock on February 4?

Mr. GESELL. I was wondering whether that early you anticipated being able to purchase additional shares of Monumental stock.

Mr. ROBERTS. I would answer that that I anticipated buying the stock wherever I could.

Mr. GESELL. Where did you buy the stock you did buy?

Mr. ROBERTS. It came, I think, from the Trust Co., out of certificates that were surrendered by those who did not take up their allotments.

Mr. GESELL. Now, before we come to that, let me ask you one thing else. Who put up the original capital of the Monumental Life Insurance Co.?

Mr. ROBERTS. When all the details of the conversion were concluded in order to get the certificate from the insurance commissioner of operations and the certificates of stock were all prepared, they were turned over to the Trust Co. in consideration of the Trust Co.

advancing a total amount of the subscriptions which were in the neighborhood of \$546,000.

Mr. GESELL. So the Trust Co. advanced that money?

Mr. ROBERTS. The Trust Co. advanced that money in exchange for all the stock of the company and then my recollection is—I have no records from which to refresh my recollection—that the company then accepted the payment from the various subscribers on their allotments or just whatever they took up. We did that as a matter of convenience because we didn't want any interim between the authorization of the conversion and the subscription of stock and the time when the corporation, the insurance company as a corporation, started to function.

Mr. GESELL. Then I take it people who had been issued temporary stock certificates came and surrendered those to the Real Estate Trust Co. and got shares in return.

Mr. ROBERTS. My recollection is hazy on just what the process is, but we apparently received all of the stock that was issued. Whether they were temporary certificates or not I don't know, but all permanent certificates were afterward issued and the subscriptions all paid for.

Mr. GESELL. How long a period was it between the time that the Real Estate Trust Co. put up the funds for the purchase of all this capital stock and the time when the Real Estate Trust Co. was back where it was before it put up the money, a period of time, wasn't it?

Mr. ROBERTS. It may have taken considerable time to have gotten all of that stock in and paid for.

Mr. Loweree says about 2 months but I couldn't tell you. I know it would take some time to do it.

Mr. GESELL. Now, you said, I believe, that you got some of the stock of that 500 shares that you purchased from persons who didn't take up and pay for their stock certificates which had been allotted to them.

Mr. ROBERTS. I have assumed that, Mr. Gesell. I looked at my stock record to see if I could trace it, but I have no record of how I got it, but I got it.

Mr. GESELL. How many persons were there who were allotted stock and didn't take it?

Mr. ROBERTS. Well, in some instances, in many instances, I think some of the managers and people in the field received allotments and did not take all to which they were entitled, and some I think refused to take and some gave as reasons for it that they didn't think it was a good thing to take; they weren't satisfied with the safety of the investment and declined to take it. Some of those I think maybe I got.

The CHAIRMAN. What is the present market value of the stock?

Mr. ROBERTS. The market on it, I checked a couple of days ago, is around 30 to 32. It sold in 1938, I think, as low as 26.

Mr. GORDON. Mr. Chairman, there have been some stock dividends so that is not to be compared with the original 100.

Mr. ROBERTS. That is the present market.

Mr. GORDON. The par is the same as it stood.

Mr. GESELL. Speaking now from "Exhibit No. 962" which is in evidence,¹ our records show that Mr. Fred H. Vinup, a manager—

Mr. ROBERTS (interposing). No; he is a medical director.

¹ See appendix. p. 6195.

Mr. GESELL. An employee, didn't take the 105 shares that were allotted to him; that Mr. Dunn, an employee, didn't take the 55 shares allotted to him; that Mr. Peck, a manager, didn't take the 80 shares allotted to him.

Mr. ROBERTS. I remember him.

Mr. GESELL. That Mr. Smith, a manager, didn't take his 80 shares; that Mr. Bowen didn't take his 80; Mr. Hankins didn't take his 80; Mr. Kulp didn't take his 80; Mr. Hanley didn't take his 80; Mr. Mueller didn't take his 80. They are all managers. That Mr. Reed, an employee, didn't take his 55, and that Mr. Simmons and Mr. Wachtel and Mr. Baxter each had 80 shares allotted to them and were managers and didn't take their share. That Mr. Dew, an employee, didn't take his 55; that Mr. Park, Mr. DeRuse, Mr. Kron, and Mr. Rock, all managers didn't take their 80 shares; Mr. Ewell, the secretary, didn't take his shares, and Geraldine O'Connell, an employee, didn't take his 55 shares. A lot of them didn't.

Mr. ROBERTS. My recollection is that a lot of them didn't take any of it.

Mr. GESELL. I think your recollection is correct. Who got those shares?

Mr. ROBERTS. Now you are asking me—I think they went back—Mr. Loweree just suggested they went back into the reservoir of the Real Estate Trust Co. for such certificates as were afterward issued and paid for.

Mr. GESELL. Still speaking from "Exhibit No. 962," again it appears that those shares that were not taken by these managers and employees went to other persons; for example, 95 shares went to Mr. Pearson, the objecting policyholder. Mr. Paul M. Burnett got 295 of those shares; Mr. Shriver, who is he?

Mr. ROBERTS. He was a director and vice president of the National Marine Bank.

Mr. GESELL. He got 45 of those shares. Mr. Bregel, who was he?

Mr. ROBERTS. He was a lawyer in Baltimore.

Mr. GESELL. He was working with Mr. Jackson on this thing, wasn't he?

Mr. ROBERTS. Oh, no. He was title examiner.

Mr. GESELL. He got five shares. Mr. Dunn, who was he?

Mr. ROBERTS. A director and vice president of the National Bank of Baltimore.

Mr. GESELL. He got 45 of those. Iglehart?

Mr. ROBERTS. A director.

Mr. GESELL. He got 20. Mr. Hutchinson, who is he?

Mr. ROBERTS. A member of the firm of Hutchinson Bros.

Mr. GESELL. He got 20. Boyce, who is he?

Mr. ROBERTS. Vice president of the Mercantile Trust Co.

Mr. GESELL. No connection with Monumental?

Mr. ROBERTS. None whatever.

Mr. GESELL. He got 50 shares. Sewell S. Watts?

Mr. ROBERTS. A member of the firm of Baker, Watts & Co.; now dead.

Mr. GESELL. They are stockholders in Monumental?

Mr. ROBERTS. Yes.

Mr. GESELL. He got shares. Mr. Weilepp got 50 shares. Who is Mr. A. Claude Reader?

Mr. ROBERTS. He was a manager.

Mr. GESELL. He got 20 shares. Mr. Otto Loleit?

Mr. ROBERTS. He is a manager.

Mr. GESELL. He got 20 shares. Mr. Mears, now one of the prime stockholders, got 500 shares. Mr. Fred H. Vinup, who was he?

Mr. ROBERTS. He was medical director.

Mr. GESELL. He got 25 shares. Mr. Ewell?

Mr. ROBERTS. He was the superintendent of agencies, wasn't he?

Mr. GESELL. He got 42 shares. Mr. Torney, who was he?

Mr. ROBERTS. Director.

Mr. GESELL. He got 70 of the shares. Mr. McNally. Who was he?

Mr. ROBERTS. A manager.

Mr. GESELL. He got 10 shares.

That would indicate that, by and large, these certificates that were allotted and the original allotment to managers and employees in many cases ends up with officers and directors.

Mr. ROBERTS. It does at that rate, true.

Mr. GESELL. At the time that these shares were allotted to these managers and employees, was it anticipated by you and the other people of the management of the company that some of those shares would not be taken up?

Mr. ROBERTS. No; it wasn't anticipated.

Mr. GESELL. Well, did you hope they wouldn't be?

Mr. ROBERTS. Well, if you will ask me now I would probably say yes.

Mr. GESELL. Did you expect that you would be able to increase your holdings by purchase of some of those allotments which were not taken up?

Mr. ROBERTS. I was perfectly willing to take all I could get.

Mr. GESELL. Did you expect that you would be able to do so at the time of the original allotment?

Mr. ROBERTS. I can't say that I expected to, but I will say that I hoped to.

Mr. GESELL. Now, isn't it true, Mr. Roberts, that in some cases it was pretty clear that some of these people weren't going to take their allotments?

Mr. ROBERTS. Oh, no, Mr. Gesell, a good many of the managers at that time made pretty good incomes. I can't tell you exactly, but I think a lot of the managers made anywhere from \$3,500 to \$6,000. Isn't that right, Mr. Loweree?

Mr. LOWEREE. Yes, sir.

Mr. ROBERTS. And higher, and a good many were in a position to take the stock that was allotted to them.

Mr. GESELL. These were people who never took the stock allotted to them at all.

Mr. ROBERTS. A lot of them took the stock afterward.

Mr. GORDON. Mr. Gesell, isn't it correct that a great many of those names you read took part of the stock allotted to them but failed to take part?

Mr. GESELL. They failed to take the portion of their allotment indicated by the amount I previously read.

Mr. GORDON. But the same people took part of the stock. For example—

Mr. GESELL. I must say to the committee that I think Mr. Gordon can't testify.

Mr. GORDON. I didn't mean to, and I beg the chairman's pardon.

Mr. ROBERTS. I have so stated that I think a good many of them took part of the stock.

Chairman FERGUSON. I will allow Mr. Gordon to speak.

Mr. GORDON. Mr. Rock, isn't it true that you were allotted certain of the shares? State how many you were allotted and how many you took.

Mr. ROCK. I was allotted 80 and took 50.

Mr. GORDON. And didn't take 30. And your name was one of those read as not taking 30.

Mr. ROCK. That is true of the majority of those read.

Mr. ROBERTS. A good many of the men took portions of their allotments.

Mr. GESELL. How many shares were the managers allotted?

Mr. ROBERTS. I couldn't tell you that.

Mr. GESELL. Eighty?

Mr. ROBERTS. According to this, 75.

Mr. GESELL. In that list I read any number of managers turned in the entire 80 shares. Those people didn't take any of their allotment, did they?

Mr. ROBERTS. If you have a record, that would be correct. I know some took them and some did not.

Mr. GESELL. I notice that on that list there was Mr. Pearson. He was the dissenting policyholder, was he not?

Mr. ROBERTS. Yes, sir.

Mr. GESELL. Instead of getting 5 shares he got 100 shares. What is the story behind that?

Mr. ROBERTS. Well, Mr. Gesell, of course you want the story just as you know it to be. He was a broker. He also was a policyholder. He was employed by rather a large brokerage firm in Baltimore, and if my recollection serves me correctly he scouted around and got either proxies or assignments or something from other policyholders, in legal terms what we call a strike, and he came in and demanded more than he would be entitled to or would have been entitled to. Now, we had no dissenting voices of any moment except this Mr. Pearson. We weren't looking to engage in any acrimonious discussions with anybody, and the stock that he got was rather in a settlement to get rid of his objections.

Mr. GESELL. In other words, by upping his allotment from 5 to 100 you were able to silence his objections?

Mr. ROBERTS. That is practically the situation.

The VICE CHAIRMAN. You considered him a nuisance?

Mr. ROBERTS. He was, because I dealt with him.

Mr. GESELL. Now, there is a regular provision in the statute for handling people like that.¹ Why didn't you follow the statute procedure?

Mr. ROBERTS. I am not a crusader or a moralist, either one, and I choose the line of least resistance.

Mr. GESELL. That explains it. I have no further questions.

Miss Reaney, will you take the stand?

¹ See "Exhibit No. 954," appendix, p. 6184.

The VICE CHAIRMAN. At this time I would like to ask Mr. Roberts a question concerning the holding of stock by employees or officials of the State insurance department. I would like to know with what feeling you viewed their holding stock and borrowing money on that stock.

Mr. ROBERTS. Well, those men I knew, I knew nearly all of these men, and was personally associated with them; and they expressed a desire to have a few shares of the stock, and I saw no reason why they shouldn't hold it.

The VICE CHAIRMAN. Did that picture of the employees or officials of the State insurance department who had a sort of supervisory position regarding your insurance company—did their holding stock reveal to you any lively expectancy of future favors from them?

Mr. ROBERTS. Not the slightest; those men had been with that department for years in and out. They are as honorable as any man I ever came in contact with. We have never asked them any favors and they have never asked us any. They are old men and they have been in the department ever since back before Mr. Carville Benson, who was the insurance commissioner at the time, and congressman from the State of Maryland, and whom I knew very well and pleasantly, and these men were in that department—I think when he came there—and I think they are still there. Mr. Albert is there, but I don't know about Mr. Lowe.

The VICE CHAIRMAN. Did you think that it might create in them a feeling that they would want to pull their punches in the future?

Mr. ROBERTS. No; that was furthest from my thoughts.

Vice CHAIRMAN. You felt there was nothing improper or unethical about it?

Mr. ROBERTS. Not at all, sir. I think they are entitled to own securities if they see fit in things that they consider sound.

The VICE CHAIRMAN. In the insurance companies over which they have a supervisory capacity?

Mr. ROBERTS. I think undoubtedly that there could be some criticism because of the ethics and past events that we have known have transpired in the last 7 or 8 years, disclosures and other things, have led to the passage of laws, I think, to prevent those things, and I think properly.

Mr. EICHER. This Mr. Siegk, whose loan on 156 shares has been talked about this afternoon—is he the same Mr. Siegk that Mr. Burnett testified to this morning had suggested conversion from a mutual to a stock basis?

Mr. ROBERTS. He was the only man in that department by that name, and he was the State actuary representing the department.

Mr. O'CONNELL. I understood you to testify that in making loans on collateral of this nature you usually would make a loan of 75 to 80 percent; is that correct?

Mr. ROBERTS. That would be our usual practice. In a lot of instances there were men that would come in there that we knew that we would lend money on their notes without collateral. That wasn't our practice. Our practice is entirely a collateral basis, but the names of a lot of these men were just as good.

Mr. O'CONNELL. That was apparently the situation with regard to the two representatives of the State insurance department where the indication is that the loan was equal to 100 percent of the value of the stock?

Mr. ROBERTS. Undoubtedly.

Mr. O'CONNELL. You thought their financial responsibility was such—

Mr. ROBERTS (interposing). Well, and their standing.

Mr. O'CONNELL. There were no other considerations.

Mr. ROBERTS. None whatever.

Mr. O'CONNELL. And the same thing would apply to Mr. Emmons, who I think received a loan of \$33,000?

Mr. ROBERTS. Well, he put up collateral.

Mr. O'CONNELL. Three hundred shares?

Mr. ROBERTS. He had other collateral.

Mr. O'CONNELL. You didn't read that.

Mr. ROBERTS. It wasn't on that list. It didn't show the other collateral.

Mr. O'CONNELL. What is the collateral? I understood it was just 300 shares of Monumental.

Mr. ROBERTS. Oh, no, Mr. Emmons—

The CHAIRMAN (interposing). Do you remember, Mr. Emmons?

Mr. EMMONS. My recollection is that it was \$4,000 worth of Real Estate Trust Co., Inc.; \$1,000 of Market Street Railway, California, and \$1,000 of City of Lyons, and a thousand of one other, I forget which, all of which were close to par in value at that time. I know those particular ones. There may have been others.

Mr. O'CONNELL. Were you on the board of the Real Estate Trust Co. at that time?

Mr. EMMONS. I am not sure. I would have to consult the records. I was part of the time and part of the time I was not.

Mr. O'CONNELL. You were on the board of Monumental?

Mr. EMMONS. Yes, sir.

Mr. ROBERT. Here it is; \$1,000 City of Lyons, due 1934, which was paid.

Mr. EMMONS. It was redeemed.

Mr. ROBERTS. \$1,000 Grace Steamship Co., first mortgage; \$1,000 Market Street Railway, first mortgage, 1940; 300 shares Mutual Life and 40 shares of Real Estate Trust.

Mr. O'CONNELL. Those shares were the collateral behind the \$33,000 loan?

Mr. ROBERTS. Yes. It shows a collateral value here of over 20 percent.

Mr. GESELL. I have no further questions.

(Vice Chairman Casey assumed the chair.)

The VICE CHAIRMAN. Miss Reaney, will you take the stand?

Do you solemnly swear that the evidence you are about to give shall be the truth, the whole truth, and nothing but the truth?

MISS REANEY. I do.

TESTIMONY OF MISS IRENE REANEY, SECRETARY TO PAUL M. BURNETT, MONUMENTAL LIFE INSURANCE CO., BALTIMORE, MD.

LOANS TO PAUL M. BURNETT

Mr. GESELL. Will you state your full name?

Miss REANEY. Irene Reaney.

Mr. GESELL. Miss?

Miss REANEY. Yes.

Mr. GESELL. Are you employed by the Monumental Life Insurance Co.?

Miss REANEY. I am.

Mr. GESELL. In what capacity?

Miss REANEY. I am secretary to Mr. Burnett, the chairman of the board.

Mr. GESELL. How long have you been his secretary?

Miss REANEY. Since 1922.

Mr. GESELL. At what salary?

Miss REANEY. \$50 a week.

Mr. GESELL. Miss Reaney, I note that in the convention-form reports of the Monumental Life Insurance Co. you were shown as having borrowed \$13,200 from the company on November 18, 1929. Do you recall that transaction?

Miss REANEY. I remember the transaction.

Mr. GESELL. Did you borrow that money?

Miss REANEY. I borrowed the money; yes; for Mr. Burnett.

Mr. GESELL. You signed the note?

Miss REANEY. I did.

Mr. GESELL. You gave the proceeds to Mr. Burnett?

Miss REANEY. I did.

Mr. GESELL. The collateral that was put up against that loan—was that your securities or was that Mr. Burnett's securities?

Miss REANEY. They belonged to Mr. Burnett.

Mr. GESELL. The interest payments on that loan—were they made by you or were they made by Mr. Burnett?

Miss REANEY. By Mr. Burnett.

Mr. GESELL. When the loan was paid off was the principal paid by you or Mr. Burnett?

Miss REANEY. By Mr. Burnett.

Mr. GESELL. How did it happen that the transaction was handled in that way?

Miss REANEY. Simply that he asked me to sign the note for him, and as an accommodation I did. The collateral was there, and I was very glad to accommodate him.

Mr. GESELL. Did he give you any other reasons?

Miss REANEY. That is the only one.

Mr. GESELL. Did he indicate to you in any way that he desired the transaction to be kept secret?

Miss REANEY. No, sir; he did not.

Mr. GESELL. Did he give you any instructions as to what you were to say if anybody inquired of you concerning the transaction?

Miss REANEY. He did not; no, sir.

Mr. GESELL. Did anybody ever inquire of you about this?

Miss REANEY. They did not; no, sir.

Mr. GESELL. None of these gentlemen from the insurance department ever came to talk to you about it?

Miss REANEY. Not a word was ever said to me.

Mr. GESELL. Now, I notice that on October 2, 1929, there is another loan to you of \$3,575 secured by collateral. Is the same story true with respect to that loan?

Miss REANEY. Yes, sir.

Mr. GESELL. I notice that on August 10, 1929, there was \$1,250, secured by collateral, loan to you. The same story?

Miss REANEY. 1929?

Mr. GESELL. September 10, 1929:

Miss REANEY. Yes, sir.

Mr. GESELL. And that on July 12, 1929, another loan, again secured by collateral, of \$2,575.

Miss REANEY. For Mr. Burnett.

Mr. GESELL. Then a loan on August 11, 1930, secured by collateral, of \$25,300.

Miss REANEY. That is the same.

Mr. GESELL. And another loan April 9, 1931, of \$45,000.

(Miss Reaney nodded her head.)

Mr. GESELL. The same?

Miss REANEY. The same; yes, sir.

Mr. GESELL. And another loan on April 1, 1931, of \$30,000.

Miss REANEY. The same applies to that.

Mr. GESELL. Some of these loans were paid off before other loans were made?

Miss REANEY. Yes, sir.

Mr. GESELL. In each case they were for Mr. Burnett?

Miss REANEY. They were, sir.

The VICE CHAIRMAN. What is the total?

Mr. GESELL. I believe these total in excess of \$120,000. There were additional loans.

Miss REANEY. They were not all running at the same time.

Mr. GESELL. That is what I said. They were paid off before additional loans were made. I notice a loan on January 2, 1932, of \$45,000, again secured by collateral.

Miss REANEY. That would be the same.

Mr. GESELL. Do you know what was the greatest amount outstanding at any one time on these loans, Miss Reaney?

Miss REANEY. No, sir; I could not tell you from memory.

Mr. GESELL. I notice another loan on January 16, 1933, of \$44,000, again secured by collateral.

Miss REANEY. Yes, sir.

Mr. GESELL. I notice another loan on October 6, 1936, of \$600.

Miss REANEY. That is my own.

Mr. GESELL. That is your own loan?

Miss REANEY. Yes.

Mr. GESELL. I notice a loan of \$12,000 secured by collateral, on December 9, 1937.

Miss REANEY. On that I would have to see the records to be sure.

Mr. GESELL. Did you own Kennecott Copper stock and Consolidated Oil Corporation, Socony?

Miss REANEY. That was Mr. Burnett's.

Mr. GESELL. I notice a loan of \$1,400 on May 19, 1937.

Miss REANEY. That was my own.

Mr. GESELL. I notice a loan of \$400 on September 28, 1937.

Miss REANEY. That was mine.

Mr. GESELL. A loan of \$3,600 on May 19.

Miss REANEY. That was for Mr. Burnett.

Mr. GESELL. Miss Reaney, you knew these loans were appearing in the statements of the company as loans to you, did you not?

Miss REANEY. Yes, sir; I knew it.

Mr. GESELL. Did you ever talk to Mr. Burnett about them?

Miss REANEY. No; I didn't.

Mr. GESELL. Did you understand that they were personal loans for Mr. Burnett or business loans? Did he explain them to you?

Miss REANEY. No, sir; he did not, and I didn't question him because I knew the security was there and I had confidence in him, I had been with him a number of years and I just did not question it.

Mr. GESELL. I understand that no representative of any State department—

Miss REANEY (interposing). It was never called to my attention by anyone.

Mr. GESELL. You are a stockholder of the company?

Miss REANEY. I am.

Mr. GESELL. You have been ever since the time of conversion?

Miss REANEY. Yes, sir.

Mr. GESELL. Did you know that the convention form reports of the company indicated in the interrogatories there had been no loans to stockholders?

Miss REANEY. I did not know that; no.

Mr. GESELL. Were there any other loans?

Mr. REANEY. No, sir; there are no others that I know anything about.

Mr. GESELL. Is it your belief that all of the loans made to Mr. Burnett were reflected in the annual convention-form statements?

Miss REANEY. I have every reason to believe that they were.

The VICE CHAIRMAN. Did I understand that you demurred to Mr. Burnett's request that you sign the note?

Miss REANEY. I did not, no; I agreed.

The VICE CHAIRMAN. You did it willingly?

Miss REANEY. Yes; there was no question.

The VICE CHAIRMAN. How were these notes paid, by check?

Miss REANEY. By check, as I recall.

The VICE CHAIRMAN. Did you receive the check and endorse it?

Miss REANEY. That I cannot answer.

The VICE CHAIRMAN. Would you at some time get cash?

Miss REANEY. I think it was mostly paid by check.

The VICE CHAIRMAN. Paid by check?

Miss REANEY. Yes, sir; but I could not answer that without reference to the records.

The VICE CHAIRMAN. Did you ever cash any of those checks?

Miss REANEY. I don't recall having cashed them; no, sir.

The VICE CHAIRMAN. You simply endorsed the check and turned it over to Mr. Burnett?

Miss REANEY. That is my recollection.

The VICE CHAIRMAN. In other words, your position was not to reason why.

Miss REANEY. I did not question it.

Dr. LUBIN. When you made these loans, just what procedure did you go through? You had a note and you had certain collateral.

Miss REANEY. I did.

Dr. LUBIN. You went to whom to get the loan?

Miss REANEY. Well, I had to present that, of course, through our department which handles the loans.

Dr. LUBIN. You just made application to the loan department.

Miss REANEY. I did.

Dr. LUBIN. You knew the people who were involved, I take it, in that department.

Miss REANEY. Yes, sir; I did.

Dr. LUBIN. They knew you were Mr. Burnett's secretary.

Miss REANEY. They did.

Dr. LUBIN. Was any question ever asked as to the source of this collateral?

Miss REANEY. It was never questioned.

Dr. LUBIN. Nobody ever asked you how, on a salary of \$50 a week, it was possible to put up that kind of collateral?

Miss REANEY. I was never questioned by anyone.

Mr. GESELL. Did you ever receive any additional compensation or benefits in any way for lending your name to these?

Miss REANEY. I did not; no, sir.

Mr. GORDON. Mr. Chairman, may we have Mr. Gesell show, as of course he would like to do at this time, that on the loan books of the company in all these instances where the loan was for the benefit of Mr. Burnett is given the name, Irene Reaney, address, % P. M. Burnett, 1101 North Charles Street. On the other hand, wherever the loan is to her personally (some of the loans were for her own benefit) it is given Irene Reaney, address, Charles and Chase Street, personal. That is giving her own address and stating "personal," whereas when it is for the benefit of Mr. Burnett the word "personal" does not appear and it is given care of Mr. Burnett.

The VICE CHAIRMAN. Do you think, from that, that that is sufficient indication, "Address, % Mr. Burnett," that it was Mr. Burnett's loan?

Mr. GORDON. I express no opinion on that. I simply wish the record to show the entire story, and then when the entire story is in the committee will come to whatever conclusion, I am sure, is correct.

The VICE CHAIRMAN. Mr. Gordon's statement may be admitted.

Mr. GORDON. And may I also ask, Mr. Gesell—I think the record is clear on this but I am not sure—the greatest loan at any one time was \$45,000; the loans were successive renewals, sir; there was never any loan outstanding of more than \$45,000, and they have all been paid, and they all had ample collateral. Is that not right, Mr. Gesell?

Mr. GESELL. We will prepare a schedule of these loans based upon the information shown in the annual reports of the company and submit it for the record.¹ I think that will give the full information.

¹ Entered during hearings held September 11, 1939, as "Exhibit No. 1089," and included in appendix to this Part on p. 6352.

Mr. GORDON. Yes.

Mr. GESELL. In order that we may follow out Mr. Gordon's suggestion with respect to the record, I would like to point out that the annual statements of the company under schedule C showing these loans for each year from 1928 to 1939, and not the private books of the company but the records that go to public sources show in each case the name of the borrower, I. T. Reaney, under the caption, "Name of actual borrower."

I have no further questions.

Mr. GORDON. Does it also show the collateral? It does, does it not?

Mr. GESELL. Oh, yes; but not in whose name the collateral is.

(Miss Reaney was excused.)

Mr. GESELL. Mr. Burnett, please.

**TESTIMONY OF PAUL M. BURNETT, CHAIRMAN OF THE BOARD,
MONUMENTAL LIFE INSURANCE CO., BALTIMORE, MD.—**

Resumed

Mr. GESELL. Mr. Burnett, why were these transactions handled in this way?

Mr. BURNETT. Because I didn't want my name to appear on them.

Mr. GESELL. Why not?

Mr. BURNETT. I was president of the company and I didn't care to have it going around that I was borrowing money.

Mr. GESELL. Is that the only reason?

Mr. BURNETT. Yes; that is the only reason.

Mr. GESELL. Absolutely the only reason?

Mr. BURNETT. Can you suggest any other?

Mr. GESELL. I can suggest two, sir.

Mr. BURNETT. Suggest them.

Mr. GESELL. One that the charter of the company states that—

said directors may call in and reinvest money at pleasure but in no case shall it be lawful for them to make, directly or indirectly, any loan to any director or other officer of the company.

Are you familiar with that charter provision?

Mr. BURNETT. I am.

Mr. GESELL. Did you not have that in mind in working out these transactions in this way?

Mr. BURNETT. I claim that that does not cover the case of a director borrowing money on collateral. Gentlemen, the original charter of this company provided that no money should be lent to officers or directors upon any security whatever and that was the case down to 1898 when it was decided that there was absolutely no reason why a loan shouldn't be made on good security to an officer as well as anyone else, and at my office that law was changed to read that no loan should be made directly to an officer or director, but omitted the question of the security; in other words, it was intended to be that no loan should be made on the individual responsibility of an officer or director, but my collateral was just as good as any other collateral and if you can show one case where the collateral wasn't ample I'd like to know. Every one of them was paid and the interest was paid, and why the company should be deprived of a good loan I don't know. I could have taken it to any bank and gotten the money.

Mr. GESELL. You are an attorney and I want you to listen to this and see if you can find any basis for distinguishing between collateral and noncollateral loans from the provisions of the charter. Section 6 states—

The directors may lend the funds of the company upon mortgage of unencumbered real estate or chattel realty worth at the time twice the amount lent thereon, and upon stocks, bonds, or other marketable securities worth at the time of lending at least one-fourth more than the sum lent thereon, and the said directors may call in and reinvest the same at pleasure—

that is all collateral loans they are talking about—

but in no case shall it be lawful for them to make, directly or indirectly, any loan to any director or other officer of the company.

I want you to explain to me how you can interpret that to apply only to unsecured loans.

Mr. BURNETT. I can interpret it because if you look at the other provision you will find out that it referred to collateral loans, loans on security, and this was purposely left out so that it would meet a situation of this kind.

Mr. GESELL. Will you read the sections referred to?

Mr. BURNETT. I know them.

Mr. GESELL. Read the sections you refer to.

Mr. BURNETT. I can't find them.

Mr. GESELL. We are talking about the charter as affected following the conversion of the company. We are talking about the charter, Mr. Burnett, following the conversion of the company, not the charter back in 1858. We are talking about the charter of the company as written following the conversion.

Mr. BURNETT. I don't think there was any change made at that time.

Mr. GESELL. Oh, there were amendments affecting the rights of the policyholders to vote; there were several changes.

Mr. BURNETT. I know; but I mean to say with reference to the point that you are now making. I think that was done in '98, wasn't it?

Mr. LOWEREE. Section 6 in 1898 continuing in force until this year.

Mr. BURNETT. Now, under the present law you can lend all you want to officers and directors on collateral.

I want to emphasize there wasn't a loan that was made that wasn't amply collateraled. I could have gotten the money at any bank, probably on a lower rate of interest.

Mr. O'CONNELL. I am interested in that. Why didn't you do it if it was possible to make the loan at a lower rate of interest and also without having to go to the trouble of having your secretary be the ostensible borrower?

Mr. BURNETT. I could see nothing wrong with that and I can't see anything wrong with it now. I was giving the company the right to invest its money, and Lord knows we have enough difficulty investing money so we can make anything out of it.

Mr. O'CONNELL. I was only interested in your statement that you probably could have borrowed the money at a lower rate of interest at a bank.

Mr. BURNETT. I positively could; I said probably on a lower rate of interest. I could have gotten it several places; there would have been no difficulty. The security was always ample.

Dr. LUBIN. What rate of interest did you pay on these loans?

Mr. GESELL. Mostly 5 or 5½ percent, I believe.

Mr. BURNETT. I can't see any point to it at all. If there was any loss or if I had not put up sufficient collateral—I know you are looking for all the dirt you can find and you are trying to find it.

Dr. LUBIN. Mr. Burnett, is it your habit of borrowing money from banks in the same way, having somebody else borrow for you?

Mr. BURNETT. No, sir; when I go to the bank I do it myself. I don't do very much of it, but when I do I do it in my own name.

Mr. GESELL. Now, Mr. Burnett, you say you can't see anything of any importance about this at all. I would like to direct your attention to the general interrogatories contained in the annual statement which your company is required to file with all the States in which it does business yearly, and under the general interrogatories, question No. 11 asks the company to report the total amount loaned during the year to directors or officers. It asks it to report the total amount loaned to stockholders, not directors; it asks it to report the total amount of loans outstanding at end of year to directors or officers, and it asks that you report the total loans outstanding at end of the year to stockholders not officers. Now evidently somebody thought that was important and your company every year from 1928 to the present time has answered "none" to those interrogatories; there has been no complete disclosure with respect to these loans, has there?

Mr. BURNETT. Why should there be? They were reported as loans to Miss Reaney and she was the borrower.

Dr. LUBIN. Mr. Burnett, if there is nothing wrong in your opinion in borrowing money from your company under those conditions, why didn't the company specifically state that they were making loans to officers or stockholders?

Mr. BURNETT. Why, we were making loans to anybody that would give us the collateral; we were very glad to get them.

Dr. LUBIN. But you say it was your personal loan and in order not to reveal to members of the organization that you personally were borrowing money—

Mr. BURNETT (interposing). I can't hear you, sir.

Dr. LUBIN. You say this loan was a personal loan, but in order not to reveal the fact to members of the organization that you were borrowing money you used this other device and you saw nothing wrong with it. If there was nothing wrong with it why then did not the company reveal in their statement to the various insurance commissioners that they had been loaning money to members of the board of directors or officers?

Mr. BURNETT. That question would be pertinent if I made the statement, but I didn't make up the statement, and I don't think I signed it.¹

Dr. LUBIN. Do you know whether any other member of your organization knew that you were borrowing money?

Dr. BURNETT. No; I do not.

Dr. LUBIN. Did you discuss with any of—

Mr. BURNETT (interposing). Nobody.

Dr. LUBIN. The officers this question?

¹ In this connection see *infra*, p. 5689, et seq.

Mr. BURNETT. Collateral was submitted and, always being ample, the loans were made.

Dr. LUBIN. Do you think that there might have been anybody in your organization, knowing the salary that Miss Reaney was receiving, who might question the fact, the source of the \$45,000 worth of collateral she put up on loan?

Mr. BURNETT. Not if she put up the collateral.

Dr. LUBIN. You don't think anybody in your company, knowing she was earning \$50 a week, would raise the question in their mind as to where it came from?

Mr. BURNETT. No; I don't, if she put up the collateral, I don't think that has anything to do with the loan. The loan, as I take it, sir, is not a loan to the individual; it is a loan on collateral.

Dr. LUBIN. If I came into a bank and I was earning \$50 a week and I handed \$50,000 worth of collateral to the clerk on a loan, do you think a bank would question where I got it, knowing that I only earned \$50 a week? Would you as an officer—

Mr. BURNETT (interposing). I can't understand your question. I can't hear you well. Say that over again, please.

Dr. LUBIN. If you were making loans as a bank officer and a man walked in off the street and you knew he was only earning \$50 a week and had no other source of income and he handed you \$50,000 worth of collateral and wanted to borrow \$45,000, would you be interested in the source of where he got that collateral?

Mr. BURNETT. Well, it would depend on how responsible the man was. There are loads of men getting \$50 a week that have an independent income and some small fortune in addition.

Dr. LUBIN. But if you knew that person had no other source of income and no other fortune and they handed you \$45,000 worth of collateral, would you question that?

Mr. BURNETT. But Miss Reaney did have other sources of income. Miss Reaney was not by any means in that class; she wasn't dependent entirely upon her salary.

Dr. LUBIN. And you think that those people who are responsible for making the loans were of the impression that she had enough resources to raise on her own name something in excess of \$45,000 worth of collateral?

Mr. BURNETT. Well, I know it now; I know that she might have had; yes.

Mr. GESELL. I think this might be a good place to adjourn until tomorrow morning.

The VICE CHAIRMAN. We will now adjourn, until 10:30 tomorrow morning.

(Whereupon at 4:25 p. m. a recess was taken until 10:30 a. m. the following morning.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, AUGUST 25, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 a. m., pursuant to adjournment on Thursday, August 24, 1939, in the Caucus Room, Senate Office Building, Subcommittee Chairman Garland S. Ferguson presiding.

Present: Commissioner Ferguson, chairman; Representative Casey; and Mr. O'Connell.

Present also: Mr. Brackett; Commissioner Edward C. Eicher, Securities and Exchange Commission; Gerhard A. Gesell, special counsel; and Michael H. Cardozo, attorney, Securities and Exchange Commission.

The CHAIRMAN. Are you ready, Mr. Gordon?

Mr. GORDON. May I ask you something? Yesterday there was some testimony by one of the agents indicating that in his particular case he had signed the names on some of the proxies.¹ Now, if the Commission thinks that that is of any importance, Mr. Rock, the president of the company would be glad to give you the names of some approximately 50 agents who we expect would testify that everything was done properly in every way.

The CHAIRMAN. Well, you can consult with Mr. Gesell about that.

Mr. GORDON. Of course, we don't want to do anything you don't want, but I just want to tell you that that testimony is available.

The CHAIRMAN. At recess sometime, suppose you talk to Mr. Gesell about it.

Mr. GESELL. Mr. Burnett, will you resume the stand, please, sir?

TESTIMONY OF PAUL M. BURNETT, CHAIRMAN OF THE BOARD OF DIRECTORS, MONUMENTAL LIFE INSURANCE CO.—Resumed

Mr. GESELL. At the start this morning, Mr. Burnett, I want to clarify one part of your testimony yesterday.² The question was raised as to whether or not you had signed the convention form annual statements of your company, containing the general interrogatory with respect to the absence of any loans to directors or officers or stockholders of the company, and I believe you indicated that you

¹ Supra, p. 5652.

² Supra, p. 5687.

had not signed any such report. I want to show you the report of your company for the year 1933, as an illustration, and ask you if you do not recognize your signature as being sworn to that convention form statement.

Mr. BURNETT. Yes, sir.

Mr. GESELL. And under the general interrogatory No. 10 it is stated that the company has made no loans during the year to officers, directors, or stockholders, and has no such loans outstanding.

Mr. BURNETT. Mr. Gesell, when I signed that paper—this is a very long, as you know, statement; it is made up by our accountancy department and like all these papers is turned over to be signed. Now this one I did sign, but I didn't read it and to tell you the honest truth I didn't know until this question was brought up that this question was in there.

Mr. GESELL. That very question is only a few inches above your signature, isn't it, Mr. Burnett?

Mr. BURNETT. I don't know whether it is a few inches or not.

Mr. GESELL. Right here.

Mr. BURNETT. It is up at the top of the page and my name is at the bottom, but I didn't read the thing over; it is a long statement and those statements are sent up to me; I sign papers all the time that I never have a chance to read every word.

Mr. GESELL. Do I understand it was your practice as president of your company to place your sworn signature on the annual reports filed with the various State departments in which you operated, without reading the statement?

Mr. BURNETT. Is this the only one you can find, Mr. Gesell?

Mr. GESELL. I believe you signed all of them during the time you were president.

Mr. BURNETT. Signed all of them? Are you sure of that?

Mr. GESELL. That is my best judgment, during the time you were president.

Mr. BURNETT. Well, if they were brought to me by our department I relied upon the accuracy of the statement and signed them; I did not read them over.

Mr. GESELL. Now we were discussing yesterday reasons as to why your borrowings from the company were made in the name of Irene Reaney. I want to ask you whether or not you have any knowledge as to the provisions of the various State laws in which your company operates with respect to the right of officers and directors to borrow money from the company?

Mr. BURNETT. I have not. We were operating under the Maryland State laws.

Mr. GESELL. Well, your company is obliged to comply with the laws of other States insofar as they apply to companies doing business in those States, is it not?

Mr. BURNETT. Well, I don't know—I wouldn't say they would be in a matter of this kind.

Mr. GESELL. I take it, then, you were not, for instance, familiar with the Indiana statute—your company operated in Indiana?

Mr. BURNETT. Yes, sir.

Mr. GESELL. Section 39-3715 of the Burns Annotated Indiana Statutes reads:

Loans to officers and directors: Any board of directors, director or officer of any insurance company doing business in this State who shall directly or indirectly loan any of its funds, moneys, capital, or other property whatsoever to any director or officer of such insurance company doing business in this State, or any director or officer who shall borrow from such insurance company any of its funds, money, capital, or other property whatsoever shall be guilty of a misdemeanor and shall on conviction be fined not less than \$100 nor more than \$500—

And so forth.

The CHAIRMAN. What is the date of that?

Mr. GESELL. That is the act of 1935, sir.

The CHAIRMAN. When was this transaction?

Mr. GESELL. There have been transactions since 1935.

Mr. BURNETT. I was not familiar with it, but I assumed that applied only to Indiana companies.

Mr. GESELL. Well, did you make any examination of the laws of the States in which your company operated?

Mr. GORDON. Is it seriously contended that this gentleman has committed a crime against the laws of Indiana, borrowing from his own company in Baltimore?

Mr. GESELL. Well, Mr. Gordon can read the law and understand it as well as I can. I am asking this gentleman—

Mr. GORDON (interposing). I have read it.

The CHAIRMAN. I don't understand that Mr. Gesell has made a charge against Mr. Burnett.

Mr. GESELL. Did you make any examination of the laws of the States in which your company operated?

Mr. BURNETT. Mr. Gesell, what you are trying to make out of this incident surprises me so much because our company was looking for investments. We needed it. We needed the investments, and my idea is that I was giving them with the collateral an investment that was to the interests of the company, not committing anything that was to be criticized. For instance, if I could get a mortgage from one of our directors on a piece of property, why should I send it some place else when it is a good mortgage and we can take it and get the income out of it? Further than that, I want to explain that the law under which we are acting now, the present law under which we are acting in Maryland, we are fully justified in loaning to a director or officer.

Mr. GESELL. I am simply trying to—

Mr. BURNETT (interposing). On collateral. It doesn't make any difference that under the law in which we are operating today, makes no difference between a director and anybody else.

Mr. GESELL. I am not concerned with what you think is best. I am simply trying to find out what the laws of the various States regulating your company imply, and whether or not you have complied with those laws.

Mr. BURNETT. I never heard of the laws of the different States respecting this particular matter.

Mr. GESELL. By how many departments are you examined?

Mr. BURNETT. I suppose 13.

Mr. GESELL. Well, will you consult with your colleagues and give us a definite answer as to how many departments examine your company?

Mr. BURNETT. How many examine our company or how many examine these statements?

Mr. GESELL. How many examine your company.

Mr. BURNETT. We have never been examined by any but the State of Maryland because under the agreement between insurance commissioners, and I believe it has been proved that the insurance of the State—to examine and certify the examinations of the other States.

Mr. GESELL. Well, it is frequently the case, is it not, that several insurance departments will participate in what is known as a convention examination of a company?

Mr. BURNETT. Never been so with us.

Mr. GESELL. The examinations to date have always been simply by the Maryland department?

Mr. BURNETT. By the Maryland department.

Mr. GESELL. Well, that focuses very clearly what I have in mind, Mr. Burnett. All these other States in which you operate are dependent upon the accuracy of this financial statement which you file for them for any information as to the operations of your company, and this statement has been shown to be false. That is the only point I am trying to make.

Mr. BURNETT. I don't concede that it was false.

Mr. GESELL. Who prepared the statement?

Mr. BURNETT. I couldn't tell you. It was prepared under Mr. Loweree, I suppose.

Mr. GESELL. Will you find out who it is that prepares these statements?

Mr. BURNETT. Mr. Loweree has the responsibility.

Mr. GESELL. There were other collateral loans made by your company from time to time to officers or directors or stockholders, were there not?

Mr. BURNETT. If you will read the ones you have reference to, I will tell you. I do not recall any of them.

Mr. GESELL. Do you know whether there were any loans of officers, directors, or stockholders other than the Irene Reaney loans?

Mr. BURNETT. There were one or two mortgage loans, I think. Would you call that collateral loans?

Mr. GESELL. Would you know, for example—

Mr. BURNETT (interposing). I am just asking you what you want. Dr. Vinup is a director. He has a piece of property in which he lives that I should say is worth around \$18,000 or \$20,000, and I think he had a mortgage which represents about a little over \$5,000. It has been a very excellent mortgage, and we don't want to get rid of it.

Mr. GESELL. Does Dr. Vinup?

Mr. BURNETT. Yes.

Mr. GESELL. He has borrowed money on two occasions against Monumental stock, has he not? A loan of \$5,000 on June 18, 1935, and a loan of \$1,600 on January 18, 1935, both of which loans have been discharged.

Mr. BURNETT. I have no knowledge of that.

Mr. GESELL. Are you familiar with the fact that a loan was made to C. Emmerich Mears against miscellaneous securities on April 23, 1931, of \$13,000?

Mr. BURNETT. Yes.

Mr. GESELL. He was a stockholder, was he not?

Mr. BURNETT. I am not sure of that. He may have been a small stockholder, but I don't recall—Mr. A. W. Mears was a director, but this is C. Emmerich.

Mr. GESELL. Was Mr. C. Emmerich Mears a stockholder?

Mr. BURNETT. I don't know.

Mr. GESELL. What is his relation to Mr. Adelbert Mears?

Mr. BURNETT. Son.

Mr. GESELL. Isn't it true he is a stockholder?

Mr. BURNETT. Mr. Rock says he is.

Mr. GESELL. There have been other such loans then, have there not?

Mr. BURNETT. If you will mention them to me, if I know anything about them I will tell you. The Vinup loan I knew nothing about, and if you see anything more there you can call my attention to I will be very glad to answer frankly.

Mr. GESELL. Mrs. Cecelia G. Roberts is a stockholder, is she not?

Mr. BURNETT. She is Mr. Roberts' wife, doubtlessly she is.

Mr. GESELL. There was a loan made to her on August 3, 1936, of \$20,000 against collateral, was there not?

Mr. BURNETT. Not to my knowledge. Mr. Roberts says it is correct; I don't know anything about it. Mr. Roberts tells me this was on a mortgage.

Mr. GESELL. Then there have been other loans to stockholders, at least, other than those we have been discussing?

Mr. BURNETT. We would not have turned down any good mortgage loans, no matter who it came from. We have 600 stockholders and if they come in with a good loan we would take it without any hesitation.

Mr. GESELL. I have no further questions at this time for Mr. Burnett.

Mr. O'CONNELL. Mr. Burnett, it seems to me that you being an intelligent man, as you are, should realize that the line of questioning that has been pursued has to do generally with the propriety of a company, an insurance company, making loans secured or unsecured, to officers or employees of the company, officers or directors of the company. The fact that in your case and in some other cases the loans turned out to be good, the security was ample, the loans repaid, seems to me to be entirely irrelevant. What do you suppose is the public policy behind the many State statutes that exist which have for their express purpose prevention of loans to a director or an officer of the company? What do you suppose the public policy behind that is?

Mr. BURNETT. Mr. O'Connell, I don't know whether you were here yesterday when this was discussed or not.

Mr. O'CONNELL. I was here.

Mr. BURNETT. But under our present law, as I just now stated, there is no prohibition whatever and we are at perfect liberty to lend on collateral to anybody, officers or otherwise. Excuse me, when the corporation was organized in '58 there was a prohibition against lending to an officer or director on security or otherwise, directly or indirectly. That law was considered rather harsh because we couldn't make loans that we thought were good, and in 1898 it was changed, the intention being at the time to make it in the nature of personal loans, that is that no loan should be made to an officer on his own financial responsibility, but not to prohibit loans on ample security.

Mr. O'CONNELL. The charter provision to which Mr. Gesell referred yesterday to my mind was unequivocal, to the effect that your company was prohibited at that time from making any loans, direct or indirect, to officers or directors.¹

Mr. BURNETT. I think if you will compare the two statutes, because the second one was prepared in my office for the purpose of overcoming this very point that we are making now——

Mr. O'CONNELL (interposing). You are a lawyer, aren't you?

Mr. BURNETT. Yes, sir.

Mr. O'CONNELL. It seems to me to be a rather strange rule of statutory construction that would require us to look at an 1858 statute and an 1898 change for the purpose of determining the validity or interpretation of a provision which is perfectly clear as it is. There is no ambiguity in the provision that Mr. Gesell read, that I could understand, that would make it necessary for us to look back.

Mr. BURNETT. It does not prohibit loans on security.

Mr. O'CONNELL. It prohibits loans direct or indirect. Isn't that correct?

Mr. BURNETT. No, sir. I make a great distinction between a loan to an officer on his personal responsibility and a loan on collateral. One is a loan on collateral and the other is a loan to the individual.

Mr. O'CONNELL. I see no real distinction when a loan is made to an officer or director of the company. What is the difference?

Mr. BURNETT. I respect your opinion, sir.

Mr. O'CONNELL. What is the difference?

Mr. BURNETT. There is a very great difference. I might make a loan to you as a director on the strength of your personal or financial responsibility. You might go wrong and we would lose the money, but if I would lend it on the strength of security, ample security, which you deposit——

Mr. O'CONNELL (interposing). Who determines the amplitude of the security, the same people who determine the financial responsibility of the man?

Mr. BURNETT. These are all marketable securities where you could get the value of them every day. But Mr. O'Connell, the fact remains, and I can't dispute it, that these loans were made to me on collateral that was ample; they bore interest at a larger rate than we would have lent to other people probably, fractionally larger certainly; the interest was all paid promptly and the loans were paid, and I have no other defense to offer to it.

Mr. O'CONNELL. Returning again to my first question, have you any thought as to the public policy behind the type of legislation to which I have referred as to its validity?

Mr. BURNETT. Mr. O'Connell, if I had the consideration that I am giving it now probably the loans would not have been made, but to me they were absolutely all right.

Mr. O'CONNELL. I understand you to say that at the present time you would be a little more doubtful about the propriety. I am not concerned with a particular individual case, but with a broad public policy.

Mr. BURNETT. The questions that you ask me now bring forcibly to my mind the fact that somebody thinks it was improper.

¹ *Supra*, p. 5685.

Mr. O'CONNELL. Well, what do you think?

Mr. BURNETT. I don't think so.

Mr. O'CONNELL. Let's forget your case. What do you think about the public policy behind legislation which would prohibit an insurance company from making loans direct or indirect to officers or directors?

Mr. BURNETT. I see no difference between an officer and anybody else who has the collateral, and the fact that that has been considered by our law makers is evidence of the fact that that was done legally.

Mr. O'CONNELL. Where; in Maryland?

Mr. BURNETT. In Maryland.

Mr. O'CONNELL. Of course that is not the general rule.

Mr. BURNETT. No; if I wanted to borrow today I could borrow easily on the same collateral that I had and not be subject to the criticism that I am being subjected to here.

Mr. O'CONNELL. So you think that as a general proposition, as a matter of public policy, the legislation which would prohibit an insurance company from making loans, collateral-wise or otherwise, to its officers or directors would be improper?

Mr. BURNETT. Mr. O'Connell, if an insurance company like any other company, is run honestly, no difference would be made.

Mr. O'CONNELL. Quite obviously a lot of legislation prepared in the past is good sound public policy on the theory that not even some insurance companies were honest.

Mr. BURNETT. As a broad subject I would say you were right. I am not trying to defend anything, but to say that these were made in good faith, they were amply secured, the interest was all paid, and then the certificates were paid. To my mind, at the time there was nothing wrong about it, or if there had been, it wasn't necessary for me to get the loans here by any means; I have good standing in the bank, but we have great difficulty, Mr. O'Connell, in getting investments.

Mr. O'CONNELL. Looking at the thing after the facts, it is perfectly clear that in these cases the loans were good, but for the purpose of formulating a sound public policy it seems to me that we have to look at the thing a little bit differently; we have to look at what may be done and the rules that may ensue from a situation that permits the managers and officers of a company to borrow funds of the company, which are not theoretically in use, for their own purposes, whether well secured or not. The same people that lend the money are the persons that determine the validity of the security. For you to say the securities were sound and marketable and worth the face to my mind is begging the question.

Mr. BURNETT. We would have lent money to John Jones or anybody else who came in for it.

Mr. O'CONNELL. I should think it would be safer to lend the money to John Jones. However, the discussion gets us nowhere. The results are all right in this particular case, but many have turned out less fortunately.

Mr. BURNETT. I can't see where the question of my honesty or integrity could be in any way involved.

Mr. O'CONNELL. That is not what we are discussing. What we are trying to determine is a matter of public policy in relationship between the management of the company and the company which they manage.

Mr. BURNETT. That is what Mr. Gesell has been trying to bring out, and I have been subjected to a lot of very disagreeable and unfavorable advertising as a result of it.

Mr. GESELL. I think I might say that if this comes down to a question of personal motives, I think the committee is interested and should be interested in a situation where a company is filing false returns with many State departments in which it does business.

Mr. BURNETT. I can assure you that there will be greater care in the future in regard to such matters, but I feel that the defense that I have made of the past is absolutely good. I can't see the reason for the severe criticism which is being leveled at me in this particular instance.

The VICE CHAIRMAN. Do you know, Mr. Gesell, can you tell us when the statute permitting a change from mutual to stock companies was passed?

Mr. GESELL. I believe in 1922.

Mr. GORDON. 1922, I think. We will look it up.

Mr. BURNETT. I am sure it was.

The VICE CHAIRMAN. Were there any other mutual companies, to your knowledge, that have changed from a mutual company to a stock company, pursuant to the statute?

Mr. BURNETT. I really couldn't answer that. I don't know.

The VICE CHAIRMAN. Were you interested in having a statute enacted that would enable you to do that?

Mr. BURNETT. I knew nothing about it until it was called to our attention years afterward. I don't think anybody else in our company knew anything about it, until it was called to our attention a number of years after it had been passed.

The VICE CHAIRMAN. It is obviously for the purpose of enabling a mutual company to change to a stock company.

Mr. BURNETT. Yes, sir.

The VICE CHAIRMAN. From that standpoint the only people interested in that type of statute would be the people interested in making a change. I can't see anybody else's interest. Maybe that is a pretty general question.

I understand that you own 21,000 shares of stock in this company, aside from the irrevocable trust. Is that right?

Mr. BURNETT. No, sir; I own about 23,000 aside from the 21.

The VICE CHAIRMAN. That is right; but you own 21,000 and then the 23 irrevocable trust.

Mr. BURNETT. No; just the opposite.

The VICE CHAIRMAN. I think you said that you and a group of three others comprising a group of four control 30 percent of the company.

Mr. BURNETT. Yes, sir.

The VICE CHAIRMAN. Now, when you said that, we hadn't heard any evidence of this 21,000 shares of irrevocable stock. Had you taken that into consideration?

Mr. BURNETT. Yes, Mr. Casey; I mentioned it at the time, and I said I did not think I had any right to vote under it but I would have to refresh my memory on that subject. I don't know whether there is any provision in the deed of trust that permitted me to vote the stock or not. It would only permit me to vote it in the event the Safe Deposit company gave me a proxy.

The VICE CHAIRMAN. In giving that consideration, if you had the vote and power to vote under it, it would give you something like 40 percent.

Mr. BURNETT. I imagine so; yes, sir.

The VICE CHAIRMAN. I think you stated at one time, though it sn't clear to me yet, it is somewhat confused, was the change from a mutual company to a stock company for the purpose of permitting you and this group of four, maybe some others, to keep control of this company?

Mr. BURNETT. Well, we were not unmindful of that, Mr. Casey. We were attempting to secure the control of the company so that we could use our best efforts to build it up and make it successful, which I think we have done.

The VICE CHAIRMAN. I am not unmindful of the rather natural line that would follow, the desire to retain control of the company, but I have in mind the apparent ambiguity now about it, so I ask you, was that the motivating purpose of this change from a mutual company to a stock company, namely the desire to retain control of the company?

Mr. BURNETT. That was not the sole desire.

The VICE CHAIRMAN. I just said motivating.

Mr. BURNETT. Well, I would say yes.

The VICE CHAIRMAN. What other purpose was there that motivated the change from mutual to stock?

Mr. BURNETT. Well, as conditions have developed since it enabled us to perfect an organization and conduct the business on a very profitable basis that would not have been the case under the mutual set-up.

The VICE CHAIRMAN. That is the increased service that you might render to the public—did that have any bearing?

Mr. BURNETT. Well, I think if you will look into it you will find that we have done a great deal to protect the interests of the policy-holder as well as to give us something to work for ourselves. At the time of this conversion we had a surplus of \$600,000; we have a surplus and stock now of over \$4,000,000, which is an additional reserve and a cushion behind all of our policies, and by the way, I want to state that in the declaration of stock dividends not one cent has ever been taken from the company, and so far as the cash dividends are concerned, I also would like to call attention to the fact that on a basis of five percent interest which we try as far as we can to get, the dividends paid the stockholders do not amount to much more than the five percent on the stock and surplus. Certainly that interest alone would meet two-thirds of the dollar and a half dividend to stockholders.

The VICE CHAIRMAN. Do you know what was the source of the provision in the charter which prohibited directors from obtaining loans from the company?

Mr. BURNETT. What was the what?

The VICE CHAIRMAN. What was the source of that provision in the charter?

Mr. BURNETT. Well, the original provision, of course, I knew nothing about because it was before I was born, but the second one, the act was prepared in my office and I don't know whether it was prepared by me or not, but I know the circumstances under which it was

prepared. It probably was prepared by my associate, but it was to meet this very situation.

The VICE CHAIRMAN. You understand, now, Mr. Burnett, your attention has been directed to it, that it would be dangerous public policy to allow directors and managing officers of an insurance company who have control of the management, of the policies, and the funds to borrow from that company over which they have control.

Mr. BURNETT. It has been very forcibly brought to my attention.

The VICE CHAIRMAN. That is, I understand, the purpose of these statutes in various States, although it is not a statute in Maryland; the purpose is that it is bad public policy, fraught with too many temptations, too many dangers, and too much liability to abuse.

Mr. BURNETT. Mr. Casey, I think that is the particular feature, that it might be subject to abuse, but if it is not subject to abuse can you see any difference on a collateral loan if it is well collateralized?

The VICE CHAIRMAN. I see a great deal of difference between your saying some John Jones who has no connection with the company might borrow on good collateral and establishing such a dangerous precedent as having a member of the company who not only might but who has a great deal of power over the management and the funds of the company.

Mr. BURNETT. Let me put another case up to you. I would like to get this clear in my mind.

The VICE CHAIRMAN. I would just as soon you would allow me to interrogate you; we would get through much quicker. Did the State examiner know of the loans to directors and officers of the company, the State examiner in the insurance department?

Mr. BURNETT. So far as I am concerned I never told him.

The VICE CHAIRMAN. Who besides you knew of these loans to officers and directors and stockholders?

Mr. BURNETT. Are you limiting yourself to me or to others, because I don't know of any others except the ones that Mr. Gesell mentioned; I have no knowledge of others.

The VICE CHAIRMAN. In your instance, in your own case you know of nobody besides yourself?

Mr. BURNETT. No, sir.

The VICE CHAIRMAN. Isn't it the duty of the State insurance commission to see that these reports, complete reports, are made to the State insurance commission, or do you know that?

Mr. BURNETT. What reports are they? Do you mean these reports we had this morning?

The VICE CHAIRMAN. I take it it is desirable to have accurate and complete reports of loans of insurance companies to individuals.

Mr. BURNETT. The only report we make to them is this annual report that Mr. Gesell submitted this morning.

The VICE CHAIRMAN. That is a duty of the commissioners of insurance, I suppose, to see that they are filed and that they are accurate.

Mr. BURNETT. It is quite a voluminous paper.

The VICE CHAIRMAN. I say it is the duty of the insurance commission to see that they are filed.

Mr. BURNETT. I say they send them to us every year; we make them up and send them back to each department.

The VICE CHAIRMAN. I say is it the duty of the insurance commission to see that they are filed and that they are accurate?

Mr. BURNETT. That they are accurate?

The VICE CHAIRMAN. That they are accurate, in other words they check up on them.

Mr. BURNETT. I assume they do. We file them and that is the last we hear of them.

The VICE CHAIRMAN. It is part of their duty, I assume, to check up on them, otherwise there would be no sense in filing them.

Mr. BURNETT. I would say so.

The VICE CHAIRMAN. I understand that some three stockholders outside of people who had some connection with the company were policyholders. Is that correct?

Mr. BURNETT. At the time—will you repeat that?

The VICE CHAIRMAN. I understood there were some sixty-odd policyholders who were stockholders in this company.

Mr. BURNETT. A great many more than that. We now have about 600, I think.

The VICE CHAIRMAN. I mean at the time of the change from a mutual to a stock company. You said there were 63.

Mr. BURNETT. Sixty-three people subscribed to stock.

The VICE CHAIRMAN. I understood, then, you ruled out those who had some connection either as officers or employees of the company and there were only three completely disinterested policyholders in the stock company.

Mr. BURNETT. I think that is correct.

Mr. Casey, if you will permit me to go a little further than that, I wish to say to you that for months after this conversion there was no trouble for the policyholders to secure all the stock they wanted because this stock was on the market right straight along at practically, certainly about what it cost. A lot of it could be obtained. When we were financing, I was taking up all I could get because I had faith and confidence in it; it was only a question of my ability to get enough money to swing it, but there was a lot of it on the market.

Mr. GESELL. Mr. Loweree, please.

TESTIMONY OF F. HAROLD LOWEREE, SECRETARY, MONUMENTAL LIFE INSURANCE CO., BALTIMORE, MD.—Resumed

Mr. GESELL. You have been sworn, have you not?

Mr. LOWEREE. Yes; I have.

Mr. GESELL. You have heard discussion concerning the annual convention form statements of the company during the last 10 years, have you not?

Mr. LOWEREE. Yes; I have.

Mr. GESELL. Did you prepare them in each case?

Mr. LOWEREE. No; not in every case. I came with the company in May of 1927, at which time Mr. Henry Roth was secretary, and I was taken into his department to assist him generally.

Mr. GESELL. For what time did you have responsibility for the preparation of statements?

Mr. LOWEREE. I think in about '34 or '35, approximately '34.

Mr. GESELL. It is true, is it not, that from '34 to the present time the statements have failed to disclose that there were loans made to

stockholders, officers, and directors or any such loans outstanding in response to question 10 of the general interrogatory?

Mr. LOWEREE. The general interrogatories do not disclose that fact, no, but the examination of the schedule C would have disclosed it.

Mr. GESELL. How?

Mr. LOWEREE. By reason of the fact that the loans that have been under question are named in the name of Irene Reaney.

Mr. GESELL. How would anyone know that she, (a) was a stockholder, or (b) that she was borrowing the money for Mr. Burnett, by reading that schedule?

Mr. LOWEREE. They wouldn't know she was borrowing the money for Mr. Burnett; no.

Mr. GESELL. How would they know she was a stockholder?

Mr. LOWEREE. I was assuming that anyone interested or making an inquiry would have access to the stock ledger.

Mr. GESELL. Well, that isn't a fact, is it?

Mr. LOWEREE. No.

Mr. GESELL. So that assumption is incorrect.

Mr. LOWEREE. That is incorrect; yes.

Mr. GESELL. Can you tell us why it was that these statements failed to make the proper disclosures under section 10 of the general interrogatories? Were you aware of the loans?

Mr. LOWEREE. I was aware of every collateral loan; yes.

Mr. GESELL. You knew Miss Reaney was a stockholder, did you not?

Mr. LOWEREE. Yes; I did.

Mr. GESELL. Did you know she was borrowing this money for someone else?

Mr. LOWEREE. No; I did not.

Mr. GESELL. Did you have any suspicions in that connection?

Mr. LOWEREE. When you say "suspicions" I don't know just how to answer it. I wouldn't be inclined to be suspicious of any loan that Miss Reaney would bring down there. I don't think I would have any reason to question whether it was for her or not.

Mr. GESELL. Did you think she was borrowing this money for herself?

Mr. LOWEREE. The loans were in existence, Mr. Gesell, before I had responsibility for the statement, and I think I would have to answer that by saying that I didn't give it any thought as to whether it was for her or Mr. Burnett.

Mr. GESELL. At least you knew she was a stockholder.

Mr. LOWEREE. I did; yes.

Mr. GESELL. How do you account for the fact, then, that the statements which you prepared show no loans to the stockholders?

Mr. LOWEREE. When I first was interested in preparing the annual statements I used to prepare them under the supervision of Mr. Roth.

Mr. GESELL. Is he dead now?

Mr. LOWEREE. He is dead; I think he died in '29 or '30. And every figure that went into the statement would be seen by Mr. Roth and either corrected or approved.

Mr. GESELL. Now let's come to the time that you had the responsibility of the preparation of the statements. Let's take that.

Mr. LOWEREE. I was leading up to that, Mr. Gesell. The interrogatories would be submitted to Mr. Roth and I recall that I ques-

tioned him or asked him about that particular interrogatory that you have talked about, and he told me that that was an interpretation of the charter and that it did not refer to loans that were collateraled.

Mr. GESELL. And so though the statement simply says "Any loans to stockholders," without specifying the type of loan at all, you followed that interpretation.

Mr. LOWEREE. That is correct; yes, sir.

Mr. GESELL. Did you ever discuss the matter with any of your superior officers after you had the responsibility for these statements?

Mr. LOWEREE. I can't recall of any instance where I ever made an issue of that particular question that you have in mind.

Mr. GESELL. Did you ever question it with the State examiners?

Mr. LOWEREE. Not that I recall; no, sir.

Mr. GESELL. I have no more questions.

The VICE CHAIRMAN. I would like to ask a question. You say that this Mr. —, what was his name?

Mr. LOWEREE. The former secretary was Mr. Roth.

The VICE CHAIRMAN. He said that his interpretation of the charter was that it did not apply to officers or directors who came with collateral?

Mr. LOWEREE. That is correct; yes, sir.

The VICE CHAIRMAN. That satisfied you?

Mr. LOWEREE. Yes; it did.

The VICE CHAIRMAN. Who determines in your company whether the collateral is adequate or not?

Mr. LOWEREE. At the present time or then?

The VICE CHAIRMAN. Then.

Mr. LOWEREE. I think Mr. Burnett, Mr. Roth, and Mr. Harry Roth, then, I believe, would have determined that, perhaps Mr. Emmons also would have been in it.¹

The VICE CHAIRMAN. If any one of these gentlemen came to the company looking for a loan with collateral, they would have something to say about the adequacy at that time. Is that right?

Mr. LOWEREE. They would have had; yes, Mr. Casey—

The VICE CHAIRMAN (interposing). If Mr. Roth or Mr. Burnett or Mr. Emmons came looking for a loan from the company, with collateral, they would be having a board of which they were members and of which the members were all friends of theirs determining the adequacy of the collateral. Isn't that correct?

Mr. LOWEREE. They would have had something to do with determining the adequacy of the collateral, subject, of course, to the submission of that particular loan to the next meeting of the board and its ratification or refusal to ratify.

The VICE CHAIRMAN. To what board?

Mr. LOWEREE. The board of directors.

The VICE CHAIRMAN. They were all members of the board of directors, weren't they?

Mr. LOWEREE. They were all members of the board of directors, but any individual in that group that I named who made the loan on collateral or without collateral would have known that his loan would be submitted to the next meeting of the board for inspection.

¹ In this connection see subsequent statement by Mr. Emmons, *infra*, p. 5730.

The VICE CHAIRMAN. All of this group were also members of the board of directors.

Mr. LOWEREE. Except the comptroller, Harry Roth—I mentioned his name.

The VICE CHAIRMAN. Mr. Emmons and Mr. Roth and Mr. Mears?

Mr. LOWEREE. No, sir; I mentioned Mr. Emmons, Henry Roth, Mr. Burnett.

The VICE CHAIRMAN. I am merely stating that while in this instance the collateral was stock in the insurance company itself, you might have, not only might but the probabilities are that there would be grave temptation in allowing directors, managers, and people who have control of the company and who themselves have determination of how adequate the collateral was allowing these people to determine the adequacy and come and get loans.

Mr. LOWEREE. Mr. Casey, I don't believe that in this particular case the collateral was the stock of the company. I think it was mainly collateral on the New York Exchange, if I am not mistaken.

The VICE CHAIRMAN. Stock on the New York Stock Exchange?

Mr. LOWEREE. I think by far the bulk of that collateral, if not all of it, was listed securities on the New York Exchange.

The VICE CHAIRMAN. In this instance I say the collateral was adequate, no question about this, but what I am pointing out is the danger of this practice of establishing a precedent to allow the practice of directors and managers of a company to come and obtain loans, even though they have collateral, because the value of that collateral is passed upon by these self-same men who come looking for loans.

Mr. LOWEREE. I can't help but recognize the general principle that you say, and I agree with you.

(Witness Loweree excused.)

Mr. GESELL. Mr. Roberts, please.

TESTIMONY OF MILTON E. ROBERTS, VICE PRESIDENT AND DIRECTOR, MONUMENTAL INSURANCE CO.—Resumed

TRANSACTIONS WITH INTERLOCKING COMPANIES

Mr. GESELL. Mr. Roberts, I want to question you concerning the affairs of Real Estate Trustee, Inc., Real Estate Trust Co., Land Mortgages, Inc., and Consolidation Co. You are familiar, are you not, in a general way with the affairs of the companies?

Mr. ROBERTS. I am.

Mr. GESELL. Am I correct in saying that a corporation known as Real Estate Trustee, Inc., was incorporated on March 21, 1924?

Mr. ROBERTS. Correct.

Mr. GESELL. Were you interested in that company at the time of its organization?

Mr. ROBERTS. I was the originator of the corporation, conceived the idea.

Mr. GESELL. Mr. Mears and Mr. Tormey and yourself were among the original subscribers to the stock of that company, were you not?

Mr. ROBERTS. I believe that is correct.

The CHAIRMAN. Who?

Mr. GESELL. Mr. Mears, Mr. Roberts, and Mr. Tormey; Mr. Tormey was connected with the Monumental Life Insurance Co. at that time as a director, was he not?

Mr. ROBERTS. I think so.

Mr. GESELL. And Mr. Mears also was connected with the company?

Mr. ROBERTS. I think so.

Mr. GESELL. The original paid-in capital of the company was \$100,000, was it not?

Mr. ROBERTS. Oh, no, \$250,000; and then the capital stock was increased to \$500,000, and then by subsequent stock dividends it was increased close to \$700,000. I just can't recall the exact figure.

Mr. GESELL. What kind of business was this company engaged in? Was it loaning money on mortgages?

Mr. ROBERTS. Simply interested in real estate.

Mr. GESELL. The business involved mortgages?

Mr. ROBERTS. Exclusively.

Mr. GESELL. Where did the control of this company rest, with yourself, Mr. Mears, and Mr. Palmer?

Mr. ROBERTS. If you have the stock lists there I can tell you control. The control was very widely scattered.

Mr. GESELL. As a practical working matter, I am not talking about where 5 percent of the stock was, I am talking now about a practical working matter. Who were the guiding people in the operations of the company?

Mr. ROBERTS. I was practically the controlling operator. I operated the company and Mr. Mears was on the committee. I forget who else was on the real-estate committee, but I practically operated the company.

Mr. GESELL. You say you conceived the idea of the organization of the company?

Mr. ROBERTS. I think I am responsible for it.

Mr. GESELL. What was the idea about the operation of it?

Mr. ROBERTS. Well, let me answer it my way and I can save time, I think. If you will recall along about that period, 1924 and several years prior to that, the practice arose among the large casualty companies of issuing what was then known as guaranteed mortgage certificates. I had looked at that plan quite a good bit and we had considered whether or not the mortgage guarantee was a sound investment. I concluded that the only safe mortgage plan that could be operated was directly in on the real estate in which you held the mortgage itself and not a certificate of participation in any other mortgage.

We discussed the question of organizing the mortgage company at that time, and, if you will recall, money rates were very high. There was a lot of building going on and construction work, and the rates paid for money at that time was in excess of the legal rate of 6 percent, which is the legal rate in Maryland. We decided that if we could organize the mortgage company, get the direct loans, and then instead of the insurance company buying for mortgage investment guaranteed mortgage certificates, that they could get a direct lien on the property in such quantity that would justify us in giving us an outlet for lending our money. We made an arrangement with the insurance company—

MR. GESELL (interposing). When you say "the insurance company" do you mean the Monumental?

MR. ROBERTS. Yes; Monumental Life. We made the arrangement that the mortgage company would confine its loans to a margin not greater than 60 percent of the purchase value of the properties. That hypothecation of that mortgage for 80 percent of the amount we lent had a differential of half of 1 percent interest to the mortgage company and it would provide a very safe reservoir from which to supply mortgage investments for the insurance company.

The reason that mortgages as investments are desirable from the insurance company standpoint is that under the laws of Maryland the insurance company receives an exemption in taxes for all of the mortgage money that is lent in the State.

MR. GESELL. May I interrupt you a moment. I will let you go on with your discussion, but I want to make a bit of it clear at this stage. Was the insurance company authorized at that time to loan money on mortgages directly itself?

MR. ROBERTS. Oh, yes.

MR. GESELL. Instead of doing that, it was thought best to form this Real Estate Trustees, Inc., under this arrangement—and I want you to check the accuracy of this.

MR. ROBERTS. Yes; at my suggestion.

MR. GESELL. Yes; that the Real Estate Trustees, Inc., would loan the money on the mortgages up to 60 percent.

MR. ROBERTS. Not all of it, we made other loans. The insurance company took the loan wherever it could get it, but with the added collateral value of a corporation of six or seven hundred thousand dollars behind it on the assignment, we would assign the mortgage with recourse—not without recourse, but with all the asset value of the mortgage company behind it, to the insurance company. So we not only had the property that was covered by the mortgage, but we had whatever security the capital of the mortgage company represented in addition.

MR. GESELL. I want to get the mechanics of this straight.

MR. ROBERTS. Yes.

MR. GESELL. The Real Estate Trust, Inc., would loan money on mortgages?

MR. ROBERTS. That is right.

MR. GESELL. It would then take those mortgages, in some instances, and merge them with the insurance company as collateral against a collateral loan to Real Estate Trustee, Inc. Is that a correct statement?

MR. ROBERTS. That is true, to the extent of 80 percent of the amount of a general entry.

MR. GESELL. And the advantage you saw in that arrangement from the point of view of the insurance company was that it would have, in addition to the security of the mortgage itself, the credit of Real Estate Trustee, Inc.?

MR. ROBERTS. That was the theory.

MR. GESELL. And from the point of view of Real Estate Trustee, Inc., I take it there was some advantage in that Real Estate Trustee, Inc., received some profit for handling these transactions.

Mr. ROBERTS. Every loan that was made by the mortgage company was made on a commission basis in addition to the regular rate of interest, the same as a brokerage basis.

Mr. GESELL. So that on all of these mortgage loans that were made by Real Estate Trustee and then pledged with Monumental against a collateral loan, Real Estate Trustee, Inc., received a commission?

Mr. ROBERTS. Yes; from the borrower.

Mr. GESELL. No commission from the insurance company?

Mr. ROBERTS. None whatever, except the differential in the interest rate. We would get a half percent. I stated that.

Mr. GESELL. Yes. You would get something from the insurance company as well as something from the borrower?

Mr. ROBERTS. That is correct.

Mr. GESELL. Real Estate Trustee, Inc., paid dividends up until December 31, 1930, did it not?

Mr. ROBERTS. I believe it did.

Mr. GESELL. Then after that time, am I correct in saying that it ceased to pay dividends?

Mr. ROBERTS. I think you are correct, sir.

Mr. GESELL. The name of the company was changed, was it not, to Land Mortgages on May 19, 1933.

Mr. ROBERTS. That is right.

Mr. GESELL. Land Mortgages continued to engage in the same kind of business as Real Estate Trustee, Inc.?

Mr. ROBERTS. No; we were engaged in the same business but we were attempting to liquidate as fast as we could.

Mr. GESELL. You were not making active loans?

Mr. ROBERTS. No. In fact, we tried to liquidate when we saw the conditions that were changing. In 1927 our board recognized the fact that we thought we were approaching a crisis, and we endeavored then to curtail our loans and to call our loans, but it became exceedingly difficult to even get the interest, of our payments on account of the principle.

The VICE CHAIRMAN. You mean you had the sagacity to foresee the collapse?

Mr. ROBERTS. Well, sir, if you want to call it that, it is true. We discussed it, we thought things were going too well and everybody was making money without effort, and we couldn't see how it could last.

The VICE CHAIRMAN. I should like to have had your advice at that time. [Laughter.]

Mr. GESELL. Now, Mr. Roberts, how high did these collateral loans on mortgages as between Monumental and Real Estate Trustee, Inc., run?

Mr. ROBERTS. I haven't looked at the statements lately but I think at one time we had a peak of around a million and a half to a million and three quarters. How near correct is that?

Mr. GESELL. I believe that is correct. The annual statements of the company show for the year-end figures that there was some \$80,000 in collateral loans from Monumental to Real Estate Trustee in 1929, \$165,000 at the end of 1930, \$692,000 in 1931, and \$766,803 in 1932; and that thereafter the loans were shown as outstanding as Land Mortgages, Inc., in amounts ranging from a low in 1938 of

three hundred and forty-two thousand-odd dollars to a high in 1933 of around six hundred and twenty-six thousand-odd dollars.

Mr. ROBERTS. Well, those statements were in the books then.

Mr. GESELL. They were substantial transactions then, were they not, as between Land Mortgages and Real Estate Trustee on the one hand, and the Monumental, on the other?

Mr. ROBERTS. And very profitable, during that time, to the insurance company.

Mr. GESELL. Also of some profit to you gentlemen interested in the mortgage?

Mr. ROBERTS. Quite naturally.

Mr. GESELL. Then this was another case, was it not, Mr. Roberts, where certain of the officers and the directors of the insurance company were dealing with the insurance company?

Mr. ROBERTS. Well, you can't deny a fact, Mr. Gesell, that is shown from the records, but the question of a motive is an entirely different thing.

Mr. GESELL. I made no reference to a motive.

Mr. ROBERTS. I am as human as anybody that ever lived and an opportunity to make money honestly and fairly—I don't believe I would have passed it up.

Mr. GESELL. Even though it was an opportunity to make money off a company where you were a director?

Mr. ROBERTS. If you depend on the integrity of the men involved that is the only thing you can possibly do business on.

Mr. GESELL. Now, coming for a moment to Real Estate Trust Co., I believe you said that is a bank.

Mr. ROBERTS. Yes.

Mr. GESELL. That was organized November 1, 1926, was it not?

Mr. ROBERTS. Either November or September. I am not certain; I think they opened November 1.

Mr. GESELL. Where did the money come from to organize Real Estate Trust Co.? It came from Real Estate Trustee or Land Mortgages, did it not?

Mr. ROBERTS. No. I will give you the history of it and then you can get the picture. When the building was contemplated at Charles and Chase Streets, we had a very attractive first floor that we thought would be a very excellent banking location in a section of the city that has always been residential. North Charles Street, if any of you gentlemen know Baltimore, was the old residential, fashionable section of Baltimore.

Mr. GESELL. You recall, Mr. Roberts, my question was where did the money come from?

Mr. ROBERTS. I am going to give you that, I am going to give you the reason. It was a decided break from the financial district, 10 or 12 squares away from that section. We discussed whether or not we could turn the mortgage company into a bank.

The CHAIRMAN. When was that?

Mr. ROBERTS. In 1926, probably a little time leading up to the organization, probably when the building was considered. I think it was a year or two before that, and when the building was getting under way we were looking for a tenant for that first floor. None of the banks were willing to go outside of their business or ordinary financial district, so we discussed the matter with the banking com-

missioner as to the propriety of converting a mortgage company into a bank. The bank commissioner did not think it was a proper thing to do, that the assets were not liquid, and that a bank ought to have liquid assets. We therefore put an advertisement in the paper organizing a bank and asking for subscriptions to the stock. I wish I had those advertisements but I didn't know this matter would come up.

The capital was subscribed to by—I forget how many stockholders, in one particular instance the Mercantile Trust Co., of Baltimore, subscribed to about 20 to 25 percent of the capital and the rest of the capital was provided by the mortgage company which subscribed to some, and the individuals subscribed to some. I forget what the mortgage company subscribed to, but the records will show it.

MR. GESELL. It was a substantial amount, was it not?

MR. ROBERTS. I think it was a substantial amount.

MR. GESELL. After the bank was organized, the people who had been interest in the mortgage company continued to have the active operating control of the bank, did they not?

MR. ROBERTS. Oh, there is no doubt about that. We were all directors in the mortgage company. It's not altogether similar, but if you have the directors at the time the bank opened, and the directors of the mortgage company, it is very easy to see where the control was.

MR. GESELL. Well, now, can you tell us where the control was at the time? You may refer to the minutes.

MR. ROBERTS. Do you have the first meeting of the mortgage company? I have here the first meeting of the bank.

MR. GESELL. That is what we are interested in. The question is where were the Tormey interests at the time of the organization of the Real Estate Trust Co.?

MR. ROBERTS. In the mortgage company, the records with Mr. Tormey, who was also a director in the bank; Mr. William C. Scott was a director in the mortgage company and also a director in the bank; Mr. Mears is there, in both companies.

MR. GESELL. Yourself?

MR. ROBERTS. Myself would be four. I believe that is all, Mr. Gesell, as far as I can see.

MR. GESELL. Now, am I correct in saying that the Real Estate Trust Co. borrowed money from Monumental Life Insurance Co. on collateral loans?

MR. ROBERTS. The Real Estate Trust Co.?

MR. GESELL. Yes.

MR. ROBERTS. No, sir; we never had—Real Estate Trust Co. never did that since it has been opened.

MR. GESELL. Have you your convention form statement of the Monumental Life Insurance Co. for the year 1930? Will you refer to schedule C-2 and see if there was not a loan from the Monumental to Real Estate Trust Co. outstanding at the year end for 1930 in the amount of \$50,000?

MR. ROBERTS. That was a call-loan transaction on money I think to be placed out in the New York market.

MR. GESELL. Was collateral shown against that?

MR. ROBERTS. The collateral will be shown. What is the collateral, Mr. Loweree?

MR. LOWEREE. Ten shares—do you want me to read it all?

Mr. GESELL. It is a list of miscellaneous securities, is it not?

Mr. LOWEREE. General Motors, Gold Dust Corporation, Home Fire Securities, Houston Oil, Montgomery-Ward, National Dairy Products, Pennsylvania Railroad, Phillips Petroleum, Studebaker, Sinclair, Texas Corporation, United Corporation, United States Realty and Improvement, Warner Bros., Washington Central Railway, Baltimore Hebrew—I don't know that.

Mr. GESELL. Miscellaneous collateral. How was the name of the actual borrower shown there?

Mr. LOWEREE. The actual borrower is shown as Real Estate Trust Co.

Mr. GESELL. Now, Mr. Roberts, do I understand that was not a collateral real-estate loan to Real Estate Trust Co.?

Mr. ROBERTS. We never made it a collateral loan; we never owned securities except in a small amount; I am sure that transaction was one made at that time through a participation in a loan that some broker or one of our corresponding banks had made and had listed collateral furnished to us.

Mr. GESELL. You mean that you think this was a loan of the insurance company from someone other than Real Estate Trust Co.?

Mr. ROBERTS. It must have been because I have absolutely no recollection of ever having—we never have had, in my opinion, in my recollection, borrowed money from anybody.

Mr. GESELL. That is another case, then, where we have rather faulty reporting of the actual transaction?

Mr. ROBERTS. I can't help that, sir; I am interested in the bank and I think I would know.

Mr. GESELL. You are also director of the insurance company, aren't you?

Mr. ROBERTS. Oh, yes; I am a director in a lot of things.

Mr. GESELL. Well, now I notice for the years 1931-33, for each year there is shown in a similar fashion a loan outstanding in the amount of \$115,000. Is that the same kind of transaction?

Mr. ROBERTS. I think that would all be the same transaction. I would like to clear that up myself to my satisfaction. Our vice president who is in active charge of those records could clear that up.

Mr. GESELL. Can we ask, with the agreement of the committee, for you to furnish us with a written statement of the exact nature of those transactions?¹

Mr. ROBERTS. I will be glad to do it.

Mr. GESELL. After you have had an opportunity——

Mr. ROBERTS (interposing). I would want to do that, too, for my own satisfaction.

Mr. GESELL. Now am I correct in saying, Mr. Roberts, that the Monumental carried balances at the Real Estate Trust Co. since 1929?

Mr. ROBERTS. I think they have carried balances almost since we opened, sir.

Mr. GESELL. They have had money on deposit there at all times, haven't they?

¹ Subsequent correspondence relating to the nature of the Monumental Life Insurance loans to the Real Estate Trust Company was entered in the record on September 22, 1939, as "Exhibit No. 1128" and appears in the appendix to this Part, on p. 6357.

Mr. ROBERTS. Not in an excess amount. In the first place we had no use for it and I didn't want large deposits.

Mr. GESELL. The annual statement of the companies from the year 1929 to 1937 shows that as of the year end, December 31, for those years, the balances range from a low of nine-thousand-odd dollars in 1934 to a high of two-hundred-and-fifty-five-thousand-odd dollars shown in 1932?

Mr. ROBERTS. I think that is probably correct.

Mr. GESELL. That is a representative statement of balances?

Mr. ROBERTS. Oh, yes; that is true.

Mr. GESELL. I should like to offer for the record at this time two schedules prepared from the annual statements of the company; one showing the amount of collateral loans outstanding, Real Estate Trust Co., Land Mortgages, Inc., and Real Estate Trust Co. for the years 1929 to 1938, and the others showing year-end balances from 1929 to 1938 carried by Monumental with Real Estate Trust Co. These schedules are offered, subject to check or correction by the company in accordance with the procedure of the committee.

(The schedules referred to were marked "Exhibits Nos. 963 and 964" and are included in the appendix on p. 6196.)

Mr. ROBERTS. I want to, for the purpose of the record, Mr. Gesell, point out that during that period that you are speaking about the cash deposits of the insurance company in various banks ran as high as 20 millions of dollars.

Mr. GESELL. I made no effort to indicate that the highest balances or the lowest balances, or any other kind of balances pertained to the Real Estate Trust Co.

Mr. ROBERTS. There are a couple of reasons why I didn't want it; if you want to know, I can tell you. You have to pay the deposit insurance on your deposits and it means an operating expense when you can't use the money.

Mr. GESELL. Now, Mr. Roberts, there is one other company we haven't mentioned here; that is the Consolidation Co., isn't it?

Mr. ROBERTS. That is my company, sir; that is, I own a little less than half interest in it, but it was my money that financed the company, sir.

Mr. GESELL. And you own a substantial interest in the preferred stock and 48 percent of the common?

Mr. ROBERTS. I think I own all of the preferred stock and 48 percent of the other.

Mr. GESELL. What kind of company is it?

Mr. ROBERTS. Development company, pure and simple.

Mr. GESELL. Baltimore again?

Mr. ROBERTS. Exclusively Baltimore.

Mr. GESELL. In the real-estate business?

Mr. ROBERTS. In the development end of it.

Mr. GESELL. Now what I am anxious to discuss with you is the manner in which the indebtedness between Land Mortgages, Inc., and Monumental Life Insurance Co. was liquidated. Am I correct in saying that in 1934 the indebtedness on these collateral loans running between Monumental and Land Mortgages was in the neighborhood of \$800,000, owed by Land Mortgages to Monumental?

Mr. ROBERTS. I think that is approximately correct, sir.

Mr. GESELL. At that time am I correct in saying that consideration was given to the liquidation of the indebtedness and in fact there has been consideration of that fact prior to the time.

Mr. ROBERTS. Very serious consideration, sir.

Mr. GESELL. What was the condition of Land Mortgages at that time? Was it insolvent?

Mr. ROBERTS. I should say it was; couldn't meet its obligations, and it couldn't pay its debts.

Mr. GESELL. You were still interested in the company?

Mr. ROBERTS. Well, I was still very much interested in the company, although I was not the nominal head of the company at the time.

Mr. GESELL. Other persons connected with the insurance company were still interested in Land Mortgages, were they not?

Mr. ROBERTS. I think there was a severance of relations of directors in connection with the directors and some years prior to that, though I think at the time there were no directors of the Monumental on the board. Now, that is my impression.

Mr. GESELL. But yourself?

Mr. ROBERTS. Well, I was and still am excepting myself.

Mr. GESELL. Now, am I correct in saying that at that time an agreement was entered into between Land Mortgages, Inc., and Monumental, that is July 1, 1934, under which an executive committee was established; that executive committee to have the principal responsibility in working out the liquidation of the \$800,000 indebtedness?

Mr. ROBERTS. I believe I got off the board at that time, did I not, and turned the matter over to the executive committee to try to work out the details?

Mr. GESELL. The members of the executive committee at that time were Mr. Fenton, Mr. Gilbert, Mr. Emmons, and Mr. Scott.

Mr. ROBERTS. I didn't recall Mr. Emmons. Mr. Emmons was kept in at that time in order to represent the Monumental interests so that all deliberations as to disposal of the real estate, the Monumental would know what was going on.

Mr. GESELL. Then that committee continued to function until June 25, 1935, did it not, and thereafter?

Mr. ROBERTS. I think that is true.

Mr. GESELL. Now, is it not correct that on June 25, 1935, you and Mr. Mears came back on the executive committee, replacing Mr. Gilbert and Mr. Scott?

Mr. ROBERTS. That is right.

Mr. GESELL. So that as of June 25, 1935, yourself, Mr. Mears, Mr. Emmons, and Mr. Fenton constituted the executive committee?

Mr. ROBERTS. That is true.

Mr. GESELL. Now, am I correct in saying that the executive committee charged with the liquidation of this indebtedness continued to function right up into '38?

Mr. ROBERTS. If the record shows that, I think that is true.

Mr. GESELL. It was in 1938, was it not, that there was a new undertaking with respect to the liquidation of the indebtedness?

Mr. ROBERTS. Yes; the agreement that was entered into in 1934 with the insurance company would have terminated in 1939, and such little progress had been made in the liquidation of the real estate due to the conditions that existed in the real-estate market—it was impossible to

sell anything; you could do practically nothing in the way of liquidating such frozen assets—that it was deemed advisable to endeavor to get the indebtedness settled.

Mr. GESELL. Now, I want to discuss with you the manner in which that indebtedness was settled. I would like to refer you to the minute book of the Consolidation Corporation, which contains a copy of the minutes of the quarterly meeting of the directors of the Monumental Life Insurance Co. held on April 6, 1929.¹ You recognize the minutes of the company which are before you, do you not?

Mr. ROBERTS. Yes; I am familiar with the details, although, Mr. Gesell, the whole details of this transaction were handled by Mr. Fenton, who was then president of the company, but I am familiar with the theory of the thing.

Mr. GESELL. Now, the minutes of the Monumental Life Insurance Co. as contained in the records of the Consolidation Co. read as follows, do they not [reading from "Exhibit No. 965"]:

The Chairman reported that the indebtedness of Land Mortgages, Inc., to the company—

that is, to Monumental—

on March 31, 1939, amounted to \$446,990.05 as adjusted by verbal agreement, modified agreement effective July 1, '34, agreement of August 9, '34, and agreement of December 24, '34. He stated that a basis for the settlement of this indebtedness—that is, the indebtedness of \$446,000—

had been worked out by the officers and had been submitted to the executive committee at its meeting just held on this date, and that the executive committee had approved and ratified the proposed settlement—

which is as follows:

1. That the Monumental Life Insurance Company purchased from Land Mortgages, Inc., certain shares of stock owned by Land Mortgages, Inc., and at present hypothecated to the Monumental Life Insurance Company under the said indebtedness at and for the sums herewith set opposite each.

There are then listed certain shares of Real Estate Trust, Mid-Continental, and Monumental Life, which were to be purchased by Monumental?

Mr. ROBERTS. That is right.

Mr. GESELL. For \$296,500; is that correct?

Mr. ROBERTS. That is true.

Mr. GESELL. I notice there that there are 2,193 shares of Real Estate Trust Co. stock which was purchased for a total of \$274,125, or a cost per share of \$125?

Mr. ROBERTS. That is correct.

Mr. GESELL. That is a rather high price for shares of Real Estate Trust Co. stock, isn't it?

Mr. ROBERTS. But if you will go further into it you will see that I personally entered into an agreement to buy that stock back at the same price, personally.

Mr. GESELL. What was the stock worth at this time?

Mr. ROBERTS. The market on the stock paid \$2 a year, and the market on it is around \$64 to \$65; in fact, I just bought some.

Mr. GESELL. Then the company agreed to buy this stock at \$125?

Mr. ROBERTS. Yes.

¹ Entered later as "Exhibit No. 965." See appendix, p. 6197.

Mr. GESELL. When the market price was around \$64?

Mr. ROBERTS. That is true.

Mr. GESELL. With the understanding that you later on would purchase the stock from Monumental at the price of \$125 a share?

Mr. ROBERTS. That is right.

Mr. GESELL. When was that purchase to be made by you?

Mr. ROBERTS. Within 2 years from the date of the agreement.

Mr. GESELL. Two years hasn't come yet, has it?

Mr. ROBERTS. Oh, no.

Mr. GESELL. That is a dubious investment, from your point of view, isn't it, Mr. Roberts?

Mr. ROBERTS. I think not, or I wouldn't have made it.

Mr. GESELL. Do you think it will be a collectible indebtedness?

Mr. ROBERTS. Well, I will answer your question this way: The thing that impels us to make an investment is the opportunity for profit. The book value of the bank today is around \$165 a share. I own enough of the stock of the Trust Co., which, together with the stock that we have here will place the control in a few of us, so I know how the bank will be operated and I know just what the value of the stock will be, and am perfectly willing——

Mr. GESELL (interposing). You believe that in the future it will be worth \$125?

Mr. ROBERTS. In fact, if we wanted to liquidate the bank today the position the bank is in, as liquid as it is, the liquidating value to the stockholders would be in the neighborhood of \$160 a share.

Mr. GESELL. In effect, what was happening here was that the Monumental was giving about twice the value of this stock to Land Mortgages in return for your guaranty to give them that additional value 2 years later. That is a fair statement?

Mr. ROBERTS. It was done to protect the insurance company for the very simple reason, Mr. Gesell——

Mr. GESELL (interposing). Wait just a minute, Mr. Roberts. "Done to protect the insurance company"?

Mr. ROBERTS. It was to place the insurance company in the same position it was when it made the investment in the stock. Now, they were carrying it at \$125 on their books, because that is what they paid for it.

Mr. GESELL. Well, now I want to come back to this after we cover the rest of this, and I think I can talk to you again about that. [Reading from "Exhibit No. 965":]

2. The Land Mortgages, Inc., will apply the proceeds of this sale to its indebtedness to Monumental, thus reducing the indebtedness from \$446,000 odd to \$150,490.

3. Land Mortgages, Inc., will pay to Monumental Life the sum of \$50,490.05, which will be a settlement in full of the said remaining indebtedness of \$150,490.05, and Monumental Life will release all of the remaining pledged collateral under the said indebtedness.

In other words, Monumental wrote off \$100,000 of this debt, didn't it?

Mr. ROBERTS. That is true.

Mr. GESELL. And it released certain collateral?

Mr. ROBERTS. That is right.

Mr. GESELL. The Monumental Life will charge off as a loss the unpaid difference at \$100,000. [Reading further from "Exhibit No. 965":]

In this connection Monumental Life and Land Mortgages will enter into an agreement mutually releasing each other from all claims and demands of any kind and description.

Now, so far—there are other stages in this agreement, but so far they have given Monumental a value of \$125 against 2,193 shares of Real Estate Trust Co. stock, when the market was \$64, in return for your guaranty to take it at \$125, 2 years later. And they have written off \$100,000 of this indebtedness. That is the practical effect?

Mr. ROBERTS. Yes.

Mr. GESELL (reading further from "Exhibit No. 965"):

4. In connection with the purchase of the 2,193 shares of stock of Real Estate Trust Company as set forth in item one, the company will enter into an agreement with Mr. Milton Roberts to be effective March 31, 1939, wherein Mr. Milton Roberts will agree to buy, and the Monumental will agree to sell, before April 1, 1941, the said 2,193 shares of Real Estate Trust Company, at \$125 per share, for a total of \$274,125.

And the agreement, paragraph 4, sets forth the other arrangements with respect to your agreement to take that stock at \$125.

5. In connection with the payment to the Monumental Life Insurance Co. of \$50,490.05, as set forth in item 3, it is understood that the collateral released to Land Mortgages—

That is the collateral released by Monumental to Land Mortgages?

Mr. ROBERTS. That is the stuff they didn't want.

Mr. GESELL (continuing to read):

is to be conveyed by such legal methods as our attorneys' advise to a corporation known as Consolidation Company.

That is your company?

The said Consolidation Company is to make a \$50,000 mortgage to the Monumental Life, secured by collateral as set forth below for a period of 3 years from March 31, 1939, with interest at 3 percent.

In other words, Land Mortgages didn't have this \$50,000, did it?

Mr. ROBERTS. No. The Consolidation Co. borrowed the money from the Monumental on the collateral released.

Mr. GESELL. It went all around—

Mr. ROBERTS (interposing). And then they paid—this is the mechanics of it.

Mr. GESELL. Ring-around-a-rosy?

Mr. ROBERTS. It is a perfectly straight thing, and you can follow it very easily; \$50,000 went back to the Land Mortgages to pay them for the property that they then owned.

Mr. GESELL. After these securities were purchased by Monumental—

Mr. GORDON (interposing). Won't you permit the witness to give his explanation and not be interrupting him with "ring-around-a-rosy"?

Mr. GESELL. There is no interruption of the witness. I object to Mr. Gordon's statement very much. There has been no effort to interrupt this man or in any way to prevent him from fully presenting all of the facts before the committee, and I think his statement is extremely unfair.

MR. GORDON. I didn't say that at all. I just said the little "ring-around-a-rosey." I didn't say any of this last you said—didn't mean anything of that sort.

THE CHAIRMAN. You can make your explanation, Mr. Roberts, and I am sure Mr. Gesell will be glad for you to make it.

MR. GESELL. Go ahead, Mr. Roberts, and say anything you have to say.

THE CHAIRMAN. Have you finished your question?

MR. GESELL. Not at all.

MR. ROBERTS. It wasn't circuitous; it was very easily traced.

MR. GESELL. I want to trace it with you. After Monumental had purchased these securities and written off the \$100,000 of the debt, it was agreed that it would settle the remainder for fifty-odd-thousand dollars?

MR. ROBERTS. Yes.

MR. GESELL. Land Mortgages was to pay Monumental fifty-thousand-and-some-odd dollars; it didn't have the money, is that correct?

MR. ROBERTS. No, sir; it did not.

MR. GESELL. So it took the collateral which was released by Monumental and pledged it with Consolidation in return for a loan by Consolidation of \$50,000 to Land Mortgages, which Land Mortgages was to pay to Monumental?

MR. ROBERTS. Correct.

MR. GESELL. Now Consolidation didn't have that money, either?

MR. ROBERTS. Oh, yes; Consolidation shows a statement today of around \$150,000.

MR. GESELL. What did Consolidation do with the collateral?

MR. ROBERTS. Consolidation Company? I will answer your question, and I think we will get along a little faster, if you will just let me answer it my way. The Monumental Life Insurance Co., by virtue of its character, is not equipped or permitted even by law to go into the development business.

THE VICE CHAIRMAN. That is the State law of Maryland?

MR. ROBERTS. It is either that or it is a result of supervision by the insurance department. The insurance company has—you will admit, I think, that an insurance company has no business going into the land development. We had made during the life of this agreement, when it was first entered into, through the Consolidation Co., a proposition to develop certain of the unimproved land that was in the Land Mortgage loan; it was considered very carefully and decided that it wasn't the province of the insurance company to invest good money in a speculative realty-development proposition.

We, therefore, endeavored to find some way to liquidate these various properties and pay the loans to Monumental that would result in the smallest possible loss, if any, to the insurance company.

Well, 4 years' experience in endeavoring to do that was just fruitless. The Land Mortgages Co. had no money, and it would have been, I think, from my viewpoint, a foolish or unwise thing to have put good cash into an already bankrupt company, so the Consolidation Co. was organized purposely for the purpose of taking over, if we could, from Land Mortgages, undeveloped lands, and through the operation of that company by a very skilled young man who is operating this company, who has been trained in the real-estate business

and developing business, who manages this company almost exclusively, and in which he has the other part of the stock control.

The Consolidation Co., therefore, when these agreements were consummated, and particularly the last one, started in to develop with its own capital some of these unimproved plans; and by the use of Federal Housing Administration plans, and things of that kind, we have disposed of certain portions of these lands.

Now that was not something that the insurance company could do. We had discussed quite at length the losses that had been taken by insurance companies in their real-estate operations through mortgages, and if you will look at the records, you gentlemen know that the insurance companies all over the United States have charged off, not hundreds of thousands but hundreds of millions of dollars in mortgage loans.

Mr. GESELL. Now, may I appeal to the committee. I have asked Mr. Roberts whether the Consolidation took the collateral out of Land Mortgages and pledged it with the insurance company with a \$50,000 loan, and we have had an explanation that goes way beyond that point.

Mr. ROBERTS. I said, "yes."

The CHAIRMAN. He is entitled to an explanation. All right, go ahead with the next question.

Mr. GESELL. The result was, then, that the same collateral which was released by Monumental to Land Mortgages was pledged by Land Mortgages with Consolidation, and pledged by Consolidation back to Land Mortgages, in each case for a loan of \$50,000, which was made by Monumental to Consolidation, by Consolidation to Land Mortgages, and by Land Mortgages to Monumental to pay off the debt that Monumental had with Land Mortgages.

Mr. ROBERTS. With the very obvious result that the Consolidation Co. as the mortgagor was the solvent company with some hundred thousand dollars in its assets, where the Land Mortgages had none, and the real estate involved in the transaction was worth at least 50 to 75 percent, I should say, if it could be liquidated, beyond the amount of the mortgage.

Mr. GESELL. Yes; in other words, this collateral which had been released and went around this ring was worth more than \$50,000, was it not?

Mr. ROBERTS. It is to the Consolidation Co., from the standpoint of a development company.

Mr. GESELL. I noticed in these minutes that the grand total of the real estate and the mortgages is shown to have a valuation of \$148,625.

Mr. ROBERTS. Let me answer that my way, too, please.

The CHAIRMAN. Answer the question directly, and then explain. That is the procedure. When he asks you a direct question, answer "Yes" or "No" and then explain.

Mr. ROBERTS. They are the assessed valuations. That assessment was made on those properties by the income-tax department in an adjustment of the tax problems of the Consolidation Co. and the Land Mortgages. I want to point out right here that it would be a physical impossibility and an absolute impossibility to liquidate those properties at the assessed valuation.

Mr. GESELL. It doesn't say anything about assessed valuation here, Mr. Roberts. It says [reading from "Exhibit No. 965"]:

The specific items of collateral to be covered by this mortgage with their respective released values are as follows:

This is a released valuation which is placed against this collateral, this figure of \$148,625. What happened as a result of this transaction was that the indebtedness of Land Mortgages to Monumental was released and taken off the book by a transaction whereby the company, first of all, purchased securities at a value in excess of their then present market value, subject to your agreement to take them 2 years later, whereby they released collateral valued at \$148,000 against a \$50,000 claim, and whereby they wrote off a loan of \$100,000.

Mr. ROBERTS. That is right.

Mr. GESELL. Well now, that was a rather favorable transaction, from the point of view of you gentlemen interested in the real-estate business, from these various real-estate companies, wasn't it?

Mr. ROBERTS. I would like you to put the same proposition to an outsider and see what answer you would get on it. You couldn't possibly have worked it out.

The CHAIRMAN. Mr. Roberts, as I said a few minutes ago, when Mr. Gesell asks you a question, please answer it "Yes" or "No" and then make your explanation of it.

Mr. ROBERTS. I would say "No," and the other answer is time only will tell.

Mr. GESELL. Now I want to call your attention to a portion of the minutes of the Consolidation Co., Mr. Roberts. We are looking for those minutes and I will come back to that.

I would like to offer at this time a copy of the meeting of the directors of the Monumental Life Insurance Co. held April 6, 1939, which describes the transaction in detail.

(The minutes referred to were marked "Exhibit No. 965" and are included in the appendix on p. 6197.)

Mr. O'CONNELL. Mr. Roberts, who were on the executive committee referred to in these minutes at the time this meeting was held?

Mr. ROBERTS. The executive committee of which company? Oh, they are the Monumental minutes that you are reading.

Mr. O'CONNELL. Yes.

Mr. ROBERTS. The executive committee of the Monumental was composed of Mr. Mears, Mr. Emmons—no, not Mr. Emmons—Dr. Vinup, Mr. Stewart Clifford, and Mr. Tormey, and Mr. Burnett.

Mr. O'CONNELL. Is that the same executive committee that was referred to previously as having been appointed to control the situation?

Mr. ROBERTS. No; the executive committee that was appointed, that was the Land Mortgages, that executive committee was appointed to try to clear up the affairs of the Land Mortgages.

Mr. O'CONNELL. The executive committee referred to in these minutes is not the same?

Mr. ROBERTS. Oh, no.

Mr. GESELL. That, I believe, was a special committee formulated for the purpose of liquidating this indebtedness.

Mr. ROBERTS. That is correct.

Mr. O'CONNELL. This plan was worked out by which executive committee?

Mr. ROBERTS. By the executive committee of the Monumental Life in collaboration with the Land Mortgages.

Mr. O'CONNELL. Executive committee?

Mr. ROBERTS. Yes.

Mr. O'CONNELL. What was the membership of the executive committee of the Land Mortgages Co. at that time?

Mr. ROBERTS. I think Mr. Fenton—you have that, Mr. Gesell, will you refresh my memory, please?

Mr. GESELL. The executive committee of the Land Mortgages Co.: Mr. Roberts, Mr. Mears, Mr. Fenton, and Mr. Emmons were on the executive committee as constituted June 25, 1939. I don't think there have been any changes in the committee from that time, Mr. Roberts, you got off at first and then came back on again in '35.

Mr. ROBERTS. That is right.

Mr. GESELL. Coming to the minutes, Mr. Roberts, that I was looking for, I believe you stated you didn't think it was to the advantage of the Consolidation Co., this transaction.

Mr. ROBERTS. I said time will only tell.

Mr. O'CONNELL. I understood you to say "No," in direct answer to the question, Mr. Roberts. Didn't you say the answer to the question directly was "No," and your comment on it was "only time will tell."

Mr. ROBERTS. Yes, sir; I did.

Mr. O'CONNELL. Well, you did say it was not a favorable transaction from the point of view of Consolidation. Isn't that correct?

Mr. ROBERTS. That is a correct answer if you want to look at it in the abstract. There are other sides to it.

Mr. GESELL. Then I would like to call this directly to your attention. The minutes of the meeting of the board of directors of Consolidation Co., Inc., held on May 23, 1938, at which you were shown to be present, contain the following statement with respect to this transaction—

It was obviously to the advantage of this company to persuade remaining assets from Land Mortgages and repledge them with Monumental to secure the loan aforesaid.

That is rather in direct opposition to your testimony.

Mr. ROBERTS. That may be true and that would be in making the transaction and in order to straighten out and clear up the whole matter, was probably considered by the company that the prospect of the new money and the ability to develop it would be an advantageous transaction. That is probably true.

Mr. O'CONNELL. Which is true in your opinion? You have now said it was to the advantage and it was not to the advantage.

Mr. ROBERTS. I would answer to the individual, if I were not associated with the various interests I wouldn't have been interested. Now my connection—well, it would have to have been with somebody who had a sincere interest in not only the Consolidation Co. coming in at the time it did, but with the interests of the Monumental Life Insurance Co. to endeavor, as far as possible, to insure it against any loss.

Mr. O'CONNELL. Rather a difficult position to be in when you are representing three or four interests at one transaction.

Mr. ROBERTS. It is strange to try to explain all your transactions and your motives.

Mr. O'CONNELL. Isn't it rather difficult to properly represent all the varied interests that are involved in such a transaction?

Mr. ROBERTS. Well, Mr. O'Connell, it is a difficult thing to divorce your own selfish interests every time from every transaction.

Mr. O'CONNELL. Well, one way of doing it is not to be on both sides of the transaction.

Mr. ROBERTS. Well, service is a beautiful thing.

Mr. O'CONNELL. That is one way to determine what to do in the future, isn't it?

Mr. ROBERTS. Absolutely, I agree with you. I didn't want to refer to the method by which I acquired control of the Land Mortgages, but I called out every one of those stockholders by giving them good stock.

Mr. O'CONNELL. Would you care to clarify the record as to whether you think, in answering "yes" or "no," whether this transaction was to the advantage of the Consolidation Co. You have said both, actually.

Mr. ROBERTS. The only way I could clear it up is by saying I hope it will be.

Mr. O'CONNELL. So you now don't know?

Mr. ROBERTS. I am in a dilemma.

Mr. O'CONNELL. We have all the possible answers anyway: You think it was an advantage; you don't think it was an advantage; and you don't know.

Mr. GESELL. I have no further questions.

The CHAIRMAN. Very well.

Mr. GESELL. Mr. Rock, please.

(Witness excused.)

The CHAIRMAN. Do you solemnly swear that the evidence you are about to give before the committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ROCK. I do.

TESTIMONY OF LEO P. ROCK, PRESIDENT, MONUMENTAL LIFE INSURANCE CO., BALTIMORE, MD.

Mr. GESELL. What is your full name, please?

Mr. ROCK. Leo P. Rock.

Mr. GESELL. Are you president of the Monumental Life Insurance Co.?

Mr. ROCK. I am, sir.

Mr. GESELL. How long have you been with the company?

Mr. ROCK. Ever since June 1, 1921.

Mr. GESELL. How long have you been president?

Mr. ROCK. Since June 1, 1936.

Mr. GESELL. Prior to this time had you been an agent for the company and also a manager and assistant manager?

Mr. ROCK. Agent in '21, assistant manager in '22, manager from 1923 until the time I came into the home office.

Mr. GESELL. Has your experience been mostly in the industrial insurance field?

Mr. ROCK. Not entirely, no, sir; both industrial and ordinary.

Mr. GESELL. Do you think your experience is exactly equal or would you say you are primarily an industrial insurance man?

Mr. ROCK. I would say I have as much experience with one as the other.

Mr. GESELL. Mr. Rock, did you have any knowledge of the fact that the annual statements of your company failed to disclose these loans to officers and directors and stockholders?

Mr. ROCK. No, sir; as a matter of fact, my first experience in signing an annual statement would have been December 31, 1936.

Mr. GESELL. Well, did you have any knowledge of it since the time that you have been signing it?

Mr. ROCK. My knowledge of these various transactions really began with the inquiry that is being developed.

Mr. GESELL. What is your salary Mr. Rock?

Mr. ROCK. Twenty-two thousand.

Mr. GESELL. Can you tell us Mr. Emmons' salary?

Mr. ROCK. I believe \$8,000.

Mr. GESELL. Can you tell us Mr. Mears' salary?

Mr. ROCK. He received no salary; he is not an officer.

Mr. GESELL. Simply a director at a fee of nominal amount?

Mr. ROCK. Whatever they may pay.

Mr. GESELL. Did Mr. Roberts receive a salary?

Mr. ROCK. Yes, sir.

Mr. GESELL. What amount?

Mr. ROCK. I believe \$7,500.

INSURANCE OPERATIONS

Mr. GESELL. How much industrial insurance has your company in force at the present time?

Mr. ROCK. Approximately \$230,000,000.

Mr. GESELL. How many industrial insurance policies has it outstanding?

Mr. ROCK. Approximately 800,000.

Mr. GESELL. So there are about 800,000 policies. Have you any idea how many policyholders?

Mr. ROCK. I couldn't answer that.

Mr. GESELL. Your records don't show that?

Mr. ROCK. They would show that but I can't answer it offhand.

Mr. GESELL. Would it be perhaps a just estimate to say that there were probably 500,000 industrial policyholders?

Mr. ROCK. I would say there are more than that, because from the standpoint of our growth, being a comparatively young company, we would not have the ratio of policies on lives that some of the older companies would have.

Mr. GESELL. How do those figures on your industrial business compare with your ordinary business?

Mr. ROCK. We have approximately \$70,000,000 of ordinary.

Mr. GESELL. So in terms of insurance in force you are primarily an industrial company.

Mr. ROCK. Our ratio evidences that.

Mr. GESELL. The same would be true with respect to policyholders, would it not?

Mr. ROCK. Yes.

Mr. GESELL. Now how many different types of industrial insurance do you sell?

Mr. ROCK. Well, we sell all of the types, we sell ordinary life, 20-pay life, we referred to 15-pay life, some endowment insurance.

Mr. GESELL. All the standard forms?

Mr. ROCK. All of the standard forms.

Mr. GESELL. Have you any idea of how your business breaks up as between those forms?

Mr. ROCK. Yes.

Mr. GESELL. What percentage of your business is endowment business?

Mr. ROCK. About 12 percent.

Mr. GESELL. And what percentage would you say was straight life?

Mr. ROCK. Fifty-one or fifty-two.

Mr. GESELL. Have you any idea what the average policy of your company is?

Mr. ROCK. Two-hundred-sixty-some-odd dollars.

Mr. GESELL. How many agents has your company?

Mr. ROCK. Today, 865.

Mr. GESELL. The agents sell both ordinary and industrial?

Mr. ROCK. Yes, sir.

Mr. GESELL. I take it they have debits assigned to them to make weekly collections just the way all industrial companies operate?

Mr. ROCK. Yes, sir.

Mr. GESELL. Have you any provision for the payment of premiums directly to the home office or branch office at a discount?

Mr. ROCK. Yes, sir.

Mr. GESELL. What percentage of your business is handled that way?

Mr. ROCK. I would simply be hazarding an opinion; I would say not very much.

Mr. GESELL. Would it be your estimate that it would be substantially less than 10 percent?

Mr. ROCK. I would say so.

Mr. GESELL. Around about two or three?

Mr. ROCK. Can't we leave it, say, 10?

Mr. GESELL. It is less than that.

Mr. ROCK. Probably so; I wouldn't know.

Mr. GESELL. How many branch offices have you?

Mr. ROCK. Fifty-six.

Mr. GESELL. How do you pay your salesmen? Do you pay them a salary or do you pay them a commission, or do you pay them a combination of both?

Mr. ROCK. Our salesmen are compensated entirely on a commission basis, a commission on industrial renewal premiums; that is, the actual collection of renewal premiums due and commissions on increases they make in the premiums in force in their territory.

Mr. GESELL. Are they penalized for lapse?

Mr. ROCK. Well, you say "penalized"—I might say that the factor of increase is a combination between business written and business canceled.

Mr. GESELL. There is no specific provision with respect to persistency of business in the contracts?

Mr. ROCK. Oh, definitely, because a man who is capable and does actually preserve his business, of necessity, does not find it necessary to produce as much volume of new business in order to get satisfactory compensation.

Mr. GESELL. I think we understand that. By the way, on this question of being able to get reduced premiums by paying directly to the office, is there any statement to that effect in the policy?

Mr. ROCK. I might say that that provision is not in our policy contract as of today. The provision, though, that you referred to in policies that have that privilege is definitely stated in the policy.

Mr. GESELL. So at the present time there is no such privilege to the policyholders who are now coming into the company.

Mr. ROCK. No, sir.

Mr. GESELL. Do you have contests for your salesmen?

Mr. ROCK. Yes, sir.

Mr. GESELL. Do you pay them bonuses?

Mr. ROCK. Yes, sir.

Mr. GESELL. For business written?

Mr. ROCK. Yes.

Mr. GESELL. How do those bonuses run?

Mr. ROCK. Well, on the basis, we will say, of an ordinary company, naturally a man who produces \$20,000 a year is more of an asset to your company than a man who submits an application occasionally.

Mr. GESELL. I want to know the amount of the volume.

Mr. ROCK. It would be on the industrial, something of a 6-percent increase over and above the regular tabulated commissions.

Mr. GESELL. You mean they get a cash bonus based upon the amount of increase?

Mr. ROCK. Yes, sir; provided they attain certain objectives.

Mr. GESELL. Tell me, how do you train your agents?

Mr. ROCK. Well, we tried any number of methods. That is a source of concern.

Mr. GESELL. How do you train them now?

Mr. ROCK. How do we train them now? When an agent receives his appointment we have a manual of instruction for agents and he is asked to read it through and he is interrogated upon it. We have a series of 13 educational meetings where everything pertaining to life insurance, industrial, ordinary, and service to policyholders and everything else that we can conceive of is brought into one of these 13 instructive sessions; they last for maybe an hour or an hour and a half. The newer men coming into the organization are expected to attend these meetings of instruction.

Mr. GESELL. I take it the agents are out on the debit before this course is over. They go to work immediately, don't they?

Mr. ROCK. We tried it another way. We tried bringing the—

Mr. GESELL (interposing). Mr. Rock, we are talking about the present practices of the company.

Mr. ROCK. Now, yes. Pardon me, an agent of ours goes out on the debit, yes, that is true, but accompanied by an assistant manager for a period of 2 weeks, so really definitely the agent is not on his own until that 2 weeks period has elapsed, and it is our endeavor

to cram and push as much knowledge of the business as we can into the man in that brief interval of time.

Mr. GESELL. Let me ask you this: How much does it cost you to train a man and get him to work?

Mr. ROCK. If I were to give you a figure it would be simply a figment of the imagination.

Mr. GESELL. You mean to say your company hasn't made any studies of that kind?

Mr. ROCK. There are so many factors that are involved.

Mr. GESELL. What is the answer? Have you made the studies or haven't you?

Mr. ROCK. We can find no acceptable basis on which you can give an authoritative figure.

Mr. GESELL. So you haven't made the study.

Mr. ROCK. Because there are so many factors involved.

Mr. GESELL. Let me explain our procedure, Mr. Rock. I want to know whether or not you, your company, has studies showing the costs of training an agent. Now if the fact is known I think if you tell me that and explain why we will move along a little faster.

Mr. ROCK. Certainly. No.

Mr. GESELL. Why not?

Mr. ROCK. For the reason that there are so many factors involved. It is not alone the time of the manager interviewing the man, the time of the home office approving him, the time of the assistant manager instructing him, that is not so much of importance, but it is the fact that you do make changes on your territory, the fact that your policyholders don't like changes, the fact that there is occasional loss of business because of the change, different personality of the agent involved—it would be so hard to put any accurate estimate on it.

Mr. GESELL. What is your estimate of what it costs?

Mr. ROCK. I have heard estimates of anywhere from two to four hundred dollars. One might be equally as right as the other.

Mr. GESELL. What kind of turn-over do you have among your agents?

Mr. ROCK. We are experiencing—I will leave this to you—our turn-over this year has averaged us with a field personnel of 1,100 men, an average turn-over of 7 per week.

Mr. GESELL. You mean you have to take on seven new men a week?

Mr. ROCK. We have to replace seven men per week.

Mr. GESELL. That means that by the time the year has run around, how many of the agents who were with the company at the beginning are with the company at the end?

Mr. ROCK. You see again that is difficult to answer because I say we have a turn-over of seven per week; it might be that a man that would be replaced in January would again be replaced in April or again in September, so from the standpoint of how many out of a given number of agents you have at the end of the year—

Mr. GESELL (interposing). I can see that.

Mr. ROCK. In other words, put it this way. Here is an office with a personnel of, say, 36 men. We have had 1 change in that office this year, but again we may wind up the year with 3 changes, but they may all be on the same territory and the other 35 men still be with us.

Mr. GESELL. Conceivably all of these men could refill one place.

Mr. ROCK. Right.

Mr. GESELL. Let's get at it this way. How many agents have you now?

Mr. ROCK. Eight hundred and sixty-five.

Mr. GESELL. How many of those would you say have been with the company 3 years?

Mr. ROCK. I can't answer that except in this way. From the standpoint of your determining what the turnover is in the industrial business, I might say that our managers' average length of service is 11 years, our assistant managers' 6 years, and the average length of service of the agents about 4 years. That is the average. To answer your question specifically as to how many of our agents that are with us now were with us on January 1, I couldn't do it at this moment.

Mr. GESELL. Could you prepare for us a statement showing how many of your agents have been with the company over 1 year, how many over 2, how many over 3, and so on?¹

Mr. ROCK. I would be very happy to.

Mr. GESELL. I want to discuss with you, Mr. Rock, some of the cash and stock dividends that have been declared by the company. Am I correct in saying that there was a paid-in capital of \$500,000 and a paid-in surplus of \$50,000 or a total paid-in at the beginning of the company's operations following conversion, of \$550,000?

Mr. ROCK. That is my understanding.

Mr. GESELL. Am I correct in saying that the surplus was then somewhere in the \$600,000 figure?

Mr. ROCK. That is true.

Mr. GESELL. The surplus now is over two and a half million?

Mr. ROCK. No; about two million one.

Mr. GESELL. The company has had stock dividends totaling \$1,500,000.

Mr. ROCK. Yes.

Mr. GESELL. And it has had cash dividends amounting to \$1,830,000.

Mr. ROCK. I understand that is correct.

Mr. GESELL. I should like to offer for the record at this time a statement prepared by the Monumental Life Insurance Co. entitled "Record of Dividends Paid on Monumental Life Insurance Stock," which shows the various dates of the stock and cash dividends and the amounts.

The CHAIRMAN. It may be received.

(The statement referred to was marked "Exhibit No. 966" and is included in the appendix on p. 6199.)

Mr. GESELL. Can you tell us, Mr. Rock, what the source of the company's profit is? How it makes this money?

Mr. ROCK. Yes; I might say there are three chief sources of profit. One is, of course, investment return over and above your reserve basis, which, of course, we don't get these days. The next is savings in your mortality, and a third, I would say, comes from operating profit; in other words, operating on a better basis than would normally be expected.

¹ Subsequently furnished by Monumental. Entered infra, p. 6089, as "Exhibit No. 1072." See appendix, p. 6338.

Mr. GESELL. I think maybe there are one or two other possible sources there.

Mr. ROCK. To carry it through, profit, we know, on terminations.

Mr. GESELL. Let's take the gain-and-loss exhibit as our basis. The company could have had gains or losses from loading, could it not?

Mr. ROCK. Right.

Mr. GESELL. In other words, if in computing its premiums it had made allowance for expense money in excess of what had to be paid, there would have been a saving or a gain there, and vice versa a loss.

Mr. ROCK. That is true.

Mr. GESELL. Now, your company never had gains from loading.

Mr. ROCK. It is my understanding that none of them do.

Mr. GESELL. Let's stick to the Monumental.

Mr. ROCK. No; we didn't.

Mr. GESELL. Also, there could be earnings from interest in excess of the contract amount, could there not?

Mr. ROCK. Yes, sir.

Mr. GESELL. It is true, is it not, that since 1934 your company has not earned its contract interest rate?

Mr. ROCK. Yes, sir.

Mr. GESELL. Is it true that from 1934 to '38 it has failed to earn the contract interest rate by \$1,228,000?

Mr. ROCK. That figure is probably substantially correct.

Mr. GESELL. Then, it hasn't made any money from loading and it hasn't made any money from interest.

Mr. ROCK. You mean from investment return.

Mr. GESELL. Two things so far. The company has made substantial gains from mortality, has it not?

Mr. ROCK. Yes, sir.

Mr. GESELL. Do you think I am correct if I say that from 1929 to 1938 the gains from mortality amounted to \$7,084,669?

Mr. ROCK. I couldn't answer that, Mr. Gesell; from that standpoint it would be preferable, I should think, that that question be directed to the secretary, who is more familiar with that.

Mr. GESELL. Is that your best judgment?

Mr. ROCK. I have never heard the figure.

Mr. GESELL. Would you consult Mr. Loweree? Mr. Loweree, how about it?

Mr. LOWEREE. What was the period?

Mr. GESELL. '29 to '38.

Mr. LOWEREE. I have a statement here for '28.

Mr. GESELL. Tell us what it has been for '28.

Mr. ROCK. '28 through '38 the statements show a profit, as you say, or a gain of mortality, \$7,439,944.

Mr. GESELL. In the period from 1929 to '38 or '28 to '38, whatever your figures show, can you tell us what the gain has been from surrenders and lapses?

Mr. ROCK. \$6,988,036.

Mr. GESELL. Six million, nine hundred and eighty thousand-odd dollars?

Mr. ROCK. Yes.

Mr. GESELL. That is gains from lapses and surrenders?

Mr. ROCK. Yes, sir. May I be permitted to explain that? This gain shown in your loss-and-gain exhibit on profit on terminations;

it is true that on some business that terminates you lose money; it is equally true that on other business due to your surrender charge at \$25 per thousand, you do show a profit, but on the other hand a factor that has never been worked into this gain-and-loss exhibit from the standpoint of profit on terminations that properly has a place there, we must take into consideration the fact that if we do lose a dollar of premium, even though we may make a gain, as a result of that loss, we then must spend money in acquisition costs to put that business back or replace it on our books. Those factors are never taken into consideration in these figures.

Mr. GESELL. You mean by that that—

Mr. ROCK. I mean if we deducted from this \$6,980,000 that you show from gains from lapses and surrenders, our acquisition costs over this same period of years, there would be no such fictitious figure of gain from terminations as is shown here.

Mr. GESELL. Well, yes; in other words, that the company, if it takes into account the amount of money it spent to get the business, may not have actually made a net gain or profit.

Mr. ROCK. It might be the other way around.

Mr. GESELL. On the other hand, as far as John Q. Public or the policyholder is concerned, he has lost that \$6,000,000, hasn't he?

Mr. ROCK. I can't conceive of that, either.

Mr. GESELL. Why not?

Mr. ROCK. For the simple reason he has received protection.

Mr. GESELL. He has paid on a level-premium plan, hasn't he, in excess of the costs of that protection?

Mr. ROCK. Yes. You say, "Has the loss been entirely John Q. Public's?"

I say, "No."

Mr. GESELL. Well, in computing your operating expenses you take out what the cost of protection has been, and this six-million-odd-thousand-dollar figure represents, does it not, the excessive payments by policyholders in excess of what it would cost them for protection alone.

Mr. ROCK. May I say this, Mr. Gesell: Primarily, I am an operating man. When you get me on discussions that properly or more properly should be discussed by actuaries, I am in over my head.

Mr. GESELL. Very well, Mr. Rock. I am interested in bringing this up with you not so much because of the technical actuarial problem, but you have mentioned one factor involved in this thing, acquisition costs as a proposition of operations.

Mr. ROCK. Yes, sir.

Mr. GESELL. And we are also mentioning lapse, which has to do with the whole sales end of the business in the kind of business you run. That is what I want to talk to you about. Your company has had a pretty high lapse rate, hasn't it?

Mr. ROCK. Not in recent years.

Mr. GESELL. Will you tell us what your experience has been?

Mr. ROCK. Our lapses for the last several years, that is on a weekly basis, have been, that is net lapse, your lapse less revivals, has been somewhere around four-tenths of 1 percent weekly.

Mr. GESELL. Let me get at figures I can understand. Of the business you write during the year, how much of that business is in force at the end of the year?

Mr. ROCK. Your investigators are perhaps familiar with this fact, that we, together with one other industrial company, operate an inspection department. In that department, its function, are salaried home-office men who have no interest whatsoever in whether a piece of business is passed or rejected. Without criticising operations, I think we are all agreed that where the man goes out on the street, and where his own commissions, his own direct remuneration, is involved, he perhaps is not going to be as careful as to the quality of the business he submits because after all he is personally involved in the matter of his earnings. With our situation, with our set-up, our agent is simply an order taker. He has absolutely nothing to say as to whether the company will put that business on its books or not. Now in 1932 when we originated the idea of the inspection department, out of every dollar we issued that year we had 34 cents on our books paying business at the end of the year, which experience is not good.

Mr. GESELL. What was that experience again?

Mr. ROCK. Thirty-four cents out of each dollar stayed on our books as paying business.

Mr. GESELL. Well, yes. Then, in other words—

Mr. ROCK (interposing). Then it progressively improved; in 1934 it was 56; 1935, 59; 1936, 62; 1937, 61; and 1938, 64.9, or practically 65 cents out of each dollar issued throughout the year was still paying business at the end of the year.

Mr. GESELL. Taking it another way, about a third of the business you write during the year was not in force on the books at the end of the year?

Mr. ROCK. Sixty-five; yes, sir.

Mr. GESELL. That is a correct statement?

Mr. ROCK. That is correct.

Mr. GESELL. Well, now, taking the figures back over a period of years, do you recognize this schedule which I show you as a schedule showing the experience of your company with respect to the number of policies in force now at the date of issue?

Mr. ROCK. This is the first time I have seen this particular statement.

Mr. GESELL. You recognize your actuary's signature on the foot?

Mr. ROCK. Oh, yes. Mr. Gesell, there is no contention other than the statement, but don't you believe—

Mr. GESELL (interposing). Just a minute. I would like you to explain it, but I would like to first offer it for the record. I would like to offer a schedule entitled "Monumental Life Insurance Co. Industrial Insurance in Force December 31, 1938" for the record.

The CHAIRMAN. It will be received in evidence.

(The schedule referred to was marked "Exhibit No. 967" and is included in the appendix on p. 6199.)

Mr. GESELL. That schedule in a general way indicates, does it not, Mr. Rock, that the persistency of the business is of pretty short duration?

Mr. ROCK. It would.

Mr. GESELL. Now, if you put that fact alongside the fact that there are very substantial gains running into the millions of dollars from lapses and surrenders, it occurs to me that possibly in the operating end of the business, with which you are familiar, there may be some

mistakes from the underwriting point of view. Isn't it possible your company is writing too much business?

Mr. ROCK. From the underwriting point of view?

Mr. GESELL. From the point of view of selling insurance, isn't it possible your company is selling insurance too hard and too fast to get the kind of quality of business that you want?

Or do you think it is inherent in the business that policies should have this short duration?

Mr. ROCK. I have noted both your questions and may I be permitted to say this, that I believe the comparisons you have drawn or will draw with industrial insurance, pertaining to the industry as a whole—I think it is all very fresh in our memories, the years of 1929 through 1933 and 1934 which affected the working classes which Industrial serves, and I think that any comparison of figures embracing those years and using those years is not fair to the business.

Mr. GESELL. We have, Mr. Rock, in previous hearings presented statistical material showing the termination experience of all industrial companies over a period of 20 or 30 years; those facts are before the committee. It still is true that there is—it seems to be the experience of your company's policyholders that they remain with the company for a very short period of time, a few years?

Mr. ROCK. I wouldn't say that for the reasons that I have advanced.

Mr. GESELL. Well, if we take any of the figures contained on "Exhibit No. 967," which was introduced, it would indicate that the great bulk of your business has been written and came on the books within the last 3 or 4 or 5 years, and that if you look back where business has been in force for 10 or 15 years you find a very small proportion of business, looking at the premium paying of policies in '38. That is true, isn't it?

Mr. ROCK. Yes; however, it shows a pretty fair ratio as far back as, well, we will say, '31, '32, and throughout those years.

Mr. GESELL. Of course, we have to take into account the fact that your company has been growing rapidly and that it hasn't been selling the same number of policies each year; it has been selling more in recent years.

Mr. ROCK. I think it is fair of you to say that. May I add this? Please believe me when I say that we don't believe that we are perfect, by any means. This problem of improving on persistency in conserving our business below the number is one of the most serious problems that we have to contend with. If this investigation throws any light upon any plan or objective where our experience, as well as others', can be improved, we will be very happy to recognize that factor, just as we have in our own way through the inspection department and through other safeguards tried to do all we could to improve it.

Mr. GESELL. Let me suggest one thing to you, then—we must close quickly—isn't it conducive to lapse to pay your agents bonuses for increase?

Mr. ROCK. I would say not. May I add to that that I think we all work better when we receive a little encouragement? At least I know I do.

Mr. GESELL. Well, now if the committee please I would like to offer for the record a schedule which has been prepared by the staff

of the Commission from the annual statements of the Monumental Life Insurance Co. for the years 1929 to '38, showing the number of policies issued, lapsed, and surrendered, and in force for both the industrial and ordinary departments of the company. That is offered again subject to any corrections in accordance with the procedure of the committee.

The CHAIRMAN. It will be received in evidence.

(The schedule referred to was marked "Exhibit No. 968" and is included in the appendix on p. 6200.)

Mr. GESELL. Well, now I still want to get the specific answer to my original question, Mr. Rock, and that is where does the company make its money when we run down this gain and loss exhibit? It looks as though it makes it in two principal places, mortality and gains from lapse and surrender. Is that correct?

Mr. ROCK. According to the statement, yes, sir.

Mr. GESELL. The gains from mortality are the result of charging premiums on the basis of a mortality table which doesn't appear to fit the experience of your company?

Mr. ROCK. Mr. Gesell, mortality tables, when you come right down to it, have no bearing on mortality savings for the reason that it is a matter of selection.

Mr. GESELL. Entirely?

Mr. ROCK. I would say so. It has been my experience. In other words, if selection were not involved, if you operated on a lax underwriting policy, and you insured men or women with grave—or physically incapacitated, you could run in excess of your mortality tables and on the other hand it has always been conceded and accepted practice that there would be mortality savings in any company that runs in the 70's, high 70's or above the 80's on mortality, is in danger.

Mr. GESELL. We do have this big difference, though, don't we, that if there are savings of the type you mention or gains from mortality, in a stock company they go to the stockholders if there are gains of that character; in a mutual company they go back to the policyholders?

Mr. ROCK. In both instances they go to surplus.

Mr. GESELL. That is just quibbling on the end result, isn't it?

Mr. ROCK. It is not quibbling; they go to surplus.

Mr. GESELL. Where does the surplus go?

Mr. ROCK. Dividends come from surplus, either to stockholders or policyholders.

Mr. GESELL. That was the point I had in mind. I haven't any further questions.

Mr. O'CONNELL. I should like to ask, Mr. Gesell. A little earlier in the hearing reference was made to some entries on the annual reports of the Monumental Insurance Co. to the State insurance commissioner relative to loans from the Monumental Insurance Co. to the Real Estate Trust Co.¹ Did you intend to develop that further through the officers of the Monumental? Someone, I understood, was going to give you some information on that, but from the point of view of the Real Estate Trust Co. I thought those entries did appear in the annual reports the Monumental Insurance Co. made

¹ *Supra*, p. 5708.

to that company. Who signed the reports? The reports, as I understand it, indicated a loan or series of loans from the Monumental Insurance Co. to the Real Estate Trust Co.

Mr. GESELL. I think those reports were not signed by Mr. Rock, however, because they involved loans made before he became president of the company.

Mr. GORDON. Didn't you ask just to get our statement on that?

Mr. O'CONNELL. I understood Mr. Roberts knew nothing about the transaction insofar as the Monumental Insurance Co. was concerned, but rather from the point of view of the Real Estate Trust Co. I merely wanted to know if you intended to develop that?

Mr. GESELL. I did not, but I think it might be well.

Mr. O'CONNELL. Well—

Mr. LOWEREE (interposing). I possibly can explain that. At that time the company was lending money on call and probably the check in these particular loans was made to the Real Estate Trust Co. which in turn would pass it on to New York and secure the collateral, and I have a letter from the Real Estate Trust Co. dated in 1928 where they said that they were acting as an agent. Now, this is the first time that I have ever seen that letter.

Mr. O'CONNELL. You were the one that made the entries in the reports that went to the insurance commission; is that correct?

Mr. LOWEREE. No, sir; not at that time.

Mr. GESELL. What years were they?

Mr. ROCK. 1928, 1929, 1930, and 1931.

Mr. GESELL. I think it was in the earlier years.

Mr. O'CONNELL. If you were not the person in the situation, there is no reason to make an attempt to explain it.

Mr. GESELL. Can't we ask that the statement from Mr. Roberts include a full explanation from the point of view of the insurance company as well as the real-estate company?¹

Mr. ROBERTS. We will do that. They were call loans, Mr. Gesell.

Mr. GESELL. At this time I would like to offer for the record a schedule which has been prepared by the staff of the Commission from the register and the records of cash dividends of the Monumental Life Insurance Co., showing the aggregate cash dividends paid to certain stockholders of the company since the organization of the company on February 6, 1928. This material is based upon the capital stock ledger sheets of the company using information which is already in the record and it is offered subject to check.

The CHAIRMAN. This will be received in evidence.

(The schedule referred to was marked "Exhibit No. 969" and is included in the appendix on p. 6201.)

Mr. GESELL. In order that the supporting data may be all with the committee, I should like to offer, though not for printing, the stock ledger sheets themselves, to be filed with the committee.

(The data referred to were marked "Exhibit No. 970" and are on file with the committee.)

The CHAIRMAN. Photostats?

Mr. GESELL. Yes.

The CHAIRMAN. It will be received in evidence.

¹ See "Exhibit No. 1128" which was entered in the record on September 22, 1939, and appears in the appendix on p. 6357.

Mr. GESELL. I should like also at this time to submit a schedule which has been prepared at the suggestion of Chairman Ferguson, showing the par value and the number of shares outstanding of the 44 stock companies selling industrial insurance which were discussed on the first day of these hearings.

The CHAIRMAN. They will be received in evidence and inserted in the record.

(The schedule referred to was marked "Exhibit No. 971" and is included in the appendix on p. 6202.)

Mr. GESELL. There are no further witnesses to be called today and this concludes any testimony which we wish to present from the gentlemen who are here under subpoena, and as far as the Commission is concerned, they may be excused.

Mr. GORDON. Mr. Mears is sitting right here. There is one rather immaterial error made that he wanted to correct. Would you state it Mr. Mears?

Mr. EMMONS. My name is Emmons. Mr. Loweree happened to mention that the collateral loans were on securities made by the committee of which I was one.¹ I wanted to say that Mr. Loweree is incorrect and I think he will change his statement. I never, to my knowledge, made any loan or approved any loan on collateral securities to anybody.

Mr. GESELL. Then I think we might, if agreeable, request the Monumental to present for the record a statement of the members of the committee who approved these various collateral loans from the date of conversion up until the present time.

Mr. EMMONS. Now mortgages—I did pass on a number of the mortgages; but on no collateral.

The CHAIRMAN. If you will give us that statement, please? The Commission will take a recess until Monday morning at 10:30 o'clock.

(Whereupon at 12:55 a recess was declared until Monday at 10:30 o'clock.)

¹ Supra, p. 5701.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

MONDAY, AUGUST 28, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 o'clock a. m., pursuant to adjournment on Friday, August 25, 1939, in the Caucus Room, Senate Office Building, the vice chairman, Hon. Joseph A. Casey, Representative from Massachusetts, presiding.

Present: Representative Casey (acting chairman) and Mr. O'Connell.

Present also: Mr. Brackett, Gerhard A. Gesell, special counsel, and Michael H. Cardozo, attorney, Securities and Exchange Commission.

The VICE CHAIRMAN. The committee will please come to order. Mr. Gesell, are you ready to proceed?

Mr. GESELL. I am. The first witness this morning is Mr. Sutphen.

The VICE CHAIRMAN. Mr. Sutphen, will you hold up your right hand and swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SUTPHEN. I do.

TESTIMONY OF HENRY B. SUTPHEN, VICE PRESIDENT, PRUDENTIAL INSURANCE CO., NEWARK, N. J.

PRUDENTIAL INSURANCE COMPANY—OPERATIONS OF INDUSTRIAL DEPARTMENT

Mr. GESELL. Will you state your full name for the reporter, please?

Mr. SUTPHEN. Henry B. Sutphen.

Mr. GESELL. You are vice president of the Prudential Insurance Co.?

Mr. SUTPHEN. Yes, sir.

Mr. GESELL. How long have you been connected with the Prudential?

Mr. SUTPHEN. Thirty-nine years.

Mr. GESELL. How long have you been vice president?

Mr. SUTPHEN. Since December 1934.

Mr. GESELL. What are your particular duties at the Prudential? Are you in charge of some department there?

Mr. SUTPHEN. I have charge of the industrial agency force.

Mr. GESELL. Will you give us some idea of the nature of the department over which you have charge—how it is organized, how many people there are in it?

Mr. SUTPHEN. Home office?

Mr. GESELL. Yes.

Mr. SUTPHEN. Our organization in the home office is headed by the vice president, 2 second vice presidents, 5 assistant secretaries, 5 supervisors, and 20 division managers, the territory being divided into 20 units which we call divisions.

Mr. GESELL. And to whom are you responsible, Mr. Sutphen?

Mr. SUTPHEN. The president.

Mr. GESELL. I will come back to the home office a little more in detail in a moment. How much industrial insurance has the Prudential in force at the present time, as of the last date for which you have convenient figures?

Mr. SUTPHEN. At the end of last year we had \$7,600,000,000.

Mr. GESELL. That represented how many policies?

Mr. SUTPHEN. Premium-paying, Mr. Gesell?

Mr. GESELL. Yes.

Mr. SUTPHEN. Some of these figures are actuarial figures that deal with paid-up and extended insurance. Of the premium-paying policies, we had 20,772,000 at the end of June of this year.

Mr. GESELL. That does not include. I take it, the paid-up policies?

Mr. SUTPHEN. That does not include the paid-up policies, nor does it include some of our intermediate business. We have, as you know, probably, a classification of business between industrial and ordinary called intermediate, and there are some of those policies that are classified in our statement as industrial insurance. I can't tell you just how many policies there were.

Mr. GESELL. Can you tell us approximately how many industrial policyholders the company has? I take it that would have to be an estimate.

Mr. SUTPHEN. I can't tell, no. We don't have any definite figures on it. I presume the actuaries could give you an estimate on it. I really don't know.

Mr. GESELL. You have never heard any estimate as to the number of industrial policyholders you have?

Mr. SUTPHEN. I don't recall. I have heard estimates given, but I don't recall.

Mr. GESELL. In how many States does your company sell industrial insurance at the present time?

Mr. SUTPHEN. Well, in all of the States of the Union with the exception, I think, of 10 or 11—I am not positive about that.

Mr. GESELL. Probably around 35 States, something in that neighborhood?

Mr. SUTPHEN. Yes.

Mr. GESELL. Are there States in addition to the ones in which you operate from which you collect industrial premiums?

Mr. SUTPHEN. Yes, they are collected by mail. Policyholders that move in those States remit their premiums by mail.

Mr. GESELL. In terms of insurance in force or number of policies or number of policyholders is it correct to state that the company has more interest in the industrial side of the business than it does in the ordinary side of the business? In other words, there is more industrial insurance in force than ordinary insurance?

Mr. SUTPHEN. No. We have more ordinary insurance in force than we have industrial.

Mr. GESELL. What are the figures for the amount of ordinary in force?

Mr. SUTPHEN. Now, I am at a disadvantage in that the figures that we use in the production department are not the same as they use in the actuarial department. On our statement we show \$7,600,000,000 of industrial and \$10,100,000,000 of ordinary.

Mr. GESELL. I take it in terms of number of policies or number of policyholders there are more industrial than ordinary.

Mr. SUTPHEN. Yes.

The VICE CHAIRMAN. May I inquire how many policies you have in the ordinary?

Mr. SUTPHEN. Premium-paying policies—I have this broken down by the four general classifications of industrial and intermediate and ordinary and group.

The VICE CHAIRMAN. I notice you said there were 20,772,000 premium-paying policies under industrial.

Mr. SUTPHEN. Under the weekly premium industrial. Under our intermediate business, which is the classification between industrial and ordinary, we have at the end of last year 2,808,000 policies, and on the regular ordinary, 3,700,000; in our group insurance, 2,401 policies.

Mr. GESELL. Now, where do you include the monthly premium industrial?

Mr. SUTPHEN. We don't issue monthly premium industrial as such. We issue the monthly premium policy which we call an intermediate policy, which at the present time is classified as ordinary.

Mr. GESELL. That is a policy which is collected—

Mr. SUTPHEN. Collected monthly by the agent, at the home of the insured.

Mr. GESELL. What are the size of the policies?

Mr. SUTPHEN. They are issued in amounts of five, six, seven, and eight hundred dollars.

Mr. GESELL. And you classify that as ordinary insurance?

Mr. SUTPHEN. Yes; at the present time. There was a time when it was classified as industrial.

Mr. GESELL. Have you any idea how much of that business there is?

Mr. SUTPHEN. Of that in force?

Mr. GESELL. Yes.

Mr. SUTPHEN. \$1,752,000,000 at the end of last year.

Mr. GESELL. So that if that business was classified on the industrial side, rather than on the ordinary side, you would find that even in terms of insurance in force there was a greater amount of industrial than ordinary, would you not?

Mr. SUTPHEN. If that were all included in the industrial, yes.

The VICE CHAIRMAN. But you subtract that from the ten billion ordinary and add it to the seven billion six hundred million industrial?

Mr. SUTPHEN. Well, the figures here—probably I had better correct that. I see the figures are very close. The figure would be \$8,852,000,000 industrial and \$8,934,000,000 of ordinary.

Mr. GESELL. Now, have you any figures there that will tell us what the premium income of the company is from its weekly industrial business?

Mr. SUTPHEN. Last year it was \$310,000,000.

Mr. GESELL. And how much did it take in from its ordinary business?

Mr. SUTPHEN. Three hundred forty million.

Mr. GESELL. And have you the figures there as to how much of that ordinary premium income was attributable to the monthly business?

Mr. SUTPHEN. No; I have not.

PURPOSE OF INDUSTRIAL INSURANCE

Mr. GESELL. Now, what I wanted to discuss with you today, Mr. Sutphen, was the way in which an industrial company conducts its business. We have heard a great deal about industrial insurance but have very little idea of the mechanics of the operation of an industrial company. First of all, though, I wanted to ask you what you considered, what your company considered, to be the basic purposes of industrial insurance.

Mr. SUTPHEN. Well, to provide for the average workingman a fund payable upon death which will take care of the necessary funeral expenses and the incidental expenses in connection with the death, and a reasonable amount for the readjustment of the family, temporarily only.

Mr. GESELL. That would be until someone else in the family got a job, or something of that sort?

Mr. SUTPHEN. Yes; the natural adjustment that has to be made whenever a death occurs.

Mr. GESELL. That has always been more or less the basic purpose of industrial insurance, ever since your company started to write the business, has it not?

Mr. SUTPHEN. Basically, yes.

Mr. GESELL. Wherein would you say it had changed?

Mr. SUTPHEN. It changed in recent years largely upon the—I will say the demand of the public for a personal interest in the insurance, that is, an opportunity for the insured to derive some benefit from it during his lifetime or her lifetime.

Mr. GESELL. You are referring, then, to the more recent development of forms of endowment insurance?

Mr. SUTPHEN. Yes, and the surrender value on the life policies.

Mr. GESELL. But even today you state, do you not, that the basic purpose is this purpose of burying persons who die and providing funds sufficient to take care of that adjustment period?

Mr. SUTPHEN. That is our fundamental principle.

Mr. GESELL. Industrial insurance, I take it, is sold to provide that type of benefit not only to the workingman, but to all members of his family.

Mr. SUTPHEN. Yes.

Mr. GESELL. Coming now to our discussion of the mechanical operations of the business—

The VICE CHAIRMAN (interposing). Before you go to that, may I inquire along this line you have been pursuing, do industrial policies today contain disability benefits?

Mr. SUTPHEN. They have a modified form of disability benefit. It is not the generally accepted form of disability benefit. It provides for a payment in event of the loss of eyesight, or of the limbs, the arms or legs.

The VICE CHAIRMAN. Does it contain an accidental death benefit?

Mr. SUTPHEN. It has an accidental death benefit, yes.

The VICE CHAIRMAN. In that way is it different from the original policies when industrial insurance started?

Mr. SUTPHEN. Yes.

AGENCY SYSTEM

Mr. GESELL. How many agents has your company at the present time?

Mr. SUTPHEN. Speaking now of industrial agents, Mr. Gesell?

Mr. GESELL. Yes; agents who sell industrial or who sell industrial and ordinary.

Mr. SUTPHEN. At the end of June—I have these figures for the end of June—19,299.

Mr. GESELL. Those are all agents who at least as part of their duties have the job of selling and servicing the industrial policyholder.

Mr. SUTPHEN. That is true.

Mr. GESELL. Does your company have agents who also sell purely in the ordinary and group fields?

Mr. SUTPHEN. We do; yes.

Mr. GESELL. And those agents are not included in this?

Mr. SUTPHEN. They are not figured in this.

The VICE CHAIRMAN. They are solely industrial agents?

Mr. SUTPHEN. The 19,299 are—well, we call them industrial agents, but they write ordinary, they write all of the forms of insurance that the company writes.

Mr. GESELL. They are agents on debits, though, are they not?

Mr. SUTPHEN. They are agents on debits; yes, sir.

Mr. GESELL. When you take a new agent into your company, what kind of training do you give the man and what kind of experience do you look for?

Mr. SUTPHEN. That is the experience of the man himself?

Mr. GESELL. Yes; in other words, how do you get an agent and how do you train him?

Mr. SUTPHEN. Well, our field staff is in charge of district superintendents in the respective districts, and the superintendent in cooperation with the assistant superintendent naturally are on the lookout from time to time for available men in case vacancies occur, and in practically all of our offices, I guess in all of our offices today, we have a list of candidates of men who apply for these positions. Now we do not pick out any particular line of vocation that a man has followed previously; we try to pick out a man who is honest, who has a good record back of him, and who is industrious and will be a credit to the insurance business.

Mr. GESELL. In other words, you take men from any walk of life.

Mr. SUTPHEN. Yes.

Mr. GESELL. Including ex-industrial agents of other companies?

Mr. SUTPHEN. Yes. We do not exclude them. We don't prefer them.

Mr. GESELL. It is true, is it not, that there was quite a substantial period of time when your company had agreements with other companies which at least limited the time in which they could take industrial agents that come off the debit of another company?

Mr. SUTPHEN. Yes. Only for the reason that experience has shown in the past that sometimes agents would leave one company and go back on their old debits and induce people to give up their insurance to change over to the new company. That was the only reason.

Mr. GESELL. By and large then, am I correct in saying that the men who come onto the debits now are men who have not had insurance experience?

Mr. SUTPHEN. By and large; yes.

Mr. GESELL. What kind of training do you give them? How do they learn the business?

Mr. SUTPHEN. He is given when he comes in, literature to read, all of our instruction books, and is placed under the supervision of an assistant superintendent who introduces him to the debit, introduces him to the policyholders, shows him by actual experience how the business is handled in the field, shows him how to write business and constantly keeps in touch with him for several weeks or months as the necessity may occur, until he becomes familiar with the work. As a matter of fact he continues to supervise his work for some time to come.

Mr. GESELL. I take it there is always some degree of supervision even after the man is trained.

Mr. SUTPHEN. Yes, yes. We have in addition to that an education course of booklets which explains the different types of policies and the different types of service that the company renders, which he is required to study, and a questionnaire is prepared in connection with each one of the booklets, which he fills out and sends in to the home office.

Mr. GESELL. That is to test his knowledge.

Mr. SUTPHEN. To see whether he has actually got a general knowledge of insurance.

Mr. GESELL. The basic training, I take it, though, is the training on the debit under supervision of the assistant superintendent.

Mr. SUTPHEN. Yes; learning to do by doing it.

Mr. GESELL. Over what period of time does a man continue under a very active type of field supervision of that kind?

Mr. SUTPHEN. As long as is necessary. You see, men differ; some men pick this business up very much quicker than others. I should imagine that on the average in a couple of months time a man has a pretty good knowledge of the working of the business.

Mr. GESELL. Does that mean that the man isn't on the debit alone until 2 months have passed?

Mr. SUTPHEN. No.

Mr. GESELL. How soon does he get on the debit alone?

Mr. SUTPHEN. As soon as the assistant thinks it is all right for him to go on the debit.

Mr. GESELL. How does that run, Mr. Sutphen? You must have some idea as to what the average man does. I appreciate it would be difficult.

Mr. SUTPHEN. The assistant probably will go with a man for 2 weeks and then the following weeks he will go with him part of the time, don't you know.

Mr. GESELL. Check back on his work.

Mr. SUTPHEN. Yes; he won't go with him all the time, just to see how he is getting along.

Mr. GESELL. I have been using the phrase "debit." What do you understand by that phrase? What is the man's debit?

Mr. SUTPHEN. A debit is a technical term that we use, I presume. It represents the premiums if we are talking about the money; or, from a different angle, it represents the life insurance of all the policyholders which are assigned to this particular agent to service.

Mr. GESELL. In other words, when he comes on he is given a debit which is a very well defined area——

Mr. SUTPHEN. Established business.

Mr. GESELL. In the particular city where he works. That debit, has, I imagine, in the vast majority of cases already been developed by the previous agent.

Mr. SUTPHEN. Yes; in every case.

Mr. GESELL. There are on the debit, then, policyholders of the company and the man has the responsibility of servicing those policies, and is he also given some exclusive right to sell policies to other persons in the area who don't have any insurance?

Mr. SUTPHEN. He has no exclusive right. He has a right to sell his policies wherever he is licensed to sell policies.

Mr. GESELL. Well, then, his selling activities are not confined to his own debits?

Mr. SUTPHEN. In actual practice his selling activities are largely confined to his own debit, and almost exclusively confined to his own district territory.

Mr. GESELL. Is there more or less an unwritten code among the agents that one fellow won't go over and raid another man's debit for new business? I mean, as a practical matter, does it work out that each agent has his own territory?

Mr. SUTPHEN. You are speaking about industrial, because in the writing of ordinary quite a different situation obtains. The latitude and practice in connection with ordinary is entirely different.

Mr. GESELL. We are talking about industrial.

Mr. SUTPHEN. Yes; I think that that is fairly well established. It is no rule of the company.

Mr. GESELL. But as a practical matter that is the way it works out, isn't it? The man has both the job of collecting in that area and usually is by far the principal selling agent of industrial insurance for the company in that area.

Mr. SUTPHEN. That is correct.

Mr. GESELL. How many debits has your company at the present time?

Mr. SUTPHEN. 19,299.

Mr. GESELL. One for each agent?

Mr. SUTPHEN. One for each agent.

Mr. GESELL. What is the average size of the debit, measured in terms of money?

Mr. SUTPHEN. The industrial debit is \$229.

Mr. GESELL. That is \$229 collected weekly?

Mr. SUTPHEN. Collected weekly; yes, sir. That is the average.

Mr. GESELL. And how does it run, from a low of what to a high of what? I realize these figures may not be available. I just want your best estimates of what the limits are.

Mr. SUTPHEN. Of course we have some isolated cases of men, for instance, who are partially disabled, that might have \$80 or \$90

debits, which would be all they could handle, but they are very decided exceptions. The debits will run from \$150 to \$300. That is a rough figure.

Mr. GESELL. I suppose in terms of measuring the debit in terms of territory a man may have a very large area to cover if he is in a sparsely settled or undeveloped area, or if he is in a crowded tenement region, for example, his debit may be very small physically.

Mr. SUTPHEN. His territory might be.

Mr. GESELL. Yes.

Well now, can you tell us how much it costs you to take on a man and train him?

Mr. SUTPHEN. I don't think it costs anything except a loss of production of business. Our agent changes are very low. I think that on our experience this year we will probably only have about half a new man to introduce by each assistant.

Mr. GESELL. So each assistant has to introduce half a man?

Mr. SUTPHEN. On an average.

Mr. GESELL. There must be some way of measuring or estimating, at least, what it costs to put one of these new men on. You have, after all, some expenses, do you not?

Mr. SUTPHEN. Mr. Gesell, we cannot figure that there would be any saving if we never had another new man to introduce. There wouldn't be any saving to the business because the assistant is there, he is required there to supervise these debits. This debit that hasn't any man on it—we call it an open debit—requires supervision just the same whether there is a man on it or whether there isn't a man on it.

Mr. GESELL. Then you take this position, I take it, that instead of the assistant working more of his time on the production of new business and the servicing of old business some of his time is diverted to the training of these men.

Mr. SUTPHEN. And in addition the assistant is required to spend more time during that period.

Mr. GESELL. Well now, you would agree, wouldn't you, that it is very desirable to have a low agency turn-over?

Mr. SUTPHEN. Oh, yes.

Mr. GESELL. Is that entirely for reasons other than financial reasons?

Mr. SUTPHEN. Oh, yes—well, I say yes, I agree with that, because I don't think that there is any particular financial reason when your finals are at a reasonable figure.

Mr. GESELL. And actually, then, your company has no studies, or no computations, which would be even the basis for an estimate of what cost there may be in taking on a new man?

Mr. SUTPHEN. I don't doubt but what estimates were made in the past. I have not seen any for many years. I do not recall what the figures were in the past. We have worked toward the goal that we feel we are reaching now for many years, toward reducing agency changes.

Mr. GESELL. When a man leaves the company is that called technically in the business "finalling" the man?

Mr. SUTPHEN. Yes.

The VICE CHAIRMAN. What was that, again?

Mr. GESELL. "Finalling." What do you mean by a chargeable final?

Mr. SUTPHEN. I will explain it another way. The nonchargeable finals are deaths, men who are retired, who go out upon disability, and promotions, and, of course, men transferred to other debits in other sections. We make a final on those cases.

Chargeable finals are the men who actually resign from the service or who are requested to resign.

The VICE CHAIRMAN. You do not include promotions?

Mr. SUTPHEN. Chargeable finals do not include promotions.

Mr. GESELL. I take it they also do not include resignations for bad health, resignations as a result of reaching retirement age, or any of those. They are chargeable finals where a man leaves under some cloud. Is that correct?

Mr. SUTPHEN. No; we have a great many men who leave our business to go into business for themselves. We have all kinds of cases—men inherit estates, or because of family reasons they have to move to some community where we do not have any vacancy in which we can use them.

Mr. GESELL. Am I correct in saying that in recent years in your company the chargeable finals have diminished to a very great extent?

Mr. SUTPHEN. Very much.

Mr. GESELL. Do you recognize this as a schedule showing the number of agencies for each year from 1908 to 1938, and the number of chargeable finals?

Mr. SUTPHEN. Yes.

Mr. GESELL. I notice it has gone from a figure of a high of 84 percent back in 1910 down to 7.02 percent in 1938.

I wish to offer that for the record.

The VICE CHAIRMAN. It may be admitted.

(The tabulation referred to was "Exhibit No. 972" and is included in the appendix on p. 6203.)

Mr. GESELL. Have you any idea as to what percentage of the men who leave your agency force are finaled for deficiencies or irregularities of one sort or another?

Mr. SUTPHEN. I haven't any figures on that, excepting the deficiencies.

Mr. GESELL. Tell us what your best estimate is as to the number of men who leave the business because of deficiencies.

Mr. SUTPHEN. Last year out of 1,371 we had 409 that had deficiencies.

Mr. GESELL. Those men, I take it, were included among the chargeable finals.

Mr. SUTPHEN. They are included among the chargeable finals.

Mr. GESELL. What do you mean by "A man had a deficiency"?

Mr. SUTPHEN. He used policyholders' money for his personal use.

Mr. GESELL. Either for his personal use or, perhaps, would this be included as a deficiency, where a man took policyholders' advance payments and credited them to the back payments of another policyholder? Would that be included as a deficiency? In other words, where the agent took Mrs. Jones, who was 2 months ahead, and put her money against Mrs. Smith, who was 2 months behind, in order to prevent her policy from lapsing.

Mr. SUTPHEN. And gave Mrs. Smith the credit?

Mr. GESELL. Yes. Would that be included as a deficiency?

Mr. SUTPHEN. Yes.

Mr. GESELL. So these men who are fired for deficiencies aren't all fired for personally using policyholders' funds, are they?

Mr. SUTPHEN. Yes; because our deficiency cases are not caused by that.

The VICE CHAIRMAN. You mean the case Mr. Gesell has just used in illustration is not anything that you have in mind as existing in your company?

Mr. SUTPHEN. I don't say that it does not. Mr. Gesell is talking about excess arrears, where a man fails to lapse his business when it should be lapsed.

Mr. GESELL. And in effect "kites" somebody else's advance payments against the policy which is about to lapse.

Mr. SUTPHEN. Yes. We dismiss that man, if it is flagrant, for general irregularities, because he has to falsify all his records in order to do that. He has to not comply with all of the rules and regulations of the company pertaining to the proper accounting for his business and the money he collects.

Mr. GESELL. It represents a misrepresentation of the condition of his debit, doesn't it?

Mr. SUTPHEN. Absolutely.

Mr. GESELL. The only thing I was trying to point up was whether all of these deficiency cases actually involved an agent pocketing policyholders' money. Where a man indulges in excess arrears he is not personally taking policyholders' money, is he?

Mr. SUTPHEN. I have not analyzed all the deficiencies, but those that I have indicate this: A very small percentage is of this excess arrears, and the balance of it is where he has actually taken money.

Mr. GESELL. Of these cases that you find, by and large, do you find that they are men who had been with the company a short period of time?

Mr. SUTPHEN. Generally speaking, when you say a short period of time, within the first 3 years; yes. It sometimes occurs on the older ones.

Mr. GESELL. You are apt to find it with the older men as well as the others?

Mr. SUTPHEN. Infrequently.

Mr. GESELL. The majority of them, you say, would be younger men who had been with the company less than 3 years?

Mr. SUTPHEN. Yes.

Mr. GESELL. Do you consider that a pretty high percentage or not, this many dismissals for deficiencies?

Mr. SUTPHEN. Well, of course, from the standpoint of desire, or what we want to do, we shouldn't have any, but with 19,000 men it is impossible to keep all of them on a straight and narrow path at all times. I think that considering the fact that our men are not bonded, that they handle tremendous volumes of money, that most of them come into the business without any experience of handling money or being responsible for trust funds, it is a very low rate.

Mr. GESELL. Well, now, have you any figures there which will show us a break-down of some of the other causes for finals, chargeable finals? What are the other types of irregularities which develop in the agency force? Can you tell us some of them?

Mr. SUTPHEN. That is the principal type. Men recommend poor risks sometimes. They sometimes misrepresent terms of policies to prospects, things of that nature.

Mr. GESELL. Do you final men just because they can't write business?

Mr. SUTPHEN. No.

Mr. GESELL. Do you final any for that reason?

Mr. SUTPHEN. Yes. When you say "any", of course, you are getting right down to nothing.

Mr. GESELL. That is right.

Mr. SUTPHEN. Practically none, Mr. Gesell.

Mr. GESELL. In other words, a man's ability to produce isn't one of the cardinal things to consider.

Mr. SUTPHEN. Yes. We must at times come to the end of the rope of the man who will not work, who just will not work, who will not try.

Mr. GESELL. Do you run into many of those?

Mr. SUTPHEN. No; not many.

Mr. GESELL. Do you recognize that schedule which I show you?

Mr. SUTPHEN. I have seen it, Mr. Gesell; yes.

Mr. GESELL. That schedule is a record of chargeable finals covering new agents appointed on or after January 1, 1931, running through 1936, is it not?

Mr. SUTPHEN. Yes.

Mr. GESELL. I notice on the schedule that out of some 25,000 newly appointed agents, 3,348, or some 13.2 percent, are shown as having been finalized under the heading, "Finalized for nonsuccess." That is a little more of a substantial percentage than I gather from your testimony.

Mr. SUTPHEN. I was testifying on what we are doing today, Mr. Gesell.

Mr. GESELL. I take it, then, the policy of the company has changed since 1936?

Mr. SUTPHEN. The policy of the company has changed to the extent that—that is 1931, isn't it?

Mr. GESELL. It runs to 1936.

Mr. SUTPHEN. But the figures may be weighted with the experience in '31.

Mr. GESELL. With the schedule before you, will you make any qualification or explanation of your previous testimony you wish with respect to that percentage?

Mr. SUTPHEN. No; because I was testifying on what we are doing today, and have done in the last couple of years.

Mr. GESELL. Am I correct in understanding from that, then, that in the past there was a greater emphasis upon production of new business than there is at the present time?

Mr. SUTPHEN. Yes; that is true, with this explanation: In the very unsettled times, the economic unsettlement in which we are living in these times, it is very difficult to determine by production figures whether a man is actually putting his time in or not. Now, in normal times you can tell fairly well by results, because the results will run along level with practically most men, whether the man is actually trying to sell business or not. You cannot tell today by results whether he is or not because of so many people being un-

employed, and we have taken that into consideration and realize that we want to be fair to men and not do anybody any injustice.

Mr. GESELL. Then, I gather from that, from which I understand your position perfectly, that if you were able to make an accurate determination of those agents who weren't producing business, there might be more finals chargeable for nonsuccess.

Mr. SUTPHEN. There might be more, but you always live and learn; at least most people do.

Mr. GESELL. Will you explain that?

Mr. SUTPHEN. I think we have found that we do pretty well without making these finals for production, and I doubt very much whether we will ever go back to making as many finals for production as we have in the past. I doubt it.

Mr. GESELL. Now, under this heading on the schedule entitled "Number Finaled for Other Work," does that mean persons who change their jobs within the company or left the company?

Mr. SUTPHEN. No; they left for other positions.

Mr. GESELL. Jobs outside?

Mr. SUTPHEN. To go back to their former vocation. There are a great many concerns that are trying to get our men to work for them because of their success in selling.

Mr. GESELL. Do you feel this percentage of 20.9 percent shown under the heading "Number Finaled for Deficiency and Other Irregularities" is a representative figure in terms of your present situation, or do you believe it has been reduced somewhat?

Mr. SUTPHEN. That is 20 percent of all finals.

Mr. GESELL. Twenty percent of all finals for the new agents within a period of 6 years? It is limited to new agents entirely?

Mr. SUTPHEN. Of course, that is a very difficult question to answer, Mr. Gesell. I think—well, I don't know. There is no use of my trying to guess; I just don't know.

Mr. GESELL. I wish to offer this schedule for the record.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 973" and is included in the appendix on p. 6203.)

Mr. GESELL. Why is the word "chargeable" used on these finals?

Mr. SUTPHEN. We could just as well use "preventable." It is something that has been in the business for many years and I presume—I can only presume this—it was used as a term to indicate to the clerical organization the ones that would be charged as finals. That is the only significance that I can account for that it might have.

Mr. GESELL. In other words, where an agent is fired for a final for nonsuccess or irregularities and deficiencies or because he leaves for some other job within a short period of time after he is taken on, you would feel those are areas in which your procedure for the selection and training of agents had broken down.

Mr. SUTPHEN. Well, we take the broad position that under the 100 percent supervision and direction we should save those men in the business.

Mr. GESELL. I realize you can't make a perfect standard. Now, on these men who leave with deficiencies, you find that you are able to collect back a considerable percentage of those deficiencies?

Mr. SUTPHEN. Yes.

Mr. GESELL. Have you any figures as to what the net loss for the company is as a result of deficiency after the account is finally wound up?

Mr. SUTPHEN. Last year the net loss was \$44,000.

Mr. GESELL. What is that figure?

Mr. SUTPHEN. \$44,125.68; that is the net figure.

Mr. GESELL. For what period of time?

Mr. SUTPHEN. 1938. That takes into consideration the collections that were made on previous deficiencies. It is a current-year figure.

Mr. GESELL. Now, coming back to the debit a moment, is there any way that you can tell us what the average size of the company's industrial policies is?

Mr. SUTPHEN. You mean in amount?

Mr. GESELL. Yes.

Mr. SUTPHEN. In amount of insurance, the weekly premium, premium-paying policies in force, \$257. That is the end of last year.

PROGRAMMING

Mr. GESELL. How many policies do you figure per person, about one and a half, two, something like that?

Mr. SUTPHEN. Per person?

Mr. GESELL. Or per family, either way that you have your figures.

Mr. SUTPHEN. I have a record that is not an actuarial record; it is a record that we compile from statistics that we get from our men in the field.

Mr. GESELL. I should think that would be more accurate than actuarial figures.

Mr. SUTPHEN. Well, with the exception that our field men do make mistakes in figures and actuaries don't—so they say.

Mr. GESELL. I won't agree.

Mr. SUTPHEN. I said "so they say."

Mr. GESELL. How does it figure?

Mr. SUTPHEN. The average number of policies per family—I am speaking now of the weekly premium industrial—is 3.9 policies per family.

Mr. GESELL. That is for policies in your own company.

Mr. SUTPHEN. Oh, yes.

Mr. GESELL. These debits may overlap, may they not?

Mr. SUTPHEN. With other companies?

Mr. GESELL. You may have four or five different agents from four or five different companies canvassing the same territory.

Mr. SUTPHEN. That is possible.

Mr. GESELL. And any individual family may be meeting not only the collector from your company but from all these other companies on different days during the week.

Mr. SUTPHEN. That is correct.

Mr. GESELL. Do you believe that on most of your debits that duplication exists?

Mr. SUTPHEN. You mean on most of our debits or most of our homes? It probably exists in some part on all debits, of course, but on most of the homes I do not think it does.

Mr. GESELL. You think by and large in the families that your company has as policyholders it would be rather infrequent to find that that family also has industrial policies with other companies?

Mr. SUTPHEN. Well, with any number of other companies. You would find a considerable number that have them with one other company, for instance.

Mr. GESELL. And you believe that on all of your debits, forgetting the individual families, there is the duplication in the sense that there may be at least two different agents from two different companies servicing the same area?

Mr. SUTPHEN. When you say "servicing the same area," do you mean that they have policies in the same homes that we have? We don't have policies in all the homes, you know.

Mr. GESELL. Yes; policies in the same home.

Mr. SUTPHEN. An agent of another company may be working in the same neighborhood and be in different homes than we are.

Mr. GESELL. But there is that overlapping of jurisdiction as between two companies, taking a single territory, is there not?

Mr. SUTPHEN. Oh, yes.

The VICE CHAIRMAN. Can you give us anything approximate, or would it be only a guess?

Mr. SUTPHEN. It would be even worse than a guess. I just can't answer that.

The VICE CHAIRMAN. I can understand that. All right, Mr. Gesell.

Mr. GESELL. It seems to me that in some areas that must lead to considerable confusion, doesn't it, Mr. Sutphen?

Mr. SUTPHEN. Well, in what respect?

Mr. GESELL. Well, I have in mind this kind of situation. Let's take a fairly concentrated area where within the same apartment building, for example, you may have four or five different companies soliciting industrial insurance, I should imagine that the agent who got to a particular family first might be the one who would be able to keep his premiums and his policies in force, if a particular family was having any difficulty in meeting its weekly payments. I can imagine another kind of difficulty that it would be very hard to sell in that area where there is so much competition as between agents, and from an over-all point of view I can see difficulties, I think, because of the duplication of effort and time and expense involved in having so many individuals concentrating on a single territory.

Mr. SUTPHEN. Well, of course all salesmen expect competition in almost any line; he wouldn't be a salesman if there weren't competition.

Mr. GESELL. There are two features to your business, aren't there? Forgetting the selling feature for a moment, there is the collection and servicing feature of your business. I can't see the desirability of having much duplication in that area. You see what I mean, I am sure.

Mr. SUTPHEN. Yes; I see what you mean. I don't follow you, though, that it is any particular detriment to the business because a policyholder desires to have his insurance in two companies. In other words, he may very properly, as a great many people do that

buy ordinary insurance, feel that he shouldn't put all his eggs in one basket.

Mr. GESELL. These fellows haven't many eggs, have they?

Mr. SUTPHEN. Well, they are just as much eggs to them as the big policy is to the big one.

Mr. GESELL. Let me get at it from another point of view. Isn't it rather difficult to sell policies to an individual family in a manner which completely meets its particular requirements if there are policies from several different companies involved rather than just policies from your own company?

Mr. SUTPHEN. I am not just sure I understand what you mean, Mr. Gesell.

Mr. GESELL. I take it it is the desire of your company not to overload any family with too many policies.

Mr. SUTPHEN. That is right.

Mr. GESELL. Not to put all of the protection on a 1-year old child or the breadwinner, and to keep some equitable distribution at least between the coverage and premium payments and endowment and whole life and all those other matters that involve an insurance program in the family's policy. Isn't it harder to accomplish that result if there are knocking at the doors of an individual family solicitors and collectors from more than one company? That is the question.

Mr. SUTPHEN. If you eliminate the solicitors who might solicit and not get anything, they would not complicate the situation, but if the family had insurance in more than one company it would not complicate the situation any if they told the agent just what they had, because he would simply have to make a report the same as if it were one company.

Mr. GESELL. There are difficulties in that respect?

Mr. SUTPHEN. There are difficulties in finding out what they have in other companies; yes.

Mr. GESELL. And isn't it possible that where a family becomes hard-pressed because of economic circumstances or something else and you have two people collecting from that family, that one agent may be successful in getting his premiums and the other agent not be successful and as a result the whole program may get out of gear through the continuance of certain policies in one company and the lapsing of policies in the other company? I am sure that must be a practical difficulty.

Mr. SUTPHEN. No more so than if they were all in one company. I think there is an advantage in competition that accrues to the policyholder. In the mere situation that you present now the probabilities are that the company giving the best service in the home would be the one that would get the money and not the one who got there first.

Mr. GESELL. What instructions do you give to your agents with respect to this whole matter of programming the family's insurance problem?

Mr. SUTPHEN. Well, we have tried sincerely to educate them and train them along the lines of properly selling the policy that fits the particular needs of the particular family and the individual.

Mr. GESELL. Can you be a little more specific as to just what you have done and how you have done it?

Mr. SUTPHEN. Well, we haven't done anything except tell them that they should not sell more insurance than should be sold or than the family can carry. After all, these things all become matters of judgment. It is very difficult to set down any hard and fast rule as to how much insurance people can afford to carry.

Mr. GESELL. You refer, I take it, to the statement of general duties in the manual of instructions for agents.

Mr. SUTPHEN. That is one place.

Mr. GESELL. Namely—

to advocate the class of insurance most suitable to the applicant's position in family-insurance program and not to press for a larger amount of insurance than the applicant is able to maintain.

Mr. SUTPHEN. Yes.

Mr. GESELL. I take it your agent's contract also contains that.

Mr. SUTPHEN. We have it in his contract.

Mr. GESELL. That type of statement?

Mr. SUTPHEN. Yes.

Mr. GESELL. What do you do to guide the agent toward the accomplishment of that result?

Mr. SUTPHEN. We depend upon the supervision over them from the home office and in the field, largely in the field. Our superintendents understand the policy of the company; they are continually talked to about it. Our men that go out from the home office attend a great many meetings in the field with the agents and stress those things.

Mr. GESELL. What I am trying to get at, Mr. Sutphen, is what do you say to them to help them apart from this general statement? What kind of specific instructions, type of guidance, do you give them in order that they can accomplish the admittedly laudable result we have talked about?

Mr. SUTPHEN. There isn't anything very concrete that you can give them other than to continue to preach to them the necessity of rendering proper service to policyholders, to treat the policyholders right, to see that the insurance so far as can be controlled is placed on the lives of the people that should have their lives protected and the premiums are not in excess of what is reasonable in a particular case. It is a very difficult thing to work out any formula on.

Mr. GESELL. I can see where there will be big variations.

Mr. SUTPHEN. But it is a continual talking about things, and I think that we have made very decided progress along that line in convincing our men, in getting our men in the frame of mind where they are sympathetic toward the rendering of a proper service to the policyholders.

PRODUCTION QUOTAS

Mr. GESELL. Do you have quotas for your agents, the amount of business they have to produce?

Mr. SUTPHEN. We give those indirectly.

Mr. GESELL. Will you explain that?

Mr. SUTPHEN. We give a quota to the superintendent and he divides it up into the number of units that he has, which becomes the quota of the agent. Now that is an objective rather than a quota.

Mr. GESELL. Do you mean by that your quota isn't always reached?

Mr. SUTPHEN. No; and we don't do anything about it if it isn't

Mr. GESELL. Why do you go through all the elaborate procedure of having one?

Mr. SUTPHEN. Because the men need an objective; they want it. They want to know what the company expects them to do, and what is expected of them. You know, the job of being an agent, selling life insurance, is not an easy job.

They have many disappointments. They do a great deal of their work alone. They are not accompanied by anybody and they meet with lots of rebuffs and all other kinds of things, and if you aren't careful they get discouraged, and they need to have something, an objective, kept before them all the time. They need to be inspired, to have their confidence continually built up. In other words, they need to have their morale maintained.

Mr. GESELL. I can see a certain contradiction in terms between giving a man a quota on the one side and trying to tell him not to sell in certain manners on the other. You put him in something of a box.

Mr. SUTPHEN. No; because the quotas are sufficiently small that he does not have to resort to poor selling in order to accomplish it.

Mr. O'CONNELL. How do you arrive at quotas?

Mr. SUTPHEN. Arbitrarily.

Mr. O'CONNELL. It must be based on something.

Mr. SUTPHEN. It is based largely on past results or reasonable expectations from territories.

Mr. O'CONNELL. What do you ordinarily do, take the past results in a given territory and step them up and give that as an objective to the people in that territory during the next period?

Mr. SUTPHEN. No; sometimes we take quotas that are less than what was accomplished the year before.

Mr. O'CONNELL. Generally speaking?

Mr. SUTPHEN. Generally speaking, we take a company figure and more or less distribute it among the districts we have.

Mr. O'CONNELL. What do you mean by the company figure? How do you get that?

Mr. SUTPHEN. Based on what we feel at the end of the year it is reasonable to expect during the next year, based on our hopes for improved business conditions, economic conditions, and based somewhat on what has been accomplished before.

Mr. O'CONNELL. Generally speaking, would you say you arrive at the company figure by taking the experience of the company during a period and stepping it up as something to be hoped for, bigger and better business? There must be some way you arrive at the company figure which in turn you hand down to your superintendents.

Mr. SUTPHEN. Well, it is not done in just that way. It is not done just in the way of aiming for bigger and better business.

Mr. O'CONNELL. Can you tell me how it is done?

Mr. SUTPHEN. Keep in mind we do not insist upon these quotas being met.

Mr. O'CONNELL. I know, I am only interested at the moment in finding out the process, the mental process or whatever process you go through in arriving at a company figure.

Mr. SUTPHEN. The mental process is very much as you say, with the exception of this trying to get bigger and better business.

Mr. O'CONNELL. Possibly I shouldn't have said bigger and better, but in any event, you take the experience of a territory for a given period and you would step that up as the objective for the next period.

Mr. SUTPHEN. If the conditions were anywhere near similar at all. In other words, we would not take the experience of 1929 and 1930 and base an allotment or quota in 1940 on those figures.

Mr. O'CONNELL. I see. Have you a figure now for the year 1939, a company figure?

Mr. SUTPHEN. Yes.

Mr. O'CONNELL. How does that compare with the company figure for 1938?

Mr. GESELL. And if you have the figures, I think we might have those.

Mr. SUTPHEN. Of course, the whole thing is tied up with this tremendous change in the economic situation which very quickly and definitely affects the production of business.

Mr. O'CONNELL. Undoubtedly the results may vary greatly from your hopes.

Mr. SUTPHEN. We gave the combined quota for 1939, that is combining the weekly premium industrial and the intermediate. It was \$335,000. It was \$385,000 for 1938.

Mr. GESELL. Is that an increase in weekly collections?

Mr. SUTPHEN. Yes.

Mr. GESELL. Not in insurance in force?

Mr. SUTPHEN. No. It was \$385,000 the year before that.

Mr. O'CONNELL. That is an increase?

Mr. SUTPHEN. That is an increase; yes. We cut it down this year because last year things did not work out well.

Mr. O'CONNELL. You mean you cut down the rate of increase?

Mr. SUTPHEN. We cut down the quota.

Mr. O'CONNELL. How close did you come in '38 to realizing the quota?

Mr. SUTPHEN. We came nowhere near it in '38. We came reasonably close in '37; we made three hundred thirty-four thousand against three hundred eighty-five quota.

Mr. O'CONNELL. And what did you make in '38?

Mr. SUTPHEN. We made \$40,000.

Mr. O'CONNELL. And in 1939, you have a quota of three hundred thirty-five thousand as against a realization of forty thousand and an expectation of three hundred eighty-five in '38?

Mr. SUTPHEN. But at the beginning of the year—of course, whatever anybody else may be in this world, production people are optimists, and we—

Mr. O'CONNELL (interposing). It is your business, I take it, to produce more and more insurance.

Mr. SUTPHEN. Not necessarily more and more. I don't like to admit that our objective is more and more. Our objective is better and better.

Mr. O'CONNELL. But the purpose of the allotment or this quota seems to me to be pretty directly toward more and more, is it not? The purpose of that one particular feature of the production scheme of setting a quota each year substantially larger than the previous

year is to achieve the result of more and more insurance, is that not so?

Mr. SUTPHEN. No; I will not agree to that, because that is not our objective.

Mr. O'CONNELL. I don't mean it is the objective of your company as such. What other objective has the quota?

Mr. SUTPHEN. It does not have that effect in actual experience.

Mr. O'CONNELL. What is its purpose?

Mr. SUTPHEN. Its purpose is to give the men an objective to work toward.

Mr. O'CONNELL. And which you hope they will reach.

Mr. SUTPHEN. And which we hope they will reach.

Mr. O'CONNELL. And if they reach it the result will be more and more insurance, is that correct? I mean, it has to do with nothing but insurance.

Mr. SUTPHEN. Naturally, it will be more than we would get if we didn't reach it. It means that the men's morale will be kept up. Their compensation is dependent to an extent upon production and we endeavor to encourage them to keep up their production so long as we can get the right kind of business properly written and properly placed.

Mr. O'CONNELL. The quota has nothing to do with the right kind of business.

Mr. SUTPHEN. No; it has nothing to do with the right kind of business, but we endeavor to keep it low enough so they can write the right kind of business and still make the quota, under normal times.

Mr. O'CONNELL. The quota for 1939 is quite substantially in excess of your realization.

Mr. SUTPHEN. It is far in excess of the realization for 1938, yes; but it was based on the hopes and optimism that we had for a better economic condition in 1939.

Mr. O'CONNELL. You were optimistic in 1938, too.

Mr. SUTPHEN. Yes.

Mr. GESELL. May I ask you if you have any figures as to actually how many new policies an agent sells per week or per month?

Mr. SUTPHEN. You are speaking about industrial now, Mr. Gesell?

Mr. GESELL. Yes; this whole discussion is limited to industrial.

Mr. SUTPHEN. The first 6 months this year—the figures are approximately the same, I haven't the figures right up to date, I was away for a while—for the first 6 months which are characteristic this year the average production per agent was 1.9 policies.

Mr. GESELL. The agent on the average wrote almost two policies a week.

Mr. SUTPHEN. Almost two policies.

Mr. GESELL. I want to ask you a little more about the agent's duties. Does he have a pretty definite day-to-day schedule during the week that he must follow? I mean, does he have to collect on certain days?

Mr. SUTPHEN. During the first 3 days of the week he collects his debits. They have two debits, the monthly debit and the weekly debit.

The VICE CHAIRMAN. What is that day, is that an 8-hour day?

Mr. SUTPHEN. We don't have any hours. The men report at the office on Tuesday and Wednesday and Thursday and Friday. They do not report on Mondays, they go right out on debits. They do not report back. We don't know when they quit work. They report on Tuesday morning to turn in the collections that they have made on Monday and they do the same thing on Wednesday. This is the general practice. On Thursday they come in and make up their weekly account. While they are collecting their debit they also do other incidental work and write business and do all kinds of things, if the opportunity presents itself or they have some service to render. If the policyholder wants to know anything, they take care of those things as they go over their route.

On Thursday afternoon and Friday morning they are doing their miscellaneous work, canvassing and whatever they have to do. They do not come in Friday morning. Friday afternoon they come in, at which time the records for the week come down and they adjust their books and we have a meeting and then they are through. They do not work on Saturday. They are paid on Friday.

The VICE CHAIRMAN. So really from Thursday noon until Friday noon is the time set aside particularly for the canvassing and obtaining of new business.

Mr. SUTPHEN. Specifically. They have some collections that have to be made later in the week and miscellaneous duties that have to be performed that come along.

The VICE CHAIRMAN. Before you leave that, Mr. Gesell, I thought you said 3 days in the week they used for covering their debit.

Mr. SUTPHEN. Monday, Tuesday, and Wednesday; yes.

The VICE CHAIRMAN. Does that leave at least 3 days in the week for them to go out and get additional business?

Mr. SUTPHEN. No; they come in on Thursday morning. This is the general practice. There are some cases where they come in on Wednesday afternoon, but they generally come in on Thursday morning. When they get their accounts turned in, they have the balance of that day, and Friday morning; they usually come into the meeting on Friday afternoon around 1 o'clock. They have that time for canvassing or miscellaneous work. It much depends upon the territory. There are some territories where pay days vary very much and they have to do some collecting later in the week, the latter part of the week. They have people that they could not see or could not collect from when they went around on Tuesday and they have to go around the latter part of the week to see them. They largely dovetail all features of their work into the general time.

The VICE CHAIRMAN. What portion of a workday week would you say an agent has outside of his debit and miscellaneous duties in order to apply himself to getting new business?

Mr. SUTPHEN. It is so closely tied up, the writing of new business is so closely tied up with all his other work that that is very difficult to say. As he goes over his debit, collecting premiums, he looks over his books and he sees someone in that family that he thinks should have more insurance than he has got, or he meets someone in the home as he is going in there, probably a friend or a neighbor, or he gets to talking with the policyholder and finds out that the woman next door has just moved in, or something like that; he stops on the route, going around on his collection route, and talks insurance.

The VICE CHAIRMAN. You say covering the debit is a full week's work?

Mr. SUTPHEN. No; I don't say it is a full week's work. They devote basically the first 3 days of the week; they conclude basically their collections in the first 3 days of the week, the exception being the isolated cases that have to be taken care of later. The balance of the week they do have for writing new business, less the time that they must put in collecting the isolated cases and the miscellaneous duties that they have to perform in connection with people who ask for cash surrender values or policies that mature, death claims and that sort of thing.

The VICE CHAIRMAN. I assume your agents are paid on commission exclusively.

Mr. SUTPHEN. Yes.

The VICE CHAIRMAN. Industrial agents?

Mr. SUTPHEN. Yes.

The VICE CHAIRMAN. But a debit gives them a certain guaranteed weekly income, doesn't it?

Mr. SUTPHEN. In effect. The man who has \$240 of debit gets paid each week. Our current agents get 12 percent on the amount they collect each week. They don't always collect \$240. One week they may collect more and another week they may collect less, but it runs fairly constant.

Mr. GESELL. Agents have to collect, I take it, from everyone on the debit. You leave no way whereby policyholders can pay in at the home office, do you?

Mr. SUTPHEN. Again speaking about industrial?

Mr. GESELL. Yes.

Mr. SUTPHEN. Our current policies provide for their paying at the office.

Mr. GESELL. How long have those policies been in effect?

Mr. SUTPHEN. Since the first of this year.

Mr. GESELL. They make it possible for an industrial policyholder to pay his premiums at the office?

Mr. SUTPHEN. That is correct.

Mr. GESELL. And I take it he gets as a result some premium deduction?

Mr. SUTPHEN. He does; yes.

Mr. GESELL. What is the amount of that deduction?

Mr. SUTPHEN. Providing he pays continuously during the year at the office and does not permit his premium to become in default, he gets 10 percent.

Mr. GESELL. He gets 10 percent?

Mr. SUTPHEN. At the end of the year.

Mr. GESELL. Have you worked out any kind of schemes other than this one that has just gone into effect for collecting other than through the agent's going around from door to door? I mean by that, have you any pay roll deduction plans or anything of that character?

Mr. SUTPHEN. No; all industrial policyholders, if they pay 47 weeks at one time, we give them credit for 52 weeks. That is payment in advance.

Mr. GESELL. If they pay, in effect, a year in advance.

Mr. SUTPHEN. Yes.

Mr. GESELL. You have no pay-roll deduction arrangements with employers at all?

Mr. SUTPHEN. No.

Mr. GESELL. When an agent writes a policy, I take it an application is filled out.

Mr. SUTPHEN. That is correct.

Mr. GESELL. Is this the form of application which is used by your company?

Mr. SUTPHEN. Yes, sir.

Mr. GESELL. I wish to offer this application.

The VICE CHAIRMAN. It may be admitted.

(The application form referred to was marked "Exhibit No. 974" and is included in the appendix on p. 6204.)

Mr. GESELL. Is that application filled out by the policyholder or by the agent?

Mr. SUTPHEN. It may be done either way. It is usually completed by the agent asking questions of the policyholder.

Mr. GESELL. In the great majority of cases it is correct to say it is filled out in the agent's handwriting.

Mr. SUTPHEN. I think that is correct; yes.

Mr. GESELL. That application subsequently is attached to the policy, is it not?

Mr. SUTPHEN. A copy of it, a photograph; yes.

Mr. GESELL. Can you tell us a little of what happens from the time the application is signed? Give us some idea of the mechanics which the company goes through in handling the application and in issuing the policy.

Mr. SUTPHEN. Well, the agent, of course, writes the application. He keeps a record on forms that he has provided for that purpose and he turns it over into the district office, where it is reviewed and checked against rejection files, and if the agent does not have the privilege of certifying to the health it is turned over to the assistant superintendent for that purpose, or if the amount of insurance requires a medical examination it is turned over to a medical examiner.

Mr. GESELL. In a great majority of cases there is no medical examination, and the agent is the only person to certify as to the health of the applicant.

Mr. SUTPHEN. That is correct.

Then it is sent to the home office. It goes to our policy section and is checked over, and unless it requires the attention of the medical department, which most of them do not, it is approved and the proper policy is selected to cover the particular case. Then the policies are sent to the numbering room, where they are numbered; then they go to what we call the print section, where a photograph is made of the application. They go to the typewriting department, where the policy is written and a copy of the application is attached. They go back to the policy department, where each is compared and referred to the life and lapse register section, where the life and lapse forms are made up, which are the records of the business we send to the agent, a copy of which we keep in the home office, and then the policies, together with the life schedules and lapse schedules, are sent to the field.

Mr. GESELL. Does the policyholder pay the first premium in advance?

Mr. SUTPHEN. Yes; the business is all written on a binding receipt basis.

Mr. GESELL. Who is it that checks the application and the records of the company to see whether it is, let us say, socially desirable to issue another policy to this particular family?

Mr. SUTPHEN. It is done in these policy sections, where they decide upon the issuance of the business.

Mr. GESELL. They check over to see whether the family has too much insurance or whether it is the right kind of protection that the family ought to have, or things of that sort?

Mr. SUTPHEN. They are not in a position to do that at all.

Mr. GESELL. Then who has that responsibility?

Mr. SUTPHEN. The field.

Mr. GESELL. Does it rest with the superintendent, the assistant superintendent, or the agent?

Mr. SUTPHEN. Well, it is divided. Primarily it rests with the agent. The superintendent and the assistant superintendent are supposed to supervise it, but, again, they are not on the ground and do not see the actual conditions that exist.

Mr. GESELL. That determination is primarily the agent's, himself?

Mr. SUTPHEN. Yes.

Mr. GESELL. Do you let your prospective policyholders have a sample copy of the policy in advance?

Mr. SUTPHEN. No; unless they specifically ask for it.

Mr. GESELL. What if they ask for it? Do you let them have it?

Mr. SUTPHEN. Yes; we do. It is something that they don't ask for, though, Mr. Gesell. The agents have copies of the policies.

Mr. GESELL. They have policies with them as they go the round which they can show the policyholders?

Mr. SUTPHEN. Yes; and, of course, the policyholder, after he gets his policy, if he doesn't want it, doesn't have to keep it. He has 2 weeks——

Mr. GESELL (interposing). He has 2 weeks to turn it in, and if he turns it in he gets his money back.

Mr. SUTPHEN. Yes; that's right.

Mr. GESELL. Is everyone eligible for industrial insurance? I mean, can any person in any walk of life or occupation get industrial insurance from your company?

Mr. SUTPHEN. If they are in good health.

Mr. GESELL. You don't exclude, then, these people who are shot out of cannons, or divers, or other dangerous occupations?

Mr. SUTPHEN. We wouldn't consider—I say "good health"; we would project that somewhat into the future, probably. We have a list of cases that are either rated or rejected that we do not take. It is a very limited list.

Mr. GESELL. What sort of persons are they? Am I correct in saying they are mostly people engaged in very dangerous occupations?

Mr. SUTPHEN. Very dangerous occupations. They are people who cannot get any kind of ordinary insurance with even the most hazardous rating.

Mr. GESELL. People like wild-animal trainers, motorcycle racers, and things like that?

Mr. SUTPHEN. Yes.

Mr. GESELL. I noticed you included in there, and I couldn't quite understand it, burlesque actresses. Is that considered a dangerous occupation?

Mr. SUTPHEN. I will have to admit, Mr. Gesell, that the actuaries figured these out and not me. They may be more familiar with them.

Mr. GESELL. By and large almost anyone is eligible?

Mr. SUTPHEN. That is true, if they are in a good condition of health.

Mr. GESELL. And the agent is the person who certifies as to whether they are in good health or not, on behalf of the company?

Mr. SUTPHEN. Yes; after he has been in the service for 3 months—I think it is 3 months—we give him this authority to pass upon these cases, subject to the approval of the superintendent. Of course, in his early days it is supervised somewhat by the assistant superintendent, but prior to that time they have to be passed upon by the assistant superintendent, providing they do not call for a medical examination by the amounts involved.

Mr. GESELL. I have here a considerable group of applications for policies issued as of April 17, 1939, by your company, I think 5 from each of the 20 divisions, and by and large the great bulk of them say "Never sick" or "Never," or sometimes "jamais," or whatever the French word for "never sick" is. I wonder if it is quite customary for your applications to come in with that type of endorsement. It seems hardly possible, under the facts, for it to be true.

Mr. SUTPHEN. I think it is true. I don't know what percentage; I would hesitate to venture a percentage, but a great many of them do say that. That is what people say when you ask them.

Mr. GESELL. Well I know, but I take it the agent, as well as you or I or anybody else, would be apt to question the accuracy of a statement of almost anybody that he had never been sick.

Mr. SUTPHEN. No; I don't think so. The application has a long list of serious illnesses which they certify that they have had or have not had. I think that I have been examined by doctors that asked me if I had ever had any serious illness or ever had been attended by a doctor, and I said no and they never questioned it.

Mr. GESELL. I just was trying to get at using that as an illustration of the possibility of misrepresentations or half truths creeping into the application by reason of the fact that the agent in his desire to write the policy will run through the questions on the application as quickly as possible.

Mr. SUTPHEN. I think if there is one thing our men are very conscientious about it is in recommending the risks. They know we will not stand for any violation of their paying proper attention to the physical condition of the applicants.

The VICE CHAIRMAN. What is the period of incontestability in your company?

Mr. SUTPHEN. One year.

We have, Mr. Gesell, I think, a very fine type of man as an industrial agent today. I don't know whether you have ever met any of them or not, but they are an honorable lot of men and they are conscientious in their work. In 19,300 there is a small percentage that do not measure up 100 percent to anything, but the great majority of them are

very conscientious in their work and they do not take any chances on recommending poor risks to the company.

Mr. GESELL. Are their debits inspected by inspectors who check up on that question?

Mr. SUTPHEN. Their business is periodically spot checked by inspectors that check up on all the questions.

Mr. GESELL. You mean inspectors who actually go out into the field.

Mr. SUTPHEN. They are home office people; yes, entirely; and the agent's work is periodically spot checked and gone over once a year entirely by the assistant superintendent.

Mr. GESELL. Well now, you said that on Fridays the agents had a meeting. What kind of meeting is that?

Mr. SUTPHEN. The agents are divided up into districts in charge of a superintendent (we have 451 districts) and the superintendent and the assistant superintendents and the agents meet. Some of the districts are in detached territory. The men, however, come in on Friday and do their weekly detail work. You see, the new business comes down and has to be entered up in their collection books, and their lapses are turned in and transfers and things of that nature, after which a meeting is held by the superintendent with the men. It is an educational meeting, very largely.

Mr. GESELL. What kind of thing takes place at the meeting? Do you mean he discusses the policy provisions and discusses things of that sort?

Mr. SUTPHEN. At times. It all depends upon what he decides to do. He may talk about some letters that have come down from the home office or something that has appeared in our weekly record that is of an inspirational nature, or of the plans for the following week, or it may be purely educational in taking up a particular form of insurance and talking about it and discussing it with the men, having them take part in it.

Mr. GESELL. I take it it is in these meetings that the managers occasionally attempt to assist the home office management in reaching the quotas which they have set from a production point of view?

Mr. SUTPHEN. Well, not only in meetings—all the time.

Mr. GESELL. Is it at these meetings that the managers are apt to set small weekly quotas which will bring you to the big over-all yearly quota, and to put a certain degree of pressure on the men to get the business in?

Mr. SUTPHEN. It depends on what you call weekly quotas and pressure.

Mr. GESELL. I just want you to tell us what happens. I don't want to characterize it at all.

Mr. SUTPHEN. It is entirely possible that they suggest to men, if they are talking about or explaining a certain type of policy, that they endeavor to sell some of it in the next week.

Mr. GESELL. Do you have contests?

Mr. SUTPHEN. We don't have any company contests—that is, there is none that is company wide. We give the superintendent reasonable leeway in handling his district as long as he is reasonable about things, don't you know. In other words, Mr. Gesell, if we get a report from a superintendent on Monday showing a large writing of business

the week before, we immediately question him. We don't congratulate him, we question him.

Mr. GESELL. I take it, then, the superintendents can hold a contest on their own volition.

Mr. SUTPHEN. Yes; as long as it is reasonable and friendly.

Mr. GESELL. What is a reasonable and friendly contest?

Mr. SUTPHEN. Well, we would object—of course, it is hard to define these things, don't you know.

Mr. GESELL. I am just trying to get an idea of what happens, you see.

Mr. SUTPHEN. Well, sometimes they will choose up sides just to have a friendly contest to see who can write the most applications, or something like that.

The VICE CHAIRMAN. What does the winning side get?

Mr. SUTPHEN. Usually nothing.

The VICE CHAIRMAN. Not even a banquet?

Mr. SUTPHEN. Very seldom nowadays. We do not favor it, we do not favor their having long periods of contests.

Mr. O'CONNELL. What would you consider unreasonable activity in this regard? Can you give us a specific example of a case?

Mr. SUTPHEN. Setting an unusual or unreasonable quota of business that they might ask for. They might ask the men to produce \$10,000 of ordinary in a week.

Mr. O'CONNELL. And what would you do then?

Mr. SUTPHEN. If we knew about it ahead of time—of course, the fact is they don't do it, because we have them trained so they don't do it.

Mr. O'CONNELL. Can you tell us of a case in which something was done which you considered unreasonable?

Mr. SUTPHEN. We would only criticize them. If we knew about it ahead of time, we would have them call it off.

Mr. O'CONNELL. Again, can you tell us of a specific instance in which something was done which you consider was unreasonable?

Mr. SUTPHEN. I cannot now; no.

Mr. GESELL. Is it the policy of your company to discourage contests?

Mr. SUTPHEN. Well, that is a difficult question to answer, now, Mr. Gesell; when you say contests you get into the realm of competition. If you are going to keep salesmen alive, you have got to have live competition.

I think that applies in any activity. I know when we have community chests in my town they depend quite considerably upon competition between different teams; don't you know.

Mr. GESELL. I have made no suggestions that there is anything wrong with contests. You appear to be on the defensive. I didn't intend to criticize.

Mr. SUTPHEN. It is criticized sometimes. We have tried to adopt a reasonable middle ground on the basis that anything that is done must be sensible and reasonable and not resort to high pressure and try to force men to write business that should not be written, or to ask them to do things that they cannot do.

Mr. GESELL. Do you find that business produced by what we will call improper contests or too strenuous contests is of poor persistency and poor quality?

Mr. SUTPHEN. Yes; that is the reason we have tried to cut it out.

Mr. GESELL. And bad in the interests of the policyholders and everyone else concerned?

Mr. SUTPHEN. Yes.

Mr. GESELL. So I take it your company as a company is against any extreme form of sales contest?

Mr. SUTPHEN. That is right.

Mr. GESELL. And your company does not, as a company, sponsor any company contests, put any cash prices, bonuses or anything of that sort.

Mr. SUTPHEN. No; we do not.

Mr. GESELL. You leave it to the discretion of each superintendent to conduct such reasonable contests as he feels are best in the interests of the running of his office?

Mr. SUTPHEN. Yes.

The VICE CHAIRMAN. I take it there is no question but what these weekly Friday meetings have as one of their purposes the keeping up of morale, instilling of pep, and of getting more business.

Mr. SUTPHEN. Of getting some business; yes. When you say more, additional business, I don't want to admit that we are constantly striving for bigger and bigger business.

The VICE CHAIRMAN. I didn't characterize the kind of business. I simply said more business.

Mr. SUTPHEN. That is right.

Mr. GESELL. Now let's see if we can perhaps get at this question through a discussion of compensation. I take it that each agent has a superintendent over him.

Mr. SUTPHEN. He has an assistant over him first, and then a superintendent.

Mr. GESELL. How many agents to an assistant?

Mr. SUTPHEN. On an average of about seven; it averages 6.7 to be exact.

Mr. GESELL. How many assistants to a superintendent?

Mr. SUTPHEN. About six.

Mr. GESELL. In other words, each superintendent has about six assistants and each of those assistants has six or seven men under him.

Mr. SUTPHEN. Yes.

Mr. GESELL. Who is on top of the superintendent, immediately above him?

Mr. SUTPHEN. A division manager in the home office.

Mr. GESELL. And that division manager is responsible to you?

Mr. SUTPHEN. Yes; there being intermediate positions. We have 20 division managers, and we have 5 supervisors having 4 division managers under them, 5 assistant secretaries who have 4 divisions and 1 supervisor.

Mr. GESELL. You are compensated on a straight salary basis, is that correct?

Mr. SUTPHEN. Yes.

Mr. GESELL. What about these division superintendents, the division heads in the home office?

Mr. SUTPHEN. They are all on a straight salary basis. All of our home office people are on a straight salary basis entirely.

COMPENSATION OF FIELD FORCE

Mr. GESELL. The superintendent, the assistant superintendent, and the agent are all on either entirely a commission basis or a commission-salary basis, is that correct?

Mr. SUTPHEN. The agents are on a commission basis, and the superintendent and his assistant are part on salary and part on commission.

Mr. GESELL. The commission that the agent, the assistant superintendent, and superintendent receive are based to some degree upon the production of new business, are they not?

Mr. SUTPHEN. Yes.

Mr. GESELL. Then there is a very definite motive on the part of all people actively in the field to produce new business, is there not?

Mr. SUTPHEN. Yes.

Mr. GESELL. Am I correct in saying that the average compensation of the superintendents, assistants, and agents has risen considerably since 1906?

Mr. SUTPHEN. That is right.

Mr. GESELL. Do you recognize this schedule as a schedule showing the average compensation of those three groups of employees by years for that period?

Mr. SUTPHEN. Yes, sir.

Mr. GESELL. I note that the superintendents' average weekly earnings have increased from \$96.57 in 1906 to \$141.51 in 1938, that the assistants' have increased from \$24.26 in 1906 to \$62.56 in 1938, and that the agents' have increased from \$14.86 in 1906 to \$50.07 in 1938. I wish to offer this schedule for the record.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 975" and is included in the appendix on p. 6205.)

Mr. O'CONNELL. Have you any figures on the percentage of the income of the superintendent chargeable to salary and the percentage chargeable to commission on the average?

Mr. SUTPHEN. For the first 6 months this year—I am taking now the 442 superintendents—we have nine of the old class superintendents who are on a different contract that they have had for many years, what we call new-term contracts, which is 99 percent of all of them; their average income was \$142, \$114 of which was guaranteed salary.

Mr. O'CONNELL. Is that a standard rate that you pay all your superintendents?

Mr. SUTPHEN. No; it varies according to their length of experience and the work that they do. We increase it from time to time, dependent upon the value of the superintendents to the company.

Mr. O'CONNELL. Would it depend upon the size of his area, the amount of premiums collected in the area?

Mr. SUTPHEN. Our current contracts have a formula in them which increases their guaranteed salary on the basis of the results of the district for the past year, until the guaranty reaches \$100, after which all increases are optional with the company, and we simply review the man's work for the previous year, after it becomes \$100, and decide arbitrarily, you might say, what we will give. It depends upon his quality of management.

Mr. GESELL. You mean you take into account such factors as his ability to select good salesmen, the absence of complaints on his debits, his production records, how the men like him, all those intangible factors.

Mr. SUTPHEN. Yes, sir.

Mr. GESELL. Well, now, do you recognize this as the agent's agreement which is now in effect in your company?

Mr. SUTPHEN. Yes, sir.

Mr. GESELL. What percentage of your agents are now under this agreement?

Mr. SUTPHEN. Ninety-six percent, I think the last figure is.

Mr. GESELL. I should like to offer the agreement for the record.

The VICE CHAIRMAN. It may be admitted.

(The agreement referred to was marked "Exhibit No. 976" and is included in the appendix on p. 6205.)

Mr. GESELL. If I may have it back, I have some questions to ask. I have had quite a time, Mr. Sutphen, understanding just exactly how you pay your agents, though I have read this agreement several times, and I would appreciate your stating it for us in as simple terms as you can, for the record.

Mr. SUTPHEN. The agent is paid a commission upon the weekly premium, industrial premiums, that he collects each week, of 12 percent. That is, he has a weekly premium debit that averages, for the company, \$229, and each week he turns in his account with the amount he collected that week and he retains 12 percent of it.

Mr. GESELL. He turns it all in and gets a check back for 12 percent, doesn't he?

Mr. SUTPHEN. Yes; on his monthly debit—he also has a monthly debit, and these monthly debits are premiums collected once a month and average \$367 in monthly premiums. He gets 4½ percent on the monthly premiums. He is paid for the production of ordinary and all of the different types of ordinary, such as annuities, group insurance, and so forth, according to a scale in the contract that has been constant for a great many years. It has a 35 percent graded scale.

The VICE CHAIRMAN. You say he gets 12 percent of his weekly collections.

Mr. SUTPHEN. Yes, sir.

The VICE CHAIRMAN. That would be 12 cents of the income dollar on industrial insurance that goes to the agent?

Mr. SUTPHEN. Yes, sir.

The VICE CHAIRMAN. When you speak of monthly—

Mr. SUTPHEN (interposing). The income premium.

The VICE CHAIRMAN. When you speak of monthly, are you still talking of industrial insurance?

Mr. SUTPHEN. No; we started to issue the monthly business in 1928, and with the exception of the years '36, '37, and '38, it has always been ordinary; in '36, '37, and '38 it was classified as industrial, so that this monthly debit—in 1936 we started issuing regular ordinary on a monthly basis, putting it on these debits collected at the home by the agent. That is in these monthly premium debits also.

The VICE CHAIRMAN. I am sorry I interrupted you. You were telling us how an agent is paid.

Mr. SUTPHEN. Yes.

Now, for the payment of production and conservation of the weekly premium and the monthly premium business, we adopted in 1934 a new idea. That is, at least it was different from anything that had been in effect before in our company, or any other as far as I know, with respect to paying on new business and conservation. The men had always been paid from week to week upon the basis of 1 week's results, and this contract provides that the agent is paid the same amount each week for a period of 13 weeks for services performed each such week in the production and conservation of industrial and monthly premium business. He has a constant income from this source for 13 weeks that does not vary. In the years before they used to have a big week sometimes, a week which led to their over-enthusiasm in order to get big pay, and then they would get off claiming and they wouldn't have anything at all coming from this source.

Mr. GESELL. What section of this contract contains the provision with respect to conservation and persistency?

Mr. SUTPHEN. Conservation in section 10 and production in section 9. The amount that is paid is determined by the record of the agent for the previous 13-week period. That is the basic principle, that we pay them the same for each week for the next 13 weeks, based upon the record of the agency for the past 13 weeks, and in determining the payment for production, allowance is made on certain endowment policies of 25 percent, and on other policies of 35 percent; (we differentiate between the endowments and the life policies, paying more on the life policies) of the first year premium of policies issued for the previous 13-week period, to which is added the same percentage on any unpaid balance of first-year business premiums on the revival of policies originally issued to the agent.

In other words, he gets paid on new business, and on the balance of first-year premiums on business that he revives, of his own business—it is all based on his own business—

Mr. GESELL (interposing). His own business is put up, though, against company results as a whole, is it not?

Mr. SUTPHEN. No; I am talking about payment for the production, now.

Mr. GESELL. Just on what he produces?

Mr. SUTPHEN. Just on what he produces. We deduct from that total the same percentages on the unpaid balance of first-year premiums on policies originally issued to the agent which canceled during the previous 13 weeks. In other words, when he issues a new policy, we set up immediately a credit to him for the full year, assuming that it will be paid. If he lapses it or if the policy lapses before the full year is paid we simply take back the excess credit that has been allowed for that, and if he subsequently revives it we reinstate that again. In effect what we are doing is paying agents 25 percent on endowment kinds and 35 percent on life kinds, of all of the first-year premiums that are collected on the policies that he writes. That is what it is in effect. There is one exception to that in establishing these credits. In the calculations, no credit is allowed on policies issued where a policy is lapsed in the home 3 months before or 3 months after the new policy is written. That is to prevent the agent from inducing policyholders to lapse their old policies and apply for new ones, which he would get first-year commission on.

Mr. GESELL. Will you tell us the basis upon which the conservation commission is paid?

Mr. SUTPHEN. In the conservation commission, there is a change in the contract which you do not have, Mr. Gesell, which has been put into effect recently. The conservation of industrial and monthly premium business is determined by dividing the agent's lapse rate for the previous 13 weeks' period by the lapse rate of the company or of the division in which the agent works, whichever is the greater—we have adjusted this to the option of the division or the company.

The VICE CHAIRMAN. I see it is half past 12. May we stop here until 2 o'clock.

(Whereupon, at 12:30 p. m., the subcommittee recessed until 2 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:05 o'clock p. m. upon the expiration of the recess.

The VICE CHAIRMAN. The committee will come to order.

Mr. GESELL. Will you resume the stand, Mr. Sutphen?

Before recess we were considering the agents' contract and you were about to describe or summarize for us the provisions of section 10,¹ I believe it is, of the contract, with respect to the commission for conservation. If you think it would be easier, I have no objection to your reading that section itself.

Mr. SUTPHEN. I think I can explain it better—the principle of it. I will read it if you want me to.

Mr. GESELL. Your explanation will be sufficient.

Mr. SUTPHEN. The amount that is paid for the conservation of industrial and monthly premium business is determined by dividing the agent's lapse rate for the previous 13-week period by the lapse rate for the company or the division in which the agent works, whichever is the greater. The resulting percentage is applied to the table in the agents' agreement and the amount indicated, which varies from nothing to \$6, is the amount paid the agent for each week he works during the following 13-week period. It follows the same principle as applied to new business, of paying the man the same amount each week during the 13-week period, based upon his results for the previous 13-week period.

Mr. GESELL. This time, however, his results are compared against the results of his district or area.

Mr. SUTPHEN. Yes.

Mr. GESELL. Can you tell us, on the basis of this contract, just what percentage of premium paid by a policyholder during the first year he is with the company goes to the agent? It is rather difficult to compute that, is it not?

Mr. SUTPHEN. I think it is an actuarial matter, Mr. Gesell. I can't compute it.

Mr. GESELL. Do you know how it figures—what percentage?

Mr. SUTPHEN. I have never seen a figure.

¹ See "Exhibit No. 976," appendix, p. 6205, at p. 6207.

MR. GESELL. We know that 12 percent of it goes under the arrangements for the collection of the debit itself, and you know of no figures that will tell us how much more 'han 12 percent is involved?

MR. SUTPHEN. No.

MR. O'CONNELL. Thirty-five percent, would it not be, of the first-year premium?

MR. SUTPHEN. That is in the first year.

MR. O'CONNELL. And it is the first year that you are referring to.

MR. GESELL. Yes; so it would be at least 12 percent and 35 percent.

MR. SUTPHEN. Or 25.

MR. O'CONNELL. If it were an endowment policy, so excluding endowment you would have 47 percent of the first year's premium that would go to the agent. Might it be more than that?

MR. SUTPHEN. Yes; the payment for conservation—a certain amount—would be chargeable to it.

MR. O'CONNELL. You wouldn't have any percentages on that?

MR. SUTPHEN. No.

MR. O'CONNELL. Would it be safe to say 50 percent of the first year's premium?

MR. SUTPHEN. It wouldn't be as high as that.

MR. O'CONNELL. It would be more than 47, so it couldn't be much less than 50 percent.

MR. SUTPHEN. Of course, I am only just guessing now. I don't like to guess on these things without having definite figures.

MR. O'CONNELL. We are agreed on 47 percent, are we not?

MR. SUTPHEN. Yes.

MR. O'CONNELL. So it would be more than 47 percent.

MR. SUTPHEN. That's right.

MR. O'CONNELL. But we don't know how much more.

MR. GESELL. Am I correct in saying that you have some agents still under the old contract?

MR. SUTPHEN. We have some agents that we have continued to pay 15 percent collections.

MR. GESELL. How many agents are there on that basis?

MR. SUTPHEN. There are 5,000—

MR. GESELL. 5,370?

MR. SUTPHEN. Five thousand of them. They are gradually dropping off as finals occur.

MR. GESELL. In those cases the percentage for the first year of premiums would be 3 percent higher than the others.

MR. SUTPHEN. Yes; that is correct.

THE VICE CHAIRMAN. Could you give us the distribution of an income dollar?

MR. SUTPHEN. No; I couldn't. Mr. Gerhard can, I imagine.

MR. GESELL. He will be on the stand later and we can get that information from him.¹ I want to be sure that I had clear the difference between what you call your weekly industrial and what you call your intermediãte. The intermediate classification is ordinary but is collected monthly by the man on the debit, is it not?

MR. SUTPHEN. That is right.

MR. GESELL. I take it, then, that the difference between it and the weekly industrial relates itself in some way to the contract, the policy contract. Are there some differences in the policy contract?

¹ See *infra*, p. 5901, and "Exhibit No. 1003," appendix, p. 6275.

Mr. SUTPHEN. Yes; it is essentially an ordinary contract.

Mr. GESELL. Wherein does it differ from the industrial contract?

Mr. SUTPHEN. It has surrender value after 3 years, it has loan values, the premium is different. It is based on a different selection.

Mr. GESELL. Is it medical?

Mr. SUTPHEN. No; it is nonmedical, the same as the industrial.

Mr. GESELL. It is a sort of hybrid policy.

Mr. SUTPHEN. A larger percentage of it is medical, because it gets into larger amounts.

Mr. O'CONNELL. What is the minimum size policy—

Mr. SUTPHEN. \$500.

Mr. O'CONNELL. What is the minimum size policy that you write that always requires a medical examination?

Mr. SUTPHEN. You mean now in this monthly business?

Mr. O'CONNELL. I take it that neither your intermediate class nor your industrial requires a medical examination as an ordinary thing.

Mr. SUTPHEN. We have the nonmedical privilege which applies to ordinary and the intermediate and the industrial up to certain figures.

Mr. O'CONNELL. That is right. That is the figure I wanted.

Mr. SUTPHEN. In the industrial, the medical examinations are required at ages 46 to 50 if the total industrial insurance in our company is \$1,000 or more, and at ages 51 and over if it is \$500 or more. On the intermediate, which is the \$500 policy, between the age of 46 to 50 it is required on \$1,000 or more; 51 to 55, \$500 or more; and at 56 and over, at all ages.

On our ordinary business we issue—

Mr. O'CONNELL (interposing). The intermediate class of insurance doesn't cover policies of less than \$500, does it?

Mr. SUTPHEN. It does not. On the ordinary we issue nonmedical up to age 35 for \$2,000. I think the amount is \$2,000.

Mr. O'CONNELL. That is the ordinary you are talking about?

Mr. SUTPHEN. That is regular ordinary.

Mr. O'CONNELL. I was interested more in the industrial and the intermediate. Generally speaking, medical examinations are not required for industrial insurance.

Mr. SUTPHEN. That is right.

Mr. O'CONNELL. Nor for the intermediate, except in the upper ranges.

Mr. SUTPHEN. In the upper ranges.

Mr. GESELL. Now, can you tell us briefly the manner in which the assistant superintendents and superintendents are compensated? You have said it is a combination of salary plus commission.

Mr. SUTPHEN. Our superintendents and the assistants are both on the same basis. They are paid today on a guaranty basis; that is, they get a guaranteed salary, and they get a payment on the industrial increase and the monthly premium increase. Some years ago we combined those two factors so that they get paid on the combined and not on each individual policy.

Mr. GESELL. They get paid on the combined—

Mr. SUTPHEN. Increase in premiums on industrial and monthly premiums.

Mr. GESELL. I take it that the assistants are paid on the increase of their particular men.

Mr. SUTPHEN. Of their particular men, and the superintendent on the increase of the district.

Mr. GESELL. The superintendent on his own?

Mr. SUTPHEN. They get paid also on their ordinary production, depending upon the lapse rate of the ordinary business.

Mr. GESELL. But in the industrial, it is just the straight payment based upon increase without regard to anything else.

Mr. SUTPHEN. Yes.

Mr. GESELL. It must be a pretty complicated job, Mr. Sutphen, computing these agents' commissions, managers' and assistant managers' commissions.

Mr. SUTPHEN. Well, I wouldn't say so.

Mr. GESELL. How many clerks does it take to compute these agents' commissions?

Mr. SUTPHEN. I couldn't tell you that.

Mr. GESELL. It runs into the hundreds, doesn't it?

Mr. SUTPHEN. I couldn't say.

Mr. GESELL. How many operations are necessary to arrive at these figures?

Mr. SUTPHEN. It has all been built upon a system over a period of years. It creates a minimum of work. The biggest problem, of course, is in the agent's contract, under the present agent's contract.

Mr. GESELL. All these elaborate computations that are shown on these two large sheets have to be made to get one agent's pay for 1 week, don't they?

Mr. SUTPHEN. They are the records that are kept for the agents, not only for the payments but for all other purposes.

Mr. GESELL. The necessity of keeping the entry arises mostly out of the nature of the contract, doesn't it?

Mr. SUTPHEN. Well, a great many of them are records that would be kept, anyhow—the progress that the agent is making, his record, his production, his conservation. If you are going to supervise the business, you must have the records to supervise it with.

Mr. GESELL. I appreciate that. I am surprised that there is any doubt in your mind that it is a complicated and extremely expensive proposition to compute the agent's commissions based upon this elaborate form of contract. I should think anyone who would go through your office and see the rows and rows and rows of clerks who do nothing but make the computations necessary would come to that conclusion.

Mr. SUTPHEN. Well, when you say that there are rows and rows of clerks that make the computation outside of the machine department that work out the replacement calculations and who, incidentally, give us a lot of other data that is necessary in the business, there are not great numbers of clerks that do nothing but just work out the compensations.

Mr. GESELL. Do you think it would be cheaper if you paid these fellows a salary?

Mr. SUTPHEN. Well, now, that is a difficult question to answer. When you say, "Would it be cheaper to pay them a salary?" it would depend upon how much salary they would get.

Mr. GESELL. It certainly would be cheaper from a bookkeeping and mechanical standpoint.

Mr. SUTPHEN. It would be certainly cheaper from a bookkeeping and mechanical standpoint; yes.

Mr. GESELL. I take it, if you can compute pretty well what the average salary of an agent is, it would be possible to work out some type of salary basis for the men that would approximate that average, wouldn't it?

Mr. SUTPHEN. Yes; but it would not be satisfactory to the men.

Mr. GESELL. You mean that the men themselves do not want a salary job?

Mr. SUTPHEN. The income of agents fluctuates very greatly, depending upon their ability in the business and their application to the business.

Mr. GESELL. What is the range? Your average, I think, was around \$50 in 1938.

Mr. SUTPHEN. Yes.

Mr. GESELL. Do you recall what your highest-paid agents are?

Mr. SUTPHEN. Well, there are isolated exceptions of fellows that run up to \$5,000 a year, but they are the very decided exception. The general range will run from \$30 to \$75.

Mr. GESELL. Has your company given any thought to the desirability of paying agents a salary?

Mr. SUTPHEN. We have thought about it many times.

Mr. GESELL. What have been the reasons for discarding that as an approach to the problem?

Mr. SUTPHEN. The difficulty of arriving at a figure that would be fair to the men. We have men today that, because of their ability and because of their experience in the business, are making considerably more than the average, and you have other men with less ability and less experience and less inclined to apply themselves who probably on an average would be paid too much for the service that they are rendering to the policyholder.

Mr. GESELL. I should think it would be possible to take many of those factors into account the same way any other salaried office does by recognizing ability and paying for it.

Mr. SUTPHEN. It is a difficult thing to evaluate services of a large body of men. You would undoubtedly continually have men asking for the highest rate that is being paid and it is a very difficult matter to satisfy them that they are not entitled to it. Keep in mind that our men work very largely on their own. It is not like the clerks that you refer to that are given a certain number of columns to run and they sit right before your eyes all day and you see exactly whether they do their work and how they do it. The agent is out on his own on a commission basis very largely and he can utilize his time or not utilize his time as he happens to feel about it, and we have always felt that there should be an incentive feature in the payment of men under those conditions.

Mr. GESELL. Of course, I suppose that is partly prompted by your desire to get new business written and to place a premium on that in your compensation.

Mr. SUTPHEN. Not only get new business written but to give proper attention to the business that is already in force. It is essential, we believe, that an agent should have a financial interest not only in the production of business but in the conversation of the business that is

in force. As a matter of fact, we have an interest in writing new business, of course; that is the purpose of life insurance, the purpose of life-insurance companies; it is what they were established for in the first place, to provide protection for the American public.

Mr. GESELL. And you think that there is a better chance of selling more insurance if you emphasize that through your compensation methods.

Mr. SUTPHEN. Absolutely.

Mr. GESELL. Of course, it is conceivable that a company may stay just even, isn't it? Possibly even desirable?

Mr. SUTPHEN. Well, they couldn't stay just even unless they sold business.

Mr. GESELL. But you could place less premium on writing new business and still stay even, couldn't you?

Mr. SUTPHEN. We don't place a very big premium on it now.

Mr. GESELL. That is the question we are discussing. Do you think there is too much premium placed upon it?

Mr. SUTPHEN. No, I do not. Our agents at the present time for the first 6 months of this year were averaging \$52 a week and the payments that they received from new business represented about 25 percent of their total payment, which I don't think is too large a payment, bearing in mind that these men must be competent as salesmen to sell life insurance.

Mr. GESELL. I have no further questions.

The VICE CHAIRMAN. On the commission basis, don't you feel, Mr. Sutphen, that it is a pretty good guide to use a commission so an agent will get paid for what he has done?

Mr. SUTPHEN. Yes.

The VICE CHAIRMAN. And there is no doubt but what a commission paid to an agent still enables a desire and ambition to get more business for the company?

Mr. SUTPHEN. Yes.

The VICE CHAIRMAN. How is the beneficiary named under an industrial policy? Is that compulsory that the beneficiary be named?

Mr. SUTPHEN. Yes; either the beneficiary, or I believe they can name the estate, but they must name beneficiaries in the policy.

The VICE CHAIRMAN. What about a grace period? How long a grace period?

Mr. SUTPHEN. Four weeks on industrial.

Mr. O'CONNELL. Do industrial policies have a cash-surrender value?

Mr. SUTPHEN. After 5 years.

Mr. GESELL. Is there a surrender charge?

Mr. SUTPHEN. I think so. That is an actuarial matter.

Mr. O'CONNELL. You wouldn't know that?

Mr. SUTPHEN. They have a surrender charge, yes; at the end of 5 years.

Mr. O'CONNELL. You wouldn't know how it would compare with the surrender value at the time?

Mr. SUTPHEN. I would rather that you ask the actuaries about that. That is a matter that they control entirely.

Mr. O'CONNELL. This morning you referred to the fact that last year, as I recall it, some 400 of your agents were fined for deficiencies. That, I take it, means something in the nature of em-

bezzlement of funds entrusted to their care. Four hundred people—that must mean about 8 a week that your company had to deal with in such a way. What do you do?

Mr. SUTPHEN. We discharge them.

Mr. O'CONNELL. And that is all?

Mr. SUTPHEN. We do endeavor to collect the deficiency. There are isolated cases in which we have prosecuted a man.

Mr. O'CONNELL. With the exception of such isolated cases no attempt is made to prosecute?

Mr. SUTPHEN. No.

Mr. O'CONNELL. What is the theory behind that?

Mr. SUTPHEN. They are small amounts, they are not large amounts, generally speaking.

Mr. O'CONNELL. Last year, if you had a loss of \$44,000, with 400 agents that would be an average of about \$100 an agent.

Mr. SUTPHEN. \$100.

Mr. O'CONNELL. Generally speaking, you discharge them, and if it is worth your while you attempt civil action to collect the amount they owe you.

Mr. SUTPHEN. Of course, I don't handle that end of the business. That is my understanding. We prosecute very few of these men. The expense involved would be more than the amount we would collect.

Mr. O'CONNELL. The expense involved in prosecution would be more than you would collect?

Mr. SUTPHEN. It might be.

Mr. O'CONNELL. I should think it would merely mean referring the case to the appropriate public officers in the area.

Mr. SUTPHEN. Well, we don't have any desire to persecute these men.

Mr. O'CONNELL. You say this situation is such that—

Mr. SUTPHEN (interposing). In other words, we don't want to take advantage of their misfortune. A great many of these men that go out with deficiencies are not bad at heart. They spend more money than they make and get into debt and get into trouble of one kind or another and take the money.

Mr. O'CONNELL. You think the system is such and the temptation is such and the type of person that you employ is such that, under all the facts, it isn't one that you think would require any punishment other than to lose their job?

Mr. SUTPHEN. Generally speaking. If we have a flagrant case where men take large amounts under circumstances where we feel that something should be done in the way of prosecuting them, we do.

The VICE CHAIRMAN. Do all your industrial policies contain a disability clause?

Mr. SUTPHEN. They contain a modified disability clause providing for the payment in event of the loss of eyesight or the loss of both arms or both legs or one arm and one leg. That is as far as it goes.

The VICE CHAIRMAN. It applies to loss of eyesight and limbs?

Mr. SUTPHEN. If the policyholder loses the sight of both eyes, we pay the full amount of insurance and give him a paid-up policy, and at death pay the amount of the policy again.

The VICE CHAIRMAN. Can you give us any idea of the percentage of disability benefits paid under the industrial policies?

Mr. SUTPHEN. We paid \$1,387,000 last year.

The VICE CHAIRMAN. What would that be in percentage?

Mr. SUTPHEN. Percentage of what, may I ask?

The VICE CHAIRMAN. Of the total payments last year.

Mr. SUTPHEN. That is compared with \$70,000,000. Well, no, it is not \$70,000,000. I haven't the exact figures on it, Mr. Chairman. This is tied up with the payments of matured endowments, and so forth and so on, to living policyholders, but the payments of this disability amounted to \$1,387,000.

The VICE CHAIRMAN. These have an accidental death clause?

Mr. SUTPHEN. They have an accidental death clause.

The VICE CHAIRMAN. Is that double the amount of the policy?

Mr. SUTPHEN. Yes.

Mr. GESELL. I have no further questions.

(The witness, Mr. Sutphen, was excused.)

Mr. GESELL. The next witness is Mr. Cardozo. If the committee please, at this time we wish to present the results of an analysis that has been made by the staff of the Commission of some 1,000 or more industrial insurance policies, and also the results of an analysis which has been made of the various State statutes regulating the sale of industrial insurance.

The VICE CHAIRMAN. Do these 1,000 policies cover one company or many companies?

Mr. GESELL. Several different companies, approximately 60 in number. I will bring out the details through this witness.

The VICE CHAIRMAN. Do you solemnly swear the testimony you shall give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CARDOZO. I do.

TESTIMONY OF MICHAEL H. CARDOZO, INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.

INDUSTRIAL INSURANCE POLICY TERMS

Mr. GESELL. What is your full name?

Mr. CARDOZO. Michael H. Cardozo.

Mr. GESELL. Are you an attorney on the staff of the Insurance Section of the Securities and Exchange Commission?

Mr. CARDOZO. I am.

Mr. GESELL. Am I correct in saying the staff of the Insurance Section has made an analysis of industrial insurance policies?

Mr. CARDOZO. Yes.

Mr. GESELL. About how many policies were analyzed?

Mr. CARDOZO. There were at least 1,000.

Mr. GESELL. How many different companies were these policies obtained from?

Mr. CARDOZO. We obtained policies from more than 60 companies, but we used only the policies of about 60 companies in making this analysis.

Mr. GESELL. Are the policies involved in the analysis, unless otherwise indicated, policies which are currently being sold by the companies?

Mr. CARDOZO. Yes; that is right.

Mr. GESELL. What was the method used in obtaining these policies?

Mr. CARDOZO. A letter was sent to all the companies writing industrial insurance, asking them to send samples of their policies being issued since 1932, and they sent those policies in.

Mr. GESELL. I take it this list of 60 companies includes all of the principal industrial companies.

Mr. CARDOZO. Yes; that is true.

Mr. GESELL. First of all, how many different plans of insurance were found as a result of this examination?

Mr. CARDOZO. We found over 30 plans. I have 30 of them listed here.

Mr. GESELL. You would say those are the 30 more commonly in use?

Mr. CARDOZO. Yes.

Mr. GESELL. Can you name them, please, for us?

Mr. CARDOZO. Whole life; whole life paid up on the anniversary of the policy after age 74; whole life paid up on the anniversary after age 75, age 70, and age 69; 30-payment life; 21-payment life; 20-payment life; 15-payment life; 14-payment life; 10-payment life; endowment at age 80, 75, 70, 65, 60, 50, and endowment at age 21; 40-year endowment; 30-year endowment; 25-year endowment; 20-year endowment; 15-year endowment; 10-year endowment; 20-payment, 30-year endowment; 10-payment, 30-year endowment; 19-year endowment; 13½-payment endowment at 75, term to age 75.

And we found a \$1,000 endowment at age 85, calling for weekly premiums.

Mr. GESELL. Am I correct in saying that there are probably even more plans than those designated being used by the companies?

Mr. CARDOZO. Yes; that is accurate.

Mr. O'CONNELL. Are all these plans involving industrial insurance?

Mr. CARDOZO. Yes; those are all strictly industrial insurance, defined as legal reserve life insurance, in amounts, except for the policy I mentioned, under \$1,000 on which premiums are collected monthly or oftener at the homes of the persons insured. There are a few variations from that, but that is substantially the definition we followed.

Mr. GESELL. Can you tell us whether if examination were made of policies issued during recent years and not limited to an examination of policies now being issued but including policies that are now in force, this list would be even still greater?

Mr. CARDOZO. Yes; it would undoubtedly be longer.

Mr. GESELL. Have you in analyzing the provisions of these various policies assumed that the terms of the entire contract between the company and the insured are contained on the face of the policy?

Mr. CARDOZO. Yes; we have. We have assumed that the contract is contained in the policy, on the theory that from the point of view of the policyholder that is where he finds what his rights are. It is true that frequently the companies do not require strict adherence to the exact provisions, and frequently concessions are made after the issuance of the policies.

Mr. GESELL. Will you present your comments with respect to this analysis?

Mr. CARDOZO. There are certain policy provisions which are now considered fundamental for life insurance policies. They have already been referred to in these hearings as the "Ten Commandments" of a life insurance policy. Some of these "Ten Commandments" are not considered appropriate for industrial insurance; for instance, the size of the average industrial policy precludes the making of loans on such policies without incurring expenses that are likely to be out of proportion to the benefits conferred. Therefore, most industrial policies do not grant the privilege of a loan. However, we did find one company which issues policies on the weekly premium industrial plan containing a provision for loans.

Since the premiums on industrial policies are usually collected at the homes of the insureds by agents who call at regular intervals, it has generally been considered unnecessary to send premium notices to industrial policyholders. However, there is no obligation assumed by the companies to collect premiums regularly.

Mr. GESELL. You mean by that that the industrial policy contains no obligation on the company to call and make a collection of the premium?

Mr. CARDOZO. That is true.

The size of the average policy and the purpose of industrial insurance, namely, to provide burial expenses, make it impractical to grant optional modes of settlement upon the death of the insured. We did find three companies which are issuing policies containing such options, however. Another clause which is not as important in industrial insurance as in ordinary insurance is the so-called suicide clause which removes suicide from the covered liabilities in case it occurs within 2 years or so after issue. However, reference to suicide is made in many industrial policies and in the policies of at least two companies it continued to be an excepted liability during the whole life of the policy.

The various clauses which tend to safeguard the rights of the policyholder are likely to be more important in the case of industrial insurance than in ordinary insurance. Also, clarity and simplicity of expression in the clauses are more important in industrial insurance. The average industrial policyholder has less education and access to advice than the holder of an ordinary policy. In addition, there are many illiterate policyholders and others who are unable to speak or read English. It is also more important to industrial policyholders to receive their full money's worth for every dollar that they put into insurance. We found frequent evidence of an attempt by smaller companies to emulate the larger ones by copying their policies, but all too frequently a vital word would be omitted and the safeguards in the original would be missing from the copy.

Our study of industrial policies revealed that there are frequently violations of those of the "Ten Commandments" of life-insurance policies which are considered appropriate for industrial insurance.

For instance, the clause making a policy incontestable after it has been in force for a given length of time, such as 1 or 2 years, has become universally accepted as part of a good life-insurance policy. It is intended to enable a policyholder to know that when he dies, after paying premiums for the specified period, he will leave a certain sum to his beneficiaries, instead of a possible lawsuit. Also, it places

upon the company the obligation to investigate representations promptly and before premiums have been paid for many years. Most States which have laws regulating the provisions of life-insurance policies have required that they become incontestable after the passage of a year or two. We found policies of four different companies which contained no incontestable clause at all.

Mr. GESELL. Were those companies small companies or large companies?

Mr. CARDOZO. They are not so small that they are insignificant. They are authorized to operate in a total of seven States and had over 190,000 policies in force. Even if every one of their policyholders had two policies, which is very unlikely, these companies would be directly affecting 95,000 people.

Most of the policies were found to contain terms making them incontestable after they had been in force for 2 years, but at least 10 companies, including the first 3 companies in number of industrial policies in force, had a 1-year contestable period, while three companies were found to be issuing policies which are incontestable from the date of issue.

Practically all life-insurance policies give the policyholders a grace period, usually a month, in which to pay premiums before the policy will be considered in default. This clause also usually appears in industrial policies. Usually this clause prevents default in case of nonpayment of premium, but at least six companies use a grace period which seems to apply only to cases in which a death claim arises before premium default of more than 4 weeks. Under such policies it appears that failure to pay premiums exactly when due would put the policyholder in default, with all the penalties attached thereto, unless he died. This appears to be a somewhat delusive grace period.

Probably the most important standard provisions of life-insurance policies are those which prevent forfeiture of the reserve in case of default in premium payments. It will be recalled that the reserve is really the policyholder's savings, held by the company for use when the policyholder grows older and the annual cost of mortality rises above the annual level premium. For reasons which have already been explained in these hearings, the companies have usually not permitted the policyholder to obtain any of his reserve in case of default in premium payments before they have been paid for 3 years. Thereafter, forfeiture of the reserve is usually prevented by means of the so-called "nonforfeiture benefits." These benefits usually appear in industrial policies, but policies being issued by three companies, having over 400,000 industrial policies in force between them, were found to lack any provisions for nonforfeiture of the reserve.

Usually the nonforfeiture provisions include the granting of one type of insurance automatically upon default, so that a policyholder need not give the company notice of his desire to have the benefit of his reserve in order to obtain it. However, at least seven companies are issuing policies in which the nonforfeiture benefit is not automatic. In most of these cases, the policyholder can only obtain the full benefit of his reserve by demanding it within 13 weeks after the last premium payment. The companies using these policies are authorized to do business in 13 States, and have an aggregate of over 700,000 policies in force.

The types of nonforfeiture benefits usually given are extended term insurance for the full amount of the policy, paid-up insurance for a reduced amount, and a cash surrender value. Paid-up insurance for a reduced amount usually results in giving the industrial policyholder a very small death benefit. However, at least 10 companies are now giving this as the automatic nonforfeiture benefit.

Mr. GESELL. You mean by that, that that is the only automatic nonforfeiture benefit available in those 10 companies?

Mr. CARDOZO. Yes; that is true. There are other nonforfeiture benefits which can be elected in some of the policies.

Mr. GESELL. But that is the one that takes effect unless the policyholder directs otherwise?

Mr. CARDOZO. That is true.

Many more companies give extended term insurance as the automatic benefit, and the Prudential and Western and Southern allow extended insurance in all cases after 3 weeks' premiums have been paid, and after 2 weeks in endowment policies. The Metropolitan and John Hancock give it after premiums have been paid for 26 weeks. Most of these nonforfeiture benefits in other companies are available after premiums have been paid for 3 years, but at least nine companies are issuing policies which have no nonforfeiture benefits until premiums have been paid for 5 years.

The policies generally contain tables showing the amounts of the nonforfeiture benefits which are available after premiums have been paid for various periods of time, but usually these tables only show the benefits for the first 20 years. One company which grants nonforfeiture benefits provided no tables showing their amounts. At least three other companies did not provide any statement of the basis on which nonforfeiture benefits would be calculated in case they were sought after the policy had been in force for over 20 years.

Ordinary policies are generally made payable to a named beneficiary upon the death of the insured. However, in industrial insurance the so-called "facility of payment" clause has been used on the theory that the companies can make more prompt payment of the proceeds without the necessity of locating the named beneficiary, or without the appointment of an executor or administrator.

Mr. GESELL. Can you give us an idea of how what might be called a typical "facility of payment" clause would read?

Mr. CARDOZO. I have a facility of payment clause being used by the Metropolitan. It reads as follows:

If the beneficiary does not surrender this policy with due proof of death within 30 days after the death of the insured, or if the beneficiary is the estate of the insured, or is not legally qualified to give a valid release, or dies before the insured, the death benefit will, upon surrender of this policy with due proof of death, be paid to the executor or administrator of the insured, but in any such case the company may, in lieu of payment to the executor or administrator, pay the death benefit to any person named as beneficiary, or to any relative by blood or connection by marriage of the insured, appearing to the company to be equitably entitled to such payment. The company may, during the minority of the insured, make any other payment or grant any privilege provided in the policy to any of the persons described in this paragraph.

Mr. GESELL. Am I correct in saying that there are facility of payment clauses used by principal companies which give a greater discretion to the company than is contained in that clause of the Metropolitan?

Mr. CARDOZO. Yes; the Western and Southern, for instance, uses a shorter clause which reads as follows:

The Company may make any payment or allow any benefit provided for in this policy to any relative by blood or connection by marriage of the Insured appearing to the Company to be equitably entitled thereto.

Mr. GESELL. I believe you said that type of clause, facility of payment clause, is contained and generally considered essential in all industrial insurance policies. Are there any companies which were found that issued policies that do not contain such a facility of payment clause?

Mr. CARDOZO. Yes; we found three companies that do not use a facility of payment clause. One of these three, the National Life and Accident Insurance Company of Tennessee, has over 2,800,000 industrial policies in force, the fourth largest among the United States companies.

Mr. GESELL. What about this business of naming a beneficiary in an industrial policy? Does your analysis cover that?

Mr. CARDOZO. Yes; usually in the present policies being issued the proceeds will be paid to the beneficiary if he files a claim before a certain time has elapsed after the death of the insured. At least eight companies, with a total of over 3,000,000 policies in force, are now issuing policies under which the proceeds will be paid to the beneficiary without restriction if he is living at the death of the insured. Four companies are issuing policies under which the beneficiary has prior rights if he files his claim within 15 days after the death of the insured; over 17 companies give him 30 days in which to appear; and 4 companies, including the Prudential, allow 60 days.

Mr. GESELL. Are there sometimes policies which contain provisions which make the policy payable directly to a named undertaker?

Mr. CARDOZO. Yes; this is a so-called funeral-benefit policy, under which the benefits are payable directly to a named undertaker. We found at least four companies issuing policies which conform to our definition of industrial insurance that contain this type of beneficiary clause.

Mr. O'CONNELL. In answer to a previous question you indicated that some companies have a 15- and some a 30- and some a 60-day period within which the beneficiary might appear and present his claims. Suppose he does not.

Mr. CARDOZO. If he does not appear, then the facility of payment clause goes into effect and the company may pay to the person among those named who appears equitably entitled to the proceeds.

Mr. O'CONNELL. Are there any companies that have no facility of payment clause and have a limited period of time in which the beneficiary may claim?

Mr. CARDOZO. No; we didn't find any of that. You mean a case where there seems to be nobody—

Mr. O'CONNELL. There might be a forfeiture in the event of failure to claim the proceeds of the policy.

Mr. CARDOZO. No; we didn't find anything like that.

Mr. O'CONNELL. Did you make any study as to unclaimed insurance proceeds of policies? There must be a number of cases in which for one reason or another the beneficiary might not know that he was beneficiary of a policy or that the policy might become lost.

Mr. CARDOZO. We are going to take that up, I think, with the other witnesses.

The VICE CHAIRMAN. How many policies are issued that permit payment directly to the undertaker?

Mr. CARDOZO. We found only four companies issuing policies of that kind.

The VICE CHAIRMAN. Do you know the number of policies?

Mr. CARDOZO. By those companies?

The VICE CHAIRMAN. Yes.

Mr. CARDOZO. We can get those.

The VICE CHAIRMAN. If it is going to put you out, let it wait.

Mr. GESELL. We can get you that.

While that material is being found, Mr. Cardozo, did your analysis include an analysis of provisions relating to the revival of the policy after certain kinds of voluntary termination?

Mr. CARDOZO. Yes. In industrial policies revival is usually permitted within 1 or 2 years after the last premium payment, if the cash surrender value has not been paid. However, one company gives only 6 months for revival; another, the American National, which is the sixth largest in the industrial insurance field by number of policies in force, allows 3 years, and nine companies were found to allow revival at any time after default in premium payments.

Mr. O'CONNELL. By revival, what do you mean, that the policy may be revived at the same premium rate by paying all arrears?

Mr. CARDOZO. Yes; that is right, either paying them in cash or paying them by a lien. Most of the companies, including the largest ones, permit an industrial policy to be revived by the payment in cash of all arrears of premiums or by means of a lien for either the whole or part of the amount of the arrears. However, only one company, the Equitable Life Insurance Co. of Washington, D. C., was found to be issuing a policy which mentioned liens for premium payments, and this policy did not refer to revivals by lien.

Another problem connected with revival is raised by the incontestability clause. It is a question whether the revived policy is a new policy for this purpose. Most of the incontestability clauses state that the policies shall be incontestable after they have been "in force" for a certain period during the lifetime of the insured. If a policy lapses and is revived, is it incontestable after the same period from issue or does the contestable period begin to run again? While almost all the policies contain revival and incontestability clauses, only five companies were found to be issuing policies which specifically state whether or not they are incontestable after revival.

Life-insurance policies usually state that the provisions set forth therein constitute the entire contract between the company and the insured. State statutes on this subject generally prohibit the use of the application if it is not attached to the policy. Industrial policies generally do not have the application attached but merely contain a printed representation by the insured that he was in sound health on the date of issue. Only four of the companies, including the Prudential, appear to be attaching applications to any of their industrial policies. Eleven other companies are issuing policies which state that the policy and the application together constitute the entire contract, but the application is not attached. Seven companies

are issuing policies containing reference neither to the application nor to the fact that the policy contains the entire contract. In these latter companies in the absence of a state statute on the subject, the company might even refer to its bylaws in contesting claims.

Five of the companies are issuing policies which state that any assignment will make the policy void. In most companies assignments are declared void unless the company approves them.

As further examples of the indiscriminate manner in which many policyholders accept contracts offered them by the companies, I should like to mention two policies containing obvious misprints. One is issued by the National Life & Accident Insurance Co., one of the largest in the industrial field. There appears what purports to be a description of the policy at the bottom of the first page, in bold-face type. This description is of a 20-payment life policy. However, the policy itself is clearly a 20-year endowment policy, and on this same page the company agrees to pay the sum to the insured if living at maturity, which is stated to be the twentieth anniversary of the policy.

Mr. GESELL. You said you had two of these misprints?

Mr. CARDOZO. There was one other policy which contained a misprint in the disability clause which obviously the company would not live up to because it seemed to call for severance of the hands and feet of a policyholder in case he continued to pay premiums for more than 3 years.

Mr. GESELL. We have had reference here to the fact that some companies, notably the Metropolitan, have provisions which permit a reduction in premiums if the premiums are paid for a stated period of time by policyholders directly to some branch office. In how many companies do you find such provisions being used?

Mr. CARDOZO. Well, the Prudential and John Hancock are including a provision of that kind in their current policies. For some years the Prudential has given credit for 52 weeks' premiums upon payment of 47 weeks in advance. In addition, we found four other companies which are now granting a deduction in consideration of the payment of premiums at an office of the company every week or payment of a reduced amount 1 year in advance.

Mr. GESELL. Have you any comment which you wish to make with respect to the incontestable period clauses in some of these policies?

Mr. CARDOZO. A typical incontestability clause reads as follows:

This policy shall be incontestable after it has been in force, during the lifetime of the Insured, for one year from its date of issue, except for non-payment of premiums.

However, we found at least 10 companies now issuing policies which state that after they have been in force for a certain period they will be incontestable except for fraud or non-payment of premiums. The fraud exception is susceptible of interpretation to cover most of the situations under which a policy is likely to be contested and therefore the protection of the incontestability provision is diminished.

In endowment insurance, the promise to pay the sum as an endowment to the insured upon maturity is of the essence of this plan of insurance, and this promise is contained in most such policies. However, we found nine policies which do not contain such a promise.

Mr. GESELL. You mean to say there were nine policies that didn't contain a promise to pay the endowment to the insured when the policy matured?

Mr. CARDOZO. That is right.

Mr. O'CONNELL. What was the contract?

Mr. CARDOZO. The contracts read that the sum insured will be paid as an endowment at the end of 20 years; that is the way some of them read. It just doesn't say whom it will be paid to.

In addition, many of the facility of payment clauses state that the company may pay the benefits in accordance with the provisions of that clause, despite the fact that the policy is an endowment.

In this connection, it is interesting to observe the provisions of two recent policies used by the Monumental Life Insurance Co. of Baltimore, Maryland. In a 20-year endowment form printed in 1937 the company promises to pay the sum mentioned on the death of the insured, and in a box on page 1 prints the following:

Amount payable 20 years from the date hereof or at death if prior thereto.

There was no other clause in the policy containing a promise to pay. In a form printed in 1939, the 20-year endowment policy has this statement:

Amount payable as an endowment to the insured, if living, twenty years from the date hereof or at death if prior thereto.

This seems to promise to pay the sum to the insured if he dies prior to the 20-year period.

These policies are not cited as evidence that there is any failure on the part of the companies, as far as we know, in making payment when due; they are merely examples of the careless drafting of the contracts issued by some companies and accepted by many policyholders.

Mr. GESELL. What about the accidental death and disability provisions in these policies? Does your analysis include an examination of some such provisions?

Mr. CARDOZO. Yes; it does. We found that many of the small companies were using clauses which were similar to those of the larger companies, and a few of them, apparently trying to enjoy the competitive advantage of including such a clause without incurring the liabilities, have so bound it with restrictions that it is more delusive than beneficial.

An example of such a clause is the following. It is headed: "Double Accidental Death Benefit."

Mr. GESELL. Is that in bold type?

Mr. CARDOZO. Yes; that is in bold-face type.

If the death of the Insured results within ninety days from date of accident, and while there is no default in the payment of premium beyond the four weeks' grace period, from bodily injuries sustained solely through external, violent, and accidental means, (1) while the Insured is riding as a passenger in a passenger elevator (elevators in mines excepted); (2) or while the Insured is riding as a passenger within the enclosed part of any railway passenger car provided by a common carrier for the exclusive use of passengers; (3) or while the Insured is riding as a passenger on board a steam vessel licensed for the regular transportation of passengers; and such injuries are, in each case, due directly to and received in consequence of the wrecking of such elevator, car, or vessel and are not received while getting on or off, or being on the step or steps thereof; (4) or in consequence of the burning of a building in which the Insured is at the time of the commencement of the fire; (5) or

in consequence of the collapse of the outer walls of a building while the Insured is therein; (6) or in consequence of a stroke of lightning, then—

and this is in bold-face type—

the amount to be paid shall be double the sum that otherwise would be payable under this policy.

Mr. GESELL. Then, in other words, this industrial insurance policyholder wanting to collect under this clause would have to be either riding in a passenger elevator or as a passenger on a railroad car or as a passenger on a steam vessel or he would have to be in a building before a fire started and be killed as a result of a fire or he would have to be killed in a building where the outer walls, not the inside walls, collapsed, and if he was lucky to get hit by lightning he could also collect.

Mr. CARDOZO. That is right.

It has been common to find a clause in industrial policies which states that the policy will be void in case there is another policy in force in the same company and reference to it is not endorsed on the later policy. The agent of the company who collects the premiums is the one most likely to know of the existence of such a policy. Nevertheless, these policies state that the companies shall not be deemed to know of it. Seven companies were found to be still issuing policies containing such a clause.

Mr. GESELL. Did you find that some companies were still issuing short-term endowment policies?

Mr. CARDOZO. Yes; we found at least six companies still issuing 10-year endowment policies. In case of the lapse of such a policy before any nonforfeiture benefits are available, the loss to the insured is much greater than in the case of most other policies. In at least two of these 10-year endowment policies the companies do not grant any automatic nonforfeiture benefit at any time. Several companies are writing industrial term insurance. Two of them are issuing policies called "Term to age 65." Such a policy, if issued before age 45, builds up a reserve sufficient to warrant the payment of nonforfeiture benefits in case of premium default. However, one of these companies does not grant any nonforfeiture benefits, and the loss to the policyholder in case of lapse would be substantial.

LAWS APPLICABLE TO INDUSTRIAL INSURANCE

Mr. GESELL. Have you also made an examination of the various State statutes relating to industrial insurance?

Mr. CARDOZO. Yes; we have.

Mr. GESELL. Does this examination include all of the 48 States and the District of Columbia?

Mr. CARDOZO. Yes; that is right.

Mr. GESELL. First of all, directing your attention to those provisions of State laws relating to policy provisions and the approval of such policy provisions by State authorities, and other similar matters, will you state for the committee what your analysis discloses?

Mr. CARDOZO. We found that in 12 States and possibly 3 others the law requires that all life-insurance policies be approved by the superintendent or commissioner of insurance before they are issued or delivered in those States. In 6 other States the law requires that the superintendent or commissioner examine the policies to determine

whether or not they conform to law. We have been informed that in some States, despite the absence of authority expressed in the statute, and without a statutory declaration of what it is proper for policies to contain, the commissioners assert some form of supervision. However, it is significant that it has widely been considered necessary to enact laws requiring standard provisions in ordinary policies, despite the superintendent's authority to approve or disapprove.

In some of the larger States the number of policies submitted for approval every year runs into thousands. Perhaps it is not surprising, therefore, that two of the policies which were found not to contain any nonforfeiture provisions stated on their faces that they were approved by the Insurance Department of South Carolina. The two endowment policies referred to earlier, issued by the Monumental, were likewise subject to the approval of the superintendent of Maryland. One policy issued by the Star Life Insurance Co. of Baltimore, Md., during 1937, despite the requirement of prior approval by the superintendent, is notable because it contains no incontestable clause, no provision for automatic nonforfeiture benefits, no provision for a cash value, no table of nonforfeiture benefits, and no statement of the premium-paying period. It appears to be a whole life policy and calls for a weekly premium. It contains a special accidental death benefit of double the amount insured, but the death must result from accident within 24 hours of injury in order to warrant the additional payment. Only one-half of the stipulated sum payable for natural death will be paid in case death is caused by tuberculosis, heart disease, pneumonia, cerebral hemorrhage, paralysis, or any chronic disease which had its beginning within 24 months from the date of the policy.

It is interesting to note that on June 1, 1937, a new statute went into effect in Maryland establishing extensive standard provisions for industrial policies.

Mr. GESELL. Have you, before passing to a consideration of other provisions of State laws, any comment which you wish to make upon this analysis of policy provisions and the laws relating thereto?

Mr. CARDOZO. We found that there is no uniformity in the plans on which industrial insurance is written, and that there is no standard form of policy in use, and also that the clauses which do appear in the policies are worded so differently by the different companies that it is frequently very difficult to understand their exact import. This is especially confusing for the holders of industrial policies, whose understanding of insurance terminology is necessarily limited.

Mr. GESELL. Will you present for us the results of the study of the statutes relating to industrial insurance?

Mr. CARDOZO. In Illinois, Maryland, Pennsylvania, and Virginia there are statutes containing standard provisions specifically applicable to industrial insurance. In addition, the recodification of the New York insurance law, which becomes effective on January 1, 1940, contains standard provisions for industrial policies. These provisions are not dissimilar to provisions which apply to ordinary policies but are adapted especially for the problems of industrial insurance. The new New York statute, the present Pennsylvania statute, and the present District of Columbia statute contain refer-

ences to the facility of payment clause and require that it be made operative only after the beneficiary has had an opportunity to file his claim. The new New York statute also regulates contestability after revival.

Mr. GESELL. How do these States generally regulate industrial insurance? Are the provisions as explicit and frequent as you find in the case of ordinary insurance?

Mr. CARDOZO. No. Industrial insurance has usually been excepted from the requirements of standard provisions. Of the States which have some such requirements, we found 26 that excepted industrial insurance. Typical of this type of statute is the present New York law, which states that no life or endowment insurance policy, "except policies of industrial insurance," may be issued or delivered in New York unless it contains in substance the 10 standard provisions set forth. There are not over 15 States which require anything that could be called standard provisions for industrial policies. There are over 35,000,000 policies in force in the States that do not have such laws.

After the Armstrong investigation in New York, a law was passed limiting the expenses that a company might incur. Industrial insurance is excepted from these limitations. Another law was enacted in New York as a result of the Armstrong investigation regulating the method of electing directors of mutual companies. This law gives policyholders the right, under certain circumstances, to demand a list of all the policyholders of the company. However, they have never been, under this clause, able to obtain a list of the holders of industrial policies, although the latter are entitled to vote. In a company like the Metropolitan, this means that the names of around 20,000,000 voters are not available to any but the officers of the company.

Although many States refer to industrial insurance by name, it is interesting that 17 of them have not defined it. Fourteen States apparently do not refer to it even by name. One of the States defines it with a definition that really applies only to group insurance. Only 11 States appear to have specific definitions which are not merely to be implied from the treatment given it in sections of the law. Very few of the States define industrial insurance in the same way. New York and Pennsylvania define it substantially as follows:

Industrial life insurance is hereby defined to be that form of life insurance, either—

- (a) under which the premiums are payable weekly, or
- (b) under which the premiums are payable monthly or oftener, if the face amount of insurance provided in the policy is less than one thousand dollars, and the words "industrial policy" are printed upon the policy as a part of the descriptive matter.

Some of the States define industrial insurance only as weekly premium insurance, omitting monthly premium policies. For policies issued prior to 1911, Massachusetts defines it partly in terms of the amount of the premium. This definition has been in the Massachusetts laws since about 1880, when the Massachusetts Public Statutes contained the following provision:

* * * policies of prudential or industrial insurance, on which the premiums are 5¢ per week and upwards, but not exceeding 50¢, * * *

The District of Columbia has a clear definition of industrial insurance, defining it as weekly or monthly premium insurance, but for some reason the sections of the law which contain the regulatory provisions state that they apply only to weekly premium insurance.

Mr. GESELL. What are the provisions of the State laws with respect to policy valuation?

Mr. CARDOZO. We have found that only 2 States require the Standard Industrial Table for the valuation of any industrial policies, and in only 9 of the other States was there any mention of the Standard Industrial Table. The minimum standard of valuation in 44 States was either the actuaries or combined experience table or the American Experience Table, using interest ranging from three and one-half to four and one-half percent.

Mr. GESELL. With respect to the so-called "10 commandments" which you were discussing, do you find that there are many States which require any or all of those provisions to be included in the industrial policies?

Mr. CARDOZO. We found that in 32 States there was no requirement that a policy become incontestable at any time. In 41 States we found no law establishing a period of grace for the payment of premiums. In 37 States we found no law requiring the payment of claims, on an adjusted basis, in case of a misstatement of age. In 29 States we found no law requiring an automatic nonforfeiture benefit. There are over 30,000,000 policies in force in these latter 29 States, and in 3 of them there are more policies than there are people. In 3 other States it is doubtful whether or not the benefits required must be automatic or depend upon a demand by the insured. In 29 States we found no provisions requiring nonforfeiture benefits, whether automatic or not, and in 34 States we found no requirement that a cash value be made available at any time. In only 7 States was there found a requirement that the policies contain tables showing the values of nonforfeiture options, and in 29 States the statutes do not establish any top limit on the surrender charge which may be made. In only 5 of the 48 States was there found a requirement that the policies contain a reinstatement or revival clause and in only 4 States any mention of the naming of the beneficiary in industrial policies. In 18 States we found no statute requiring that the entire contract be contained in the policy and that the application not be considered a part thereof unless attached. Nine other States have statutes which we did not consider susceptible of definite interpretation on this subject.

Many States contain laws prohibiting the inclusion of certain provisions of life-insurance policies, such as a forfeiture for failure to pay a loan, excessive dating back of the policy, and so forth. Thirty-four States had no such prohibitions with respect to industrial insurance. The District of Columbia alone prohibits the inclusion in an industrial policy of a clause which states that any assignment of the policy will make it void.

One of the difficulties that arises when a subject like industrial insurance is treated like a stepchild is exemplified by the situation in Texas. In that State, where there are 20 companies writing industrial insurance and nearly 2,000,000 policies in force, they so far ignored industrial insurance that they failed to except it from the statute which establishes standard provisions for ordinary policies.

As a result, industrial policies in Texas, in order to conform to law, must make a loan available and grant a cash value after premiums have been paid for 3 years. We found no company issuing regular industrial policies in Texas containing these provisions.

Mr. GESELL. As a matter of fact, that very issue has been the subject of some recent litigation, has it not? The courts have decided that until the law is changed the industrial policies must comply with the same standards as the ordinary?

Mr. CARDOZO. That is true. That case has been implemented by a decision of the Texas Board of Insurance Commissioners.

Mr. GESELL. Is there a somewhat similar situation in Rhode Island?

Mr. CARDOZO. In Rhode Island we found a statute which requires that all life-insurance policies grant an automatic premium loan after the policy has been in force 2 years. There are more policies in force in Rhode Island than there are people there, but no industrial policy being issued there was found to contain such a prohibition.

In only three States have there been any laws regulating remuneration of agents, and in one of these, Texas, only the agents of the mutual companies are affected. In New York and Massachusetts there were laws passed with a view toward relieving the agents of certain charges for the lapse and surrender of policies.

The States have been remarkably eager to require agents, and even industrial agents, to obtain licenses. In only one State are agents not so required, although in one other State they may not be, and in one of those two States, New York, the law in 1940 requires licenses.

Mr. GESELL. That concludes the presentation, does it not?

Mr. CARDOZO. Yes.

Mr. GESELL. We have no further questions, unless some of the committee have.

The VICE CHAIRMAN. I notice you said there were 30 different types of policies.

Mr. CARDOZO. We listed 30 different ones here. There are probably more.

The VICE CHAIRMAN. But do the vast majority of these policies fall within three classifications?

Mr. CARDOZO. I should say about three. Naturally, the three biggest companies, which have a very much larger number of policies than all the other companies combined, are issuing very few different plans of insurance, and the Metropolitan, for instance, uses for its white policyholders a whole life paid up at age 74. The Prudential uses a whole life paid up at age 70, but those are substantially similar policies.

The VICE CHAIRMAN. That is, the vast majority of them follow the three classifications: Whole life paid at a certain age, the 20-payment life, and the 20-year endowment.

Mr. CARDOZO. None of those three companies are issuing 20-year endowment policies now. That is because of a New York statute which substantially prohibits that.

The VICE CHAIRMAN. They are confined to——

Mr. CARDOZO (interposing). Twenty-payment life and life paid up at age 74 or age 70.

Mr. O'CONNELL. Did you make any attempt to ascertain whether a given company would write a different type of policy in different States because of statutory requirements?

Mr. CARDOZO. The Prudential does have differences in its policies for different States. Usually those are just endorsements on the regular form of the policy, but those are not substantial differences.

Mr. GESELL. It is true, isn't it, that the three larger companies, after having prepared contracts complying with the strictest regulations, issue those policies even in States where the regulations are not so strict.

Mr. CARDOZO. Oh, that is true. They issue substantially only one type of policy throughout the country.

Mr. O'CONNELL. Is that so for all companies, do you know?

Mr. CARDOZO. I wouldn't be able to say for all companies. I know that the American National has a clause which apparently does not conform entirely to the law of the District of Columbia, so they have included in all their policies a statement that if this policy is issued in the District of Columbia it shall be interpreted to conform to that law. Some of the companies do that.

I may add that most of the policies, certainly of the largest companies, contain a statement that if the policy does not conform to a law of the State in which it is issued, it shall be deemed to contain any clause that the law requires.

Mr. O'CONNELL. Wouldn't it in all probability be so interpreted in that State regardless of whether it was in the contract?

Mr. CARDOZO. Yes; it would. The only question is whether the policyholder knows he has the rights under it.

The VICE CHAIRMAN. Is misstatement of age generally a basis for avoiding policies?

Mr. CARDOZO. No; I should say generally misstatement of age is a basis for adjusting the amount of insurance so that the amount that will be paid on death is the amount that would be paid at the proper age of the policyholder. Most of the policies contain that kind of adjustment clause.

The VICE CHAIRMAN. Do some contain a clause which allows for 4 years' variance in statement of age?

Mr. CARDOZO. I didn't find any of that kind. Perhaps the practice of the companies is not to contest if the age is just very nearly correct.

(The witness, Mr. Cardozo, was excused.)

Mr. GESELL. The next witness is Mr. Eklund.

The VICE CHAIRMAN. Please stand, Mr. Eklund. Do you solemnly swear the testimony which you will give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. EKLUND. I do.

TESTIMONY OF EDWIN EKLUND, MANAGER, LIFE INSURANCE ADJUSTMENT BUREAU, NEW YORK CITY, N. Y.

ADJUSTMENTS OF INSURANCE HOLDINGS—PERSONS ON RELIEF—LIFE INSURANCE ADJUSTMENT BUREAU

Mr. GESELL. What is your full name?

Mr. EKLUND. Edwin Eklund.

Mr. GESELL. You are connected with the Life Insurance Adjustment Bureau, are you not, Mr. Eklund?

Mr. EKLUND. Yes, sir.

Mr. GESELL. In what capacity?

Mr. EKLUND. I am the manager of the bureau.

Mr. GESELL. Have you been with the bureau since its organization?

Mr. EKLUND. Since its organization.

Mr. GESELL. It was organized in May of 1931, was it not?

Mr. EKLUND. That is correct.

Mr. GESELL. Its main offices are in New York?

Mr. EKLUND. New York City.

Mr. GESELL. Will you tell us what the Life Insurance Adjustment Bureau is, how and under what circumstances it was organized, who its members are, and how it is financed?

Mr. EKLUND. The history of the Life Insurance Adjustment Bureau goes back considerably further than my connection with it. However, from reading and talking to persons who were connected with it I know something of the history before I came to it.

In the National Conference of Social Work in 1929 I was present at a meeting of one of the sections of the National Conference at which Dr. Lee K. Franklin, who was then second vice president of the Metropolitan, made a report on studies of life insurance in dependent families that had been carried on for some years under the auspices of a committee of well-known social work executives, and after that another committee was appointed consisting of some of the original members of that social work committee and some others, who met with a committee from the three largest companies, the Metropolitan, Prudential, and John Hancock, and as a result of these meetings the companies agreed to finance the Life Insurance Adjustment Bureau.

Mr. GESELL. What purpose was this bureau supposed and intended to fulfill?

Mr. EKLUND. According to the outline, to take clients of agencies that were dealing with dependent families—and in those days they were primarily private agencies in many of the cities because the public agencies were not developed; New York City, for instance, had no public welfare department at that time. These agencies were to be given an opportunity to report the life insurance of any family which they were dealing with to the bureau, and the bureau would work out an adjustment which the policies would permit in conformity with suggestions from the agency and the policies involved.

Mr. GESELL. You mean by that that various social agencies would refer to the bureau cases where their clients had insurance?

Mr. EKLUND. In the three companies concerned.

Mr. GESELL. In the three principal companies?

Mr. EKLUND. Yes; we developed a form, of which I have some samples, in which the life-insurance data, all that was necessary, was put, and certain information about the family so that the adjusters in our bureau could figure out the best possible rearrangement or adjustment of that insurance in conformity with the practices of the particular agency concerned.

Mr. GESELL. These cases, I take it, were referred to you from all parts of the country.

Mr. EKLUND. Practically all parts of the country.

Mr. GESELL. Do you recognize this schedule as a schedule showing the number of cases for the years indicated, and the States from which they were referred?

Mr. EKLUND. Yes.

Mr. GESELL. I note that in the years from 1932 to 1938, you have had some 594,839 cases referred from, well, almost every State in the Union.

Mr. EKLUND. Yes; from some States very few, and I think one or two, none.

Mr. GESELL. Am I correct in saying the principal States were Connecticut, Illinois, Massachusetts, New York, Michigan, Ohio, and Pennsylvania?

Mr. EKLUND. I should say so; yes. The figures are all there. I can't name them myself without the figures.

Mr. GESELL. I wish to offer this schedule for the record.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 977" and is included in the appendix on p. 6213.)

Mr. GESELL. I take it that a lot of insurance that came to you for adjustment was industrial insurance.

Mr. EKLUND. Yes; by long odds the majority. I think I have figures on that.

Mr. GESELL. Approximately what percentage would you say?

Mr. EKLUND. Well, I would guess 90 percent, 85 to 90 percent was industrial.

Mr. GESELL. Now, were these cases sent to you from both public and private social agencies?

Mr. EKLUND. Yes; as I said, in the beginning the work was all with private agencies, practically, and then when the depression came on and public agencies developed and grew as they did under the F. E. R. A., the big part of the work sprang over and now of course in the last few years the great bulk of our work is from the public agencies, the various categories of public agencies.

Mr. GESELL. Do you recognize that schedule which I hand you as the schedule showing the number of private and public agencies in the various States submitting cases to you?

Mr. EKLUND. Yes; this is up to and including 1937. Of course, may I point out one thing, that we may have 490 private agencies and 1,750 public, but the proportion of cases from public would be far greater than that difference in agencies.

Mr. GESELL. Though there are more private agencies the bulk of the cases came from the public agencies.

Mr. EKLUND. There are not more, but the proportion of the private agencies, which is 491 to 1,700—

Mr. GESELL. It shows 490 private agencies and 1,750 public agencies.

Mr. EKLUND. That is about a fourth as many, but not a fourth of our cases come from the private agencies is what I meant to bring out. I haven't the figure in mind but it probably would not be an eighth of them.

Mr. GESELL. I wish to submit that schedule.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 978" and is included in the appendix on p. 6214.)

Mr. GESELL. Will you tell us what happens, taking a typical case as an example, Mr. Eklund, from the time it is referred to you, the type of adjustment you try to make, and how it is handled?

Mr. EKLUND. I don't know that anything is typical. I can show several examples of the kind of cases that we are adjusting all the time, with perhaps four or five policies on it, and some of the policies are endowment policies and the policy on the father is more likely to be a whole life.

The social agency will report to us any serious health condition in any member of the family; that is, they don't give us the specific ailment but usually say, health of the father, if that is the case, is poor or fair, which may indicate they wouldn't want any reduction of his insurance. If the endowment policies have been carried for 3 years or longer, they may be changed anyway, but if they are carried more than 3 years they will be changed to whole life with a smaller premium and a payment of cash on the difference in reserves of those two policies. So that as a result of the adjustment, there will be cash on any part of the insurance which is canceled, and all reduced to whole life if the health of the family permits, and the premium reductions may be very notable, because you may change a 20-cent endowment to a 5-cent whole life, which, of course, brings about a big reduction in premium on a child.

Mr. GESELL. Let me see if I understand that. These cases are relief cases?

Mr. EKLUND. Practically all of them. Many agencies will send in an account before they are actually accepted for relief, so that if the amount of cash is considerable, they will not take the family on relief at the time but will tell them to come back if they are still unemployed when that cash is exhausted.

Mr. GESELL. They are either relief or potential relief cases.

Mr. EKLUND. Yes; applicants for relief.

Mr. GESELL. And am I correct in saying that the present attitude of social agencies is that it is desirable to maintain some protection on the lives of the people in the family sufficient for burial purposes?

Mr. EKLUND. If an agency under some particular circumstance asks us to cash surrender policies, even if they are the only policies they have, we will offer them that cash surrender value if the policies have it. By and large, the agencies do not want us to take away protection; it is a very rare instance where they ask us to cash surrender, even on children where it is all the insurance they have.

Mr. GESELL. And your adjustment program is directed toward keeping a minimum burial protection on these relief families?

Mr. EKLUND. Yes.

Mr. GESELL. How do you do that? I take it first of all you look at the endowment policies and convert them into whole-life policies.

Mr. EKLUND. Yes.

Mr. GESELL. You find by doing that you effect a considerable reduction in premiums and a cash saving; is that correct?

Mr. EKLUND. That is correct.

Mr. GESELL. Do you sometimes find too many policies on one life?

Mr. EKLUND. Yes; I mean, you may have a child with two and three endowment policies, occasionally.

Mr. GESELL. So that your effort is even to surrender some of those policies?

Mr. EKLUND. We would change the oldest one of the endowment policies, if there was a difference in rates, to whole life, giving the advantage to the oldest age possible, and cash surrender the others if all on the same life.

Mr. GESELL. Do you find cases of what we call maldistribution of the policies, where the breadwinner or wage earner may not have any coverage and the children and wife may have considerable?

Mr. EKLUND. Yes; as far as our reports are concerned, of course we don't always get the complete report of the life insurance because of the vast number of companies which you have been hearing about. We only know what is reported to us and we only ask the agencies to report to us the insurance which is in our companies because we don't offer adjustments on the others.

Occasionally, very occasionally, some social agency will report that the father has none. He may have insurance in some other company but we, of course, pay no attention to that.

Mr. GESELL. Do you try to adjust the insurance program so as to put coverage on essential members of the family who don't have such coverage?

Mr. EKLUND. No; we do not recommend any new insurance. The social workers engaged in dealing with that family may, of course, if they wish to, try to make arrangements to have someone who isn't covered take on insurance, but I haven't personally heard of that happening very frequently.

Mr. GESELL. Then you limit your efforts to the particular policy, to an adjustment of those particular policies which are in force.

Mr. EKLUND. Not necessarily in force. They may be lapsed.

Mr. GESELL. They bring in lapsed policies, too?

Mr. EKLUND. Yes.

Mr. GESELL. Policies on which there is some value which they may not realize exists?

Mr. EKLUND. Yes; policies which have lapsed for some time, either on paid-up basis or extended insurance. If they are lapsed so far back that revival isn't practical, and there is no particular health condition, we usually cancel those all out and the family is left without any insurance as far as we are concerned.

Mr. GESELL. You do find families, do you, which have policies which have a cash value which you are able to turn in for them and get that cash value?

Mr. EKLUND. I didn't quite understand that.

Mr. GESELL. Do you find policies on which premiums have ceased being paid which have a cash value?

Mr. EKLUND. Oh, yes.

Mr. GESELL. I would like you to relate to the committee, if you would, one or two typical cases that come into your bureau and indicate at the same time the type of procedure taken in adjusting it. May I suggest you refer, for instance, to your case No. 617635? Have you that case before you?

Mr. EKLUND. Yes.

Mr. GESELL. Now, Mr. Eklund, this case was a case that came to you March 31, 1939.

Mr. EKLUND. Correct.

Mr. GESELL. From a family living in a little town in New York; is that correct?

Mr. EKLUND. Correct.

Mr. GESELL. It was a white family, with four members of the family.

Mr. EKLUND. Correct.

Mr. GESELL. Complete unemployment and no income; is that correct?

Mr. EKLUND. No income reported except relief income.

Mr. GESELL. Am I correct in saying that there were paid up and in force in that family at the time it came to you 11 different industrial-insurance policies?

Mr. EKLUND. Correct.

Mr. GESELL. Those policies had been sold to the family at various times from June 1931 up until as late as May of 1938.

Mr. EKLUND. Correct.

Mr. GESELL. There were three policies on the father of the family.

Mr. EKLUND. Correct.

Mr. GESELL. One whole life for \$711, one 20-payment life for \$62, and one 20-payment life for \$500.

Mr. EKLUND. Yes.

Mr. GESELL. Involving total premiums of 90¢ a week; is that correct?

Mr. EKLUND. Yes.

Mr. GESELL. There were four policies on the mother, two 20-year-endowment policies, one for \$82 and one for \$205; one 15-year-endowment, and one 20-payment life for \$285.

Mr. EKLUND. Yes.

Mr. GESELL. That involved a total weekly premium of 80 cents; did it not?

Mr. EKLUND. Yes.

Mr. GESELL. And then there were four additional policies on one of the daughters of the family; is that correct?

Mr. EKLUND. No; two sons, Donald and Harold.

Mr. GESELL. Each had two policies. One had a 20-year endowment and a 15-year endowment, of a total of \$390 face value, on which they were paying 45 cents.

Mr. EKLUND. Correct.

Mr. GESELL. And the other had a 15-year and 20-year endowment for a total of \$295, on which they were paying 35 cents.

Mr. EKLUND. Correct.

Mr. GESELL. How many different insurance companies' policies were involved in this case?

Mr. EKLUND. One company.

Mr. GESELL. This was all one company. What company was that?

Mr. EKLUND. Metropolitan.

Mr. GESELL. Will you tell us what adjustments you made in this program, and what the result was?

Mr. EKLUND. The father's insurance was reduced to one whole-life policy at 30 cents a week premium for \$504, with \$31 cash, and his other two policies were cashed outright for a total of \$46 as a choice. We frequently give social workers choices on these cases, and he had a choice of whole-life paid-up of \$90 and \$19, or the cash.

With the mother's insurance, the adjustors canceled two of her policies for their automatic extended insurance periods. Those policies, issued in March of '38 and May of '38, had no values except the automatic extended insurance values. Two of her other policies, one 20-year endowment was changed to a 10-cent whole-life for \$158, and the other one to a 20-cent whole-life for \$372, and cash given on that one because that had been paid on for more than 3 years, for the difference in reserves of \$17.

Donald's policy was changed from an endowment to whole life for 5 cents at \$200 and a \$57 cash payment made. His other policy was lapsed for the extended insurance, as a policy to keep in reserve for further adjustment if needed.

One of Harold's was treated in the same way and Harold's other policy was changed to a \$200 policy at 5 cents with \$21 cash. The total of cash made available was \$172 and there was cash held in reserve of whatever the cash surrender of those two endowments on extended would amount to, possibly \$60.

I may say that when we first started the adjustment service, we used to make an adjustment cutting the insurance immediately down to whatever the minimum standards of the social agency were and giving cash, so that cash amounting occasionally to five or six or seven hundred dollars went to a family at one time, and the social agencies began to request that we not give so much at one time but rather give a reasonable amount, half of it or two-thirds of it, or whatever they might suggest, and then send in the balance on the second adjustment, so a great many of our cases have had two adjustments, one after the other, and some have had three where the amount of cash was very large.

We put on this case an "A. C." which we have explained to all social workers. You will find it on the yellow copy. It means reserve adjustment, which they all understand.

Mr. GESELL. In this case where the family had been paying \$2.50 a week in premiums, the premiums were reduced to 70 cents a week.

Mr. EKLUND. Yes.

Mr. GESELL. And where the protection had previously been \$2,670, it was reduced to \$1,434. It was your thought, I take it, that \$1,434 was sufficient for burial purposes.

Mr. EKLUND. Yes.

Mr. GESELL. And in addition, you were able to get back for the policyholder, for the family, \$172 which they could use for their extreme necessities, is that correct?

Mr. EKLUND. Yes; that is correct.

Mr. GESELL. I don't quite understand why your bureau functions in this manner. Why wasn't this a situation which resolved itself as between the policyholder and his company?

Mr. EKLUND. That goes back to the origin of the bureau again. I neglected to mention the fact that a great many people have insurance in two or all three of these companies, and, of course, to make an adjustment which would be fair and cover all the policies would take some sort of organization as ours that was equipped to function for all three companies to make the adjustment.

Mr. GESELL. You mean it was the thought of the companies themselves that in a family which needed such an adjustment, where there were policies sold by several different companies, no single company was in a position to work out the type of arrangement which might be necessary?

Mr. EKLUND. Correct.

Mr. GESELL. In this case, though, they were all with one company.

Mr. EKLUND. In any case which is referred to us by a social agency, whether it is one company or two, we make the adjustments anyway.

Mr. GESELL. I think time will permit us to go into one other case. Will you take any case you have there?

Mr. EKLUND. I have them all here. Have you any particular choice?

Mr. GESELL. I would as soon you selected a case.

Mr. EKLUND. This one is next on the list, No. 614642.

Mr. GESELL. That was another case that was referred to you from New York State, was it not?

Mr. EKLUND. Yes.

Mr. GESELL. There was a family that needed all available cash for furnishings and necessary clothing.

Mr. EKLUND. Yes.

Mr. GESELL. They didn't have any relief.

Mr. EKLUND. Yes; they were getting relief.

Mr. GESELL. They were getting \$20 in kind

Mr. EKLUND. Twenty a month.

Mr. GESELL. That was relief in kind.

Mr. EKLUND. Not cash relief, that is correct.

Mr. GESELL. They were getting food worth \$20 a month.

Mr. EKLUND. Food and clothing, and whatever else it may be.

Mr. GESELL. That was the family income, was it not?

Mr. EKLUND. This was a case where a great many policies were involved, Metropolitan and Prudential, both.

Mr. GESELL. A family of seven people, is it not?

Mr. EKLUND. There are seven persons in the family, and they all had lapsed policies, not a single one with a later date of payment than August 1934; I believe that is correct.

Mr. GESELL. How many policies did they bring in to you?

Mr. EKLUND. They brought in 20, I believe, as I count them.

Mr. GESELL. These 20 policies, none of which—

Mr. EKLUND. None of which had been paid on for a considerable number of years.

Mr. GESELL. I notice a lot of those policies had been stamped with as many as three- or four-lien stamps; in other words, issued and lapsed, and issued and lapsed and revived again, and so forth.

Mr. EKLUND. Correct.

Mr. GESELL. What were you able to do for that family?

Mr. EKLUND. In a case of this kind, it was largely a matter of reporting to the Department of Public Welfare the fact that most of the policies had lapsed with no value because they had not been paid on either 3 years or else the extended insurance had expired.

However, there were four or five policies that had some value, totaling \$47, which were offered for cash surrender.

Mr. GESELL. In other words, there were four of them, were there?

Mr. EKLUND. Five, I have indicated on my column.

Mr. GESELL. The impression I get from looking at this—and I want to see if it jibes with your impression and knowledge of the case—is that here is a family that had been evidently taking out insurance, lapsing it, taking it out again, and lapsing it, over a period of as many as 4 or 5 years.

Mr. EKLUND. All of the insurance lapsed in '34, so that evidently the family—they don't tell us here when they did lose their regular income, but I presume the income loss must have come somewhere along the time the policies lapsed. They may have come somewhat before that, because, as you noted, liens had been taken on some of the policies previous to August of 1934.

Mr. GESELL. Yes; I noticed there is a \$250 20-year endowment policy on the son at the top of the page which had at least three lien stamps on it.

Mr. EKLUND. Yes; the first was in December '33.

Mr. GESELL. And another 20-year endowment policy on the same individual for \$150, which had at least three lien stamps. Can you tell us now, using these cases as illustrations, if you wish, and calling on your general experience with the bureau, just what are the basic needs and problems of these families which are sent in to you?

Mr. EKLUND. Well, the basic need of the families is first of all for means of a livelihood, for relief, which in the main the State departments or local departments are furnishing them.

Mr. GESELL. They need cash of some sort.

Mr. EKLUND. Yes; cash or relief in kind, one or the other. Most cities seem to give relief in kind.

Mr. GESELL. Do you find, in looking into the cases, what you would consider an unnecessary or too great an amount of endowment insurance in force in families?

Mr. EKLUND. We get most of our cash from these endowment policies which they have, because the whole life policies, unless they have been paid on for a very long time, don't have such a very large cash value. One can get considerable cash on these endowment policies that have been paid on for 6 or 7 years.

Mr. GESELL. What number of policies did you find per family, approximately?

Mr. EKLUND. I have that average here. We find the average number of policies per family in 1931 was 8.3; in 1932, 7.5; in 1933, 6.5; 1934, 5.16; 1935, 5.2; 1936, 5.1; 1937, 5.1; 1938, 4.2.

Mr. GESELL. What would you say was the average weekly premium per family?

Mr. EKLUND. I have that, too. This gives the average premium per policy, and then we multiply that by the size of the family.

Mr. GESELL. What is the average premium per policy?

Mr. EKLUND. We found it in '31 to be \$0.21; '32, \$0.21; '33, \$0.201; '34, \$0.202. It is around 20 cents, so if you have four in a family it would be 80 cents, if five, it would be a dollar a week.

Mr. GESELL. And what percentage of the families that come in to you would you say had lapsed insurance? It was in excess of 27 percent, was it not?

Mr. EKLUND. I had that figure somewhere. Is that there? Do you have that on one of my tables?

This was prepared in June 1937; 27.5 percent of the families, based on a total of 8,132 families that we had checked for this report.

Mr. O'CONNELL. Those figures refer only to the three largest companies?

Mr. EKLUND. Yes; those are the only ones we get.

Mr. O'CONNELL. So you wouldn't ordinarily have any information as to whether a particular case involved, or whether a particular client had, insurance policies with other companies?

Mr. EKLUND. No; except that in New York State and in many States where we operate there aren't so many companies functioning. There are only four companies functioning in New York State and some of the other States. I don't have those facts in mind.

Mr. GESELL. How much cash were you able to return to the insured as a result of your activities?

Mr. EKLUND. Since our beginning? I have the exact figure here. In round numbers it is between 25 and 26 million dollars.

The VICE CHAIRMAN. How long have you been in existence?

Mr. EKLUND. Since the summer of 1931. Of course, our work was very small to start with. The bulk of our work has been in the last 3 years.

The VICE CHAIRMAN. Who supports your organization?

Mr. EKLUND. The three companies, on the basis of the number of industrial policies they have in force, proportionately.

The VICE CHAIRMAN. And is your organization able to obtain from these three companies anything over and above what the policyholders are legally entitled to?

Mr. EKLUND. Well, no; they make concessions. For instance, as that original contract stated, some of the policies issued some years ago called for cash values at the end of 10 years, but on any case which shows a financial dependency the Metropolitan and Prudential will give the 3-year value of the policy in cash. They make a concession.

The VICE CHAIRMAN. In some instances they waive a strict legal defense in order to make a concession to a dependent family?

Mr. EKLUND. Yes. All our cases are dependent, so that we may give any cash value or any other value in a 3-year period.

The VICE CHAIRMAN. You used some figures—an average of eight policies or five policies per family, and so forth.

Mr. EKLUND. Yes.

The VICE CHAIRMAN. What was the total number? What would you base these percentage figures of eight, five, and so on, on?

Mr. EKLUND. I mean each year.

Mr. GESELL. Would those be the total number of families as shown in the previous schedule introduced?

Mr. EKLUND. I think so; yes. This schedule here—I haven't got it for 1931—shows that in 1932 there was a total of 29,383 families.

The VICE CHAIRMAN. And what percentage was that?

Mr. EKLUND. That is the total number we dealt with.

The VICE CHAIRMAN. And out of that total number, how many policies per family?

Mr. EKLUND. An average of 7.5.

The VICE CHAIRMAN. Have you a schedule introduced which shows that?

Mr. GESELL. We have introduced a schedule showing the total number of cases handled each year. Am I right, that the figures you gave were based upon an examination of all families examined by the bureau during that year?

Mr. EKLUND. Yes.

Mr. JOHN LORD O'BRIAN (counsel, Metropolitan Life Insurance Co.). May I suggest that you ask this question.

Mr. GESELL. This is Mr. O'Brian, counsel for the Metropolitan Life Insurance Co.

Mr. O'BRIAN. Does that 8.1 per family mean policies in force, or does that mean all of the policies listed on the form, some of which had lapsed?

Mr. EKLUND. I think that is a very good point. In that case referred to, all the policies were lapsed 3 or 4 years ago, but when we say "average number of policies per family" we count all policies referred to, although a great many were lapsed at the time, so it doesn't mean policies on which premiums were being paid. It means policies we have to study.

Mr. GESELL. The policies referred to you for adjustment for each of these cases.

The VICE CHAIRMAN. It doesn't mean there were eight policies in the family running at the same time?

Mr. EKLUND. No, no; if you mean by "running" in force. No. There were just that many on the page that they referred to us, of which they might all be lapsed.

Mr. GESELL. Or, as in the other case, they might all be in force.

Mr. EKLUND. We haven't made any analysis.

Mr. GESELL. You were looking for a cash recovery figure. You said it was between 25 and 26 million dollars.

Mr. EKLUND. Cash returned. Yes; I have it right here. According to our records, it is \$25,885,000 plus.

Mr. O'CONNELL. That figure was arrived at, I take it, by collecting the cash-surrender value on policies that had lapsed, plus the cash-surrender value on policies in force, but in your judgment not to be continued.

Mr. EKLUND. The source of the cash is not indicated, whether it is due to cancelation of a lapsed policy or a policy in force. We have no break-down.

Mr. O'CONNELL. You wouldn't have a break-down to show how much you recovered from policies that had lapsed?

Mr. EKLUND. We haven't brought the figure down to that.

Mr. GESELL. I have no further questions of this witness.

The VICE CHAIRMAN. You may step down.

(The witness, Mr. Eklund, was excused.)

Mr. GESELL. The next witness is Mr. Schwarz.

The VICE CHAIRMAN. Mr. Schwarz, will you hold up your right hand? Do you solemnly swear the testimony you will give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SCHWARZ. I do.

TESTIMONY OF ALEXANDER M. SCHWARZ, PUBLIC ASSISTANCE
DIVISION, DEPARTMENT OF PUBLIC WELFARE, WASHINGTON,
D. C.

DISTRICT OF COLUMBIA WELFARE DEPARTMENT

Mr. GESELL. Will you state your full name, please, sir?

Mr. SCHWARZ. Alexander M. Schwarz.

Mr. GESELL. Are you connected with the department of public welfare in the District of Columbia?

Mr. SCHWARZ. The public assistance division of the department of public welfare.

Mr. GESELL. What is your particular job?

Mr. SCHWARZ. Insurance adviser.

Mr. GESELL. You have heard the testimony of the previous witness, have you not?

Mr. SCHWARZ. Yes, sir.

Mr. GESELL. Do you have occasion to deal with similar problems here in the District?

Mr. SCHWARZ. Yes, sir.

Mr. GESELL. How many industrial insurance companies are there operating here in the District?

Mr. SCHWARZ. Twenty-odd.

Mr. GESELL. Does that include all of the Big Three companies?

Mr. SCHWARZ. No; it only includes two of the Big Three.

Mr. GESELL. The John Hancock does not operate here?

Mr. SCHWARZ. That is right.

Mr. GESELL. Is there any kind of bureau that you know of which handles the problems of these smaller companies?

Mr. SCHWARZ. None other than my own individual efforts.

Mr. GESELL. Will you tell us the kind of problems you have in your office and how you handle them?

Mr. SCHWARZ. We have a considerable amount of problems involving industrial life insurance, particularly those types of industrial life insurance pertaining to what is known as a sick benefit policy. That is a policy on which, for quick computation, 20 percent of the premium is for death benefits and 80 percent of the premium is for the sick benefit portion. All of these policies more or less have cancellation clauses, and in the event that the insured becomes ill too frequently these companies will cancel out the policy.

Some of the companies, even though in their home States they may require that they convert the life portion for 20 percent of the premium, do not do it in the District of Columbia, because the law does not require it. Quite a few companies have that clause in the contract.

Mr. GESELL. How does that come before you in handling these problems of insurance adjustment for people on relief?

Mr. SCHWARZ. People on relief are requested to bring to us all of their life-insurance policies, both current and lapsed, primarily for the purpose of looking into them; if they are in the larger companies they are submitted to the L. I. A. B. for their adjustment, or if in one of the other companies, for whatever adjustment that we can possibly make.

Mr. GESELL. What kind of adjustments do you attempt to make. Do you try to change the endowment policies over to whole life policies?

Mr. SCHWARZ. We try to convert the short-term endowments usually into whole life policies or long-term endowments, or something of that type. It depends upon the company.

Mr. GESELL. Do you try to turn in for surrender policies which have some cash value, but on which payment of premiums has ceased?

Mr. SCHWARZ. Yes; we endeavor to do that.

Mr. GESELL. Do you try to program the particular family in any way by putting coverage on persons in the family not covered?

Mr. SCHWARZ. A great deal depends upon the background of the family and a great deal upon whether or not it is a habitual relief family or whether it is a temporary relief family or whether it is going to be permanent relief. We have to take into consideration many factors involving the individual family.

Mr. GESELL. Would you say this problem of insurance, from the point of view of the whole problem of relief, is an extremely important one?

Mr. SCHWARZ. I would think so; yes, sir.

Mr. GESELL. Have you some typical cases that you can give us indicating the kind of thing that comes into your office and how it is handled?

Mr. SCHWARZ. I have some cases here, but I could probably cite some cases quicker than refer to them.

Mr. GESELL. If you would, please.

Mr. SCHWARZ. Quite a few cases come to us. Now I am talking of companies other than the L. I. A. B. companies. We call them L. I. A. B. companies because they happen to work through that bureau.

Mr. GESELL. You mean companies other than the three large companies.

Mr. SCHWARZ. We have one company in mind where liability was denied by reason of a claim that the policy had lapsed. The contract itself read that a grace period of four Mondays would be allowed. If my memory serves me right, the last premium payment was September 17 of that year, and on September 24 no premium payment was made, and none was made on the subsequent Mondays of the 1st, 8th, and 15th of October. On the 16th of October the insured died. The company denied liability, claiming that four Mondays had elapsed. Their interpretation of four Mondays was the 24th, 1st, 8th, and 15th.

Our interpretation of four Mondays was that Monday, the 24th, was the due date, the day upon which the insured had the right to pay. Failing to pay, his grace period started on midnight of the 24th, and therefore the first Monday, according to the terms of the contract, was Monday, October 1, and since he died on the 16th of October, the fourth Monday would have been the 22d. The company denied liability, we took the matter to court, and the court sustained our viewpoint. However, I will say that since then that company has changed the terms of its contract to read from "four Mondays" to "4 weeks."

Mr. GESELL. I had in mind more relief cases which come to you, where there was some problem of adjusting the insurance program, rather than these individual cases.

Mr. SCHWARZ. We have a number of problems whereby people have carried insurance in certain companies, I will say, on a 20-year endowment plan. The nonforfeiture values, even though the word "nonforfeiture" is in the contract, would be nonautomatic, and even though the contract was paid for close to 10 years, all the values in a policy of that kind were taken over by the company and nothing allowed to the policyholder.

Mr. GESELL. Those are cases where the policyholder, not familiar with the fact that he has to make an affirmative motion to get some forfeiture value, has values in his policy which the company denies him under the strict terms of the policy.

Mr. SCHWARZ. Absolutely.

Mr. GESELL. In those cases are you able to collect some funds?

Mr. SCHWARZ. No; in some of these cases we have not been successful in bringing the companies around to realizing that a large premium has been collected from the endowment policy, and this value existed at the time of lapse and should be given, and failure on the part of the insured to make application within the required 6 months may therefore have, so to speak, confiscated the value of the insurance.

Mr. GESELL. That would indicate that a lot of the policyholders don't read their policies.

Mr. SCHWARZ. The majority of the people do not read them. A great many of them couldn't understand them probably if they did.

Mr. GESELL. Do you find some families with a rather large number of policies sold to them and in force at any one time?

Mr. SCHWARZ. I have been with the public assistance division since 1933, and I find that in the early days when we considered the life insurance of the people on the relief rolls, there were a great many policies that came to us, particularly issues of 1927, '28, '29, and '30; we find it diminishing now, in the policies coming to us there is not a great deal, and where you find overloading of the family it would be an exception.

Mr. GESELL. What do you consider an overloading of the family?

Mr. SCHWARZ. Well, we have to take it more or less on an individual basis, depending upon what the income of the family was prior to dependency, and if it was a very small income we would consider more than one policy as being too much.

Mr. GESELL. Do you find many cases where people have policies in a lot of companies?

Mr. SCHWARZ. Well, we find that considerable amongst the colored people here in the District of Columbia, that they have policies in a great number of companies.

Mr. GESELL. Can you give us an example?

Mr. SCHWARZ. I don't know that I have one to show. We have about 20,000 cases on file, and I don't know all of them, but I know we have found instances where they had a great many different types of sick-benefit policies. I have one case here where there are two in the family and there are five policies, one on one member of the family and four on another, issued in 1932, all issued on the same date.

Mr. GESELL. Do you find that this situation of a lot of policies sold to a single family by different companies complicates the adjustment problem considerably?

Mr. SCHWARZ. No; the only thing that complicates the adjustment is the company itself. If they are in certain companies the adjustments are very simple.

Mr. GESELL. But would you say it is just as easy to adjust the problems of a family which had all its policies in one company as it would of a family that had its policies in several companies?

Mr. SCHWARZ. Naturally it would be easier in one company, but if the policies were in a number of companies, if they were in certain companies there would be no difficulty; again, if they were in other companies you might have some difficulty in adjustment, in fact we might not be able to make an adjustment.

Mr. GESELL. How many cases have you had here in the District where some sort of insurance adjustment has been necessary or desirable?

Mr. SCHWARZ. I would have to calculate that.

Mr. GESELL. Can you give us the approximate number?

Mr. SCHWARZ. Yes; roughly about 16,000. That is over a period of years, since 1934, in the last 5 years.

Mr. GESELL. I have no further questions.

Mr. O'CONNELL. You mentioned a figure of 20,000. Is that the number of relief people or relief families that you have to deal with in the District of Columbia?

Mr. SCHWARZ. That is the number that come to my attention. That doesn't mean that is the number of relief families. Some don't have any insurance at all.

Mr. O'CONNELL. Generally speaking, do most relief families have insurance, industrial insurance, either in force or lapsed when they come to your attention?

Mr. SCHWARZ. If they had no life insurance I wouldn't contact them at all.

Mr. O'CONNELL. But you ask all relief people, I take it, to report to you.

Mr. SCHWARZ. To report to us their life insurance.

Mr. O'CONNELL. You wouldn't have known what percentage of relief people do have an industrial insurance problem?

Mr. SCHWARZ. No; I wouldn't. If they had none they wouldn't contact me.

Mr. O'CONNELL. You have come across some 16,000 cases in which relief people in the District of Columbia have had insurance problems.

Mr. SCHWARZ. That is right, sir.

The VICE CHAIRMAN. Do you wait until they contact you?

Mr. SCHWARZ. I wait until they contact me, but they must contact me through the case worker.

The VICE CHAIRMAN. Do you think the case workers cover pretty exhaustively the relief insurance cases?

Mr. SCHWARZ. We endeavor to have them do so; I would think that they do; yes.

The VICE CHAIRMAN. I assume that many of these people come to you because they must cash their insurance policies in order to acquire a relief status. Is that correct?

Mr. SCHWARZ. No, sir.

The VICE CHAIRMAN. Don't you have any cases like that?

MR. SCHWARZ. No, sir; they bring their insurance to us so that we may adjust it according to their income, that is, say, of course, we don't make any demands upon them. I am not positive that they always bring in their policies. Sometimes it is very difficult to get them to bring them in, and they may bring some few policies, and we have to interrogate them a long time before they will admit of other policies. We wouldn't have any knowledge of the extent of insurance they may have.

THE VICE CHAIRMAN. You interrogate all relief cases that come to your attention as to whether or not they have insurance policies?

MR. SCHWARZ. Yes, sir.

THE VICE CHAIRMAN. If they have, you make adjustments in order to obtain cash?

MR. SCHWARZ. We make adjustments not only to obtain cash, but if they should be overinsured we advise them of that fact and endeavor to have them reduce their insurance in accordance with their income, so as to keep a minimum, usually mostly for emergencies.

MR. O'CONNELL. These people are people who are primarily dependent upon the support of the Government?

MR. SCHWARZ. Lately there is a little different situation since the National Social Security Act. In the early days we had what we generally termed general public assistance, and we have the category of aid for dependent children, aid for the blind and old-age assistance. Of course, insurance is treated differently in each category.

MR. O'CONNELL. Yes; but, generally speaking as a relief agency, you are interested in the amount of the income of the family which must go toward industrial insurance.

MR. SCHWARZ. That is right.

MR. O'CONNELL. So you have two purposes: (1) To reduce the amount that is spent for insurance if the amount that is being spent is out of line with the need, and (2) in some cases to get back for the insured certain cash by converting the types of policies that they have into a type that will give them adequate coverage at a lesser cost and some cash return. Is that right?

MR. SCHWARZ. That is right; or if they have lapsed policies and have not applied for cash values and do not realize it existed, we try to obtain that cash value for them.

MR. O'CONNELL. In those cases I take it if your organization or some other organization did not enter the picture to assist them to get their cash surrender value on a lapsed policy, the probabilities would be that it would be lost; that is, the insured in your experience would not ordinarily know of the fact that his lapsed policy had a cash surrender value.

MR. SCHWARZ. And frequently he would not know.

THE VICE CHAIRMAN. Your success in obtaining money on these policies that have lapsed depends, as I understand you, almost entirely upon the attitude of the insurance company involved.

MR. SCHWARZ. That is right, sir.

THE VICE CHAIRMAN. We will stop here until 10:30 tomorrow morning.

(Whereupon, at 4:25 p. m., a recess was taken until Tuesday, August 29, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, AUGUST 29, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY,
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 a. m., pursuant to adjournment on Monday, August 28, 1939, in the Caucus Room, Senate Office Building, the vice chairman, Hon. Joseph E. Casey, Representative from Massachusetts, presiding.

Present: Representative Casey, acting chairman, and Mr. O'Connell.

Present also: Mr. Brackett; Gerhard A. Gesell, special counsel; and Michael H. Cardozo, attorney, Securities and Exchange Commission.

The VICE CHAIRMAN. We will now come to order.

Mr. Gesell, are you ready to proceed?

Mr. GESELL. Yes, I am. The first witness this morning is Mr. Morris H. Siegel.

The VICE CHAIRMAN. Mr. Siegel, will you hold up your right hand, please, and solemnly swear that the testimony you will give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SIEGEL. I do.

TESTIMONY OF MORRIS H. SIEGEL, POLICYHOLDERS' ADVISORY COUNCIL, NEW YORK, N. Y.

ACTIVITIES OF MORRIS H. SIEGEL—INSURANCE COUNSELOR

Mr. GESELL. Will you please state your full name for the record?

Mr. SIEGEL. Morris H. Siegel.

Mr. GESELL. You reside in New York City?

Mr. SIEGEL. Yes.

Mr. GESELL. Are you connected with the Policyholders' Advisory Council?

Mr. SIEGEL. I am.

Mr. GESELL. What is your connection with that organization?

Mr. SIEGEL. Co-partner.

Mr. GESELL. Is that a partnership operating in the city of New York?

Mr. SIEGEL. That's right.

Mr. GESELL. Has it offices elsewhere than in New York City?

Mr. SIEGEL. One office in Boston.

Mr. GESELL. What kind of organization is the Policyholders' Advisory Council?

Mr. SIEGEL. How do you mean, "what kind of organization"?

Mr. GESELL. What is its business, what does it do?

Mr. SIEGEL. To give advice to holders of life insurance policies.

Mr. GESELL. You are an insurance counselor?

Mr. SIEGEL. That's right.

Mr. GESELL. How long has this organization been in business?

Mr. SIEGEL. Since February of 1937.

Mr. GESELL. How long have you been in the insurance counselor business?

Mr. SIEGEL. Since April of 1935.

Mr. GESELL. Who are your partners in the Policyholders' Advisory Council?

Mr. SIEGEL. My brother, Sam Siegel.

Mr. GESELL. You are the only partners?

Mr. SIEGEL. That's right.

Mr. GESELL. Had you had any experience in the insurance business prior to becoming an insurance counselor?

Mr. SIEGEL. Yes; I was a broker and I was also a life insurance agent.

Mr. GESELL. For what company were you an agent?

Mr. SIEGEL. Oh, the Metropolitan Life, the Delaware Mutual, Prudential, Travelers, Security Mutual.

Mr. GESELL. You were with Metropolitan Life Insurance Co. when?

Mr. SIEGEL. I joined the Metropolitan December of 1930; that was my first experience in life insurance.

Mr. GESELL. Were you on an industrial debit?

Mr. SIEGEL. I was.

Mr. GESELL. You were an agent?

Mr. SIEGEL. That is right.

Mr. GESELL. How long were you with the company?

Mr. SIEGEL. Until August of 1933.

Mr. GESELL. Am I correct in saying that your resignation was requested at that time?

Mr. SIEGEL. Yes.

Mr. GESELL. What was the reason for requesting your resignation?

Mr. SIEGEL. I paid premiums for policyholders against the company rule.

Mr. GESELL. Were there any deficiencies in your account?

Mr. SIEGEL. No.

Mr. GESELL. Am I correct in saying that at the present time you have a suit filed against the Metropolitan Life Insurance Co. which has arisen out of some of the claims made in connection with your dismissal?

Mr. SIEGEL. Yes.

Mr. GESELL. Is that suit now in active litigation?

Mr. SIEGEL. Yes. As soon as I return to New York there will be an examination before trial in regard to that case.

Mr. GESELL. Am I correct in saying that you sued Metropolitan and one of its officers, Mr. Taylor, for libel?

Mr. SIEGEL. Yes.

Mr. GESELL. What did you do after you left the Metropolitan?

Mr. SIEGEL. I became branch manager for the Fidelity Mutual Life of Philadelphia for about a year.

Mr. GESELL. What did you do after that?

Mr. SIEGEL. I became a general broker in the State of New York, selling general insurance and I retained my life insurance license with the Fidelity Mutual and with several other companies.

Mr. GESELL. Well now, is the Fidelity Mutual an industrial company?

Mr. SIEGEL. No; ordinary company.

Mr. GESELL. While you were a broker did you sell all kinds of insurance or the ordinary only?

Mr. SIEGEL. No; I sold life insurance as well as automobile, property damage, public liability, and so forth.

Mr. GESELL. Now, you were licensed during this time, were you, as an agent in the State of New York?

Mr. SIEGEL. Yes.

Mr. GESELL. How did you happen to get into this insurance counselor business?

Mr. SIEGEL. In March of 1935 I was invited by a radio station in New York City to deliver a broadcast during Life Insurance Week which I believe was in May of that year.

Mr. GESELL. Was that a paid broadcast?

Mr. SIEGEL. No, just gratis; they call it a sustaining program.

Mr. GESELL. What was the station?

Mr. SIEGEL. WBNX.

Mr. GESELL. Did you give such a speech?

Mr. SIEGEL. I did.

Mr. GESELL. What happened after that?

Mr. SIEGEL. The manager of the station requested that I prepare a series of sustaining talks on life insurance from an educational viewpoint.

Mr. GESELL. Those were talks that you were to make how often?

Mr. SIEGEL. Once a week.

Mr. GESELL. For which you got no pay?

Mr. SIEGEL. No compensation.

Mr. GESELL. Did you commence that type of broadcast?

Mr. SIEGEL. I did.

Mr. GESELL. For how long did you make such broadcasts?

Mr. SIEGEL. On WBNX?

Mr. GESELL. Yes.

Mr. SIEGEL. Two years.

Mr. GESELL. You were telling us how you came to be an insurance counselor.

Mr. SIEGEL. After I had been broadcasting for some time, I began to discuss the subject of industrial insurance. Prior to that time there hadn't been very much interest from the listeners insofar as mail response was concerned. About 3 or 4 months after the broadcast began when I touched on the subject of industrial insurance, we began to receive inquiries by mail with regard to specific problems. Then there began occasional callers to the studio asking for advice.

Mr. GESELL. You mean people came into the studio and asked for advice?

Mr. SIEGEL. That is right. And traffic became so heavy that the studio set aside a special office for these interviews.

Mr. GESELL. Now, about when was this?

Mr. SIEGEL. The discussions of industrial insurance began about the middle of 1935, and toward the end of summer the volume of inquiries and visits began to increase.

Mr. GESELL. Now, these interviews that you had at the offices of the studio, did you charge anything for those interviews?

Mr. SIEGEL. No; there was no fee.

Mr. GESELL. Will you continue, please?

Mr. SIEGEL. In the course of the following year and a half, quite a number of those who called for assistance and advice offered to pay a fee. I was on a sustaining program. While there wasn't any particular arrangement with the radio station as to whether a fee should be charged or not, I felt that since the program was being offered free as far as radio time was concerned, that I would give my services free. In the beginning it didn't occur to me that it was possible to offer a service of this type for a fee where no insurance was to be sold.

About December of 1936 I decided that there was a possibility of setting up a new line of endeavor, to offer insurance counsel for a fee without selling insurance.

Mr. GESELL. What kind of problems had come to you at the radio station? Can you give us some idea of the kind of people who came in, and what their concern was?

Mr. SIEGEL. Every single case was that of an industrial policy holder. They were of the working classes, obviously. They were finding it difficult to meet their premiums. Most of them needed some sort of cash and wanted to know if they could get the cash from their policies or reduce their premiums, or both.

Mr. GESELL. And you would take these policies and examine them and tell them what they could and what they couldn't do?

Mr. SIEGEL. That is correct.

Mr. GESELL. Did you get any indication at that time as to why these people hadn't been to their agents?

Mr. SIEGEL. They had been, most of them. Most of them told me that they had asked their agents either for cash for some of their policies, or whether there could be any way of reducing their premium burden, and the answer in most cases, at least in those cases that came to my attention, was that either no way could be found to reduce the premium or that no cash was possible to be obtained from the policies.

Mr. GESELL. Can you give us some idea of, say, a typical case that came to you at that time?

Mr. SIEGEL. I remember one of the earliest cases, a case by the name of Mohler, Herman Mohler, a delicatessen-store keeper who found it necessary to go to work and let his wife tend the store because he couldn't make ends meet with the business in the store. His premiums were something like \$4 a week and he was constantly in arrears.

Mr. GESELL. You say he was in arrears, his payments were behind?

Mr. SIEGEL. His payments were always on what they call the fifth week. He told me he had attempted to obtain some cash on the policies by asking his agent and his agent had told him that the only thing he could do would be to continue paying premiums or his policies would lapse and he would lose them. I arranged a reorganization for him through his company. I found in examining the policies that his wife and two children, as I recall, carried the major

portion of the premiums and the smaller portion was on himself. I made certain changes in the children's insurance and that produced some cash for him; put about \$2,000 of ordinary insurance on his life, and left the children with premium-free insurance; that is, they were still insured without further payment premiums. As I recall, from \$4 weekly premiums the premiums were reduced to about \$8 a month, most of which was for insurance on his life, a little of it for insurance on Mrs. Mohler, and there was approximately \$400 in cash which went to him.

Mr. GESELL. What percentage of his income, if you know, was going to industrial premiums before he came to you?

Mr. SIEGEL. I can't tell you that.

Mr. GESELL. I believe you said that you saw the possibilities of going into business and charging a fee for doing the work that you were doing free of charge at the radio station.

Mr. SIEGEL. Mohler was one of the first men who offered to pay a fee.

Mr. GESELL. When did you set out in business?

Mr. SIEGEL. February of 1937.

Mr. GESELL. Will you tell us a little about how you organized your business, where you got the money, how much cash you put in, and so forth?

Mr. SIEGEL. My brother and I pooled whatever resources we had. His resources lay entirely in a policy of the Metropolitan Life Insurance Co., on which he made a loan. We opened our office in Jamaica, Long Island, and shortly thereafter moved to New York City, where we are now.

Mr. GESELL. How did you plan to get clients?

Mr. SIEGEL. By radio broadcasts.

Mr. GESELL. Did you start your radio broadcasts immediately?

Mr. SIEGEL. Yes, we did; we bought 1 weekly period, 15 minutes, for a 15-minute talk, on a small station in Brooklyn.

Mr. GESELL. Were these talks in the same tenor as the talk you had been making on sustaining time prior to that?

Mr. SIEGEL. Not exactly.

Mr. GESELL. How did they differ?

Mr. SIEGEL. Well, out of consideration for the station in the Bronx, WBNX, that was giving me sustaining time, I had to be rather moderate in my discussion. On the commercial program on the period I bought, I mentioned case histories by name and the faults that I believed were common not only in industrial policies but in holdings of various industrial families.

Mr. GESELL. Will you tell us a little about how your business has grown since that time?

Mr. SIEGEL. The first week we put on the broadcast we had, I believe, 8 calls. The second week there were 15, the third week there were 430.

Mr. GESELL. Did it continue to grow, or did it drop off?

Mr. SIEGEL. It didn't grow at that rate, but we found in checking back that we have increased our volume about 100 percent every 6 months to date.

Mr. GESELL. How many clients do you have—new clients—do you have a week in your place now?

Mr. SIEGEL. Currently?

Mr. GESELL. Yes.

Mr. SIEGEL. They average about 700 a week.

Mr. GESELL. How many cases have you had since you started?

Mr. SIEGEL. Forty-four-thousand-odd.

Mr. GESELL. Have you increased your broadcasting activities since that time?

Mr. SIEGEL. Considerably.

Mr. GESELL. Will you tell us what you have done in that connection?

Mr. SIEGEL. We now broadcast on 14 stations, I believe it is 117 periods a week.

Mr. GESELL. Are those stations all in New York City?

Mr. SIEGEL. No; there are 3 stations in Boston.

Mr. GESELL. You broadcast in Boston and New York City?

Mr. SIEGEL. That's right. I might say this, that of course the great majority of the broadcasts are electrical transcriptions prepared from what they call my live broadcasts.

Mr. GESELL. You mean by that—

Mr. SIEGEL (interposing). Broadcasts I give myself.

Mr. GESELL. You give 1 or 2 yourself, and transcriptions are made and—

Mr. SIEGEL (interposing). Played on the other stations.

Mr. GESELL. Will you tell us what you do, how you handle one of these cases that comes to you?

Mr. SIEGEL. Do you want the actual detail?

Mr. GESELL. I want to know how you do business. Someone comes to you as a result of one of your radio broadcasts. What procedure do they go through and what type of assistance do you render to them?

Mr. SIEGEL. They are interviewed to establish what brought them in, what particular problem they had. We find that by far the greater majority have one of two problems or a combination of both.

Mr. GESELL. What are those problems?

Mr. SIEGEL. They either need cash or a reduction in their premium payments. There is a very small class that comes in and merely want to know whether they have the proper insurance for the premiums they are paying, but they are distinctly in the minority.

Mr. GESELL. These people are all industrial policyholders?

Mr. SIEGEL. Not all. Approximately 95 percent of our clients are industrial policyholders, and you will find in their holdings occasionally an ordinary policy.

Mr. GESELL. These people mostly come in after the problem has arisen, rather than before?

Mr. SIEGEL. All of them.

Mr. GESELL. You have none that come in and say, "Look here; I am thinking about buying life insurance. Whom should I buy from, and how much?"

Mr. SIEGEL. I would say perhaps one-tenth of 1 percent. We do have such inquiries.

Mr. GESELL. Are you or is anybody in your organization licensed to sell insurance?

Mr. SIEGEL. No.

Mr. GESELL. Do you directly or indirectly in any way receive any commissions for the sale of insurance?

Mr. SIEGEL. No.

Mr. GESELL. Your compensation and living, then, I take it, are based entirely from a fee charged the people who come for advice.

Mr. SIEGEL. That's right.

Mr. GESELL. Do you get any cases referred to you by charity organizations?

Mr. SIEGEL. Yes; once in a while.

Mr. GESELL. Are these cases handled free of charge?

Mr. SIEGEL. Yes; we make no charge for that, and I might say this, too, that cases that are on welfare or relief when they come to us are not handled by us. We refer them back to the L. I. A. B. in New York.

Mr. GESELL. These men are all people who have jobs?

Mr. SIEGEL. Not necessarily.

Mr. GESELL. Or who have no jobs but are not on relief.

Mr. SIEGEL. That's right.

Mr. GESELL. You say they come in and you try to find out what their problem is. What is the next step?

Mr. SIEGEL. The next step is to attempt to plan some method of reorganization that will take into consideration the object that brought them there, and very often we find that from our viewpoint what they want is not the best for them.

Mr. GESELL. You will have to explain that a little more.

Mr. SIEGEL. We will have them come in and say, "I don't want you to touch my children's endowment policies; I want to keep them as they are," and occasionally we will find an insistent client who refuses to make any changes in those policies, and then we can't service him.

Mr. GESELL. I take it, then, that if someone comes to you, you insist that you have complete discretion in adjusting his program.

Mr. SIEGEL. We put it this way, that when they come to us they are coming to the doctor, and they shouldn't attempt to tell the doctor what to do.

Mr. GESELL. Then, I take it, the answer to my question is "Yes," that you insist on taking their entire program for them.

Mr. SIEGEL. That's right.

Mr. GESELL. Do you handle the actual changes in their insurance program, or do you simply make written recommendations to them which they can accept and act upon or not by taking them up with their own company?

Mr. SIEGEL. May I go back a little bit in our history in answering that question?

Mr. GESELL. Certainly.

Mr. SIEGEL. When we first started in business we confined our work entirely to the giving of written reports, some of which ran to three or four pages. After several months of operation occasional clients would come back and tell us that they had been unable to obtain the cooperation of their agents to put through the changes we had recommended. We felt then that it would be necessary to render them assistance in putting those changes through, and we changed our system to take that into consideration. Today we not only give them a written report, but we supervise all of the changes we recommend until everything is properly completed, which usually takes from 2 to 3 months.

Mr. GESELL. There must be a considerable amount of clerical work, computation work, and things of that sort in connection with it.

Mr. SIEGEL. A very great deal.

Mr. GESELL. Well, now, do you do something for everybody that comes to you, Mr. Siegel?

Mr. SIEGEL. Definitely not.

Mr. GESELL. About how many do you turn away out of those that come?

Mr. SIEGEL. We service 38 percent today; we turn away 62.

Mr. GESELL. Those that are turned away I presume are turned away either because they haven't the type of problem for which you can be of assistance or they are unwilling to let you take over entirely the problem of adjusting their program.

Mr. SIEGEL. Generally speaking, they fall into those two categories.

The VICE CHAIRMAN. You don't include those people on relief in those figures?

Mr. SIEGEL. No; we just don't count those at all.

Mr. GESELL. How much money did you take in during 1938?

Mr. SIEGEL. \$98,000.

Mr. GESELL. Can you give us some idea of how that money was disbursed?

Mr. SIEGEL. These are round figures, Mr. Gesell—round figures. Approximately \$60,000 for radio time; \$18,000 for pay roll—

Mr. GESELL (interposing). That is office pay roll?

Mr. SIEGEL. Office pay roll, \$7,500 for drawing accounts for my brother and myself, approximately \$2,500 miscellaneous expenses, and \$10,000 net profit remaining.

Mr. GESELL. So that from the operations of the Council during 1938 the drawing account of \$7,500 and the \$10,000 represent approximately the total that went to the partners.

The VICE CHAIRMAN. A net of \$25,000?

Mr. SIEGEL. Not \$25,000.

Mr. GESELL. Ten thousand net profit and seventy-five hundred drawing account.

The VICE CHAIRMAN. For the two of them?

Mr. SIEGEL. Yes. I might say this, that the figures are very unevenly distributed during 1938, due to the very rapid increase in the volume of our business.

Mr. GESELL. I take it, for a while there were no such returns as this for the business.

Mr. SIEGEL. Well, during 1937, from February to December, my total drawing account was \$15 per week and my brother drew nothing whatsoever from February until September, and from September to the end of the year he drew \$400.

Mr. GESELL. Will you tell us upon what basis you charge these people who come for advice?

Mr. SIEGEL. Our charges are based on a flat fee scale, depending upon one of two factors, the amount of premium being paid in the case of industrial insurance and the face amount of the policy in the case of ordinary.

Mr. GESELL. Do you charge any of these people on the basis of what money you get for them?

Mr. SIEGEL. No.

Mr. GESELL. And you receive no compensation in any way for any insurance that may be sold as a result of your activities?

Mr. SIEGEL. Not at the present time, and to qualify that I want to go back a bit in history. At our inception we always had a flat fee with regard to in-force policies. We made one exception, in the case of lapsed policies that were brought to us to see if we could recover a cash value. For the first 6 months of our existence we undertook such cases on a contingency basis. We charged 25 percent of the amount of cash recovered if there was a recovery, and no charge if there wasn't any. At the end of 6 months we changed that method so that lapsed policies were computed on the same basis as in-force policies, with this exception, that if no cash was recovered the fee would not be payable.

Mr. GESELL. So that now, in computing your fees, you take all the policies, all the industrial policies in the family, and compute your fees on the basis of the premiums which would be necessary weekly to keep both the lapsed and those policies not lapsed in force?

Mr. SIEGEL. The fee is separated in that respect.

Mr. GESELL. Will you explain how?

Mr. SIEGEL. So far as the charges are concerned, lapsed policies are treated separately, though treated on the same basis, because the lapsed policy fee would not be payable if no cash is recovered.

Mr. GESELL. Will you take a typical case and show us how the compensation scheme would work?

Mr. SIEGEL. We will take the case of a family with a \$1.50 weekly premium. The policies in the group that are on the whole-life plan are figured at \$2 per policy; all the other policies, the remaining premium is multiplied by 15 so that in this case we are using \$1.50 of weekly premium, and we will assume there are two whole-life policies for a total premium of 50 cents. That leaves a premium of \$1 for the balance. The two whole-life policies would call for \$4; the remaining weekly premium of \$1 would be multiplied by 15. That would be \$15, and the two combined would be \$19. Then we have a flat loading charge of \$3 per case regardless of its size, whether the fee is \$5 or \$50. That means in this case the fee would be \$22.

Mr. GESELL. For people with industrial policies only, what would be your minimum fee?

Mr. SIEGEL. The minimum fee in any case is \$7.50. I am sorry; I want to qualify that. All cases that come in are required to register at the door. There is an interview fee of \$1 that is required of anybody that comes in. If they accept our service, that dollar is credited against this final fee.

Mr. GESELL. The minimum fee is then, you say, \$7 and what?

Mr. SIEGEL. Seven dollars and a half.

Mr. GESELL. Is there any maximum fee?

Mr. SIEGEL. No.

Mr. GESELL. What has been the average fee?

Mr. SIEGEL. Between \$20 and \$22 on accepted cases. May I add just one point more here, Mr. Gesell? The fee scale is set forth in very precise detail on the back of what we call our work sheet, for the guidance of the men. I mean by that that we insist when the man quotes his fee, he do his computing on this sheet which is set forth for him. This sheet is then audited by the accounting department to see that the correct fee was quoted. We do that so that there will be no variable factors between the men, no variation, no flexi-

bility. If there are any exceptions to this rule, they must be taken up with the office management.

Mr. GESELL. Have you there a form which you refer to?

Mr. SIEGEL. I have one in this form book and I think I can give it to you.

The VICE CHAIRMAN. Have you offices in any other place than New York?

Mr. SIEGEL. Not at the present time, although several are under way.

The VICE CHAIRMAN. I understood you made broadcasts.

Mr. SIEGEL. I am sorry, in Boston; we have one office in Boston.

This is a combination work sheet on the face, on which we list all the values, data, policy information, and the fee charges on the back. It requires a little explanation. It is not self-explanatory.

Mr. GESELL. I still think we haven't clearly for the record the basis for the compensation. If a policyholder comes in and has entirely industrial policies and the weekly premiums on those policies total less than \$1—

Mr. SIEGEL (interposing). They fall into a separate category.

Mr. GESELL. You then take the amount that is being paid and multiply that by what?

Mr. SIEGEL. Fifteen.

Mr. GESELL. And is that figure then the fee?

Mr. SIEGEL. No; it isn't. We set forth two figures and we make a choice between them. We found that there are a number of people paying premiums of less than \$1 a week on a number of policies. We would get a case, for instance, involving four policies at 15 cents each in premium. The total premium would be 60 cents. It costs us just so much money to handle each policy. We then set forth the figure in this fashion, taking the case I mentioned four policies for a total premium of 60 cents, the number of policies in the group multiplied by four and a half; in this case four policies would give a figure of \$18. The total weekly premium of 60 cents, multiplied by fifteen, would give a figure of \$9. There is an explanatory note with this section: The correct fee is the higher of these two results except that the maximum in any case is \$15. That is, the maximum in any case where the premium is less than \$1 per week is \$15, so in this case where the maximum figure would be 18 and the minimum 9, the fee would be \$15.

Mr. GESELL. In other words, you computed it both by—

Mr. SIEGEL. The number of policies—

Mr. GESELL. And the premium.

Mr. SIEGEL. We felt if we based it entirely on the number of policies, we would have a condition whereby a man paying 60 cents a week in premiums would pay us a higher fee than a man paying \$1 a week in premiums, and so we limited it to the \$15 item.

Mr. GESELL. And then in each case there is added to that a flat fee of \$3.

Mr. SIEGEL. A loading fee of \$3.

Mr. GESELL. What is it on ordinary?

Mr. SIEGEL. The fee on ordinary policies is \$10 for any policy of \$2,000 or less, and \$5 per thousand on any ordinary in excess of that amount.

Mr. GESELL. What has been your record to date with respect to reduction of premiums and cash refunds obtained?

Mr. SIEGEL. I will see if I can find my record on that. This record is for the year to date, this year to date?

Mr. GESELL. Yes; and for the total.

Mr. SIEGEL. These figures are as of August 15 for this year:

Premium reductions total \$138,029; cash recoveries returned to policyholders, \$692,065.

Mr. GESELL. That is the result of the operations—

Mr. SIEGEL. From January 1 of this year to August 15.

Mr. GESELL. Do you post figures in your office showing what reductions in premiums have been accomplished during the year for the last week and the last month and similarly what cash refunds have been obtained for the last week and the last month of the year?

Mr. SIEGEL. Yes; we post them on a large bulletin board.

Mr. GESELL. Is this a correct copy?

Mr. SIEGEL. That is a photograph; yes.

Mr. GESELL. I offer it in evidence.

The VICE CHAIRMAN. It may be admitted.

(The bulletin referred to was marked "Exhibit No. 979" and appears on p. 5810.)

Mr. O'CONNELL. You mentioned reduction in payments of one hundred-some-odd thousand dollars for a period of time.

Mr. SIEGEL. Yes; this is on insurance policies submitted to us from January 1 to August 15 of this year.

Mr. O'CONNELL. Over how long a period would that figure apply?

Mr. SIEGEL. For the length of time they keep their policies. That is a total annual reduction of premium.

Mr. O'CONNELL. Annual?

Mr. SIEGEL. Yes.

The VICE CHAIRMAN. I notice this last exhibit, you say this year to date.

Mr. SIEGEL. There is no date on it. This photograph was taken just before we came down, on August 15.

The VICE CHAIRMAN. On August 15?

Mr. SIEGEL. That is right.

Mr. GESELL. It shows the bulletin board as of August 15.

Mr. SIEGEL. That is correct.

Mr. GESELL. What kind of people come in?

Mr. SIEGEL. May I give you the figures for last year?

Mr. GESELL. Do you have them?

Mr. SIEGEL. Yes; I have them here. The figures for last year are approximate:

Reduction in premiums for 1938, the annual reduction in premiums, \$145,000; the cash returned to policyholders, \$847,000.

Mr. GESELL. Mr. Siegel, how big a staff have you got? Am I correct in saying some 52 people?

Mr. SIEGEL. In normal times. In the summer time we reduce our staff slightly.

Mr. GESELL. How do those employees divide themselves? What are the principal classifications?

Mr. SIEGEL. Two executives, including my brother and myself; one office manager; there are eight interviewers.

Mr. GESELL. Who are these interviewers?

POLICYHOLDERS' ADVISORY COUNCIL

What we have done for our clients

	PREMIUMS REDUCED	CASH REFUND OBTAINED
LAST WEEK	\$ 3,580.00	\$ 18,765.00
LAST MONTH	\$ 13,311.00	\$ 61,200.00
THIS YEAR TO DATE	\$ 138,029.00	\$ 692,065.00

-AND no one paid us a percentage of the **CASH RECOVERED** or the **PREMIUMS SAVED**...
Good Advice at a Reasonable Fee!

WE ARE NOT IN THE INSURANCE SELLING BUSINESS!

We never recommend the indiscriminate surrender of existing policies for cash. More changes are advisable if it is our practise to revise and build around the old plan *Not to assist but to pressure that which is valuable and timorous that which is not*
 There are nine changes that can be made in most policies. Ask us which one will benefit you most.

Mr. SIEGEL. They are former insurance agents who do the actual interviewing of the client. There are 3 members of our publicity staff, 4 in the actuarial division, 3 in the planning division, 2 in the legal division, 2 supervisors, 2 receptionists, 8 stenographers, 1 cashier, and 16 clerks.

Mr. GESELL. What kind of person comes into your office? Will you give us some idea of the occupations and types of families involved?

Mr. SIEGEL. Their occupations are street-car conductors, bus chauffeurs, elevator operators, grocery clerks, men whose incomes range probably from twenty to thirty-five dollars per week.

Mr. GESELL. What would you say was the average income of the people who come into your office? Of the families?

Mr. SIEGEL. We don't keep any statistics. We can't get that sort of information in our line of business. We feel we are treading rather on personal ground. But from their occupations I should say their average income is probably \$30 a week.

Mr. GESELL. Can you tell us what the usual problem is of such a family? Am I correct in saying that either they have need of cash or they find that their premiums are too heavy or they are looking for better insurance for what they pay?

Mr. SIEGEL. There are very few in the last category. The great majority don't really know exactly what brings them in; they are in trouble of some sort with their insurance, and it takes skillful questioning to establish what it is that they are seeking, and it boils down to the two factors that I mentioned before: Need for cash for some purpose or other, and the need for some means of reducing the premium payments in force in the family.

Mr. GESELL. Do most of these families have policies in more than one company?

Mr. SIEGEL. Yes.

Mr. GESELL. How many companies operate in the State of New York, industrial companies?

Mr. SIEGEL. Four are licensed to do business—Metropolitan, Prudential, John Hancock, and Colonial Life.

Mr. GESELL. Do you sometimes occasionally find a family which has policies in all four companies?

Mr. SIEGEL. No; I can't say I ever have. I have found a number with three.

Mr. GESELL. What percentage of them would you say had policies in at least two companies?

Mr. SIEGEL. Seventy-five percent.

Mr. GESELL. Do you find that the distribution of the policies within the family is in accordance with what you think is desirable?

Mr. SIEGEL. Definitely not.

Mr. GESELL. Will you explain it to me—you say "definitely not."

Mr. SIEGEL. We find that entirely apart from the large percentage of family's income that is being spent for life insurance, that the insurance is maldistributed, the major portion of either the insurance protection or the premiums or both is on the dependents in the family rather than on the breadwinner.

Mr. GESELL. That is, you find there is too little insurance on the head of the house and too much on the children.

Mr. SIEGEL. It is entirely common to find the head of the house with no insurance at all and that all the premiums are on the wife and children.

Mr. GESELL. Is this insurance on the children endowment insurance usually, or whole life, or what-not?

Mr. SIEGEL. Ninety-eight percent of it is on the endowment plan. That is what I meant before when I said either the total insurance on the dependents or the total premium on the dependents is in excess of that of the head of the family.

Mr. GESELL. Do you find sometimes that a rather high percentage of income in the family is going to industrial premiums?

Mr. SIEGEL. Normally, from what we judge their income to be, it would be between 12 and 15 percent.

Mr. GESELL. Between 12 and 15 percent of their income going to industrial insurance premiums?

Mr. SIEGEL. That is right.

Mr. GESELL. Let me ask you, do you find that sometimes there are policies in the family which are on persons who are no longer members of the family, have gone away, become self dependent, or something of that sort?

Mr. SIEGEL. I have some interesting figures here with regard to the reduction in total insurance in 1938, of which practically 95 percent was due to the fact that the families were carrying insurance either on total strangers who were boarders at the time the policies were taken out, or on great aunts or great uncles, or on children who had since married, many of whom had their own insurance, or on people who had disappeared for a number of years.

Mr. GESELL. In other words, that is one of the ways that you can bring about a reduction in premiums, by cutting off some of those types of policies.

Mr. SIEGEL. Partially; yes.

Mr. GESELL. Did you find many cases where there was what might be called speculative insurance, insurance where the insurable interest was highly doubtful?

Mr. SIEGEL. I would say that was likely in one case out of five.

Mr. GESELL. Will you explain the kind of cases that come to you in that category?

Mr. SIEGEL. Usually it is a distant relative who was residing with the family at the time the policies were taken out, or a total stranger, as I said before, boarding or living with the family and who has since moved away.

Mr. GESELL. Have you what you might call an average family that would show what the general situation is of the families that come into your place?

Mr. SIEGEL. Yes; we figured one out from our figures.

Mr. GESELL. Can you give us that average family? Will you tell us how it is constituted, how it is made up?

Mr. SIEGEL. We would say that the average family coming to us consists of father, mother, two children, with an average income of \$30 per week, of which they are paying \$1.90 per week for industrial insurance.

Mr. GESELL. Do you find in your average family any ordinary insurance?

Mr. SIEGEL. No.

Mr. GESELL. What about group insurance?

Mr. SIEGEL. Yes; that comes in occasionally, but not sufficiently to have any part in the picture of the average family.

Mr. GESELL. What about social security?

Mr. SIEGEL. We haven't taken that into consideration as yet. We are planning to now, in view of the recent changes in the Social Security Act.

Mr. GESELL. What about fraternal benefit insurance of one sort and another?

Mr. SIEGEL. That enters the picture very slightly only in New York City.

Mr. GESELL. So, by and large, people who come into your shop have just industrial insurance.

Mr. SIEGEL. That is right.

Mr. GESELL. You said it was a family of how many?

Mr. SIEGEL. Four.

Mr. GESELL. Will you proceed, please?

Mr. SIEGEL. As I said before, based upon their occupation, the average income is about \$30 a week; they are paying, on the average, \$1.90 per week for industrial insurance, distributed usually in the form of 50 cents a week on each child on the endowment plan, 40 cents a week on the mother on the 20-payment life plan, and 50 cents a week on the head of the family, usually on the whole life plan, making a total of \$1.90 per week.

Mr. GESELL. How does that insurance divide itself as between Metropolitan policies and Prudential policies?

Mr. SIEGEL. About 50 percent of those that come to us—I will put it in this fashion: we have examined some three-hundred-odd thousand policies, about 50 percent of which were in the Prudential, 40 percent in the Metropolitan, and the remainder scattered between Hancock, Colonial, and a few out-of-State companies that come in because of families that move into New York.

Mr. GESELL. Can you tell us what the usual type of adjustment would be for this average family? Do you have those figures?

Mr. SIEGEL. Yes. I haven't got them with me.

Mr. GESELL. Can you give us a case which will illustrate some of these problems that we have been discussing? You made considerable point out of the famous case of the Fortune family, did you not? ¹

Mr. SIEGEL. Yes; I did.

Mr. GESELL. Will you tell us about that case?

Mr. SIEGEL. The reason we have made considerable point of it is that while it is unusual with regard to the figures involved it is not unusual with regard to the principle behind it. The Fortune family consists, or did consist, of four members.

Mr. GESELL. When did this family come to you, and under what circumstances?

Mr. SIEGEL. May of 1938, a 15-year-old boy in the family called and told us his mother wanted to come down and couldn't because she was ill and they needed relief on their premium payments and needed some cash. An examination of the family's policies disclosed that

¹ See "Exhibit No. 980," appendix, p. 6214.

there were four members, the father, mother, one boy of 15, and a brother of Mr. Fortune's:

Mr. GESELL. That is a family of four people.

Mr. SIEGEL. That is correct.

Mr. GESELL. How much insurance was in force in that family?

Mr. SIEGEL. A total of \$18,000, for which they were paying \$926.89 a year in premiums.

Mr. GESELL. Were those all industrial policies?

Mr. SIEGEL. No; there were 4 ordinary policies, and 40 industrial policies.

Mr. GESELL. How many industrial policies?

Mr. SIEGEL. Forty.

Mr. GESELL. How did those divide up? Were they all with one company?

Mr. SIEGEL. They were almost equally divided between the Metropolitan, Prudential, and John Hancock.

Mr. GESELL. Have you got the division as between the three companies?

Mr. SIEGEL. I have the division as to the number of policies by each company and amount of premiums being collected by each company.

Mr. GESELL. I think you said there was a total of \$926 being collected a year from this family.

Mr. SIEGEL. That is correct.

Mr. GESELL. For a total insurance of \$18,000.

Mr. SIEGEL. That is right.

Mr. GESELL. How much of that \$926 was being collected by the Metropolitan?

Mr. SIEGEL. \$362.35 by the Metropolitan.

Mr. GESELL. How much by the Prudential?

Mr. SIEGEL. \$336.48.

Mr. GESELL. How much by the John Hancock?

Mr. SIEGEL. \$227.56.

Mr. GESELL. What was the income of this family?

Mr. SIEGEL. At the time they came to us, \$35 a week.

Mr. GESELL. Have you figured out what percentage that is of their income being spent on insurance?

Mr. SIEGEL. About 55 percent.

Mr. GESELL. And you say there were 44 industrial policies in the family?

Mr. SIEGEL. No; 40 industrial policies and 4 ordinary.

Mr. GESELL. Have you records there which will show the order in which these various policies were sold to the family? Which company first sold them policies?

Mr. SIEGEL. In 1919 the Metropolitan sold one policy; thereafter, 1920, the Metropolitan sold one; in 1921, one from the John Hancock; 1922, one from the Metropolitan; 1923, one from the Metropolitan; in 1924, two more from the John Hancock; in 1925, one from the Metropolitan; in 1926, three from the Metropolitan; 1927, five from the Metropolitan and three from the Prudential; in 1928, one from the Prudential, five from the John Hancock; 1929, two from the John Hancock, one from the Prudential; in 1930, one from the Prudential; in 1931, five from the Prudential; in 1932, one from the Prudential; they skip 1933; in 1934, one from the Metropolitan, one from the

Prudential, two from the John Hancock; in 1935, two from the Prudential; in 1936, one John Hancock and two Prudential. That is the total.

Mr. GESELL. Let's take the individual members of this family, Mr. Siegel, and see if we can find out what the insurance on each of them was. Take the father first of all, William, Sr. He was age what? Age 51; is that not correct?

Mr. SIEGEL. He was age 51 last year.

Mr. GESELL. What was his business?

Mr. SIEGEL. He was a longshoreman.

Mr. GESELL. How much insurance did he have?

Mr. SIEGEL. \$6,532.

Mr. GESELL. That was costing him how much a year?

Mr. SIEGEL. \$294.71.

Mr. GESELL. He was paying, then, about \$45.35 a thousand?

Mr. SIEGEL. About \$45.30 per thousand.

Mr. GESELL. How many policies were there on him?

Mr. SIEGEL. Fifteen.

Mr. GESELL. Were those policies all in force when this case came to you?

Mr. SIEGEL. All of these policies, the entire list, were in force.

Mr. GESELL. What kind of policies were those?

Mr. SIEGEL. On Mr. Fortune?

Mr. GESELL. Yes.

Mr. SIEGEL. Mr. Fortune had one ordinary policy for \$2,000, and one Metropolitan intermediate ordinary for \$500 and all the rest were industrial.

Mr. GESELL. Were they endowment, whole life, what type?

Mr. SIEGEL. There were seven on the whole-life plan, seven on the 20-payment-life plan, two were 20-year endowments. I don't know whether that totals up correctly.

The VICE CHAIRMAN. It is too many policies. You have 15 totaled.

Mr. SIEGEL. I see that here, I am sorry, there are 15 policies. Is that what I said before?

The VICE CHAIRMAN. Yes; but you enumerated 16.

Mr. SIEGEL. That is because I included the two ordinaries which don't belong in there. There are six whole life; there is one 38-year endowment; there are six 20-payment life; and two 20-year endowments.

Mr. GESELL. Were there policies from all three companies sold to the father?

Mr. SIEGEL. Yes.

Mr. GESELL. I noticed here in the records I have that the John Hancock issued four \$250 policies to him, those policies having consecutive numbers. Were those all sold to him at the same time?

Mr. SIEGEL. All at the same time, with the same date of issue.

Mr. GESELL. In other words, instead of selling him \$1,000 ordinary insurance policy they sold him four industrial insurance policies of \$250 apiece.

Mr. SIEGEL. That is correct.

Mr. GESELL. What about the mother in the family?

Mr. SIEGEL. She had 13 policies for a total of \$3,725 of insurance, calling for premiums of \$274.56 a year, an approximate rate of \$72 per thousand.

The VICE CHAIRMAN. Seventy-four.

Mr. SIEGEL. It is 72 on the original sheet. That is a typographical error.

Mr. GESELL. Were those policies again sold to her in all three companies?

Mr. SIEGEL. Yes; they were.

Mr. GESELL. What about William, Jr., the son, age 15? How much did he have?

Mr. SIEGEL. He had \$5,092 of insurance.

Mr. GESELL. How many policies?

Mr. SIEGEL. Ten, calling for a total premium of \$72 a year, an average rate of \$41 per thousand.

Mr. GESELL. I believe you said that the father's brother also lived in the family.

Mr. SIEGEL. That is right.

Mr. GESELL. What did he have?

Mr. SIEGEL. He had \$2,858 of insurance, at a premium of \$150.80 a year, an average rate of \$52 per thousand.

The VICE CHAIRMAN. You say he lived with the family?

Mr. SIEGEL. Yes.

The VICE CHAIRMAN. I notice the report says he did not live with the Fortunes and did not contribute to the support of the family.

Mr. SIEGEL. That is my error. He was not living with the family. I didn't handle the case myself.

Mr. GESELL. Mr. Siegel, what happened about this case after it came in?

Mr. SIEGEL. We addressed a letter to the presidents of the three companies concerned and suggested that they take the necessary steps to reorganize this family's insurance holdings more in line with their circumstances. We didn't follow our usual procedure in this case, which is to prepare in complete outline our own recommendations.

Mr. GESELL. Why was that?

Mr. SIEGEL. We felt that this was an ideal case in which to give the companies an opportunity to make their own corrections.

Mr. GESELL. What did the companies do after they had been advised of this situation?

Mr. SIEGEL. Our record in this case shows that the home-office inspectors called at the home of the family and complained to our representative. I might say at this point that we never send anybody out to the home of the insured, but we were requested to do so in this case by the Fortune family, and so we had a representative present at the time the home-office inspector called. The home-office inspectors had no plan whatsoever when they came. They inquired of Mr. Fortune what he wanted done with his insurance.

Mr. GESELL. Did Mr. Fortune have any ideas as to what he wanted?

Mr. SIEGEL. No; he merely told them he had left it entirely in our hands.

Mr. GESELL. I take it then from that time on your organization worked out the adjustment?

Mr. SIEGEL. That is right.

Mr. GESELL. Will you tell us what adjustment was made, and what the result of that adjustment was?

MR. SIEGEL. You are asking for a big order. You mean the final results?

MR. GESELL. I would like to know the final results of the adjustment; yes.

MR. SIEGEL. The original insurance on the life of William, Sr., was \$6,532, at a cost of \$294 per year. The final results were \$6,750 at a yearly cost of \$245.39 per year, with a cash return of \$186.05.

On Mrs. Fortune, the original insurance was \$3,725. Following adjustment, it was \$3,526. The original premium payments were \$274.56 per year. There were no premium payments whatsoever remaining after the changes and there was no cash recovery. I might say at this point that Mrs. Fortune died while this insurance was in course of change. It did not, however, affect the amount of the death benefit that was paid. The companies paid the full amount.

The original insurance on William, Jr., was \$5,092, and that was reduced to \$665. The original cost was \$206 a year, approximately. There were no premium payments remaining after the change and there was \$503.89 in cash returned. The cash returned on William, Jr.'s policies was not due to a cash surrender or a change. It represented all premiums paid on certain of the policies which had been issued in excess of the amount permitted by law in New York State.

MR. GESELL. There is a law in New York State limiting the amount of insurance which can be sold to children of certain ages, is that correct?

MR. SIEGEL. That is true.

MR. GESELL. And there had been an amount in excess of that legal limit sold to this particular child?

MR. SIEGEL. That is correct.

On Joseph, the father's brother, the original insurance was \$2,858. There was \$951 remaining after the change. The original premiums were approximately \$150. There were no premiums to be paid after the change and there was no cash recovery.

MR. GESELL. For the over-all of the whole family, what was the result?

MR. SIEGEL. The over-all of the entire family—there was approximately \$18,000 originally in force, about \$12,000 remained in force, and where the yearly cost previously was \$926, the final yearly cost was \$245. There was a reduction in insurance on actual dependent lives in the family of 34 percent, and a reduction in premium payment all told of 73 percent.

MR. GESELL. How much of a fee did you get for that service?

MR. SIEGEL. \$105.

MR. GESELL. Is that one of the biggest fees you have ever received?

MR. SIEGEL. Approximately.

MR. GESELL. Is this document which I show you a copy of the letter which was sent to the presidents of the three insurance companies?

MR. SIEGEL. Yes.

MR. GESELL. Did you receive any replies from the three companies?

MR. SIEGEL. None whatsoever.

MR. GESELL. I wish to offer that document.

THE VICE CHAIRMAN. It may be admitted.

(The document referred to was marked "Exhibit No. 980" and is included in the appendix on p. 6214.)

Mr. GESELL. This case we have just reviewed is admittedly an extreme case, is it not?

Mr. SIEGEL. Yes; it is.

Mr. GESELL. Can you give us some other case histories which will illustrate the nature of the problems that you have to deal with specifically?

Mr. SIEGEL. We have a case here that we consider typical without the extreme that was evident in the Fortune case. This is our file No. 25856. It involves a family of six individuals, two parents and four children. We find that of a total premium of \$432 per year, \$167 is being paid for insurance on the head of the family, about 40 percent. The policies are all on the industrial plan with the exception of two. All policies are endowments with the exception of two.

Mr. GESELL. What is the total number of policies in the family?

Mr. SIEGEL. The total number of policies is 18.

Mr. GESELL. And what was the occupation and income of the father or breadwinner?

Mr. SIEGEL. A blacksmith.

Mr. GESELL. Were all those policies in force?

Mr. SIEGEL. Yes.

Mr. GESELL. Following adjustment, what was the result?

Mr. SIEGEL. The original total of insurance was \$6,294 in the family. After the change there was a total of \$6,268. The original premiums were \$432.80, the final premiums were \$167.12, and there was a cash return to the family of \$1,593.

Mr. GESELL. That amounts to a yearly saving of about \$265.68, does it not?

Mr. SIEGEL. That is correct.

Mr. GESELL. Let me ask you this, Mr. Siegel. Do you frequently switch policies from one company to another, or is it your purpose to keep policies in the same company?

Mr. SIEGEL. At all times the insurance remains in the same company. There are very rare exceptions, and that is due only to the desires of the client, who may have some reason for wanting to change from one company to another.

Mr. GESELL. I should assume that on some cases you might have to switch from one company to another because in bringing about the change the company which sold the original policy might not sell the form of policy desired following the adjustment.

Mr. SIEGEL. That happens also in rare cases.

Mr. GESELL. Do you have many people come to you with lapsed policies upon which you are able to obtain some cash-surrender value?

Mr. SIEGEL. We have a large number of people who come with lapsed policies, but it isn't too frequent that we can obtain a cash value. However, most of them who come in believe the policies are valueless. While we don't always recover cash, in, I would say, 25 or 30 percent of the cases there is either extended or paid-up insurance in force of which they knew nothing.

The VICE CHAIRMAN. Do you mean either that or cash?

Mr. SIEGEL. Either cash is available or if the premiums had not been paid up for a sufficient time to obtain a cash value they had been paid long enough to have either paid-up or extended insurance.

The VICE CHAIRMAN. In about 75 percent of your cases the lapsed policies had no value.

Mr. SIEGEL. That's right.

Mr. O'CONNELL. In the cases to which you just referred, what kind of insurance policies did the family have after the adjustment? Were they industrial or ordinary policies?

Mr. SIEGEL. The head of the family had ordinary plus the equivalent paid-up values that remained from the industrial. So far as the premium-paying contract was concerned, it was an ordinary. The mother had an ordinary; the children, three of them, had intermediate ordinary, and one, an infant apparently, had a 10-cents-a-week industrial whole-life policy still in force.

Mr. O'CONNELL. Would that be typical of the sort of thing you would try to obtain in the way of an adjustment? I mean by that, a switching from the industrial type of policy to the ordinary, or can you generalize on that?

Mr. SIEGEL. We can generalize. In the majority of cases, especially on adult lives, the change can be made in the same company from industrial to ordinary. On the lives of children, those who are under 10, the companies do not issue ordinary insurance. It then becomes necessary to keep their protection on the industrial premium basis. The figures, so far as our own business is concerned, show that of the three-hundred-odd-thousand policies that we have examined and passed upon, approximately one-eighth remain as they are without changes of any sort; another one-eighth go in for a cash surrender value; the remaining three-quarters go through some process of change, either a change of plan within the same policy or change to a different classification such as from industrial to ordinary, and I might add at this point that you can obtain nine different sets of figures from the results of change on any one endowment policy, depending upon what type of change you want to put through, what you are trying to accomplish.

Mr. O'CONNELL. To the extent that you are able to do so, do you strive to change from industrial policies to ordinary?

Mr. SIEGEL. Wherever it is possible.

Mr. O'CONNELL. Why is that?

Mr. SIEGEL. Because we find that in these industrial companies, all three of the large companies will issue ordinary insurance on a monthly premium basis. The typical case that is paying \$2 a week for industrial insurance can, without any difficulty, pay the reduced premiums that are called for by ordinary insurance on a monthly basis.

Mr. O'CONNELL. That is what I am getting at. I take it you feel it is desirable to the extent it is possible to do so within the company rules to change from industrial to ordinary because it is cheaper.

Mr. SIEGEL. Because it is cheaper for the same protection, and because it has more valuable features, and I want to stress this, that we have found it not practical to attempt to change the average industrial family to an ordinary policy calling for an annual, semi-annual, or quarterly premium. They must have, apparently, the agent calling at the home, and they can have ordinary insurance on precisely that same basis. The agent will call at the home to collect that premium on a monthly basis, just as well as he will call to collect the premium on a weekly basis, and for the reduction in

cost for the same coverage together with the better features, with the fact that the agent is available at their home, they are much better off with the ordinary in the same company.

Mr. GESELL. Have you found cases where the amount of industrial insurance in a given family has been as high as \$18,000?

Mr. SIEGEL. Yes; it was in the Fortune family, wasn't it?

Mr. GESELL. Is that the highest amount that you have found of industrial insurance?

Mr. SIEGEL. I don't recall. This is the Fortune family case. This total insurance covers both ordinary and industrial wherever there is any ordinary in the family. As I said, we classify those families as industrial families, even though they have an occasional ordinary policy.

Mr. GESELL. Is it frequent to find families which have from \$4,000 to, let's say, \$6,000 of industrial insurance in force in the family?

Mr. SIEGEL. Yes; quite frequent.

The VICE CHAIRMAN. How do you charge in those 75 percent of the cases in which you can get neither cash nor paid-up insurance for the lapsed policy?

Mr. SIEGEL. If all they bring in is the lapsed policy there is no charge other than the initial interview charge of \$1.

Mr. GESELL. Do you believe the companies can render the same service you render, Mr. Siegel?

Mr. SIEGEL. Yes.

Mr. GESELL. Do you believe they do?

Mr. SIEGEL. No.

Mr. GESELL. What about the Insurance Department? Is it equipped and in a position to render the service you render?

Mr. SIEGEL. We have tested that by sending through two cases to the New York State Insurance Department of what might be called not too involved a plan, where there was more than one company involved and where there were 8 or 10 policies. We found that they received general information, but nothing specific.

Mr. GESELL. You found that the Insurance Department doesn't concern itself with the details of the adjustment of an insurance program?

Mr. SIEGEL. That's right.

Mr. GESELL. Now, you say you don't feel the companies do. Upon what do you base that statement?

Mr. SIEGEL. Upon practical experience.

Mr. GESELL. Can you give us an instance of what you mean?

Mr. SIEGEL. Yes. We have a very recent case that just took place two weeks before this hearing. It involves our file No. 43,798. This client had a total insurance in force of \$1,690 at a premium of \$114.40 per year. Her request was to see if we could obtain a reduction in premium for the same coverage. We prepared a plan, and she wrote to the Prudential asking the Prudential to prepare its plan. The Prudential did, and submitted its plan in writing.

Here is a comparison of the two plans: The original insurance, as I said before, in the family, was \$1,690. The Prudential suggested changes that would bring the insurance up to \$2,735. The original premium was \$114.40; the premium remaining under the Prudential plan was \$110.88, a saving of a little over \$3 a year together with a cash return of \$249.

Our plan reduced the insurance slightly, from \$1,690 originally to \$1,576, left no premium payments whatsoever, and a cash return of \$264. The client then notified the Prudential in writing that she preferred to accept our plan.

Mr. GESELL. In other words, in your instance you have kept the same protection and were able to bring about a change in type of insurance which gave the client the protection she wanted on a paid-up basis with some cash return.

Mr. SIEGEL. That is correct.

Mr. GESELL. Whereas, in the case of the Prudential, though there was a change in the type of insurance, the premiums remained the same and the plan suggested involved a doubling of the amount of protection, approximately.

Mr. SIEGEL. Almost.

Mr. GESELL. Have you had cases, Mr. Siegel, where you have been able to collect funds for policyholders who have had lapsed policies after they have been unable to do that acting in their individual capacities, from the companies?

Mr. SIEGEL. After they have told us they have been unable to do it.

Mr. GESELL. You have had such cases, basing your information on what the clients have told you?

Mr. SIEGEL. That's right.

The VICE CHAIRMAN. Have you any additional information in the line of letters that have been written?

Mr. SIEGEL. No; it is very rare that an industrial policyholder will write a letter. They either go to the home office, to the local office, or see the agent. I might add that in this case, with regard to the Prudential, the written proposal, while it was requested by the client to be directed to her specifically, was not directed to her but to the branch office, and it was only after considerable insistence that she obtained a copy from the branch office. We have found that that is true in most cases, that they cannot obtain statements in writing as to any given fact upon which they are seeking information, and when they come in to see us they tell us they have either been at the home office or the branch office or they have asked the agent this, that, or the other thing, and the agent said this, that, or the other.

The VICE CHAIRMAN. In no case have you been able to find a letter direct from the company to the policyholder?

Mr. SIEGEL. I believe there were one or two cases; I wouldn't recall the details, but as I remember them I believe they were clerical errors on the part of the home office department, that is, where they made a statement that there was no cash surrender value available in a given case, that it was due to an error on the part of somebody in the home office.

The VICE CHAIRMAN. Is your implication that the insurance companies avoid, when they can, setting forth in letters or in writing direct to the policyholder an answer to their request for adjustment?

Mr. SIEGEL. I don't know whether it is a matter of policy, Mr. Chairman, but I do know this, that it is the practice of the industrial company, where inquiries are directed to the home office, to refer all such inquiries to the local office, and the client or the policyholder receives a letter of this nature.

I don't seem to have the original form letter that the Prudential uses, but as I recall it merely says that "Your inquiry has been received and you will be visited by a representative of our local office." Then it is followed up with something like this:

Since we last wrote you we have learned that your request has been referred to the superintendent whose name and address appear below. We are asking him to give this matter prompt attention.

That is known among clients who come to us as the "run-around." That is the way they describe it. They cannot seem to get a statement in writing from the home office and they are invariably referred back to the local office or to the local agent.

The VICE CHAIRMAN. Does the local agent or the superintendent, in conformity with that letter, call upon them?

Mr. SIEGEL. Yes; he calls upon them, but he has nothing in writing when he comes. It is all verbal.

The VICE CHAIRMAN. When he calls upon them, does he establish some arrangement of paying on policies?

Mr. SIEGEL. Are you referring to cases that are seeking assistance?

The VICE CHAIRMAN. I am referring to the usual case that receives a letter such as you have read to us.

Mr. SIEGEL. That letter will be sent to a client in answer to almost any form of inquiry, and the agent receives a communication from the home office to call with regard to this particular matter. I have no doubt that if there are statistics or information to be given, the information is contained in the home office letter to the local office, but that letter never gets to the possession of the policyholder. We had the same difficulty here in this Mrs. Gunning's case that I mentioned before.

Mr. GESELL. Which case is that?

Mr. SIEGEL. That is the case in which the Prudential made the written proposal. The written proposal is not in my possession. All I have here is a copy on the stationery of the local office of the original home office letter to the local superintendent, and that was obtained by Mrs. Gunning only after repeated insistence.

Mr. GESSELL. Well now, I want to ask you, Mr. Siegel, whether the industrial insurance companies operating in New York have cooperated with you in connection with the work you are doing.

Mr. SIEGEL. No.

Mr. GESELL. Can you tell us in what way they have not cooperated? First of all let me ask you this: Do they answer your mail?

Mr. SIEGEL. No. They used to. For the first six months or so of our operation they did reply to inquiries from us in which we enclosed a letter of authorization signed by the policyholder. For the past 2 years we have received no mail whatsoever from the three largest industrial companies, the Metropolitan, Prudential, and John Hancock. The Colonial Life does reply to our correspondence. The ordinary companies, such as the New York Life, the Equitable Life, the Mutual Life, Travelers, and Aetna will also reply to our communications provided we give them a letter of authorization signed by the policyholder.

The VICE CHAIRMAN. Did you receive an answer to the copy of the letter on the Fortune family case that you sent to the superintendent

of insurance in New York, commissioner of banking and insurance of New Jersey, and commissioner of insurance in Massachusetts?

Mr. SIEGEL. No.

Mr. GESELL. Is there any other way in which the companies have not cooperated with you or have indicated that they are opposed to your activities?

Mr. SIEGEL. Well, suppose we go back into history once again. Following the cessation of correspondence which occurred in the fall of 1937, on March 2, 1938, there was a hearing, a public hearing, in Albany, N. Y., on a resolution to investigate industrial insurance in that State. I appeared at the hearing to speak in support of the resolution, and the one who spoke against it was Mr. Charles Taylor, vice president of the Metropolitan Life. In the course of his address on the floor he attacked me by name and also the Policyholders Advisory Council. He made a statement on the floor at that time that he did not acknowledge our mail.

The VICE CHAIRMAN. When you say the floor, what do you mean?

Mr. SIEGEL. In addressing the subcommittee, in speaking against the resolution to investigate industrial insurance.

Mr. GESELL. This was, I take it, a committee which was holding hearings to determine whether or not the New York Legislature should vote favorably or unfavorably on the resolution to investigate industrial insurance.

Mr. SIEGEL. That is right.

Mr. GESELL. Then what happened after that?

Mr. SIEGEL. In June of 1938 the Metropolitan put out an 8-page leaflet, signed by Mr. Taylor, attacking me and the Policyholders Advisory Council.

Mr. GESELL. Is that leaflet the leaflet which forms the basis of the suit which we referred to earlier in your testimony?

Mr. SIEGEL. That is correct.

Mr. GESELL. What happened after that?

Mr. SIEGEL. In December of 1938, 3 months after we had opened our Boston office, a complaint was filed by the Massachusetts Mutual-Life, the Massachusetts Association of Life Underwriters, and the Boston Better Business Bureau with the Federal Communications Commission against our broadcasts in that area.

Mr. GESELL. What happened as a result of that complaint?

Mr. SIEGEL. The stations suspended our broadcasts pending the final decision by the F. C. C.

The VICE CHAIRMAN. What station did you broadcast on?

Mr. SIEGEL. We were on WMEX, WORL, and WCOP.

Mr. GESELL. Are you back on the air there at the present time?

Mr. SIEGEL. Yes.

Mr. GESELL. Was any action taken against you by the Federal Communications Commission as a result of the complaint?

Mr. SIEGEL. No.

Mr. GESELL. The result, I take it, was that the companies, upon the filing of the complaint, refused you broadcasting facilities for the time being.

Mr. SIEGEL. That is correct.

Mr. GESELL. Did you change the mode of your broadcasting in any way?

Mr. SIEGEL. Yes; we had to delete the use of company names in the Boston area.

Mr. GESELL. What happened after that?

Mr. SIEGEL. Well, there was something prior to that, or at about that same time.

The VICE CHAIRMAN. Who asked you; was there an order ordering you to delete that?

Mr. SIEGEL. No; the station's attorney, here in Washington, suggested to the radio station that our broadcasts be suspended pending the final word from the Federal Communications Commission. We received a letter from the F. C. C., or rather my attorney did, to the effect that they were not in a position to censor broadcasts, and that the only action that they could take was with regard to the station's license, that if the license of the stations concerned were renewed on the next renewal date it would automatically dispose of the complaint.

The VICE CHAIRMAN. Yes; but I am trying to find out what motivated you in ceasing to name these companies on the air.

Mr. SIEGEL. The stations will not accept the programs today in Boston where they have company names.

The VICE CHAIRMAN. The stations themselves?

Mr. SIEGEL. The stations themselves.

On October 29, 1938, the president of the Massachusetts Association of Life Underwriters wrote a letter to the manager of Radio Station WORL in Boston, in which he said [reading from "Exhibit No. 981"]:

I am most anxious to submit to you, if you are desirous of further investigating this matter, material which I believe will conclusively demonstrate the fact that Mr. Siegel is operating a very definite racket and one which is most despicable in that it preys upon the savings of the citizens, fine intentioned and substantial, but unadvised to the extent that they are not competent to judge the advice offered by a clever individual having considerable knowledge of the insurance contracts and their terminology.

Mr. GESELL. Have you a copy of that letter?

Mr. SIEGEL. I have.

Mr. GESELL. I should like to have it.

Mr. SIEGEL. I have a copy of a letter from Radio Station WORL to me in which is enclosed this copy of the letter from the Massachusetts Association in which he refers to the booklet or leaflet printed by the Metropolitan Life on June 24, 1938, as having been submitted to the manager of the station by Merle G. Summers.

Mr. GESELL. I would like to offer this correspondence for the record.

The VICE CHAIRMAN. It may be admitted.

(The letters referred to were marked "Exhibits Nos. 981 and 982" and are included in the appendix on pp. 6217 and 6218.)

Mr. GESELL. What was the next event in this story. Am I correct in saying that on February 9, 1939, certain suits were threatened against the broadcasting companies of New York?

Mr. SIEGEL. On February 1, 1939, the attorneys for the Metropolitan Life sent a letter to four of our radio stations, WHOM, WMCA, WINS, and WARD. The letter was sent by Townley, Updike & Carter, as attorneys for the Metropolitan Life, and all the letters are identical with the exception of the salutation. It read in this way [reading from "Exhibit No. 983"]:

We represent the Metropolitan Life Insurance Company and this letter to you is written on its behalf.

We are advised that you own and operate the radio station known as WHOM. For some time past broadcasts over your station have been made by one Morris H. Siegel, who sometimes refers to himself as the "Counsellor" and who is connected with the Policyholders' Advisory Council of 36 West 44th Street, New York City.

These broadcasts contain statements which, in our judgment, are defamatory of The Metropolitan Life Insurance Company, as well as of certain of its officers and agents. That these defamatory utterances are serious and calculated to produce a reduction in its business is apparent from the face of them.

Without prejudice to the existing rights to recover with respect to past defamation, this will constitute notice to you that you will also be held strictly accountable and responsible under the law for all future broadcasts, with respect to our client, by Morris H. Siegel or by any one else under his sponsorship, or under the sponsorship of the Policyholders' Advisory Council.

Mr. GESELL. After that, were any suits brought against you by the Metropolitan?

Mr. SIEGEL. No.

Mr. GESELL. Were suits filed against the broadcasting stations?

Mr. SIEGEL. Yes. In April of 1939 Metropolitan Life sued WMCA and in July of 1939 sued WINS.

Mr. GESELL. Were those suits based entirely upon remarks made by yourself over those stations or also by remarks of other insurance counselors?

Mr. SIEGEL. By remarks of both myself and one other.

Mr. GESELL. Am I correct in saying that recently two of the large industrial insurance companies have commenced broadcasts of their own?

Mr. SIEGEL. Yes; in April of 1939 the Metropolitan Life, under the direction of Edwin C. Hill, began radio broadcasts on three stations in the New York City area, which were sent out by wire to one station in Boston and one station here in Washington. The Prudential began broadcasting in May of 1939 on the Columbia Broadcasting System throughout the country. The Prudential's comments refer merely to the fact that the agent would give information. Here are the opening and closing announcement used by the Prudential on August 3, 1939:

There is a Prudential policy and a Prudential payment plan to fit every need. Let the friendly Prudential man in your neighborhood help you decide how Prudential protection can best help you and your family. He is ready and willing to sit down and talk with you, to help you, to give you the best advice on any life-insurance problem you have, and, of course, he charges no fee. He knows that well advised Prudential policyholders are his best friends and wants you to be one, too.

That is the sole extent to which the Prudential broadcasts go, but the broadcasts by the Metropolitan Life and Edwin C. Hill directly attack insurance counselors.

Mr. GESELL. I want to come back to these broadcasts in a moment, Mr. Siegel. First of all I would like you to give us some idea of the insurance counselor problem in the New York area. Are you the only counselor there?

Mr. SIEGEL. No.

Mr. GESELL. How many counselors are there?

Mr. SIEGEL. I am not quite sure, but it has been reported back as varying anywhere from 70 to over 100.

Mr. GESELL. There has been quite a development in the New York area in recent years, has there not?

Mr. SIEGEL. Not only in New York but throughout the country.

Mr. GESELL. Are there any provisions for licensing counselors in the State of New York?

Mr. SIEGEL. No.

Mr. GESELL. Have you publicly advocated such licensing?

Mr. SIEGEL. I have, on a number of occasions, both on the broadcast as well as in open letters to the legislators of New York State as well as in my interviews with various members of the New York State insurance committee.

Mr. GESELL. What is the position of the insurance department with respect to advisors?

Mr. SIEGEL. Well, it seems to straddle the issue.

Mr. GESELL. The insurance department has taken the air, too, on this thing, hasn't it?

Mr. SIEGEL. Yes; it has.

Mr. GESELL. You say they seem to straddle the issue. What do you mean by that?

Mr. SIEGEL. Well, the New York superintendent of insurance, Mr. Pink, broadcast in New York City some 2 months ago, I believe, in a broadcast that was interpreted by listeners to be a warning against insurance counselors, and the following week delivered an address to an agents' association in California in which he stated that there might be a place for insurance counselors. Following that, there were several broadcasts by deputy commissioners of the New York State Insurance Department containing similar warnings, but then following that again Mr. Pink came out with a suggestion that the insurance companies set up joint offices in various areas at which advice on life insurance was to be given without charge, but at which no insurance was to be sold.

Mr. GESELL. Do you recognize these—

Mr. SIEGEL (interposing). I have here a reprint of the open letter which I sent to the members of the legislature of New York State which was printed in the New York World Telegram of May 11, 1939.

Mr. GESELL. That is the letter advocating regulation?

Mr. SIEGEL. Regulation and suggesting a basis upon which they should be regulated.

Mr. GESELL. What is the basis you think best for the regulation of insurance counselors?

Mr. SIEGEL. Licensing activity together with a very severe restriction as to how the fees are to be based.

Mr. GESELL. There are counselors charging fees based upon the amount of cash they collect, are there not?

Mr. SIEGEL. That is right.

Mr. GESELL. You think that is undesirable?

Mr. SIEGEL. That is right.

Mr. GESELL. Do you recognize these documents that I hand you now as scripts of radio talks given by you over your weekly broadcast?

Mr. SIEGEL. Yes.

Mr. GESELL. I wish to offer these for the record.

The VICE CHAIRMAN. Do you care to offer Mr. Updike's letter?

Mr. SIEGEL. Yes.

Mr. GESELL. I offer this letter that Mr. Siegel referred to in his testimony from Townley, Updike & Carter.

The VICE CHAIRMAN. They may be admitted.

(The documents referred to were marked "Exhibits Nos. 983 and 984" and are included in the appendix on p. 6219.)

Mr. GESELL. How many times a week do you broadcast, did you say?

Mr. SIEGEL. Our broadcasts go out over the air about 117 times a week.

Mr. GESELL. And do you attribute your clientele almost entirely to these broadcasts?

Mr. SIEGEL. To broadcasts and recommendations by those who have come in.

Mr. GESELL. Certainly the broadcasts must play a pretty important part in the bringing of clients to your office.

Mr. SIEGEL. A very important part. As a matter of fact, they are the only form of advertising we use.

Mr. GESELL. You don't advertise in the newspapers, you don't drop circulars around at doors, or anything of that kind?

Mr. SIEGEL. No.

Mr. GESELL. If the committee please, I would like at this time to play for the benefit of the committee one of Mr. Siegel's records, in order that you may have an exact idea of how it is presented over the air. It may take us 5 minutes or so to rig up the apparatus. We might adjourn until 2 o'clock, if that is convenient.

The VICE CHAIRMAN. Yes; it is 20 minutes past 12 now. We will adjourn until 2 o'clock.

(Whereupon, at 12:20 p. m. the committee recessed until 2 p. m. the same day.)

AFTERNOON SESSION.

The hearing was resumed at 2 p. m. upon the expiration of the recess.

The VICE CHAIRMAN. The meeting will come to order. Proceed, Mr. Gesell.

Mr. GESELL. Mr. Siegel, will you resume the stand, please?

There is one point that I don't think we covered in this morning's session, Mr. Siegel, and that is in respect to the manner in which you are able to reduce premiums. Am I correct in saying that frequently you put the family's insurance on an extended-term basis?

Mr. SIEGEL. Some of the policies.

Mr. GESELL. What percentage of your adjustments would you say involved that type of change in the program?

Mr. SIEGEL. We don't keep a break-down of that type of statistics except what I mentioned this morning; that is, that one-eighth of the policies remain without change, about one-eighth are surrendered for cash, and the remaining three-quarters go through some process of adjustment which may be extended insurance, a change of plan within the same policy, or a change of plan to a different type of policy in the same company.

Mr. GESELL. Now, when the insurance goes on an extended-term basis that results, really, or will result, in eventual reduction of the coverage of the policyholder, will it not?

Mr. SIEGEL. The policy is never recommended for extended-term insurance unless the extension term will run at least as long as the original period of coverage. For instance, in a 20-year endowment policy that may be 5 years old, if the extended-term insurance does not run for at least 15 years that policy would not be put on extended-term insurance. The contract in any event would expire at the end of 20 years if it is an endowment policy on the 20-year plan. We leave them with the same protection for the same term that they had before, under the original contract.

Mr. GESELL. I see. Well now, we were referring before recess to some of the broadcasts made by Mr. Siegel and scripts of certain of the broadcasts are in the record. With the committee's permission, I would like to play one such broadcast back to the committee in order that the exact tone of voice that Mr. Siegel uses, the exact manner in which he makes his presentation, will be made known to the committee.

The VICE CHAIRMAN. You may proceed.

(There followed presentation of radio transcription M-18, the script of which had been admitted to the record as "Exhibit No. 984" see appendix, p. 6219.)

Mr. GESELL. I might state for the record that that record just played is the record of the script No. M-18 which was introduced into the record just prior to the noon recess.

I have no further questions for this witness.

Mr. O'CONNELL. I should like to ask Mr. Siegel one question. What training do you give to your people who act as advisers to the people who come to you?

Mr. SIEGEL. We don't have any advisers as such who do any actual interviewing. The interviewer is merely a transmitter of the problem. He establishes the problem by questioning the client. There are a variety of factors involved in each case that must be taken into consideration, such as whether a given member of the family is employed or not, the condition of his health, whether he is living with the family, whether he is married and on his own. The interviewer establishes those facts and makes a note of them in the proper place. The material, together with the information that is listed on the work sheet concerning each policy in the family, then goes to what is known as the planning division. We found in the beginning that the interviewer was apt to be influenced by the desires of the client, which are not always to the client's own best interests. That is the client very often wanted all the cash he could get out of his policy. We knew that if we yielded to that desire it would mean stripping them entirely of the backlog they had built up, that these people are usually desperately in need of funds and that once the funds come into their possession they would be spent. We felt that it would be wiser to leave a backlog in the policy, and furthermore, even though we don't believe that industrial insurance is the proper kind for the average family to have, once the policy is on the books, has been on the books for a certain number of years, a loss has already been occasioned, has already been taken by that family, to drive that policy completely off the books by a surrender would mean a replacement with a new policy and a second loss taken.

We found the interviewers yielding to the desires of the policyholder at a time when the interviewers were the ones doing what we called the planning, suggesting necessary changes. We shifted our technique. We have a planning division that consists of three people that review every work sheet, take into consideration wherever possible the desires of the client, prepare the plan, send it to the computing division for the necessary figures, and then it goes back and the client is called back for a second visit, at which time the plan is set forth before him.

Mr. O'CONNELL. What is the background of the people that are in the planning division? What experience have they?

Mr. SIEGEL. The people that are in the planning division have all been in the selling end of life insurance. They work on certain principles. The principle is to retain the insurance on the head of the house under all circumstances, industrial or otherwise. There is only one exception to that rule. If we find that the only policy which would provide cash in the family is on the head of the house, and if the head of the house has other insurance, we will permit a cash surrender on that policy. The general plan is to reduce the protection on the children and to increase the protection on the head of the family wherever possible, but to maintain the same total amount of insurance in the family, which is what they want when they come to us.

The VICE CHAIRMAN. How many men are there in your planning division?

Mr. SIEGEL. There are three.

The VICE CHAIRMAN. Are you and your brother in it?

Mr. SIEGEL. No; we don't handle it directly ourselves. The only cases I handle myself are the ordinary cases, cases involving ordinary insurance only, of large sums, \$100,000, \$800,000, \$300,000—cases of that nature.

The VICE CHAIRMAN. These three men in the planning division are sort of a bottleneck of your organization.

Mr. SIEGEL. They are the heart of the organization.

The VICE CHAIRMAN. They give the final advice, do they?

Mr. SIEGEL. That is correct.

The VICE CHAIRMAN. Do you and your brother have a supervisory responsibility?

Mr. SIEGEL. There is a constant check on the quality of the plans. There is not a 100-percent check. There is what we would call a spot check on the quality of the plans. A group of folders is lifted daily on a given number of cases to be checked to see what recommendations are being made.

The VICE CHAIRMAN. Are you a corporation?

Mr. SIEGEL. We are incorporated in New York State to protect our name, but we do not operate as a corporation. We operate as a partnership.

The VICE CHAIRMAN. Is there any other large policyholders' advisory company in New York State?

Mr. SIEGEL. Not that I know of.

The VICE CHAIRMAN. You are the largest?

Mr. SIEGEL. The largest and oldest.

The VICE CHAIRMAN. Do you know of any other policyholders' advisory companies in other States?

Mr. SIEGEL. Yes; I do.

The VICE CHAIRMAN. What other States do they operate in?

Mr. SIEGEL. There is one in Massachusetts, there is one in Newark, there is one in Chicago, one in San Francisco, one in Cincinnati, one in Philadelphia, and I think a few other scattered ones, but most of them are individuals operating on their own.

The VICE CHAIRMAN. Do most of them operate on a flat fee basis as you do?

Mr. SIEGEL. I am sorry to say they don't. They operate on a percentage of the cash recovery.

The VICE CHAIRMAN. All of the others operate on a percentage of cash recovery?

Mr. SIEGEL. I won't say all of them, but I will say the majority of them, from what I have learned, operate on that basis.

Mr. GESELL. How are your employees and planners compensated, are they on a salary?

Mr. SIEGEL. They are all on salary, every employee.

Mr. GESELL. It doesn't make any difference to them how much cash they recover or what changes they make in the program of the assured?

Mr. SIEGEL. None whatever.

Mr. GESELL. I have no further questions.

(The witness, Mr. Siegel, was excused.)

Mr. GESELL. The next witness is Mr. Leroy A. Lincoln.

The VICE CHAIRMAN. Will you hold up your right hand? Do you solemnly swear the testimony you shall give shall be the truth, the whole truth and nothing but the truth, so help you God?

Mr. LINCOLN. I do.

TESTIMONY OF LEROY A. LINCOLN, PRESIDENT, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.

METROPOLITAN LIFE INSURANCE CO.—OPERATION OF INDUSTRIAL DEPARTMENT

Mr. GESELL. Your name is Leroy A. Lincoln, and you are president of the Metropolitan Life Insurance Co.?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. How long have you been president of that company?

Mr. LINCOLN. About 3½ years.

Mr. GESELL. We have had some testimony this morning, Mr. Lincoln, with respect to the activities of insurance counselors, and before proceeding to the regular examination which I have in mind, I would like to give you an opportunity to make any statement you wish with respect to the attitude of your company toward insurance counselors.

ATTITUDE TOWARD INSURANCE COUNSELORS

Mr. LINCOLN. Our company, of course, has been interested in the subject of these counselor activities which had their origin, so far as any extensive activity was concerned, so far as I know, with the witness whose testimony you have just heard. That individual was employed by our company in 1931 or thereabouts. He was, I don't know whether I could say discharged or resigned, but if he resigned it was a resignation by request because of irregularities.

Mr. GESELL. You weren't here this morning. Since that issue is one of litigation, I very carefully refrained from asking Mr. Siegel to state his position with respect to it. I think in fairness that issue had best await the litigation which is now in process.

Mr. LINCOLN. That may very well be, but I do want the committee to know of his own position taken by him and expressed in his letters to the company on that occasion. I have here a facsimile—we have the original in the committee room—of a letter which Morris Siegel wrote and signed addressed to the superintendent of agencies under date of November 19, 1931.

DEAR SIR: I have come to the conclusion that your offer of reinstatement if I pay the amount involved means that there will be no mark against my record, as, if you believe the charge against me you will forbid my reinstatement under any consideration. I bow to your decision and have deposited the amount involved, feeling that your sense of justice has ruled that this is my penalty for my infraction of the rules. It is an expensive way to learn a lesson, but I have learned it.

Trusting that my reinstatement will be effective as rapidly as possible, I am,
Respectfully yours,

MORRIS SIEGEL.

That is dated November 19, 1931. He was reengaged after the irregularities mentioned, and again when he left the service under other circumstances which were highly unsatisfactory to the company he addressed this letter under date of July 27, 1933:

Mr. Flynn informed me this morning that Home Office has ordered my final for next week. May I ask that you grant me an interview? Perhaps the Home Office will not object to my obtaining an agency in another district if I can find a manager willing to put me on. I am making this plea as an individual who has committed a wrong and pleads that this error should not cause my severance with the company. My wife and two children are my first concern.

Please permit me to call and see you.

Truly yours,

MORRIS SIEGEL.

He was not reemployed the second time, and whatever may have occurred between that time and the occasion when we began to hear of these counselor activities of his I do not know, but some few years later, perhaps in '35 or '36, we began to hear about a man named Siegel acting as counselor and undertaking to advise life insurance policyholders. On a survey of that situation we found it was this same Siegel who had left our employ under the circumstances I mention.

That activity went on for a year or two without causing us any great concern, and then he undertook a campaign over the radio, and I have here some excerpts of his radio talks which I should like to read to you, but it came to a point where not only Siegel but other discharged and dismissed agents were resorting to this occupation, and it became a general occupation about New York and in Boston, sir, and in other localities, for agents who had been discharged to set themselves up as insurance counselors. In our opinion, based on complaints that we had from policyholders and based on complaints which we had from agents, he was doing great harm to the life-insurance business. Policyholders would write and tell us of the unfortunate advice which had been received from this and other counselors, and we felt that it was our bounden duty to take some affirmative steps to protect the policyholders and to protect the agent. I believe you, sir, are from Boston. I held meetings with our agents in Boston several months ago and there was no subject which bore so much discussion on the part of

those agents with me as the activities of these counselors, the harm they were doing. I suppose there were close to a thousand of Metropolitan agents in those meetings; there were other agents, of course, of other companies equally badly affected. Now, this thing hasn't been confined to New York or Boston or Newark; there have been activities in all parts of the country. These counselors are known for the type of work they do from one end of the country to the other. This person's name, this individual who has just testified, is known to all the agents around this country, hundreds of thousands of them, and they know the harm he is doing to the policyholders, to say nothing of the harm he is doing to them, to their business, to their standards, to their reputations in the community. These agents in Boston, to be specific, asked me, "Mr. Lincoln, isn't there some way you can go on the radio and answer this man?"

That was some months ago, several months back in 1938 I remember saying to those agents in Boston, I said, "What would you think of our taking advertising space in the local Boston papers to tell this story?"

"Oh," they said, "that won't do. People don't read those papers, but they do listen to their radios, and that is the only way to deal with it."

All right. The thing went on and on and these counselors were going on in every direction and almost all of them—I can't be literal but almost all of them are discharged employees of the companies.

Consequently, by reason of the damage they were doing to our policyholders and their interests, and the concern with which the agents looked on this activity, we decided last April that we would undertake an affirmative campaign against them, a campaign which I say was suggested to me in the first instance by those agents in Boston. So we engaged a well-known commentator, Edwin C. Hill; we got time on one or two local stations in New York in April; about some 3 or 4 weeks later, I can't recall when, we extended to a Boston station and another in Washington, and all up and down the coast for the last 4 or 5 months we have been endeavoring to tell, over the radio, 5 nights a week, to our policyholders, the story of these counselors and their activities, and the utter lack of necessity of resorting to any counselor for anything.

We are there to serve our policyholders, and so are our agents. Every one of our agents is desirous and we are insisting that he shall serve the policyholders, and our duty, my personal responsibility and that of my associates, is to about 29,000,000 policyholders. I have a duty to every one of them, a responsibility to each one of these policyholders, and it doesn't matter what the circumstances may be, every one of our officers and employees has a similar duty to all those policyholders. We can't stand to see them exploited.

Now we look on this practice as an exploitation of policyholders. We have had countless cases where policyholders have been to these people, have received bad advice and sometimes if they have accepted it they have come to us to try to undo the transactions. We can't always undo them. They have charged fees to these people that they have sought to collect in the small courts, and I have some reports here about that. But their malign influence on policyholders and on the splendid body of agents in this country, not only Metropolitan but all other agents, is something that we felt should be combatted.

There are thousands and hundreds of thousands of agents in this country, and this activity, the kind of material that these people recite over the radio, is a direct attack on the agents. Let me read some of the excerpts from this person's own broadcasts.

Mr. GESELL. Now I must insist that we have an answer to the question, and not an attack upon the witness.

Mr. LINCOLN. You have had the answers to the questions.

Mr. GESELL. I beg your pardon, sir. I must insist that the committee ask the witness to be still until I have stated my objection.

The VICE CHAIRMAN. You may state your objection.

Mr. GESELL. I asked this witness a very simple question, which was the attitude of his company toward insurance counselors. He has chosen this hearing as a forum to make a personal attack upon an individual who was brought here under subpoena to testify. I think it is improper, it is beyond the limits of the question, and I must ask the committee to hold him to the particular question he was asked.

Mr. LINCOLN. I was asked to state the reasons why we have adopted the attitude we have concerning these counselors, not alone against your witness but concerning all counselors. I am only undertaking to state those reasons. Among those reasons I would like to state some excerpts that this particular man has broadcast.

The VICE CHAIRMAN. This Commission is seeking facts and we haven't bound anybody to the strict rules of evidence. I think we should continue our wide latitude. The question was rather a general one and I think in keeping within the question as to your attitude, the attitude of your company toward these advisers to policyholders, you may continue.

Mr. LINCOLN. I am reading now from excerpts taken from the broadcasts given by the witness who last appeared before you, and I am reading these in chronological order. This one is from a broadcast of November 14, 1937. He says:

To the average agent the policyholder is only a means to an end, someone to be held in contempt and to be insulted whenever necessary. Most of you have had personal experience with the insulting, high-handed manner in which agents treat those whose money supports them, and most of you also know how much misrepresentation they resort to to sell their policies. Stay away from high-flown promises much as you should avoid the unsupported promises of insurance agents whose words are as gold but whose deeds are as brass, which resembles gold but, which is of little worth.

I have often told people who come to my office that I wouldn't believe the average agent if he swore an oath on the Bible, unless he wrote down what he said and signed his name to it before my very eyes, so that he could not repudiate his signature later on.

The next one, dated April 10, 1938:

Last Sunday I said that the weekly premium policies were highly deceiving documents, and this Sunday I repeat that they are not only deceiving by accident but that they have been deliberately designed to be deceiving.

April 13, '38:

Strip the legal verbiage away from those few innocent-seeming words in fine print and what have you got? Nothing but an outright fraud on the part of the company to deceive you into thinking that the person whose name is written there is certain to receive the insurance money. The entire transaction is just a blind to keep you quiet and shut you up. That its the type of deception practiced by the biggest life-insurance company in the world, and the next largest is right on its heels with its own particular brand of deceit and deception.

And I say in passing, one may ask, why do we combat these counselors?

The next one, May 18, 1938:

I have said to you a thousand times, no weekly premium policy is a good policy. I have said to you a thousand times the Insurance Department of the State of New York is not and never has been operated in the interest of those who pay the premiums.

May 15, 1938:

I have made this statement before and I will make it again: Most agents know so little about the thing they sell that it is criminal to let them sell life insurance at any time. As for going to your companies, all I can say is, try it; by all means go to your own companies before you come to us. Then after you have been given the "run around" there, you will come to us and get the sort of impartial advice that it's impossible to get anywhere else.

May 18, 1938:

I am right here to tell you that we will be in business long after your present agents have been fired for misrepresentation.

I hope you will recall the story with which I introduced this individual's record.

Most of you have had personal experience with the insulting, high-handed manner with which agents treat those whose money supports them, and most of you also know how much misrepresentation they resort to to sell their policies. Remember that if your agents had the truth on their side, they would stand up and say so. Instead, they lie—

speaking of the agents, the decent, respectable agents of this country: they lie, deceive you, frighten you, bully you, show you all kinds of fraudulent documents in order to keep you from making the changes that would be to your best interests.

Another one:

If you go to your agent you will be skinned alive before you will get out of his hands. He will bamboozle you from here to Halifax and back, take the gold fillings out of your teeth, talk you deaf, dumb, and blind until you are dizzy, and then tell you lies about us to keep you tied down to your present heavy premium payments, on weekly policies at that.

Well, those are examples, if we were asked to say why we felt it important that we should take up this matter of these counselors.

The VICE CHAIRMAN. I take it, Mr. Lincoln, your attitude is unfavorable toward these counselors.

Mr. LINCOLN. You have got it!

Mr. O'CONNELL. Is it your belief that the only people who are competent to advise persons about life insurance are people in the life-insurance business?

Mr. LINCOLN. No, sir; my belief is that the people in the life-insurance business are amply competent and do it without charge.

Mr. O'CONNELL. You have a feeling that there is no need for any group of people doing the job that the insurance counselors now do?

Mr. LINCOLN. Exactly.

Mr. O'CONNELL. No need for that at all?

Mr. LINCOLN. Exactly so.

Mr. O'CONNELL. You are not impressed with the fact that the monetary interest the agent has in writing insurance is apt to influence him.

Mr. LINCOLN. No, I am not; but on the contrary I am impressed with the fact that when a man goes to the counselor, the only way a

counselor is able to make a fee is by recommending some change involving some cash in order for him to be compensated.

Mr. O'CONNELL. In answer to my question, you are not impressed with the fact that the agents have a monetary interest?

Mr. LINCOLN. No, sir; I have too much respect for our agents and for the agents throughout the country.

Mr. O'CONNELL. You have too much respect for them to think they would be influenced by that?

Mr. LINCOLN. Yes, sir.

Mr. O'CONNELL. It would seem to me quite natural for a person selling life insurance to try to sell all the life insurance he could.

Mr. LINCOLN. That isn't what we are discussing; we are discussing these changes and proposed revisions in the plan.

Mr. O'CONNELL. I was discussing generally the proposition as to whether or not there might not be people better competent to advise a prospective policyholder as to his needs than the insurance agents.

Mr. LINCOLN. I suppose it might very well be you would find people who are officers of companies, or agents, where one man is more competent than another, the same as we find lawyers where we might regard one more competent than another, but I say all these agents are able, willing, and have the entire capacity to examine a policyholder's situation and give him prompt advice, proper advice, and free advice, and if there is any doubt about it he can get all the information he wants about it from our experts at the home office. There is no occasion whatsoever to resort to anyone outside to get this advice.

Mr. O'CONNELL. You would oppose any move to create a class or group of people outside of the insurance companies to advise people on their insurance needs, is that correct?

Mr. LINCOLN. So far as these experiences have gone with these men, most of whom have been discharged by the companies, I answer you unqualifiedly, yes; I would oppose it.

Mr. O'CONNELL. That wasn't exactly my question. I say you would oppose any move to create a group or class outside of the life-insurance companies to advise people on their insurance needs.

Mr. LINCOLN. I would have to know who was to compose that group, sir.

Mr. O'CONNELL. You would much prefer to have any such advice come from people in the insurance business?

Mr. LINCOLN. I would have to know who was to compose a group such as you have in mind.

Mr. O'CONNELL. I haven't any group in mind. I wanted to get as clear as I could that you feel, as I understand you feel, that the job is being adequately handled by insurance agents and there is no need for having that job done by people outside the insurance companies.

Mr. LINCOLN. Decidedly; and I say that not only for Metropolitan but all the companies and all the agents in the country. I should say to you, because the question of our facilities for handling these cases has been brought up, that we have at the home office in the industrial department a division called the change and surrender division, which includes 300 employees whose sole duty it is to adjust policies on account of changed circumstance, and to give advice to policyholders without cost.

Now, those individuals have no dependency on any commission, as was intimidated by you or your associate.

Mr. O'CONNELL. How do such cases come to them, through the agency force?

Mr. LINCOLN. Through the agency and directly, both. Last year they handled transactions amounting to 1,987,884 policies, according to the report which I have before me, in which changes were made. That is done at the home office without charge.

Mr. O'CONNELL. How many policyholders have you?

Mr. LINCOLN. Twenty-nine million, roughly. No one can say to the exact number. We know exactly how many policies we have, but you might have three in your family, you might have two, and we have a formula—

Mr. O'CONNELL (interposing). No; I haven't.

Mr. GESELL. We were interested yesterday, Mr. Lincoln, in the formation of the Life Insurance Adjustment Bureau, and there we saw that the companies had organized an agency for the purpose of handling the problems of people on relief, or people who had welfare difficulties of one sort and another, in order to meet their insurance adjustment problems. Why was it desirable to form that organization if the companies were perfectly qualified to take care of the problem?

Mr. LINCOLN. I remember the occurrence when our late Dr. Frankel, one of our vice presidents then in charge of our welfare department, came to the present chairman and myself some time in 1931 and he said that the relief agencies, the public-welfare agencies, were somewhat concerned over the means of adjusting policies as between families which applied to welfare agencies for assistance, and those adjustments often involved more than one of the Industrial companies, so that it was proposed that the three largest Industrial companies doing business in New York should try to work out some plan by which their policies could be reviewed, and in connection with an application to a welfare organization for relief, the proper disposition of those policies in those three companies might be made without having to resort to each company separately.

Mr. GESELL. It was thought to be more efficient to handle it that way, I take it.

Mr. LINCOLN. It was born in this relief situation in 1931. Mind you, the depression, so-called, had been going on for a year or two then, and welfare was a serious problem, relief was a problem.

Mr. GESELL. Of course, cases have increased in the bureau since those dark days.

Mr. LINCOLN. The bureau has expanded its services, I have no doubt. I don't follow its figures.

Mr. GESELL. And it was quite clear from the testimony we had yesterday, I thought, that it was thought that it was more efficient and an easier way to handle the problems.

Mr. LINCOLN. Whose testimony was that?

Mr. GESELL. Mr. Eklund.

Mr. LINCOLN. I didn't hear him. I don't know whether he is in a position to give evidence as to the purposes of the company in establishing the bureau. I never have met the gentleman.

Mr. GESELL. I asked you whether you thought it was more efficient to handle it all in one place.

Mr. LINCOLN. No; I won't say it is. I think it had to do with the requirements of the welfare bureaus and the limitations which were imposed on the amount of welfare relief which would be involved in the insurance which the family had.

Mr. GESELL. And you don't think that one factor involved in any way in the situation was the fact that you might be able to better adjust the program of some insured who had policies in three companies if there was some central clearing place to which he could go?

Mr. LINCOLN. I wouldn't say it was intended as such a clearing house at all.

Mr. GESELL. And you feel that all these thousands of families who are going rightly or wrongly to insurance counselors are all deluded people who have no real problem at all.

Mr. LINCOLN. I don't doubt that they have a problem, but they should come to the place where we are equipped to handle it, and handle it without charge.

Mr. GESELL. We can be pretty sure that they see their agent much more often than they see their counselor. I wonder why they don't go to their agent.

Mr. LINCOLN. I can't tell, except for these broadcasts and other publicity activities of these people; I don't know of any other reason.

Mr. O'CONNELL. You don't think there might be a need?

Mr. LINCOLN. No, sir; I do not.

Mr. GESELL. Now, to get on to another subject, will you tell us what you consider to be, Mr. Lincoln, the fundamental purpose of industrial insurance?

PURPOSE OF INDUSTRIAL INSURANCE

Mr. LINCOLN. Industrial insurance is designed to furnish life insurance protection to the individuals whose lives are covered by it, to furnish a sort of backlog in the way of possible surrender values in case the policyholder is in difficulty. In case the family should be in circumstances where they might need some money, this has afforded a backlog, to the extent in our own company of considerably over a billion dollars in the last 10 years, paid out by us, paid out to people who otherwise probably would not have had a dollar of funds from any corresponding source. Besides that, of course, we have the endowment. Besides that, there is the facility which our company affords of a free nursing service growing out of our industrial business.

Mr. GESELL. May I have an answer to my question? What is the fundamental purpose of industrial insurance?

Mr. LINCOLN. What is the fundamental purpose of any insurance? It is the same purpose as any life insurance has, whether it is ordinary life insurance, group life insurance, or industrial. They are all phases of one single thing, that is, service that is offered by the companies, to wit, life insurance. I differentiate not at all between industrial and ordinary; they both furnish the same service; it is a service of money compensation so far as money can compensate in the case of a death of the individual insured. That is the basic purpose of all of it.

Mr. GESELL. You don't relate, then, industrial insurance to the problem of burial at all.

Mr. LINCOLN. No, sir. We have down South, I believe, companies which do report burial facilities, in kind—is that the word?—they report facilities in kind. We have no such thing.

Mr. GESELL. Industrial insurance had that as its purpose at one time?

Mr. LINCOLN. I have no knowledge of that.

Mr. GESELL. You have made no study of the history of industrial insurance?

Mr. LINCOLN. I have. I didn't read that. It may have been before my time.

Mr. GESELL. You never heard it called burial insurance?

Mr. LINCOLN. No, sir.

Mr. GESELL. You never heard it called coffin insurance?

Mr. LINCOLN. I have never—

Mr. GESELL. You never heard it called burial insurance?

Mr. LINCOLN. Oh, yes; of course; I am hearing it called burial insurance today. I am hearing it now.

Mr. GESELL. You think it has no relation to the problem of burial?

Mr. LINCOLN. It has no more relation to the problem of burial than an ordinary policy has.

Mr. GESELL. When industrial insurance was originally sold, were there endowment policies?

Mr. LINCOLN. I don't know. I think probably not. I suppose endowment was one of the developments.

Mr. GESELL. Were there surrender values?

Mr. LINCOLN. Later on; yes; not in the original days. All these things have been developments through the years.

Mr. GESELL. And your company, then, in selling industrial insurance, is anxious to give as much life insurance protection to as many people as possible, and that is the broad fundamental purpose of your effort?

Mr. LINCOLN. I don't know whether that question of yours contemplates asking something about endowments after I have answered it. We do sell life insurance. We sell also endowment insurance. The two serve their various purposes, but it is our purpose to make our life insurance facilities available to the public in the United States and Canada.

WELFARE ACTIVITIES

Mr. GESELL. Now, you have not mentioned your nursing service.

Mr. LINCOLN. I did mention it, but I guess you missed it.

Mr. GESELL. I deeply apologize. Will you tell us a little more about your nursing service?

Mr. LINCOLN. About 30 years ago—I think it is exactly 30 years this year—our company started what is known in its official family as its welfare department, and in the course of that establishment it was conceivably a service that a life-insurance company might render, to furnish a visiting-nurse service to its industrial policyholders, the lower-income group. An experiment of that sort was made in New York City. Whether it was originally made with what is now known as the Henry Street Settlement I am not quite sure; but, at any rate, we started, and by contract with that nursing service, the Henry Street Settlement—if it was that—to give free of charge, without any additional cost to our industrial policyholders in that locality,

the attention of a visiting nurse in case of illness in the family. That service immediately demonstrated its usefulness and its desirability from the point of view of the policyholder. It was extended and has been extended through the years.

Whenever it is possible we make those arrangements with the visiting-nurse organization in the community. It helps to support those visiting-nurse organizations; they value our support in the community. In communities where there are no visiting-nurse associations and where there are policyholders of sufficient number to warrant it, we maintain our own individual nursing service. We have made last year, as I recall it, about 3,800,000 visits to sick industrial policyholders. Through the years since the nursing service was established we have made, as I recall the figures, about 76,000,000 such visits, to people who in almost every instance would be unable to afford the service of a nurse unless they should have it through this means.

Mr. O'CONNELL. You don't mean you do this as an act of charity, do you? Don't you consider it good business?

Mr. LINCOLN. I would resent the word "charity."

Mr. O'CONNELL. Isn't it good business—you do it as a matter of business?

Mr. LINCOLN. Well, I wouldn't put it on that ground either. We feel that a great organization like this, with a large membership, as we have, has some more duties and responsibilities to its policyholders than merely being able to pay a death claim when it comes due or to pay some other monetary contract obligation. We feel the company is so big that we can do something toward the health of the public, toward the health of our own policyholders through these services, toward the health of the whole community through other services.

Mr. O'CONNELL. Well, to the extent that you improve the health of your policyholders through the visiting-nursing service or anything else, I take it that your mortality records would improve. It is good business, isn't it?

Mr. LINCOLN. I would have no hesitation in discussing it from that angle, Mr. O'Connell, but I do feel that there is a bigger and broader angle to it than merely the question of whether we make enough money by saving lives to pay for the service. It is bigger than that.

Mr. GESELL. I would like to offer for the record at this time a statement prepared by the Metropolitan Life Insurance Co., at the request of Chairman Douglas, of the Securities and Exchange Commission, in the course of the testimony of Mr. Frederick H. Ecker, chairman of the board.¹ The material submitted will, I believe, expand somewhat Mr. Lincoln's testimony.

(The statement referred to was marked "Exhibit No. 985" and is included in the appendix on p. 6226.)

Mr. GESELL. How much does this welfare service cost? How much does this health and welfare work cost?

Mr. LINCOLN. The welfare services all together—you may have our figures. We furnished them to you. I would rather use your figures than my memory. The welfare service in 1938 cost \$6,265,-

¹ See Hearings, Part IV, p. 1292.

331.68, of which \$4,162,000 odd was in the visiting-nurse service, \$1,398,000 was what we call general welfare, and \$704,000 for Life Extension Institute service. Is that the figure you want? All the figures were prepared by us and given to you, and I am sure they are right.

Mr. GESELL. A great percentage of that money was expended in the industrial department, was it not?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. Some \$65,673,000?

M. LINCOLN. Yes.

Mr. GESELL. I would like to offer this schedule, showing the expenditures for health and welfare services, 1909 to 1938, for the record.

The VICE CHAIRMAN. It may be admitted.

(The tabulation referred to was marked "Exhibit No. 986" and is included in the appendix on p. 6232.)

Mr. LINCOLN. If I may interrupt to suggest, that is from the beginning of our welfare department. In other words, it is the complete service throughout the years since this service was conceived.

Mr. GESELL. The Prudential doesn't do this health and welfare work, does it, to the same extent your company does?

Mr. LINCOLN. I am sure no one does it to the same extent. I think the John Hancock has a visiting-nurse service of some consequence. I am not quite sure what the Prudential does. I think they have some other services.

Mr. GESELL. How does this nursing service relate itself to this fundamental purpose of industrial insurance we were talking about?

Mr. LINCOLN. I tried to say a moment ago, and I will repeat it, that we have these millions of policyholders in the low-income groups to whom we think we can properly give some service for the moneys which they have placed in our hands other than the mere readiness to pay a claim, a monetary claim, alone. Any company can pay its death claims and its surrenders when they become due. We want to give our policyholders a service that goes beyond that.

The VICE CHAIRMAN. Mr. Lincoln, this service is in no way a contractual obligation of the company.

Mr. LINCOLN. You are right.

The VICE CHAIRMAN. It is something from the king's largesse, over and above what you are obliged to do.

Mr. LINCOLN. It is our own funds which we have believed they would like to have us employ for the prolongation of their lives, and for the health of themselves and their dear ones. It is not largesse in any sense.

The VICE CHAIRMAN. It is over and above any contractual obligation.

Mr. LINCOLN. We have nothing in the contract that provides for it.

Mr. O'CONNELL. In the alternative, I take it, were the money not spent in this way it would be returned to the policyholders by way of reduced premiums or by way of dividends?

Mr. LINCOLN. We would be bound to deal with it in some such fashion, of course.

Mr. GESELL. There is no option to the policyholder as to whether he does or does not want this service?

Mr. LINCOLN. I have yet to find one that doesn't. Perhaps you know of some.

Mr. GESELL. Do you give them an opportunity to state whether he does want it or doesn't want it?

Mr. LINCOLN. There is no opportunity. As soon as one of our agents learns of a sick policyholder in his community he reports it to the district office, or the policyholders, who all know of this service, communicate with the office themselves, and ask that the nurse be sent.

Mr. GESELL. You miss my point. Can the policyholder buying industrial insurance, less his proportionate share—

Mr. LINCOLN (interposing). No, sir.

Mr. GESELL. I would like to at least finish the questions once in a while.

Mr. LINCOLN. I'm sorry; I guess I'll settle down.

Mr. GESELL. That's fine. I would like to know whether the policyholder has any choice in purchasing industrial insurance. Can he buy it at a cheaper premium without the nursing service?

Mr. LINCOLN. I thought I had answered that. I will say "no."

Mr. GESELL. It represents how much money to each policyholder of your company per year?

Mr. LINCOLN. I will have to ask some of those smart people behind me to figure that out.

This is on the basis of premium income. It is 1½ percent. I didn't understand your question to be on the basis of premium income.

Mr. GESELL. It wasn't. I wanted to know how much each industrial policyholder, or policy, pays per year for this nursing service.

Mr. LINCOLN. I can only tell you that on the basis of our total premium income it is 1½ percent in the industrial department.

Mr. O'CONNELL. It would be rather simple to compute, wouldn't it?

Mr. LINCOLN. My friend, I think, is computing it. I have given you the figure—\$6,000,000.

Mr. O'CONNELL. How many industrial policyholders have you?

Mr. LINCOLN. We don't know. We know how many policies we have.

Mr. O'CONNELL. How many policies do you have?

Mr. LINCOLN. In the industrial department, about 34,000,000.

Mr. O'CONNELL. You have never made any attempt to check on how many policyholders?

Mr. LINCOLN. It is impossible. I tried to explain that once before. We will have two or three policies on one life. I am not an industrial policyholder, but I have several policies on my life. You might have one. We know how many policies there are, but it is only by a formula which our statistician has got up that we compute the number of individuals. Is "empirical" the word, Mr. O'Brian?

Mr. O'BRIAN.¹ No; it is not.

Mr. GESELL. This figure per policy comes to about 16 cents per policy.

Mr. LINCOLN. I don't know. If you have figured it out—this is a policy on the 20-pay life plan, age 25, weekly premium basis.

I don't know what this all spells here. Does anybody understand that?

Mr. GESELL. It is your own document, not mine.

¹ John Lord O'Brian, counsel for Metropolitan Life Insurance Co.

Mr. LINCOLN. I am sorry to say I can't interpret it under the stress of the moment.

You're right; the first policy year it is 16 cents.

Mr. GESELL. And it computes 16 cents every year thereafter, doesn't it?

Mr. LINCOLN. Apparently; yes, sir.

Mr. GESELL. That is per policy.

Mr. LINCOLN. Well, that is per policy at this particular age and plan. I suppose it would be different at different ages.

Mr. GESELL. The other ages and plans are there, and I think you will find the same amount.

Mr. LINCOLN. Would you like to have me look?

Mr. GESELL. I would like to have a little testimony from you, Mr. Lincoln.

Mr. LINCOLN. My friend says it is about right.

Mr. GESELL. Are you willing to adopt your friend's answer as your own?

Mr. LINCOLN. I adopt the answer that was contained in the questionnaire which you showed me, of course.

Mr. GESELL. Then, I take it, it does represent a charge of 16 cents per year per weekly premium policy.

Mr. LINCOLN. Yes. That is an average.

Mr. GESELL. Now I want to discuss with you a little this afternoon—

Mr. LINCOLN (interposing). Have you finished with the welfare, if I may ask? I have had a comment that I wanted to make.

Mr. GESELL. All right. If it is all right with the committee, I have no objection at all.

Mr. LINCOLN. That is, that through the 30 years during which we have conducted this welfare work covering millions and millions and millions of policyholders we have yet to have the first objection from any policyholder to the company's conduct of this welfare work. We receive countless letters of commendation, but I was dealing with the negative. There has been not one single objection that I know of to the welfare work of the company.

Mr. O'CONNELL. Do you understand that there has been some objection raised here?

Mr. LINCOLN. No, sir; I thought I would like to add this so long as we were discussing whether the policyholders could get a policy without it. I would like to throw that into the record.

Mr. O'CONNELL. While we are throwing things into the record, I would like to point out, Mr. Lincoln, that some other people in the industrial insurance business are not entirely in accord with your view on industrial insurance. We had a witness yesterday, the vice president of the Prudential Insurance Co., who in answer to a question as to what his company considered to be the basic purpose of industrial insurance, said:¹

To provide for the average working man a fund payable upon death which will take care of the necessary funeral expenses and incidental expenses in connection with the death, and a reasonable amount for the readjustment of the family temporarily only.

¹ See testimony of Henry B. Sutphen, supra, p. 5734.

I take it you are in complete disagreement with that definition.

Mr. LINCOLN. I wouldn't say complete. If I were to sit down and prepare a definition I might not prepare it exactly as I have uttered my views here in answer to the question. I say it is not, from our point of view, burial insurance, if that is the tenor of that testimony.

Mr. O'CONNELL. The testimony is that from the point of view of the Prudential it is burial insurance.

Mr. LINCOLN. It is not from the point of view of the Metropolitan.

The VICE CHAIRMAN. I take it there is no dispute that the desire to cover funeral expenses and to avoid potter's field is responsible for taking out industrial insurance to a great extent, quite aside from the endowment policies.

Mr. LINCOLN. I don't think that I can undertake to interpret what is in the policyholder's mind when he applies for industrial insurance. Some may have the potter's field in the back of their minds. I don't know.

Mr. O'CONNELL. You in a sense interpret what is in their minds when you write the various types of policies that you write.

Mr. LINCOLN. We try to recommend to them the type of policy which we think will fit their needs. They make decisions which are often not the same as we recommend.

The VICE CHAIRMAN. You don't trace the money that you pay on these policies?

Mr. LINCOLN. You mean after it passes out of our hands?

The VICE CHAIRMAN. Yes.

Mr. LINCOLN. I never heard of it.

The VICE CHAIRMAN. But there is pretty general knowledge that these people are in the low-income group.

Mr. LINCOLN. Yes, sir.

The VICE CHAIRMAN. And that this amount of money which they receive from the industrial policy is applied to their burial expenses.

Mr. LINCOLN. I don't know that that is so. I have no means of knowing whether it is or not.

Mr. O'CONNELL. Do you have any statistics as to the percentage of your industrial policies issued on the life plan?

Mr. LINCOLN. Yes; but I can't give it to you. My associates can give it. Do you want it now?

Mr. O'CONNELL. No.

Mr. GESELL. I would be glad to give you the figures with respect to that in the record.

Mr. O'CONNELL. If you have them I would like to see them.

Mr. GESELL. Do you recognize this schedule entitled "Number of Industrial Policies in Force December 31, 1938," as a schedule showing the distribution of your business by policies and amounts as between different types of plans?

Mr. LINCOLN. I would say without looking at it that I would have to refer it to our actuary. I wouldn't recognize it now.

Mr. GESELL. Let's put the actuary up and get him to recognize these figures. I have to get some of these figures in the record.

Mr. O'BRIAN. Wouldn't that be better to have the actuary testify to all these figures?

Mr. GESELL. All right, let's have him now.

TESTIMONY OF MALVIN E. DAVIS, ASSISTANT ACTUARY,
METROPOLITAN LIFE INSURANCE CO.

The VICE CHAIRMAN. Do you solemnly swear that the evidence you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth?

Mr. DAVIS. I do.

Mr. GESELL. What is your full name?

Mr. DAVIS. Malvin E. Davis.

Mr. GESELL. What is your connection with the Metropolitan Life Insurance Co.?

Mr. DAVIS. I am an assistant actuary.

Mr. GESELL. How long have you been with the company?

Mr. DAVIS. Sixteen years.

Mr. GESELL. Are you particularly familiar with the industrial department of the Metropolitan?

Mr. DAVIS. I am.

Mr. GESELL. Have you before you the schedule which I showed the president of your company?

Mr. DAVIS. That is right.

Mr. GESELL. Will you state what that schedule shows, purports to show?

Mr. DAVIS. This schedule shows the number of industrial policies in force at the end of '38 as well as for certain prior years, according to the principal subdivisions of the plans of insurance.

Mr. GESELL. To your knowledge is that schedule correct?

Mr. DAVIS. Yes.

Mr. GESELL. Was it prepared from the books of the company?

Mr. DAVIS. It was.

Mr. GESELL. I should like to offer it for the record.

(The chart referred to was marked "Exhibit No. 987" and is included in the appendix on p. 6233.)

Mr. GESELL. Mr. Davis, I show you a schedule entitled "Distribution by Plan and Year of Issue—Weekly Premium Business," and ask you if you recognize that schedule.

Mr. DAVIS. I do.

Mr. GESELL. Will you describe what that schedule shows, please?

Mr. DAVIS. This schedule shows the number of premium-paying industrial weekly premium policies according to the calendar year in which they were issued and according to the plan of insurance. Another schedule attached gives the same information based on the amount of insurance.

Mr. GESELL. To your knowledge is this schedule correct?

Mr. DAVIS. Yes.

Mr. GESELL. Was it prepared from the books of the company?

Mr. DAVIS. Yes.

Mr. GESELL. I wish to offer it for the record.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 988" and is included in the appendix on p. 6234.)

Mr. GESELL. I next show you a schedule entitled "Percentage Distribution of Industrial Policies Issued." Have you seen that schedule before?

Mr. DAVIS. I have.

Mr. GESELL. Will you describe what it shows, please?

Mr. DAVIS. This, according to the principal subdivisions of the business, according to the plans of insurance, states the number of industrial policies issued during the 5-year period 1934-38, according to age groups at issue, on a percentage basis.

Mr. GESELL. Was it prepared from the books of the company?

Mr. DAVIS. It was.

Mr. GESELL. To your knowledge is it correct?

Mr. DAVIS. It is, but in connection with that I would like to say that information like that is frequently misinterpreted. That is, as the heading indicates, a distribution of business issued, not of business in force. Critics sometimes point to statistics of that kind and claim that there is an undue amount of business being issued at age 1. Naturally, after a business is established you would expect to write more business at age 1 than age 2, etc., because you have already insured those.

Mr. GESELL. There are few children born who already have a policy in the Metropolitan?

Mr. DAVIS. I think we would all agree to that.

Mr. O'BRIAN. It is very unfortunate.

Mr. GESELL. I wish to offer the schedule.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 989" and is included in the appendix on p. 6235.)

Mr. GESELL. I show you a schedule which contains information for the years 1915 to '38 with respect to the number of agents, agents' average earnings, and other information, and ask you if you are familiar with that schedule.

Mr. DAVIS. It was prepared from home-office records; yes.

Mr. GESELL. To your best knowledge and belief is it true, accurate, and correct?

Mr. DAVIS. Yes.

Mr. GESELL. I wish to offer it for the record.

The VICE CHAIRMAN. It may be received.

(The schedule referred to was marked "Exhibit No. 990" and is included in the appendix on p. 6235.)

Mr. GESELL. I show you a schedule entitled "Distribution of Income, Amounts in Thousands of Dollars," and ask you to describe that.

Mr. DAVIS. This schedule presents the subdivision of the income of the Metropolitan during the 5-year period from 1934-38 on an incurred basis, for the industrial department and for the ordinary, excluding group; showing the distribution of income which is composed of premium income and investment income.

Mr. GESELL. To your best knowledge is this schedule correct?

Mr. DAVIS. It is.

Mr. GESELL. I wish to offer it for the record.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 991" and is included in the appendix on p. 6236.)

Mr. GESELL. I show you a schedule "Tabulation of Terminations, Weekly Premium Policies," one sheet being by number of policies, the other sheet being by percentages, and ask you if you will describe that schedule.

Mr. DAVIS. In this schedule is shown the number of weekly premium policies that have lapsed, less those that have been revived, according to the number of premiums paid. This is based on the experience of 1935, and on the second sheet the ratio of these lapses to the policies issued has been presented.

Mr. GESELL. The 1938 experience is shown there?

Mr. DAVIS. There has been a good deal of improvement for a number of years in the early lapse experience of the company. Since this is rather old, speaking of current times, being 1935, the data for the most recent experience of the company has also been added below. In addition to the weekly premium figures, industrial monthly premium figures are also presented.

Mr. GESELL. To your best knowledge is this figure correct?

Mr. DAVIS. Yes. In that connection, I would like to point out that in obtaining those statistics we have subtracted revivals. There seems to be a good deal of misunderstanding on the part of certain people as to the nature of revivals. For instance, Dr. Davenport, in presenting his lapse statistics, has added revivals to issues and compared the total terminations or lapses against the revivals plus issues. Now, a revival is the reinstatement of a policy that has lapsed; a person drops behind in the paying of premiums beyond the grace period, his policy lapses; very shortly thereafter he again resumes premium payments. That policy is revived. Now, consequently, that is a negative lapse; it is merely a reversal of a lapse transaction.

Mr. O'CONNELL. Had you intended that this witness would explain again to us what revivals are? I don't believe we are under any misapprehension.

Mr. DAVIS. Dr. Davenport apparently was, because he misused it.

Mr. O'CONNELL. You mean he added it to the wrong column.

Mr. DAVIS. For instance, you take 10 policies issued; 4 are lapsed, 2 revived.

Mr. O'CONNELL. I am sorry; I had no intention of continuing the discussion. I thought to stop it.

Mr. GESELL. I wish to offer this schedule for the record.

Mr. DAVIS. May I correct just one statement? It was not a case of the column to which it was added. They should have been subtracted from the lapses, not added to the issues.

Mr. GESELL. Anything else on those schedules?

Mr. DAVIS. Have you any other questions?

Mr. GESELL. I have no further questions of this witness at the present time, but I would not like to have him excused.

The VICE CHAIRMAN. The last schedule may be admitted in the record.

(The schedule referred to was marked "Exhibit 992" and is included in the appendix on p. 6237.)

Mr. GESELL. Will Mr. Lincoln take the stand again.

TESTIMONY OF LEROY A. LINCOLN, PRESIDENT, METROPOLITAN LIFE INSURANCE CO., NEW YORK CITY—Resumed

Mr. GESELL. Mr. O'Connell, I believe your question was how many industrial policies were issued on the life plan. This schedule, speaking from "Exhibit No. 987", shows for the total industrial business in 1938, 17,422,011 life-plan policies.

Mr. O'CONNELL. What percentage is that of the total number of policies?

Mr. GESELL. The total policies were thirty-three million, nine hundred thousand-odd.

Mr. O'CONNELL. Something over half.

Mr. GESELL. One other question on this nursing service, Mr. Lincoln. Is it available to all of your policyholders?

Mr. LINCOLN. No, sir. Do you mean by that all the industrial policyholders?

Mr. GESELL. Yes.

Mr. LINCOLN. No, sir.

Mr. GESELL. Have you any idea what percentage of your industrial policyholders do not have this service available?

Mr. LINCOLN. A very small percent, but, of course, there are localities and communities where the number of policyholders is not large enough to warrant the maintenance of the company's own nurse and at the same time there is no visiting-nurse service in that community, and in those communities we just can't and do not give it.

The VICE CHAIRMAN. Do you supplement with the district nurse association?

Mr. LINCOLN. Oh, yes. If I understand your question, where we have a visiting-nurse association contract we do not maintain our own nurse. Here in Washington, in the District of Columbia, if I am not mistaken, we have an arrangement with the local visiting-nurse association which embraces industrial policyholders in the District of Columbia, but if you get outside the border in counties around here, which are, I suppose, essentially a part of the community, that visiting-nurse association does not serve outside the borders of the District, and we maintain our own nursing service in those sections.

The VICE CHAIRMAN. And where you have a visiting-nurse association do you know whether it is the policy of the visiting-nurse association to refer your policyholders to your company nurses?

Mr. LINCOLN. Well, I don't see how they would function in the same locality.

The VICE CHAIRMAN. That is, you don't have a nursing association that is separate.

Mr. LINCOLN. We would not have our own nurses where we have an association contract.

Mr. GESELL. How many States does your company operate in, Mr. Lincoln?

Mr. LINCOLN. We are licensed in 48 States and the District of Columbia. We maintain no active agencies in Arizona, New Mexico, Texas, Nevada, Wyoming, North and South Dakota.

Mr. GESELL. Do you sell industrial insurance in all those States in which you are actively maintaining agencies?

Mr. LINCOLN. In communities where we maintain district offices and agencies.

AGENCY SYSTEM

Mr. GESELL. Am I correct in saying that for the most part all of your agents sell both industrial and ordinary insurance?

Mr. LINCOLN. Entirely, so far as our agents are concerned, absolutely.

Mr. GESELL. You have no agents who sell only ordinary insurance?

Mr. LINCOLN. No, sir.

Mr. GESELL. All of your agents are men out on debit?

Mr. LINCOLN. I say we have no agents who sell only ordinary insurance. I am bound to correct that slightly. We do have a few agents who are called ordinary representatives who have come up through the agency force and developed a desire to devote themselves to ordinary insurance; there are relatively few, but there are a few. My first answer wouldn't be exactly accurate.

Mr. GESELL. How many agents does your company have?

Mr. LINCOLN. Twenty thousand, roughly; there may be 19,800. Perhaps you have the figures. I haven't them exactly in mind.

Mr. GESELL. Approximately 20,000?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. Can you tell us what type of training is given to the agents of your company when they come into the company?

Mr. LINCOLN. A new agent coming into the company has to take a course which in certain cities where we have schools consists in attending the school; in other locations where we have no schools a correspondence course is given to him in the district office; that is supplemented by the training, the close training, which is given to him by the assistant manager following a period of weeks certainly; that is supplemented by another course in what we have as a correspondence school in which he can take further training in the business, and further than that we encourage our men—and we have had remarkable success with this—in going out for the chartered life underwriter's degree. You may know that there is a college of life underwriters, established, I think, by Federal charter, maintaining its principal office in Philadelphia, which gives courses running over, I think, 3 or 4 years, for the degree which they are authorized by Congress to give, of chartered life underwriter. Those courses we encourage our men to take, and we have gone so far by way of encouraging our men to make a profession of this that we have provided for payment of the expense, I think—or half the expense, I am not sure which—of those who actually accomplish the degree, and we furnish a complete library of books required for the study in the district office and any office where there is such an agent studying for the degree. Beyond that, for our agency course we have a corps of traveling instructors growing out of our field training service. Those traveling instructors go about the country and assign themselves or are assigned to the training of our agents in the field.

Mr. GESELL. How many of your agents would you say are chartered life underwriters? ¹

Mr. LINCOLN. I have the figures, and it is a remarkably proud number. Maybe you have the figures. I am proud of it. We have hundreds of them engaged in taking that course now, which is a course for the professional degree.

Mr. GESELL. You say you have the figures. Can you give them to us?

Mr. LINCOLN. I say I have them. I am sorry, I haven't them on my tongue's end, but we have them and I would be glad to furnish them to you.¹

Mr. GESELL. How long after a man comes into the company does he start out on the debit?

¹ Subsequently supplied by Metropolitan and entered in the record on September 22, 1939 as "Exhibit No. 1129." It is included in the appendix on p. 6359.

Mr. LINCOLN. I should suppose on the average a week or 10 days.

Mr. GESELL. Then the original course takes about a week or 10 days.

Mr. LINCOLN. That is a preliminary course before he gets out on the debit.

Mr. GESELL. Then he is out on the debit under very close supervision, I believe you said for a period of weeks.

Mr. LINCOLN. Several weeks. I don't think it is uniform. It depends on the man, it depends on the situation in the district.

Mr. GESELL. Would you be able to hazard an estimate as to what the average time is that a man is under that close supervision?

Mr. LINCOLN. I would hazard a guess of 2 or 3 weeks, subject to correction.

Mr. GESELL. Do you have a very high degree of agency turn-over?

Mr. LINCOLN. Very low.

Mr. GESELL. Can you give us a figure as to how many new agents your company has taken on in recent years?

Mr. LINCOLN. I bear in mind the figures for last year and for the current year. This year our turn-over so far has been, I think, about 7 percent. Last year I think it was a little less than 10 percent, and I would characterize 7 percent as a remarkably low turnover in an occupation of this sort.

Mr. GESELL. Have you any figures there of agency turnover?¹ Can you give us some idea as to what the experience has been over a period of time?

Mr. LINCOLN. We have figures which were developed for you or some other questionnaire for 10 years, showing the continuous decrease in the agency turn-over from something upwards of 30 percent 10 years ago down to 7 percent this year.

Mr. GESELL. Have you the figures there?

Mr. LINCOLN. No, sir; not the figures you mean.

Mr. GESELL. While we are trying to find the figures—

Mr. LINCOLN (interposing). Maybe we can produce them.²

Mr. GESELL. Will you tell us how much it costs to train an agent?

Mr. LINCOLN. I don't think I can, sir. We have a training division, a field training division, which was established in 1931 for the specific purpose of training our field men and making them better adapted, better able to carry on their work, and that apparently runs now, the total cost of that field training division, about a million to \$1,200,000 a year. When you ask me how much it costs to train an individual agent I haven't seen the figures broken down as to agents, because that also embraces managers, it embraces a whole lot of factors beside the training of the agent himself.

I guess these are the figures, Mr. Gesell. Is that it, 1927-38?

Mr. GESELL. I have one document in my hand here, the report of the Joint Legislative Committee on Revision of the Insurance Laws

Mr. LINCOLN. What is the date?

Mr. GESELL. 1939, which states that—

during the ten-year period the Metropolitan Life Insurance Company terminated the employment of 65,000 agents and hired new men in their places. The

¹ Subsequently submitted by Metropolitan Life Insurance Co., and entered in the record on September 22, 1939, as "Exhibit No. 1130." Included in appendix to this Part on p. 6359.

company's figures show that the cost of terminating old agents and teaching and training a new agent in the industrial business amounts to \$530. Based on these figures the total cost for this training of the Metropolitan Life Insurance Company alone amounted to \$34,500,000 for this ten-year period. The company figures further indicate that less than half of the agents remain with the company for more than two years.

Is that what you had in mind?

Mr. LINCOLN. That is the figure I have in mind. I hope that isn't being entirely accepted by the committee as evidence. There are some parts of that read by counsel that we would like to challenge. But as a part of the so-called Piper Report, that was incorporated in their report.

Mr. GESELL. May I ask you to produce figures showing how many agents have been dismissed, for each year from 1927 to 1938. Have you those figures there?

Mr. LINCOLN. The figures are as read by you. It is not the figures that I challenge. It is some of the conclusions.

Mr. GESELL. Will you answer my question and let me know whether you have the figures there?

Mr. LINCOLN. I think we have, haven't we? These figures from the Weinstein report, so-called, are believed to be accurate.

Mr. GESELL. These figures show from 1908 to 1936 the percentage of controllable finals to the average number of agents per each year has declined from a high in 1908 of 76.66 percent to a low in 1936 of 18.43 percent.

Mr. LINCOLN. And you will bear in mind that I said that the current year it is down to 7 percent.

Mr. O'CONNELL. For the first 7 months?

Mr. LINCOLN. Computed on an annual basis.

Mr. GESELL. What would you say is the average length of service of an agent with the company?

Mr. LINCOLN. I have seen those figures but I am afraid I have forgotten them. He says under 7 years but he doesn't say how far under. I don't know.

Mr. GESELL. Have you any figures which will show the average length of service with the company?

Mr. LINCOLN. I am sure we have, but I don't know where to turn to them at this moment. I will be glad to give you the average figures if you want us to produce them from New York. Apparently we haven't them here.

Mr. GESELL. Can you produce for us a figure which will show what it costs to train a new agent?

Mr. LINCOLN. I am not sure we can. I don't know that there are any such figures available without a considerable study and survey. I don't know that they are not, mind you. I never have seen them.

Mr. GESELL. Is there anyone here from your organization who would have those figures and be able to give the committee any light on that question?

Mr. O'BRIAN. Mr. Gesell, the actuaries say they computed a figure which is in the questionnaire furnished the Piper committee.

Mr. GESELL. Have you a copy of that questionnaire here?

Mr. LINCOLN. It is right there, in this questionnaire here. (To the actuaries.) Will you find it?

You wouldn't like me to volunteer something in passing, would you?

Mr. GESELL. That is up to the committee.

The VICE CHAIRMAN. If you have any general statement to make, it might come at the close of the examination.

Mr. LINCOLN. But it only has to do with the length of service of agents which is the topic we are on now, and if you are willing to accept it at this point, we have over 2,000 field men with over 20 years of service.

Mr. GESELL. I think that figure might be interesting if we knew what the average period of service of the agents is.

Mr. LINCOLN. We are getting it. I am reading from an answer in one of the questionnaires we have filed recently. "Our best estimate of the cost of training a new agent during the first year of his work, assuming that he receives the training as outlined above, is \$320."

Mr. GESELL. Does that include all of the cost and expenses incident to training, bringing on a new agent?

Mr. LINCOLN. I am sure I don't know.

Mr. GESELL. I want the overall figure which will tell us what the cost is per agent, to train him, bring him on and make the change. There is an additional \$147 to be added to the figure which you gave, is there not?

Mr. LINCOLN. There is another answer here which says:

In addition to the foregoing items of cost which were specifically requested, a final in most cases requires the training of each new agent which entails an average cost of \$320 as indicated in the answer to the previous question. Furthermore, the average expense incident to the selection and training of a new agent is estimated to be \$147.

Mr. GESELL. Is it your belief that those two statements you have read are correct?

Mr. LINCOLN. No; I don't think they are. They are estimates based on figures that were prepared by someone in answer to a questionnaire.

Mr. GESELL. They are contained in this questionnaire reply which has on the back page your sworn signature.

Mr. LINCOLN. I still say I have my doubts as to whether those figures are correct. I don't know where you can get correct figures, but they are so much predicated on estimates that I have considerable doubt as to whether they are right. They might be larger, they might be smaller, I don't say they are too high, I say I have a question as to whether figures of that sort are necessarily accurate.

Mr. O'CONNELL. Was the answer in that questionnaire qualified as you qualify it here?

Mr. LINCOLN. No, sir.

Mr. GESELL. Then I don't know exactly where we are on the question of cost.

Mr. LINCOLN. I don't either. I am bound to take those figures as the best we have.

Mr. GESELL. I take it they represent the best estimate of your company after serious consideration by the agency superintendents and the actuaries and the field men and the attorneys and the managers and the executives, and all the other people that consult on these things.

Mr. LINCOLN. That is expressed precisely as I would express it.

Mr. GESELL. After the matter had gone through the coordinating department of your company and all the necessary information is there.

Mr. LINCOLN. Yes, sir.

AGENCY TURNOVER

Mr. GESELL. Is that figure contained in the statement which I read at the beginning of this examination to the effect that your company has taken on in the last 10 years a total of 65,000 new agents correct?

Mr. LINCOLN. I have no doubt it is.

Mr. GESELL. Have you figures that will show how many new agents your company has employed in the last 10 years?

Mr. LINCOLN. Only from that tabulation.

Mr. GESELL. Can you give us a figure here that will show us how many agents were taken on in the last 10 years?

Mr. LINCOLN. I haven't any in mind. There may be some available here.

Mr. GESELL. Will you consult your associates and see if they may have such figures? Those figures in the Weinstein report you showed me do not show the number of new agents taken on in the 10-year period. They show only the average number of agents and the relation of chargeable number of finals to the total number.

Mr. LINCOLN. I have to say I don't know where there are any figures as to the average number of new agents or total number of new agents; but, of course, they are available somewhere.

Mr. GESELL. Will you tell us the number of new agents hired for each year from 1928 to 1937, inclusive?

Mr. LINCOLN. Reading from this answer: 1927, 9,482; 1928, 9,500; 1929, 8,800; 1930, 8,400; '31, 7,600; '32, 7,225; '33, 6,200; '34, 5,000; '35, 4,800; '36, 4,000; '37, 3,600.

Mr. GESELL. Reading from "Exhibit No. 990,"¹ which has been introduced, this exhibit shows that the agents' average earnings per week in 1915 were \$23 and that the agents' average earnings per week have increased to \$52 in 1938, having been slightly higher than that figure in the period from 1925 to 1929. Do you know how many debits there are now? Are there one per agent? Would that be a safe statement?

Mr. LINCOLN. That is a strange question. I assume there is exactly one per agent.

Mr. GESELL. Has the number of your debits increased or decreased in recent years?

Mr. LINCOLN. Decreased.

Mr. GESELL. Substantially?

Mr. LINCOLN. Quite.

Mr. GESELL. Can you give us some idea of how much?

Mr. LINCOLN. I would say without looking at the figures—and you will recall that I had no idea what questions you would ask, so I had hardly come prepared to answer them—

Mr. GESELL (interposing). I won't quarrel with you, but I don't recall such a thing at all.

Mr. LINCOLN. I had no idea what the questions were to be or I would have come prepared.

¹ See appendix, p. 6235.

Mr. GESELL. You could consult with coordinators as to what we expected answered. I don't think it is fair to indicate you were not advised in advance with respect to what the examination was going to be. These questions have been discussed with representatives of your company over some period of time.

Mr. LINCOLN. We will pass over that. I would say that reduction in debit, I would guess, without looking at the figures, has probably been 1,500 since 1933 or '34. I don't know without examining the tabulation.

Mr. GESELL. Would you have any figures as to what it costs to establish a new debit or what it costs to reduce the size of these debits?

Mr. LINCOLN. No; they are constantly changed in boundary. I think it is seldom nowadays that we establish a new one, but they are reorganized from time to time and a territory that is attached to one debit may be shifted over to another. It may be a reformulation of the boundary, but I think it is rather rare that we establish a new one.

Mr. GESELL. About what is the average size of the debit at the present time?

Mr. LINCOLN. Does that mean geographically?

Mr. GESELL. Premiums in terms of cash.

Mr. LINCOLN. In premiums \$217 for the weekly department and I suppose it runs three hundred something for the monthly. Let's see, \$360 a month, that would be about \$90 a week, broken down onto a weekly basis. I suppose it runs something over \$300 for the combination of the weekly debit and the weekly break-down of the monthly debit.

Mr. GESELL. Now your company has been one of the leaders, has it not, in attempting to work out an arrangement whereby policyholders would pay their policy premiums at the home office and get a reduction.

Mr. LINCOLN. So far as I know, we are the originators of that project which has been in force in our company, if I am not mistaken, about 28 years.

Mr. GESELL. Can you tell us what percentage of your business is paid on that basis at the present time?

Mr. LINCOLN. Close to 28, 29 percent.

Mr. GESELL. Has the percentage of business that is paid on that basis increased from year to year?

Mr. LINCOLN. Oh, undoubtedly; yes, sir.

Mr. GESELL. Do you happen to have the figures available for the past 4 or 5 years so we get some idea as to how it has increased?

Mr. LINCOLN. May I inquire? I don't carry those in my head.

The VICE CHAIRMAN. You may consult with your associates.

Mr. O'BRIAN. All these figures are compiled by the actuarial department, which is represented here.

The VICE CHAIRMAN. I was wondering whether or not they might furnish us tomorrow as nearly as possible with what happens to an income dollar. Is that possible?

Mr. LINCOLN. Oh, yes.

The VICE CHAIRMAN. Take your income dollar and tell how distributed—agents, etc.

Mr. GESELL. That has been admitted in the record as "Exhibit No. 991"¹ today, and I expect to question Mr. Lincoln with respect to it. The figures are part of the record and the break-down shows the various relationships as between the industrial and the ordinary department of the business.

The VICE CHAIRMAN. At this junction I am going to adjourn until tomorrow morning. I have some other business to transact. We will adjourn until 10:30 in the morning.

(Whereupon, at 3:50 o'clock p. m., a recess was taken until 10:30 a. m. Wednesday, August 30, 1939.)

¹ See appendix, p. 6236.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, AUGUST 30, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 a. m., pursuant to adjournment on Tuesday, August 29, 1939, in the Caucus Room, Senate Office Building, the vice chairman, Joseph A. Casey, Representative from Massachusetts, presiding.

Present: Representative Casey (acting chairman) and Mr. O'Connell.

Present also: Messrs. Henderson and Brackett; Gerhard A. Gesell, special counsel; and Michael H. Cardozo, attorney, Securities and Exchange Commission.

The VICE CHAIRMAN. The hearing will now come to order. Mr. Gesell, will you proceed?

Mr. GESELL. Mr. Lincoln, will you resume the stand, please, sir?

TESTIMONY OF LEROY A. LINCOLN, PRESIDENT, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. GESELL. I should like to introduce for the record at this time copies of two radio programs presented by Edwin C. Hill for the Metropolitan Life Insurance Co. The dates of the broadcasts and the stations over which they were made are indicated on the exhibits. I might say that this material was submitted to us by the Metropolitan and these broadcasts are intended to be typical broadcasts of Mr. Hill.

The VICE CHAIRMAN. These may be admitted.

(The transcripts referred to were marked "Exhibit No. 993" and are included in the appendix on p. 6238.)

Mr. GESELL. Mr. Lincoln, yesterday we were discussing agency turnover, and I asked you if you had any figures which would indicate the average period of service of an agent with your company. Have you those figures for us this morning?

Mr. LINCOLN. Yes; we have.

Mr. GESELL. What is the average period of service?

Mr. LINCOLN. The average period of service of an agent is slightly over 6 years.

Mr. GESELL. Are those based upon your current experience?

Mr. LINCOLN. I believe so; I didn't make them up.

Mr. GESELL. I just wondered over what period of years.

Mr. LINCOLN. May I inquire?

Mr. GESELL. Yes.

Mr. LINCOLN. They don't give a very satisfactory answer, and I am afraid I can't tell you.

Mr. O'BRIAN. They were prepared last night by the actuaries in New York. If you postpone the question we will ascertain the exact period.¹

Mr. GESELL. Yesterday we also discussed the percentage of controllable finals to the average number of agents employed, and I believe the record shows that your percentage of controllable finals for the years 1908 to 1936 has steadily decreased from a percentage of 76.66 percent in 1908 to a low of 18.3 percent in 1936. I believe you said the current figures are even lower.

Mr. LINCOLN. The current figure is 7 percent this year on the actual basis.

Mr. GESELL. Will you tell us what is meant by the term controllable finals?

Mr. LINCOLN. That embraces the agents whose termination with the company was due to their own resignation or to the company's affirmative termination of their employment. It does not embrace promotions, deaths, disability, or other forms of termination.

Mr. GESELL. If a man simply resigns from the company for another job that is included along with the controllable finals?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. Also are all dismissals of men for irregularities?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. Can you tell us how many men were dismissed in 1938 by your company for irregularities and give us some idea as to what the nature of those irregularities were?

Mr. LINCOLN. Not without referring to the figures. I don't bear those things in mind.

Mr. GESELL. Have you those figures here with you?

Mr. LINCOLN. You ask how many; I haven't the figures.

Mr. GESELL. Can you give us some idea as to the causes, Mr. Lincoln, for such finals?

Mr. LINCOLN. Some are due to the determination on the part either of the agent or of the company of his unadaptability, if there is such a word, to the business.

Mr. GESELL. When you say unadaptability to the business, do you mean inability to produce business?

Mr. LINCOLN. Inability to represent the company as an agent in the all-around requirements of the business.

Mr. GESELL. Given a man who meets all requirements except the ability to produce new business, are such men finaled?

Mr. LINCOLN. Not unless their inability to produce new business is so extreme that they are an utter failure in that branch of the business. For instance, if a man produced no new business for a long period of time, he is not serving the purpose for which he is employed.

Mr. GESELL. Would you say that those cases are rare or fairly frequent?

Mr. LINCOLN. Rare. They are very rare, I believe. I have known of cases where we had to terminate the service of a man because he

¹ This information was subsequently submitted and entered in the record on September 22, 1939, as "Exhibit No. 1130," which is included in the appendix to this Part on p. 6359.

absolutely produced no business over a considerable term of months, years, 6 months. Rare; yes.

Mr. GESELL. What is the nature of the irregularities that you refer to?

Mr. LINCOLN. Irregularities in accounting, irregularities in accounting for the money collected by the company, sometimes irregularities in overreaching.

Mr. GESELL. What?

Mr. LINCOLN. I don't know just what I mean by that term, but irregularities in relationships with the policyholder.

Mr. GESELL. Are many men fined for what is known as excess arrears?

Mr. LINCOLN. If we have glaring cases of excess arrears which are an absolute violation of our rules, then we must of necessity discipline the man who is guilty. I wouldn't say how many were absolutely fined for that, I don't know, but it is a case of severe disciplinary action on the part of the company.

Mr. GESELL. It is, of course, against the company's rules.

Mr. LINCOLN. Entirely.

Mr. GESELL. What do you understand by the term "excess arrears"?

Mr. LINCOLN. Where an agent pays premiums after the expiration of the grace period to keep the business alive on the books when the policyholder himself is not paying those premiums.

Mr. GESELL. Those would be moneys that the agent might pay out of his own pocket?

Mr. LINCOLN. Precisely.

Mr. GESELL. What do you believe it is that makes an agent do that, Mr. Lincoln?

Mr. LINCOLN. I doubt if there is much of any of that nowadays. I think there may have been somewhat more under earlier forms of company contracts.

Mr. O'CONNELL. I should like to have an answer to the question.

Mr. GESELL. That hardly answers my question.

Mr. O'CONNELL. Wouldn't it be possible for you to answer the question?

Mr. LINCOLN. I thought I was.

Mr. O'CONNELL. Will you read the question and answer?

(The reporter read Mr. Gesell's question and Mr. Lincoln's response.)

Mr. LINCOLN. I think your point is well taken.

Mr. O'CONNELL. I would like to know what you think the reason is.

Mr. LINCOLN. In order, under an earlier form of contract, that his so-called lapsed indebtedness, which was a factor in his compensation at that time, might be kept down. That is a reason which I suspect impelled agents some years ago to resort to that practice which the company absolutely forbids.

Mr. GESELL. In other words, an agent's pay would be greater if his business showed a high degree of persistency.

Mr. LINCOLN. Not today, I don't mean that applies today. I said under earlier forms of contract.

Mr. GESELL. Therefore, in order to keep a record which would show a high degree of persistency, the agent might pay money for policyholders where they were in arrears.

Mr. LINCOLN. If I may adhere to my statement, under earlier forms of contract, which we haven't had for a good many years; if I may adhere to that qualification; yes, sir.

Mr. GESELL. Do I understand that at the present time the agent's contract in use in your company does not contain any provision which would make it to the agent's advantage to prevent lapses from occurring?

Mr. LINCOLN. Will you repeat that, please?

(The reporter read the question.)

Mr. GESELL. Let me say it this way: It is still to the agent's advantage to prevent lapses to the débits.

Mr. LINCOLN. He gets a commission.

The VICE CHAIRMAN. May we discontinue at this point. If you boys want to take pictures and Mr. Lincoln has no objection—

Mr. LINCOLN. I have no predilection toward being photographed.

The VICE CHAIRMAN. I am interested in proceeding smoothly and in an orderly way.

I didn't mean to block you from taking the photographs.

Mr. GESELL. I will rephrase my question. The agent still gets some commission, does he not, in your company for the persistency of his business—conservation commission?

Mr. LINCOLN. One phase of our present agent's contract is the commission for conservation, which means for keeping the business on the books, and that, of course, involves the affirmative efforts on the part of the agent, and to the extent that those efforts are successful there is a sliding scale of commissions, predicated on that factor alone.

Mr. GESELL. Then wouldn't it be possible still for an agent to find it desirable to build up excess arrears for his debit?

Mr. LINCOLN. I think not. I can't give an absolute, categorical "no," but I think not.

COMPENSATION OF FIELD FORCE

Mr. GESELL. Do you recognize this form which I show you as the form of the present agent's contract in use in your company?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. That is the contract which all agents coming into the business at the present time must sign?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. Are many of the older agents on that contract now?

Mr. LINCOLN. I think all but, I have the figures—I just don't carry those figures in my mind. All but 73 out of 20,000, I am told—

Mr. GESELL. Are on this type of contract?

Mr. LINCOLN. I understand so.

Mr. GESELL. I wish to offer the the contract for the record.

The VICE CHAIRMAN. It may be admitted.

(The contract referred to was marked "Exhibit No. 994" and is included in the appendix on p. 6246.)

Mr. GESELL. I neglected to ask you yesterday how many managers and how many assistant managers are employed by your company.

Mr. LINCOLN. Without referring to precise figures, I would say about 860 managers and about 2,600 assistant managers.

Mr. GESELL. What is the average number of assistant managers per manager?

Mr. LINCOLN. I think it is approximately three.

Mr. GESELL. And each assistant manager has about how many agents under him?

Mr. LINCOLN. Approximately eight, seven or eight. These figures, of course, aren't intended to be accurate.

Mr. GESELL. I understand they are just estimates. The managers, the assistant managers, and the agents are all compensated to some degree, at least, upon the amount of business they produce, are they not?

Mr. LINCOLN. Well, in a remote fashion. There is a factor in the manager's contract and the assistant manager's contract which is predicated on the new business of the agent, in the first place the new business which persists for a year, and it is a very small portion of the compensation of either the manager or the assistant manager.

Mr. GESELL. Does the majority of the compensation both to the manager and the assistant manager come on a flat salary basis?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. How is that salary determined?

Mr. LINCOLN. Well, some of it is predicated on the amount of premiums in force in the district in all departments of the business, and in gradations according to the size of the premium in force in the district; the fixed salary is determined at the beginning of the year.

Mr. GESELL. Do certain outstanding managers or assistant managers receive compensation in the way of salary in addition to that which would come to them on the basis of this method of computing their salaries which you have just described?

Mr. LINCOLN. I don't believe I understand your question. Perhaps you can clarify it. Insofar as I understand it, I would say no.

Mr. GESELL. Have you any top salary for your managers, for example?

Mr. LINCOLN. You mean a maximum?

Mr. GESELL. Yes.

Mr. LINCOLN. I never heard of one.

Mr. GESELL. In other words, there is an area of flexibility with which you can compensate any particular manager, based upon his services to the company?

Mr. LINCOLN. Well, I don't think it comes to that. It is more in the nature of the top size of the district; on the basis of a district with a large premium income and salary is necessarily going to be higher than the salary of a manager in the smaller district.

Mr. GESELL. I have in mind any compensation over and above that which would be determined purely upon the basis of the size of his district.

Mr. LINCOLN. There are compensating factors, but the salary to which you are addressing yourself is a fixed salary determined on the size of the premium income in the district.

Mr. GESELL. Have you in mind the approximate average salary at the present time of a manager, or average compensation?

Mr. LINCOLN. I hate to have you ask me figures. I think it is \$187. You expect me to get the right answer, don't you?

Mr. GESELL. Yes.

Mr. LINCOLN. \$191, I am told.

The VICE CHAIRMAN. Over what period of time?

Mr. LINCOLN. A week.

Mr. GESELL. Is that salary or is that his entire compensation?

Mr. LINCOLN. That is his entire compensation.

RELATIVE COST OF INDUSTRIAL INSURANCE

Mr. GESELL. Am I correct in saying, Mr. Lincoln, that industrial insurance is a more expensive form of insurance than ordinary insurance?

Mr. LINCOLN. The rates of insurance, that is, the rates of premium, for industrial policies are necessarily higher per unit of insurance—

Mr. O'CONNELL (interposing). May I interrupt? Why is it necessary, in answer to a question like that, to say anything other than "yes" or "no"? Either the rates of insurance for industrial insurance are higher or they are not higher, and it is a little bit difficult for me to absorb some of the answers. The answer should be very simple.

Mr. LINCOLN. The answer can be made in a categorical fashion, but I am afraid a misunderstanding might creep into the record if there were no effort to clear up the question.

Mr. O'CONNELL. I think we should give the examiner an opportunity to ask the series of questions on this line that he desires, and then if you want to make any other explanation at the end of it it would seem to me more reasonable. It doesn't seem to be reasonable that every time a questioner asks a question it is necessary for you to make a long explanation of a relatively simple answer. I am not trying to shut you off, but it seems to me the questions can be simply answered and you can explain later. Isn't that reasonable?

The VICE CHAIRMAN. I think that that is a reasonable request, and I feel that what is happening is that you are anticipating; for example, when a question is asked directly whether it is more expensive or not, I think there might be a direct "Yes." and later on it will develop why it is more expensive.

Mr. LINCOLN. I am very glad to do that, sir. I hope, however, that it won't be lost sight of, so that eventually in the course of the testimony some amplification may be made of that answer.

The VICE CHAIRMAN. We are very anxious to get all the facts. We will allow the fullest latitude, and I will add my voice to Mr. O'Connell's by saying that if you do not anticipate and answer directly, and you feel that there is some explanation that should be added later on, you will have that opportunity.

Mr. LINCOLN. The answer to the question is "Yes."

Mr. GESELL. The second question on my notes here is, Mr. Lincoln, Why does it cost more?

Mr. LINCOLN. That makes your point for you, Counselor.

Because of the higher mortality of the lower-income groups usually insured under industrial policies, and because of the nature of the payment or collection of the premiums, which premiums are collected by the agents at the homes of the insured on a weekly basis.

Mr. GESELL. You would say, then, that two principal reasons are (1) that it obviously costs more to call weekly at the homes of the

insured to collect the premiums, and (2) because the type of risk is such that the mortality is heavier.

Mr. LINCOLN. The mortality tables which have been prepared by the actuaries demonstrate there is a higher mortality among individuals in what I call the lower-income groups.

Mr. GESELL. Are there any other factors which should be taken into consideration in determining why industrial costs more than ordinary?

Mr. LINCOLN. I am afraid I would have to refer that to the actuaries.

Mr. O'CONNELL. When you say that your actuarial figures indicate that the mortality rate is higher in the lower-income groups, do you mean that the mortality among the persons insured in your company is higher, or do you mean that the mortality is actually higher?

Mr. LINCOLN. I believe—I don't like to testify on actuarial subjects—that the statistics show the mortality rate is higher all along the line, whether insured in our company or not.

Mr. O'CONNELL. There is a difference, I take it, in the degree of selection as between industrial policies and ordinary policies in your company?

Mr. LINCOLN. In the manner of selection?

Mr. O'CONNELL. I take it there are, generally speaking, no medical examinations, and that sort of thing.

Mr. LINCOLN. There are medical examinations, I believe, in about 15 percent of the industrial cases.

Mr. O'CONNELL. And in practically all of the ordinary cases?

Mr. LINCOLN. Oh, no; far from it.

Mr. O'CONNELL. What percentage?

Mr. LINCOLN. I don't bear the percentage in mind, but we have a substantial of nonmedical business in the ordinary department.

Mr. O'CONNELL. Is that so?

Mr. GESELL. Are there any other factors that occur to you other than mortality and collection expense?

Mr. LINCOLN. There are none that occur to me. It may be the actuaries have others in mind.

There are a great many more industrial policies, units of insurance, than ordinary policies, which necessarily requires a good deal more overhead and home-office expense in handling. We have about six industrial policies to one ordinary policy, on the average, and there is a necessary overhead there that undoubtedly comes into that computation.

Mr. GESELL. So that from the point of view of your home office there is more floor space, more clerks, more mechanical processes involved in handling the industrial department?

Mr. LINCOLN. Yes.

Mr. GESELL. Does the business cost more to acquire than ordinary business?

Mr. LINCOLN. The first year's cost of the industrial business is not greater than the first-year cost of our ordinary business, and it is less than the first-year cost of many ordinary companies. That is on the basis of the pro rata of premium.

Mr. GESELL. I was talking about acquisition cost rather than first-year cost. Do you distinguish between the two?

Mr. LINCOLN. The acquisition cost in the case of an industrial policy embraces the commission that is paid to the agent in case the business persists throughout the year, plus the collection commissions which are paid for the collection of the weekly premiums through the year.

Mr. GESELL. And you use, then, I take it, synonymously, first-year cost and acquisition cost.

Mr. LINCOLN. Well, of course, the first-year cost embraces the cost of handling the business in the home office; the acquisition cost I assume means the production of the business up to the time it gets into the home office management.

Mr. GESELL. Yes; I had in mind the cost required to get the business on the books, so to speak. Is that higher for industrial than ordinary, or not?

Mr. LINCOLN. I believe not, sir.

Mr. GESELL. Is it your belief that it is the same or less?

Mr. LINCOLN. Very close to the same cost that the ordinary policies involve.

Mr. GESELL. Does your company have a higher lapse rate in the industrial department than in the ordinary department?

Mr. LINCOLN. Naturally. I don't carry those figures in my mind, but I am quite sure, on the basis of lapsation which in some cases is used, there is a considerably higher lapse rate.

Mr. GESELL. Is that another factor, do you believe, in accounting for the higher cost of industrial insurance as opposed to ordinary?

Mr. LINCOLN. I don't know. I don't know whether the actuaries take that into consideration or not.

Mr. GESELL. Let me see if I can help you get at the answer. How long does it take for a policy to pay for itself in getting on the books?

Mr. LINCOLN. Well, I can only answer that in this fashion, and that is the type of question that I feel certain an actuary can much better answer than I can. My answer to it is that under our present form of policy, after 6 months, 26 weeks, in force, we have a form of surrender value which is available to the policyholder.

Mr. GESELL. I take it, then, that it takes, according to your best estimate, at least 6 months for the policy to pay for itself.

Mr. LINCOLN. I wouldn't say whether it had paid for itself then. I am just not capable of answering a question of that character, it is so purely actuarial.

Mr. GESELL. I have in mind just the very broadest generalities, Mr. Lincoln.

Mr. LINCOLN. I only reach this conclusion, Counselor, that when we are giving a surrender value after 6 months that is some evidence that the policy is in a position where we can afford to pay it.

Mr. GESELL. Whether it is 6 months or whatever the period is, it does take a time for the policy to pay for itself, and it just occurred to me that all policies that lapse before that time must have increased the expense to the policyholders who remain. That is why I asked whether lapse was not one factor in the higher cost of industrial insurance.

Mr. LINCOLN. I have a figure which may have a bearing on that last statement of yours, and that is that the cost to the remaining pol-

icyholders of the class from which the lapse occurred is about one-tenth of 1 percent of their premiums.

Mr. GESELL. But it still is a factor in the cost, isn't it?

Mr. LINCOLN. To that extent I suppose it is.

Mr. GESELL. All I am seeking to do is to get into the record all the various factors which affect this higher cost.

Mr. LINCOLN. I should like you to have them, and I assure you you will get them if you examine the actuaries. I am doing the best I can not being an actuary.

Mr. GESELL. Is it true that the industrial policies of your company have made greater contributions, proportionately, to surplus than have the ordinary policyholders?

Mr. LINCOLN. The surplus in the industrial department on a percentage basis is larger than in the ordinary department.

Mr. GESELL. You say it is larger?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. Would that be another factor which would be involved in this question of cost?

Mr. LINCOLN. I don't know. I don't think so. I think that is predicated on other considerations. I don't know that it does or does not.

Mr. GESELL. Yesterday Congressman Casey indicated interest in the schedule which was introduced with respect to distribution of income showing the different amounts of income going to certain classifications from the industrial and ordinary departments.¹ I don't believe you have seen that schedule. I thought perhaps you would like to bring out anything you have in mind.

The VICE CHAIRMAN. I will look at it, and you continue, unless you want to use it now.

Mr. GESELL. This covers the period from '34 to '38. In order that we may have in mind some of the basic differences between the two departments, in the industrial department we see 62.97 percent of the income paid to insureds and beneficiaries as opposed to 57.66 percent in the ordinary department. Taking into account the health and welfare work and the increases in the insured's funds, we have a percentage for the industrial department of 77.65 percent and a percentage for the ordinary of 85.58 percent.

Payments to managers, assistants, agents, district office clerks, and field expense account for 15.29 percent in the industrial department as opposed to 7.63 percent in the ordinary. Now, I take it that rather sharp difference is the difference which you attribute to the additional overhead in the home office and the cost of collecting on the debits.

Mr. LINCOLN. Well, you will have merely to accept my generalization that I assume that is so. I don't know.

Mr. GESELL. The division as to salaries, rents, employees, health, and welfare, and other home-office expense is 5.31 percent for the industrial department and 5.22 percent for the ordinary department. The total expenses for the industrial department amount to 22.35 percent against total expenses of the ordinary department 14.42 percent.

¹ See "Exhibit No. 901," appendix, p. 6236.

In many of the areas that we have been discussing, Mr. Lincoln, the activities of the agency department are extremely important, are they not?

Mr. LINCOLN. Very.

Mr. GESELL. In attempting to keep down the cost of industrial insurance, the better an agency department is, the lower the cost is apt to be.

Mr. LINCOLN. I am sure of it; yes.

Mr. GESELL. If the agency department can in one manner or another minimize collection expense, show good judgment in the selection of risks, look for persistent business, keep down acquisition expense, in all of those fields the over-all cost of industrial insurance is affected.

Mr. LINCOLN. It must be.

Mr. GESELL. In that connection I want to know whether you feel that the method of compensating agents in the Metropolitan Life Insurance Co., and the efforts of the company to obtain new business, are conducive to bringing about the lowest possible expense.

Mr. LINCOLN. I could never say the lowest possible. We make improvements from time to time. We are always seeking to improve the service of the company to its policyholders and I couldn't say that it had attained that at the stage of its progress at this moment. We are seeking to do that all the time.

PROGRAMMING

Mr. GESELL. Do you feel that there is any amount of what is known as high-pressure selling in the Metropolitan Life Insurance Co.?

Mr. LINCOLN. Of course, the word "high-pressure" is subject to some definition. I don't think that we have anything of the character contemplated, I suppose, by your question. We certainly do not want it; we discountenance it in every fashion, in securing of the risk, the method of underwriting the risk at the home office, the follow-up that we make.

Mr. GESELL. I take it, then, that you disagree rather violently with the conclusions in the recent report of the committee in New York on the revision of the laws in that State. Reading from page 21 of the report, it states—

The pressure exercised on the agents in the sale of industrial policies has driven them to the point where they have been forced to depart from the ethics of their calling.

Again later on the page—

The pressure upon the agents has caused an enormous sale of industrial policies to those who are unable to maintain them.

Mr. LINCOLN. On both those counts I say that is an utterly unwarranted statement.

Mr. GESELL. And you believe it does not in any event properly apply to your company.

Mr. LINCOLN. I certainly do.

Would you be interested or would the committee be interested in the course that we seek to follow to see to it that only business which is properly applicable to the need of the policyholder is put on the

books, the course in which our applications are taken and which they follow through the home office? I would be glad to describe that to you in detail.

Mr. GESELL. I intended to ask Mr. Lincoln about it and I have no objection to his telling us about it now.

Mr. LINCOLN. I am sorry that I seem to be once or twice ahead of your questions.

When an application is solicited in the field, the applicant secures the necessary data—I mean the agent secures the necessary data from the applicant and in addition to that on our application form we require a statement from the agent as to the family income and that is related very definitely to whether that insurance will be issued or in what amount.

Mr. HENDERSON. Do you have a percentage, Mr. Lincoln, of family income which you think could be properly applied to insurance?

Mr. LINCOLN. Not a formal percentage to which we work at all, no, sir; but I think that you can definitely say as a maximum—I don't mean by this answer to say that even we approach that maximum, but a maximum certainly of 10 percent would be the highest that we would consider.

Hr. HENDERSON. That is for all policies?

Mr. LINCOLN. That relates not only to policies in our company but to policies in force in other companies, and on our application blank we ask one question as to the amount of insurance in force in the Metropolitan and in other companies when this application is secured.

The VICE CHAIRMAN. Does that apply to ordinary as well as industrial—that 10 percent?

Mr. LINCOLN. Oh, I don't know.

The VICE CHAIRMAN. You are just talking about industrial?

Mr. LINCOLN. Yes, sir; I was confining that answer to industrial.

After that application is secured and the agent has reported as to the family income, that application is reviewed by the manager in the district office and he knows our rules; he knows the company's insistence that insurance shall not be sold beyond needs or beyond the ability to pay; and the manager singles out applications which he feels do not meet that requirement and they are not forwarded to the home office. Those that are forwarded to the home office are again subjected to the closest scrutiny on the part of the bureau which we have at the home office which makes a study of the application, of the relationship of the family income to the amount of insurance then in force and to be in force, and singles out cases where that requirement seems not to be met. Then those cases are sent back to the district office; the agent is supposed either to take them up or they may ultimately be discarded, but we will not accept that business if in our judgment, carried through in this sifting process, the amount of the income of the family does not warrant the amount of insurance which would be in force if that policy is issued.

The VICE CHAIRMAN. How much stress do you place upon the answer of an applicant to your question as to what other insurance he carries?

Mr. LINCOLN. Oh, a great deal; it is a very important answer.

The VICE CHAIRMAN. If he answers that he carries no other insurance and you found out that he carries industrial policies in some other company, would that be a basis for your voidance of a policy?

Mr. LINCOLN. I don't think that you could void a policy. I may be a little loose in this answer, but we would make efforts to see that that policy was in the language of the business lifted. We wouldn't want to persist in the relationship to that policyholder under those circumstances.

Mr. O'CONNELL. Were you here yesterday when the evidence was introduced relative to the so-called Fortune case? ¹

Mr. LINCOLN. No, sir.

Mr. O'CONNELL. In that case apparently there were some 44 policies of which 13 were with your company and some of them written fairly recently. The amount of income taken in premiums apparently was something over 50 percent. I wonder how you would explain that.

Mr. LINCOLN. I can discuss that in general terms. I can't discuss it so specifically as some of my associates. Of course that has been an egregious exception, an exceptional case. Everybody understands that that case was exceptional. So far as our policies are concerned I think, if I recall, the industrial policies were issued prior to 1927. It just happens that it was in 1927 that this bureau of ours which I have just described was set up in the home office.

Mr. HENDERSON. Was that bureau set up because of a growing recognition on the part of the Metropolitan that there was an overselling?

Mr. LINCOLN. A growing recognition of our obligation to the public and to policyholders to see to it that insurance is placed only in accordance with the needs and where the premiums can be paid and can be expected to be kept up.

The VICE CHAIRMAN. When was that bureau established?

Mr. LINCOLN. 1927.

The VICE CHAIRMAN. '27. Yesterday morning Mr. Siegel testified that in March 1935, he went on the radio once a week with a sustaining program, and he said for several months he talked insurance generally and received little response.² About the third month of his weekly broadcast upon industrial insurance he said immediately there was a response to that speech and thereafter traffic became so heavy in the studio that he set up private offices, set up business in 1937, I believe, and from that day to this some 40,000 people holding industrial policies have called upon him for assistance and advice. Having that in mind, do you say that that showed a condition of overselling that was rather widespread?

Mr. LINCOLN. I don't think that follows at all, sir. There is no evidence in a statement like that, nor for that matter in this Fortune case, as to what the family income was when the family policies were sold. In the Fortune case we have had reports which I can't substantiate that the family income at the time those policies were taken out was very substantial.

Mr. O'CONNELL. Mr. Lincoln, you said a moment ago that you thought no industrial policies were sold to the Fortune family by your company after 1927.

Mr. LINCOLN. That is my understanding.

¹ Supra, p. 5813. Also "Exhibit No. 980," appendix, p. 6214.

² Supra, p. 5801, et seq.

Mr. O'CONNELL. According to the testimony yesterday a policy was written by the Metropolitan to that family as recently as 1934.

Mr. LINCOLN. Wasn't that an ordinary policy?

Mr. O'CONNELL. I have no idea.

Mr. LINCOLN. I believe that was an ordinary policy upon the child.

Mr. GESELL. I think that is right.

The VICE CHAIRMAN. I think that you used in the answer to one of your questions this morning the term "overreaching." What do you mean by that term "overreaching"?

Mr. LINCOLN. It is difficult to define. I have forgotten in just what connection I used it, but any taking advantage of a policyholder or applicant would be a serious offense in our point of view; we just won't have it. We insist on honest, honorable treatment of the policyholders and the prospects on the part of our company. We have a great responsibility to the public, to the policyholders, and to the people that we seek to persuade to become policyholders.

The VICE CHAIRMAN. Do you know whether other companies have set up bureaus similar to yours?

Mr. LINCOLN. I am sure I can't testify on that. May I just follow through on that? After the application is issued we have another corps of employees known as application inspectors, who go out through the field and make test checks, a substantial amount of test checks, interviewing the policyholders themselves as to the application, as to the answers to the questions and as to their condition. That is a subsequent check that we make after the policy is issued.

Mr. GESELL. Have you told everything you do in the home office? I don't want to interrupt.

Mr. LINCOLN. I hope so. I may have forgotten something.

Mr. GESELL. When was this 10 percent that you referred to in response to Commissioner Henderson's question first made known to your agents as the maximum which your company would allow?

Mr. LINCOLN. I don't know that there is any such formal percentage. I don't know that it has ever been established in the home office or the field. I heard rambling discussion. My associates suggest that that is home office. I don't know anything about it.

Mr. GESELL. That is the rule that is followed by those who check the applications when they come to the home office?

Mr. LINCOLN. I tried to so emphasize the fact that that is not a rule, that it is simply an outside maximum in each case that is reviewed on a case basis.

Mr. GESELL. When was that rule established?

Mr. LINCOLN. I don't know.

Mr. GESELL. If you can get it, I would certainly like to know.

Mr. LINCOLN. Last year.

Mr. GESELL. Did you have some different percentage maximum prior to that time or was that last year the first time that you gave thought to this question of incomes?

Mr. LINCOLN. My associate says that we for the first time last year incorporated that question by test, but before that we gave, of course, special attention to these cases, as I described it, on a case basis.

The VICE CHAIRMAN. May I say in reading over the record yesterday I was struck by the number of answers which said "my associate," and I think unless the witness wishes to adopt what he is advised as

his own answer, it ought to be set forth in the record who his associate is.

Mr. LINCOLN. In this case Vice President Smith, the officer in charge of our industrial department.

Mr. GESELL. There was another statement you made that I want to ask you about it. You said in discussing this Fortune case with Mr. O'Connell that it was a question of the percentage of income at the time the policies were sold. You do have another problem, don't you, and that is the changes in that percentage of income which go to premiums as the result of changed conditions in the particular family's existence.

Mr. LINCOLN. If such cases arise, we have sought to take some action on them, making recommendations to the policyholders. We have been rebuffed time and again in cases where we have approached policyholders and made a suggestion that they change from one form of policy to another, and they say they want to keep it the way it is. That is a responsibility; if we want to make such a recommendation, anything tending to change the policyholder's type of insurance is a responsibility which I have more hesitation in assuming than a counselor seems to have. I think it is a serious question. The policyholders have taken out their policy; they have a contract; they want to keep it in that shape. We are in no position legally to upset it. It is just a matter of recommendation and we have tried it and we have found the policyholders don't wish to make those changes.

Mr. GESELL. It is then very difficult for your company, after it has placed the policies, to work out such adjustments as you may think necessary to meet their changed income?

Mr. LINCOLN. It is utterly impossible as a contractual matter to say that we are going to require a contract be changed, and the recommendations we seek to make have not been accepted, although we are undertaking to follow the cases of some of these policyholders which would seem to us to require some consideration and reappraisal, and we haven't had too good success in persuading them to make the changes.

The VICE CHAIRMAN. Do you think their reluctance to follow the suggestions of the company is due in any way to a suspicion the company might wish to profit more by the change?

Mr. LINCOLN. No, sir; I think that the reason is that those policyholders feel that they know their business, they know what they have got, and they are satisfied to keep it, and in a matter of judgment they prefer to use their own judgment.

Mr. O'CONNELL. The experience of the counselors is apparently somewhat at variance from yours.

Mr. LINCOLN. I don't know much about this experience of the counselors. I hear a lot about it.

Mr. O'CONNELL. You are quite interested in their activities, and I understood you to say yesterday—

Mr. LINCOLN (interposing). You gathered correctly yesterday.

Mr. O'CONNELL. And apparently your interest arises largely from the fact that they have been successful in advising a large number of policyholders to change their form of coverage.

Mr. LINCOLN. Here is an example, Mr. O'Connell: In one case that comes to my mind where a counselor recommended that a policy be

changed from one form to another which involved a great decrease in the amount of the death benefit, the policyholder declined to accept that change and in two weeks that policyholder was dead. Now, that is a great responsibility to assume.

Mr. O'CONNELL. We are talking about two different things, I think. I wasn't interested particularly at this point in the merits of the particular case. I was merely attempting to develop the fact, which seems to me to be a fact, that the counselors have more success than you indicate that your company has had in advising people to change their form of coverage. You say it is almost impossible to get a policyholder to change the type of insurance that he has after it is on the books.

Mr. LINCOLN. I wouldn't go so far as to say it is almost impossible. I would say that our efforts in that direction haven't met with the complete success that we contemplated when we undertook them.

Mr. GESELL. May I ask whether in the case of these five-thousand-odd cases that have come to the Life Insurance Adjustment Bureau, that was one of the reasons why the company set up this bureau, in order that it would go through there rather than through the company and there would be better success in working out changes in the programs?

Mr. LINCOLN. What is the question? I got lost.

Mr. GESELL. I will try to restate it again for you. In setting up the Life Insurance Adjustment Bureau, was it intended that it would be easier for the companies to work out adjustments in welfare cases through a bureau not bearing the company name than it would be for the company to do it direct?

Mr. LINCOLN. I don't think that had the slightest thing to do with it. The bureau is well known to represent the three largest industrial companies. There is no effort whatsoever that I ever heard suggested until this moment that this company's name should be subordinated some place.

Mr. GESELL. Then the bureau has had considerable success in adjusting these cases?

Mr. LINCOLN. We would have if we had the same opportunity. We don't know—I want to make this perfectly clear; we don't know, and so far as I know, the bureau has no figures as to what the premium income of those families was when the policies were taken out. Incidentally, in passing, it is my understanding that the witness from the bureau the other day gave figures which embraces policies absolutely lapsed. The figures which I am told were given here included not only going policies but lapsed policies.

Mr. GESELL. That was all carefully brought out, and this involves another challenge on another witness before the committee.

Mr. LINCOLN. It is not a challenge; it is just an effort to clear up the facts for the committee.

Mr. GESELL. Did you say that the application contains a statement as to the amount of insurance in force in these families?

Mr. LINCOLN. As I understand your question, the application is calculated to bring information to the company as to the amount of insurance in force in the Metropolitan or in other companies at the date of the application.

Mr. GESELL. Does the application ask for the income of the family at the time the application is written?

Mr. LINCOLN. We ask the agent to inform us as to the income of the family, and we have a blank question in that part of the application which the agent fills out which is calculated to give us that information.

Mr. GESELL. That is based on the agent's estimate of the family's income?

Mr. LINCOLN. It is based on the agent's estimate, and we have made a very careful survey of the accuracy of those answers and find in considerably more than 99 percent of the answers they are sound.

Mr. GESELL. I should imagine they would be very accurate. They know the families well.

Mr. LINCOLN. That is correct.

Mr. GESELL. What check is there made to determine the accuracy of the statements in the applications with respect to the amount of insurance in force in a particular family? I believe you said inspectors.

Mr. LINCOLN. We have application inspectors, as I said, who go into the different districts and make test checks.

Mr. GESELL. I was interested in observing on the report of the inspectors on examination of the weekly industrial nonmedical applications for the year 1936 that the biggest item under misstatements or omissions on applications concerned is the item with respect to insurance in force in this or other companies. I take it, then, you do have trouble in getting accurate information from the policyholders with respect to the amount of insurance they have in force.

Mr. LINCOLN. I can't speak from experience. What I am trying to say is that as a question of policy, we are extremely interested in that as a factor in determining whether that insurance is properly issued.

Mr. GESELL. You don't know whether you have any difficulty getting that information or not?

Mr. LINCOLN. I couldn't personally tell you.

Mr. GESELL. When I asked you with respect to agency pressure, I gathered from what you said that you thought the existence of such pressure was bad from the point of view of the underwriting of industrial insurance.

Mr. LINCOLN. We want all our insurance sold according to the needs of the family and the ability to pay it, and if they haven't that need and that ability to pay, we don't want it.

Mr. GESELL. That is why you feel pressure upon production or getting business for the sake of business alone, is bad.

Mr. LINCOLN. I don't know what that word "pressure" means. I suppose you and I and everyone in this room could make a different definition of it. I would rather confine my answer to the policy of the company.

Mr. GESELL. We were interested both in the policy and the practice of the company.

Mr. LINCOLN. I am decidedly interested in the practice—decidedly so.

Mr. GESELL. I think it is a rather simple question. Do you think that emphasis upon the production of business, if it is in the extreme, is bad from the point of view of underwriting generally?

Mr. LINCOLN. Of course it is; if it doesn't take into consideration the proprieties of the issuance of that policy, it is very bad.

MR. GESELL. May I ask whether you have sales contests in your company?

MR. LINCOLN. A generalized answer like my friend would like to have me give, would be no, but I must amplify it a little if you are willing.

MR. GESELL. Yes; I would like to have your explanation.

MR. O'CONNELL. Can't you answer that question "yes" or "no"?

MR. LINCOLN. Because of the definition, sir, of what a sales contest is, I would like to tell you of one or two situations that we have that might or might not fall within the definition of a sales contest in your mind. We have, for instance, in the ordinary department, what we call the \$100,000 club, in which every man who writes \$100,000 of ordinary insurance during the year gets a little button of insignificant monetary value, and I believe he gets the right to have his name and his \$100,000 club on some stationery. That is that.

We have throughout the year a situation that has been developed by the managers themselves. This is not a company contest, if you call it a contest, but some 31 years ago the company's managers on their own account, proposed that there be a trophy given by the company's veterans' association, which embraces all managers of 20 years or over; a trophy given to the district which should best meet the requirements of sound management of the company's business. Each year in these eight-hundred-odd districts that we have there is kept a record, or we keep a record as to the all-round meeting of requirements on the part of those districts, and the one which is outstanding on the formula that we have is awarded at the company's annual convention, by the veterans' association. It is awarded by the veterans' association, not by the company, a trophy. It happens that the trophy for 1938 was awarded to the district here in Washington—one of the districts here in Washington. That formula for that award is predicated upon all-round management. It is predicated upon the production, the business in force, the gain in force, the agency terminations. All the factors that go to make up good management are included, and the test is as to which one best meets that requirement.

Then about 5 or 6 years ago we undertook what we called sales congresses, which were designed to be educational meetings—and I say that very seriously—of groups of our agents from the different territories, to be gathered at one point once a year. Those meetings were held in localities as respects the different territories which seemed suitable. The agents who attend those meetings, or did attend them—because that type of meeting has since been discontinued; but the agents who did attend them were selected on the basis of an all-round production record. A man couldn't go to one of those meetings if he just specialized in one or another branch of the company's business. He had to have an all-round record in order to be eligible to attend.

Those meetings, running, I think, some 5 years, were held as respects each territory in locations which seemed suitable, as for instance, I have in mind in the southern territory our men were brought in 1 year to Biloxi, in another year to Asheville, in another year to Chattanooga.

In the New England territory, I remember one time they were brought to New York. I say I remember it because officers and

other officials of the company would appear at those meetings and I attended one of them in New York.

The men from the territory here, which embraces from the District of Columbia to New Jersey, were taken on occasion to Atlantic City, to New York, to Boston, to Montreal. The men from Indiana were taken to Niagara Falls on one occasion that I remember, and so it goes. I don't want to tire you with the detail, but if you embrace in your question a description of that sort as a contest, I have tried to tell you what it is.

Mr. GESELL. You recognize this document I show you as one setting up the qualifications for the sales congress to which you refer?

Mr. LINCOLN. Without reading it, I am sure from a glance that it is correct. Suppose I do read it now.

Mr. GESELL. Suit yourself.

Mr. LINCOLN. Yes, sir. I should have said in the description of these sales congresses that the men who attend have a designation of Star Salesmen. I am reminded of that by looking at it.

Mr. GESELL. Those who attend are determined through a point system, based upon the amount of industrial, paid-up ordinary, and accident and health policies written, the company reserving to itself the right to withhold anyone from eligibility where the character of his business is of poor grade.

Mr. LINCOLN. I want to make two points clear. In the first place, that formula is designed to produce an all-round record in all departments of the business. I also want to make it clear, if it wasn't clear from my other statement, that that type of sales congress has been discontinued. In the place of it, we are now holding sales conferences of all our men—this year they are being held and not the type which took some and not all of the men as described there.

Mr. GESELL. I wish to offer this for the record.

The VICE CHAIRMAN. It may be admitted.

(The document referred to was marked "Exhibit No. 995" and is included in the appendix on p. 6251.)

Mr. GESELL. I gather from what you said that your company is as a matter of policy opposed to sales contests.

Mr. LINCOLN. Decidedly. I want to make that clear. But I did want to have these descriptions so I wouldn't be misunderstood.

Mr. GESELL. May I ask why?

Mr. LINCOLN. Because there would be a human tendency toward an effort to produce a class of business which we wouldn't want the books. We don't want business that will not persist. We don't want business which is written without regard to the family requirements and the family ability to pay, and we believe that those contests may have that effect. Insofar as it is possible to discourage them, we are doing it.

The VICE CHAIRMAN. You feel that is bad business from the standpoint of profit and loss?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. Coming back for a moment to your statement that you believe that 10 percent is possibly the maximum, I was interested in reading a market survey conducted back in 1928 and 1929 by your company and the Prudential. Are you familiar in a general way with that survey?

Mr. LINCOLN. No, sir. May I see it to refresh my recollection?

Mr. GESELL. Certainly.

Mr. LINCOLN. I suspect the introduction of the Prudential into it is gratuitous. I surmise from glancing at it that it is a Metropolitan document.

Mr. GESELL. Let me ask you this question directly so we will know where we are. Do you recall a survey was made jointly by your company and the Prudential of high premium-paying families in certain industrial areas?

Mr. LINCOLN. I do not. If that is developed here, I have no recollection of it. May I just read the first paragraph?

Well, it is quite evident from that statement that there was an independent survey conducted by the Prudential. I have no knowledge of it and no recollection.

Mr. GESELL. You have no recollection of that at all?

Mr. LINCOLN. No, sir. I see on the outside it is marked 1930. Is that your figure?

Mr. GESELL. Will you consult with representatives of your company who are here and see if any of them recall such a survey?

Mr. LINCOLN. I am quite sure they will not, sir, because from the appearance of the document, I am certain it is one that was prepared by our economist's department and he is not here and I am sure none of the people here know anything about it.

Mr. GESELL. The part of the market survey which I wish to call to your particular attention was the statement as follows:

Although approximately one-quarter of the families normally have incomes over \$100 and one-half over \$150, the remaining one-quarter of all the families have incomes under \$50.

Mr. LINCOLN. May I interrupt—for what period, a week or month, or what is it intended to be?

Mr. GESELL. I am reading from the report. I think it would be a month. If you wish to deny the authenticity of this document, I would be glad not to discuss it at all.

Mr. LINCOLN. Mr. Gesell, on the contrary, I am sure at a glance that was produced by our economist's department, I am certain that that is authentic. I don't want to discuss that.

Mr. GESELL. The document goes on to state:

In this latter group of families the ratio of premiums to income is 10-8 percent. This is obviously too large a proportion of premium to budget for families earning \$50 a week. For the incomes below \$30 the share spent for life insurance was 15.6 percent, and in some isolated instances the proportion was even higher. About one-tenth of the families spend between 11 and 14 percent of their respective incomes, and 3.5 percent of the families spend over 15 percent of their incomes on life-insurance premiums. About three families out of every five devoted only from 3 to 7 percent to this purpose.

I can't pursue the examination if you are not familiar with the document.

Mr. LINCOLN. I never saw it before. I doubt if I saw it when it came out. I certainly have no recollection of it.

Mr. GESELL. Have you made any recent studies to indicate what percentage of the income of the families who are policyholders of your company is being spent on insurance premiums?

Mr. LINCOLN. I am prompted here by Mr. Madden, who apparently knows the facts—less than 3 percent. I would have no personal knowledge.

Mr. O'CONNELL. Less than 3 percent what?

Mr. LINCOLN. Mr. Davis, our assistant actuary, tells us that less than 3 percent of the family income is used for weekly premium insurance in our and all other companies.

Mr. GESELL. If Mr. Davis can take the stand a moment, I would like to ask him what the basis of that information is.

TESTIMONY OF MALVIN E. DAVIS, ASSISTANT ACTUARY, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. GESELL. You have been sworn, have you not, Mr. Davis?

Mr. DAVIS. Yes.

Mr. GESELL. Do you know of studies which have been made to determine the percentage of income which is being spent by families who are Metropolitan policyholders?

Mr. DAVIS. During the latter part of last year we added a question to our application asking for the income of the premium payer and for the number of wage earners in the family. From that, we have been able to estimate the income of the family. Since we have had that question in our application we have made several studies by taking applications issued one week, later another week, and classifying them to determine how much these families who are applying for insurance would be paying out of their income for weekly premium insurance, both to the Metropolitan and to all other companies.

Mr. GESELL. Where do you get the information as to how much they are paying to other companies?

Mr. DAVIS. The question is asked them on the application.

Mr. GESELL. The application asks them how much money they spend a week on all—

Mr. DAVIS (interposing). Weekly premium insurance.

Mr. GESELL. What about ordinary? Would you include that?

Mr. DAVIS. We do not include ordinary; no.

Mr. GESELL. So that from that information you would judge that 3 percent—

Mr. DAVIS. It is less than 3 percent, nearer 2½.

Mr. GESELL. Less than 3 percent of the income of a family is being spent for weekly industrial premiums.

Mr. DAVIS. That is right.

Mr. GESELL. What number of applications were studied to reach that figure?

Mr. DAVIS. I recall three separate studies. I think in each one there were at least a thousand or more applications, and the picture was representative as the results of the three studies were practically identical.

The VICE CHAIRMAN. What is the average income that you found out from the study of these incomes?

Mr. DAVIS. I don't recall the exact figure. It is somewhere around \$30 or \$35.

The VICE CHAIRMAN. That is the income of the family or the premium paid?

Mr. DAVIS. The income of the family.

Mr. HENDERSON. What was the range of the percentage of income?

Mr. DAVIS. The studies were not made in that way. We did break down two of the studies as I recall, doing the same type of

study for families whose income was less than \$30, where the income was \$30 to \$45, as I recall, and those with a total family income per week of over \$45. For families with incomes of under \$30 the relation was also somewhat less than 3 percent.

Mr. HENDERSON. Maybe you didn't understand my question. In order to arrive at an average of two and a half, what was the high and what was the low?

Mr. DAVIS. The job was not done in that way, sir.

Mr. HENDERSON. Would you mind explaining, then, to me what the technic was by which you arrived at that figure?

Mr. DAVIS. We would take the number of applications and add up the total income for the families represented by those applications, and the total being spent for weekly premiums to the Metropolitan and other companies on those applications and get a relationship between the two. We didn't get a relationship on each individual application, but in groups of applications. It is the average figure for the group as a whole. Do I make myself clear, sir?

Mr. HENDERSON. Yes; but I have the same general suspicion of this average that has been aroused by some of my own. In this case you are on the receiving end. Having dealt with figures over a good many years I think I know something of the difficulty in getting an average. An average of two items of 100 and 1 would produce an average of $50\frac{1}{2}$, which nobody pays, but I would be interested in knowing how many people pay 3 percent, how many people pay, for example, as shown by the earlier survey, 15 percent, 12 percent. You didn't take that into account?

Mr. DAVIS. I don't recall, sir.

Mr. HENDERSON. Do you recall any studies which have been made of that by your company in recent years?

Mr. DAVIS. No; I do not.

Mr. GESELL. Was this study that you made reduced to writing in memorandum form?

Mr. DAVIS. Whether memoranda were written on the subject or whether the conclusions were merely the summary sheet of the study, I don't recall. I do recall summary sheets of the study, which are self-explanatory, and presumably the study did not require a memorandum. I am told that it might be of interest to you to know that our industrial families are paying to us on the average 70 cents per week for weekly premiums.

Mr. HENDERSON. But it is obvious, of course, when you take the totality of income in those studies, that you are likely to get some industrial policies that are held by persons of relatively high income.

Mr. DAVIS. That is right.

Mr. HENDERSON. Because a number of these industrial policies are taken when the age is very low, before the earner has a substantial income. I know people who are making \$10,000 and more who still are paying a 5-cent weekly premium. Without any distribution of income in relation to the payments the figure is significant only as a sample. I would say, of the percentage of annual income of a certain group that goes for this type of insurance. I think it is a significant figure as far as that goes, but I think it has a limited significance.

Mr. DAVIS. For that reason, sir, the study was also made by limiting it to families whose income was not in excess of \$30, to eliminate the influence of the families where the income might be quite large,

and there, too, for those families the amount being spent for weekly premiums was not in excess of 3 percent.

The VICE CHAIRMAN. I thought you said the average income was \$30 for the family.

Mr. DAVIS. The average income for the whole group was in the thirties. I don't recall the exact figure.

The VICE CHAIRMAN. I understand your later answer was that you limited it to families——

Mr. DAVIS (interposing). No. After doing the job for the entire group we did the job over again by eliminating all families where the income was over \$30, to eliminate the situation Mr. Henderson referred to, because, of course, many industrial policies on children are written in families where the father has an ordinary policy.

Mr. GESELL. I have no further questions.

Mr. HENDERSON. I have none.

The VICE CHAIRMAN. That's all.

(The witness, Mr. Davis, was excused.)

TESTIMONY OF LEROY A. LINCOLN, PRESIDENT, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. GESELL. Mr. Lincoln, am I correct in saying that you make periodic trips around the country to interview agents and managers and become familiar with their problems?

Mr. LINCOLN. Shortly after I was elected president in 1936 I began a series of trips in the field. I think I was elected on the 24th of March and held my first meeting with the agents in Boston on the 12th of May. That is how promptly I undertook to go about the field. Those trips take about a year and a quarter. When I say that I don't want it misunderstood, but what with the travel, the time taken and the time at the office and so forth, it generally amounts to about a year and a quarter from the time I start one of those series until I have seen the last agent. My predecessor made two such trips, and that was about his experience.

I finished that series begun in May 1936, in the fall of 1937. In March 1938, I began another series, of a slightly different character, which I would be glad to describe, and of that series I have visited probably, well, I have visited all but 1 of our 10 Territories and half of the Dominion of Canada. There is 1 Territory and half of Canada still unvisited on this second trip.

In this trip I am undertaking to see the agents personally. That is, I hold meetings in which I sit down with a group of, on the average, 50 or 60 agents, in a room where there is no other officer present. I sit with them alone, visit with them alone, hear their discussions alone, and they, on their part, have ample opportunity to say anything they want to to me.

What I mean by that is, it is not a meeting where speeches are prevalent. I detest speeches and I evolved this plan by which we can have these small conversational meetings.

Mr. GESELL. The purpose, I take it, of these meetings is to acquaint yourself as intimately and thoroughly as possible with the problems of the agency force?

PRESSURE FOR PRODUCTION

Mr. LINCOLN. Of course.

Mr. GESELL. In making these trips have you found indications that in certain offices of your company there exists some degree of high-pressure selling and improper practices of one sort or another?

Mr. LINCOLN. I think that is putting it too strongly. We won't find every office on a dead level of efficiency in accordance with the company's requirements. We find some where we conclude there is some improvement possible and in those cases we do have earnest discussions with those responsible to bring those up to the level of performance that we require.

Mr. GESELL. Is it your practice on occasion to write letters to the field force acquainting them with home-office policy, or summarizing the results of one of these visits and the attitude of the home office?

Mr. LINCOLN. I don't write as many as I should. When I go about these meetings they ask me if I won't please write some more, and I hope I get time to, some day. I have written, in my memory, two general letters of that sort to the field force since I began those trips. I had two in mind; perhaps I am wrong.

Mr. GESELL. I show you a letter dated November 17, 1937, and ask you whether that is such a letter?

Mr. LINCOLN. I am sure it is. I recognize it without reading it.

Mr. GESELL. I wish to offer this letter for the record.

The VICE CHAIRMAN. It may be admitted.

(The letter referred to was marked "Exhibit No. 996" and is included in the appendix on p. 6252.)

Mr. GESELL. Do you recall that as a result of that letter you received a considerable number of replies from agents and managers, and that those replies were digested and summarized for you as responses from the field? ¹

Mr. LINCOLN. I don't recall it. I take it you have something to that effect. I had forgotten it.

I don't recall ever seeing that. I see it has a mark on there, "Office of Vice President Wilkes." I presume I must have received it if they did it. I don't recall it.

Mr. GESELL. You at least saw the replies to these letters which were written you by the agents?

Mr. LINCOLN. Unless they were perfunctory I prepared and dictated the answers personally.

Mr. GESELL. So you are familiar with the replies that were received.

Mr. LINCOLN. I would have to refresh my recollection about them, but I dealt with a great many of them personally by personal dictation of the reply.

Mr. GESELL. This summary of the replies to your letter indicates that some replies were received from all of the various territories or divisions in which your company does business. The total replies were some 271, summarized as follows—

Mr. LINCOLN (interposing). May I interrupt? Does that mean 271 out of 20,000 agents? They certainly went to every agent.

¹ Entered later as "Exhibit No. 907," see appendix, p. 6255.

Mr. GESELL. It says there were 271 received, so if they went to every agent, that is it.

Mr. LINCOLN. Yes.

Mr. GESELL. The letters were classified as follows [reading from Exhibit No. 997]:

Expressions of Appreciation:

I appreciate all the things the Company has done for me and wish to assure you of my continuing loyalty.....	195
I have always wanted to know why the Home Office was "so far away." This is the first time I have received any communication direct from the Home Office to my home. I welcome your letter....	3
Under the heading "Labor Organization":	
I have this day severed my connection with the _____ Union..	42
We resent the activity of labor organizers and protest affiliation with any outside labor organization.....	9
We have full confidence and faith in the officers of the Company to treat all employees with justice.....	3
The fear of being considered a scab by my associates influenced me to join the Union.....	2
Bombarded with union literature, I should like to have your opinion as to what I ought to do.....	2
I joined the Employee's Fidelity Organization.....	1
Under "Managers":	
My Manager threatens and abuses the Agents.....	13
The Manager's high-pressure methods force the Agents to do dishonest selling.....	2
My Manager has always treated me with courtesy and consideration.....	6
Under "Superintendent of Agencies":	
My Manager says, "Put yourself in my place." I have never seen such third-degree methods used on a manager.....	2

Then there are other headings, "Veterans and Retirement," "Saturday Holiday," "Sales Training," "The Contract," "Disability," "Sanatorium Treatment," "Services to Policyholders," "Clerical Work," and so forth.

I want to direct your attention specifically, Mr. Lincoln, to some of the letters received with respect to this question of pressure which we have been discussing. Here is a letter from territory "C," which is indicated in this summary as being the great eastern territory [reading further from Exhibit No. 997]:

Sales promotion under some Managers is very crude and doesn't get results. I mean by that, threats of loss of position if not up to the Manager's standard of expectations. If the Managers could only use the methods of our dearly beloved Manager, Mr. F. J. Williams, Vice President, now lost to us. Not lost, because I think his teachings, personality, and methods will live in the hearts of all men who were fortunate enough to work under his supervision. Why did he get results? Because he felt men were men and used them accordingly?

Here is another:

Our manager is the militant and dynamic type. Unfortunately, however, he has been using the browbeating method so long that he knows no other method of getting results. I have tried to reason with him on occasions without success.

It is my understanding that Managers now are not to hold more than one general meeting a week. In this District accounts are turned in on Saturday mornings, eight to ten a. m. From ten to twelve, or so, we have our general meeting. About fifteen per cent of the time is taken over by a review of the District record in the Territory. Then fifty per cent in a review of each Agent's record. There is plenty of embarrassment for all concerned, including Assistant Managers. Quite often it goes entirely too far. These meetings, as conducted, are most depressing, even to the men who may not be denounced. The general atmosphere is bad—not always, but too often.

Here is another :

If the Field-Man is to be raised to a higher level and really and truly preach the gospel of life insurance, then I have been wondering for quite some time why in the name of justice has he been so mistreated, abused, villified, and made to look oftentimes ridiculous and disgraced on the part of his dealings with the only superior he knows, namely, his Manager.

Here is another :

It is my opinion that of all of the evils that beset an Agent (and believe me they are plenty in the field) none is greater than the "aggressive management" of some Managers. A remark made by the Manager in the morning often spoils an Agent's mental attitude and health for weeks. This occasion of the Agent reporting to the Manager every morning should be an opportunity for giving advice and encouragement; otherwise it had better be cut out.

Another :

Let me endeavor to portray the picture as it exists :

It has been mere digs which time has gotten us used to that made us tell ourselves that the abuse for a daily blank report was not an insult. Assistant Managers' speeches that wasted our time in the morning were never sales talks. They were so full of threats of our jobs, that by the time we were really ready to leave the office, we were in such a fog that we did not know whether we were coming or going. All this put us in a frame of mind that could do little justice to policyholders or further sales.

Here is another one :

Is it possible that during the panic following the depression, when every Manager rallied to the call to conserve business, we formed a habit of driving and threatening, like mule skimmers, and it has become a regular procedure? Is it not quite true that men who were promoted to positions of Manager and Assistant Manager at that time still believe their mule-skinning methods are proper and right?

These methods are in the very atmosphere. They have become habitual in the business. Yet everyone dislikes them, including the Manager.

Here is another one :

I have always maintained that to have a successful sales organization of any kind, harmony, contentment, and respect for superiors must exist; otherwise there can be no loyalty, enthusiasm, or desire to improve oneself for promotion, nor can the proper service to policyholders be rendered. I am sure you will agree that these proper conditions cannot exist when Agents are treated unlike human beings, when they are compelled to report at the office at six or nine in the evening or possibly late Saturday unless a certain volume of business is written. The compelling of agents to take off accounts after nine in the evening and many other conditions that I know exist in some districts.

Here is another :

You see, our Manager still believes in Saturday meetings. From eight in the morning till one or two p. m. they stay cooped up in an office, with no windows (they never know if it's raining or not), and listen to things that usually have them down in the dumps when they do get out. When my husband started as an Agent we were told that they'd have meetings just once a month.

Here is another :

Twenty-eight years have been happy years, and the most congenial relations existed between me and my Managers. But very reluctantly I shall state some of my experiences for the past year. I feel it my duty to do so, and I shall be very frank.

Once when I was on decrease I was greeted by my present Manager, before my fellow workers, with this remark: "Mr. _____, you should come in the office backwards," to which I made no reply.

Three weeks ago I asked to be excused one Saturday morning from a meeting and my Manager said, "You have a hell of a nerve to ask to be excused, with the record you have." My Manager also said, "Do you know I am having a hell of a time to keep you on?"

Another one said:

You probably have already received many other letters concerning goings on in the _____ Office; by that I mean the way the Manager treats his men.

Another one said:

The high pressure in _____ brought about what the Managers called meetings 3 or 4 times daily, often as late as Saturday midnight and Sunday a. m. reports to the office, occasional telegrams (collect) to Agent's home, if his report was below expectation.

It was common practice in the District to load new agents with salary indebtedness of ex-agents, all for points. It broke Agents before they started.

Here is still another:

Please try to imagine yourself an Agent in one of the Metropolitan districts. You, an intelligent man, probably, as the majority of the men, having had respected and responsible positions in other fields, become an Agent, eager to show your ability and certainly willing to learn. From the first day you are handed a book you are made to feel that your Manager is your Lord and Master, Judge, and Jury, and that he has your life in his hands at all times. You are made to feel that you are just nothing at all in this world and inferior to everybody. After the introduction you are on your own. Starting with Monday, three or four hundred people to see in three days, with many in the four-week column by this time; you know the meaning of lapses, and four-week cases mean lapses. You rush to get to the office at 8 o'clock in order to take care of the many things requiring your attention; then the Manager comes into the room with an order to drop your work. He takes a report of the business done over the week-end, insulting every man who has no report. He will then talk for over two hours of how much business the men ought to do and what will happen to the man who does not bring in business.

This is in all very discouraging and tiresome to a new man or to a man who has been with the company for a long period of time, and is certainly a waste of time. You then reach your debit wondering where you can get the business the Manager has ordered you to get—you know you will have trouble with your four-week cases—you will find many people out—you will get innumerable complaints. Tuesday morning the same is repeated, except that the meeting lasts longer, and sometimes you are ordered to come back at four or eight o'clock to another meeting as punishment for not being able to get an application. These men have no consideration for your feelings and instead of cooperating with you, they hamper you with your work. Under the circumstances, you are forced to work late every night.

Wednesday you have the weekly account to make. If you want an idea of what it takes to make an account and balance it correctly and fill out the different forms that go with it, try to make it; and the last week of every month you have a monthly account to make, as well as the weekly. After struggling for hours with the account, you are lined up outside of the Manager's office and every man must face him to get his O. K. on the account, and if he does not like the looks of it, he will tear up the sheets and make you go out on the debit for more money, although he knows no more could be collected, and make another one. It is heart-breaking to see the men lined up almost like criminals, after they try their best in their work.

It is hard to describe in words the suffering and humiliation forced on the men by these so-called Managers and Assistant Managers. Here are some expressions used by them during their "pep" talk meetings, "Why don't you go on relief, you are too old to be useful." "I will give you two weeks to make good or get out." "You are yellow." "You are a coward." Once I heard the Manager tell a man who was with the company over 11 years that he was a yellow dog if he did not resign, and for that they receive \$500 or more per week, or about \$30.00 per week for humiliating each man. They never go out in the Field with the men, they constantly threaten them with dismissal, and do not prove to them that it is possible to get business. Instead of lending a helping hand to the man who is down, they force him to desperation.

Another:

Everyone in the State knows the abuses Agents go through from their Managers and some clients that treat them like dogs.

Why, I know of a Manager that told one of his agents, "Go out and sell to your mother, father, or your grandparents. Sell it to yourself. I don't care so long as you sell." With high pressure abuses like these, no wonder they are sometimes forced to do dishonest selling.

I would like to offer all of the replies on all of the topics covered for the record.

The VICE CHAIRMAN. It may be admitted.

(The document referred to was marked "Exhibit No. 997" and is included in the appendix on p. 6255.)

Mr. GESELL. I gather from that that there is a certain degree of discontent among some of the agents of your company with respect to some of the practices of certain of your managers.

Mr. LINCOLN. There is undoubtedly a discontent reflected in some of those cases. It is reflected in the meetings I hold; those descriptions illustrate the struggle I am going through to get rid of that sort of practice if there is any in our districts. I don't want it; I won't have it, the Managers know I won't have it, and those instances cited in those letters in 1937, insofar as they are not exaggerations, and you must qualify that because we have had some of them inspected, we often find the agent, through some motive or other, has exaggerated a description, but so far as there is any validity to those statements, those things are the things that we will not have.

This matter of meetings, for instance. I don't believe in those meetings. I found, sir, up in your section, not in Boston but in one of the surrounding cities, one of the agents said, "Is it proper for the manager to hold meetings every morning?"

I said, "Of course not."

"Why," he said, "we all sit there and we get tired with his talk and we go out exhausted and we are no good all day long."

I said, "I agree with you."

I got hold of that manager immediately, within an hour or two, and if I may put it this way, laid down the law to him that those meetings had got to end.

The same thing happened in Detroit last fall. We won't have it. Those complaints are things that we will not countenance. I am just as earnest about that as I can be, and I suspect some of them are true and some of them are exaggerations.

Mr. GESELL. I read them merely as being indicative of a condition which might arise in certain offices under certain circumstances.

Mr. LINCOLN. I think they are to the vanishing point. If they are not, I want to know up-to-date facts. That is one of the purposes of the letter inviting them to write me. It is one of the purposes of these meetings I am holding. I want to know the facts, and if there are any such things going on today I shall deal with them vigorously. I don't think there is very much of that going on now.

Mr. GESELL. Is it perhaps rather difficult for your company to supervise as many debits and district offices, considering how far-flung it is?

Mr. LINCOLN. Oh, no.

Mr. GESELL. It seems to me rather surprising that a person who seems to have the most active part in correcting these abuses should be yourself, the president of the company, who certainly must have many other pressing obligations, and it also is interesting to note that it takes you over a year even to cover your territory once.

Mr. LINCOLN. I tried to make it plain that that was with due respect to my other duties which I also try to perform. I will go out for 2 weeks at a time. For instance, the last meeting I held was at Philadelphia on 2 days in June. Before that, the last meeting I held was in February. Well, as the thing works out, it spreads over about a year.

Mr. GESELL. You don't think that a closer-knit organization where the home office was closer in contact with the men and the agents would be apt to bring about fewer of this type of situation?

Mr. LINCOLN. We seek to have that; we seek to have it through our present method; and if it should in the course of time develop that that is not sufficient, we will develop something else, because we are going to have these practices right and proper.

Mr. GESELL. Do you feel that possibly some of the difficulty arises from the method of compensating the agents?

Mr. LINCOLN. No, sir.

Mr. GESELL. You don't believe that if the agent was on a salary basis this type of situation would be less apt to occur?

Mr. LINCOLN. We wouldn't have any company in a short time.

Mr. GESELL. You wouldn't have any company?

Mr. LINCOLN. No.

Mr. GESELL. Why not?

Mr. LINCOLN. Because if you put your agents on a salary basis the human equation with respect to building the company is going to vanish, and you simply have a company that becomes moribund right away.

Mr. GESELL. You mean that without a system of compensation which recognizes the ability of a man to keep good business and produce new business, your company would deteriorate?

Mr. LINCOLN. It is true in any selling organization, whether it is vacuum cleaners or automobiles or life insurance.

Mr. GESELL. I was under the impression, for instance, that the Prudential of London paid its agents on a salary basis.

Mr. LINCOLN. I think there is some system of salaries and also a system of commissions. I am not sufficiently well informed about their practices to answer.

Mr. GESELL. Have you ever tried a salary system as a method of compensating the agents?

Mr. LINCOLN. The term "salary" has been used, but it is a misnomer as related to this business. There must be aggressive action predicated upon that human equation which makes a man want to earn something through accomplishment. It doesn't make any difference, I say again, whether it is a fellow who peddles milk around your house in the morning or a fellow who sells life insurance or what it is.

Mr. O'CONNELL. Again I would like to ask you to answer Mr. Gesell's question. His question, as I understood it, was simple: Did you ever try to compensate your agents on a salary basis?

Mr. LINCOLN. I said "no," but I had to qualify it because the term "salary," a misnomer, was used.

Mr. O'CONNELL. But you never did pay them a salary.

Mr. LINCOLN. No, sir; within my knowledge.

Mr. HENDERSON. You said that without this method of compensation, as I understood it, the company would deteriorate. Do you

mean growth would stop—it would decline? Do you mean that there would be any diminution of the value of the policies in force?

Mr. LINCOLN. Not the latter at all, sir; but drawing a line through any date, suppose we said we would write no more business after August 30, 1939, or January 1, 1940, immediately your service organization in the field is going to disintegrate, your poorer risks are going to stay and your good risks are going to get out, and you are going to have investment problems galore by reason of the necessity for keeping in a more current, liquid condition. Why, you can foresee all sorts of things which would happen. I don't suppose it is in your mind—it certainly isn't conceivable—that you could draw a line across any date on the calendar and say, "No more business after that."

Mr. HENDERSON. Well, I am not suggesting a policy for the Metropolitan.

Mr. LINCOLN. I am trying to give some of the reasons.

Mr. HENDERSON. I am trying to get what you meant by disintegration. Frankly, I was afraid from your answer that you misunderstood; and therefore I gave you two prongs of a fork between which you could select, and you selected.

Mr. LINCOLN. I am obliged to you.

Mr. HENDERSON. And intimated that perhaps I selected the other.

Mr. LINCOLN. Oh, no.

Mr. HENDERSON. I certainly would not have done that. I gather you feel, then, that if you did draw this imaginary line, there would be no method of compensation through which you could have agents interested in maintaining the good risks and eliminating the bad.

Mr. LINCOLN. I don't think it would follow at all. If you just suspended all together and tried to pay men a salary for preservation of the business and they got a straight salary, that human equation that I keep bearing down on is bound to develop itself.

Mr. HENDERSON. Now, from the company standpoint as a living and vital organization—I believe I have asked this question in different forms before. I believe I asked Mr. Ecker. You have evidently—and if I am wrong I know you will correct me—an abiding faith that it is necessary to have a substantial addition to the volume of business over any reasonable period in order to have vitality.

Mr. LINCOLN. That is what we are in business for. That is what we are chartered for. The charter of our company, the laws of the State of New York, and I daresay it is true of the laws of any State, the District of Columbia, which charters some companies, say the company is authorized to make insurance on the lives and health of people and to issue endowments.

Mr. HENDERSON. Yes; but that isn't the sole purpose of the company. The purpose of the company is to provide insurance for its policyholders.

Mr. LINCOLN. To afford an insurance service to the public.

Mr. HENDERSON. I am going beyond that. In order to furnish that service within your standards, you feel that as far as the existing body of policyholders is concerned they are better served by a growth in the business; that is, by the addition of new policyholders.

Mr. LINCOLN. You said it much better than I have; that is precisely our view.

Mr. HENDERSON. I wanted to get just the exact statement.

Mr. LINCOLN. Yes, sir.

Mr. HENDERSON. It is a very important question, this question of whether or not it is possible to maintain a high degree of insurance service without growth of the company.

Mr. LINCOLN. Yes, sir.

Mr. GESELL. It becomes more and more difficult to grow, doesn't it, Mr. Lincoln, as times goes on?

Mr. LINCOLN. I should say not, sir. I feel that the natural accretions to the insurable public turn over the business; people come, people go, and there are natural accretions that will go on so long as human beings live and insurance is recognized.

Mr. GESELL. You don't feel that today the market for industrial insurance is more saturated than it was, say, 20 years ago?

Mr. LINCOLN. No; I do not. Just a minute—I don't like to be put on comparison. I would like to make it an absolute. I don't think it is saturated. I don't have any comparatives in my mind as to 20 years ago.

Mr. GESELL. Do you think it is just as easy for an agent to place an industrial policy now as it was 20 years ago?

Mr. LINCOLN. I should say, Mr. Gesell, that it is easier. The public is more insurance minded; it has better recognition of the importance of insurance in the family economy than it did. I should say it should be easier.

Mr. GESELL. Have you made any studies which would indicate whether or not the market was getting saturated?

Mr. LINCOLN. Well, I have none in mind. Perhaps you have some there.

Mr. GESELL. You know of none at this time?

Mr. LINCOLN. I haven't them in mind.

Mr. GESELL. If the solution isn't in paying agents a salary, is there any other procedure which could be adopted by the company, do you think, which would prevent the existence of the type of thing represented by the letters which I read a moment ago?

Mr. LINCOLN. Well, I would first answer that I don't think that exists in any appreciable form whatsoever.

Mr. GESELL. It is rather difficult for you to find out, isn't it?

Mr. LINCOLN. No, sir; I don't think it is. I think those letters elicited—just the very things that you read there elicited—the answers from the discontented agents which I want. My meetings are doing the same thing as I go about the country, seeing these men alone, no officer, no field representative at all in the room with me, and I invite them to unburden themselves and discuss any subject they want, and I have had great success in having heart-to-heart talks with them.

Mr. GESELL. Of course, it is only your guess as to whether or not you are getting the complete story, is it not? After all, you are a home office official, and anything these agents may say does involve criticism of his superior.

Mr. LINCOLN. I have to answer that with some immodesty. I believe they have so much confidence in me and my integrity in approaching them and inviting them to tell me, that I do get the correct answers.

Mr. GESELL. Have you ever given any thought to other ways which could be adopted by your company to collect a premium, other than the method presently used?

Mr. LINCOLN. That presently in use being a straight-commission percentage on the premiums collected. Do you mean have we given any thought to any other method than that?

Mr. GESELL. I am shifting now from the agent to the policyholder. You have two systems—you collect it from door to door or let him pay it in at the home office with a percentage deducted?

Mr. LINCOLN. Yes.

Mr. GESELL. Have you given any thought to any other method which could be adopted which would reduce the expense of industrial insurance?

Mr. LINCOLN. I don't know of any. If there are any we should certainly like to know it.

Mr. GESELL. My question was: Have you ever thought of adopting any other?

Mr. LINCOLN. No; as far as I am personally answering.

Mr. GESELL. Well, I am talking to you as the president of the company. To your best knowledge, has the company ever done it?

Mr. LINCOLN. Not to my knowledge.

Mr. GESELL. Have any efforts been made to work out any sort of pay-roll deduction plan?

Mr. LINCOLN. For policyholders?

Mr. GESELL. Yes.

Mr. LINCOLN. Oh, we have it in the ordinary department.

Mr. GESELL. I am talking about the industrial department.

Mr. LINCOLN. I don't know of any in the industrial. Pay-roll deductions, I imagine, would be of such size as to make it a little more impractical, but I don't know. Perhaps there have been studies made on it. I don't know of them. They have it in group, of course, and in ordinary.

Mr. GESELL. Well, the group has one very outstanding difference, hasn't it?

Mr. LINCOLN. Certainly.

Mr. GESELL. A man leaves the group and loses his protection, to a degree. I was talking of some method of deduction of pay roll which would keep to each individual his individual policy.

Mr. LINCOLN. For the industrial?

Mr. GESELL. Yes.

Mr. LINCOLN. I don't know of any consideration which has been given to it.

Mr. GESELL. Have you and the other principal companies ever discussed the desirability of limiting the policies in any one family to a single company?

Mr. LINCOLN. I never heard of it.

Mr. GESELL. I take it you agree with me that some of these underwriting difficulties which may exist result from the fact that a single family has policies in several companies.

Mr. LINCOLN. I think it is a rare instance, comparatively rare; and I think there again a human desire to diversify the coverage, or, to use the old phrase, not to put all the eggs in one basket, may have some bearing.

Mr. GESELL. Has your company ever given any consideration to the desirability of separating agents from collectors?

Mr. LINCOLN. We do that in New York, in one phase of the business; but generally speaking, no, sir.

Mr. GESELL. I am talking about your weekly premium business generally.

Mr. LINCOLN. No, sir.

Mr. GESELL. You don't know whether that would make the insurance cheaper or more expensive? No studies have been made along that line?

Mr. LINCOLN. I don't know of any studies, and I would have grave doubt as to its reducing the cost of the insurance. Those collectors would probably have to be paid additional compensation in some form to make the position attractive which is now available through this contract which embraces first-year commissions and collections and conservation commissions.

Mr. GESELL. You have never tried that in your weekly premium business?

Mr. LINCOLN. Not that I know of.

Mr. GESELL. Have you ever given any thought or tried making a clearer-cut distinction between the agents who sell ordinary and the agents who sell industrial?

Mr. LINCOLN. Only in this—I believe I mentioned it yesterday—that we have a few agents who are known as ordinary representatives; they have come up through the ranks as agents following the same procedure as any other agent, writing business all around, ordinary, industrial, accident, and health, but they have desired to specialize in ordinary. They have developed some aptitude for the ordinary business, and we have created a few of those positions known as ordinary representatives. Now that ordinary representative is not a free lance in the sense that perhaps is the practice of some other companies. He is identified with a given district; he has all of the earmarks of an agent in that district except that he has no industrial debit.

Mr. GESELL. Is it mostly just tradition which has developed agents in your company who sell both ordinary and industrial, or is it the result of a very definite policy?

Mr. LINCOLN. I suppose it is both. Historically the company undertook the ordinary business, I think, in 1892, on the premise that ordinary business could be written by our agents who were then devoting themselves to industrial business, and I am told by those who lived in those days that the company was laughed at—that the company was laughed at for presuming that industrial men, such as these were classified as in those days, could write a substantial amount of ordinary business. That has been adhered to through the years; with slight exception, I imagine; and as you all know, we have more ordinary insurance in force than any other company in the world, and it has all been written by these agents who, in the first instance, when the ordinary began, were writing only industrial insurance. Since that time we have had them writing ordinary and industrial and more lately accident and health.

Mr. GESELL. I take it, then, from your answer, that you don't think any operating efficiencies would result which would be bene-

ficial to the industrial policyholder by making a clearer-cut distinction between the industrial and the ordinary side of your business.

Mr. LINCOLN. I should think that that could be studied on the basis of our friend, the Prudential, than on the basis of our own system. I believe they have another and different system. I hold no brief for any particular system. The results of our method have been very amazing. All this insurance in the ordinary department, more than any company in the world, has been written by these same agents who carry on their industrial debits.

Mr. GESELL. But my question was whether such a division might not bring about some benefits to the industrial policyholder.

Mr. LINCOLN. I know of none. I don't see why they should.

Mr. GESELL. Has your company given any thought to whether the cost of industrial insurance might not be lessened by reducing the gross premium charged the industrial policyholder?

Mr. LINCOLN. That, of course, has to do with a question of the mortality rate, which is a question which I am not capable of discussing. If the actuaries are here, they would be glad to discuss it with you. I am afraid I couldn't contribute anything to your consideration on that subject.

Mr. GESELL. I just asked whether the company had given consideration to that problem.

Mr. LINCOLN. We are considering premium rates all the time, of course; we are making studies which have as their background the propriety of a given premium rate. Those are going on all the time.

Mr. GESELL. Well, I am sure you understand what I mean by my question when I ask as a broad general question of policy, quite apart from whether this year or that year there should be a reduction or increase in premiums, whether the selling of industrial insurance at a lower gross premium might not result in a lower cost to the industrial policyholder.

Mr. LINCOLN. I don't think that follows, counselor, and I say again I would have to have the actuaries answer that, but I think from my nonactuarial view of things that that doesn't necessarily follow at all.

Mr. GESELL. Has your company ever considered establishing more small local offices in the territories in which you operate so as to give the policyholders a more immediate access to the selling office and thus a chance to reduce their premiums by paying at such office?

Mr. LINCOLN. Well, our field set-up is such that we have what is known as a district office in charge of a manager in each community of any importance where we do business.

In some localities there is a community of less size in which we have policies which are allocated to that district office; but that community may be 10, 20, sometimes more, miles away. There we have what is called a detached office under the charge of one of the assistant managers, but which is an established office and a head-quarters for the business in that community. I have in mind Daytona Beach—Daytona. I visited that detached office. The main office for that detachment is in Orlando, or was then, and here at Daytona is a substantial population which is served through this detached office. Now, it may again happen that we have a debit in a community which is too small to have a detached office and an assistant manager in charge and a staff of agents, and in that case the agent himself.

of course, operates from his own home. There are some instances of that, but they are relatively few.

Mr. GESELL. I had in mind a break-down even into smaller units than those that you have.

Mr. LINCOLN. In cities?

Mr. GESELL. So as to put some type of local collection office nearer to the residences of the individual policyholders.

Mr. LINCOLN. Well, that is all a question of degree, a question of the best service that we can perform. If it should transpire that some method of that sort should establish itself as a better method, you may be sure we would adopt it; but our experience so far indicates that the methods that we have, the office, detached office, and an occasional agent in a community by himself, are the best service that we can give to our policyholders.

Mr. GESELL. I think it might be a good place to adjourn here.

The VICE CHAIRMAN. We will meet again at 2 o'clock.

(Whereupon, at 12:40 p. m., the subcommittee recessed until 2 p. m.)

AFTERNOON SESSION

The hearing was resumed at 2 p. m., upon the expiration of the recess, Mr. Joseph J. O'Connell, Jr., presiding.

Acting Chairman O'CONNELL. The hearing will please come to order. Congressman Casey will be a little bit delayed. I think we can proceed in his absence.

Mr. GESELL. Will you resume the stand, Mr. Lincoln, please, sir?

Mr. LINCOLN. Yes, sir.

TESTIMONY OF LEROY A. LINCOLN, PRESIDENT, METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.—Resumed

Mr. GESELL. Before recess I was asking you as to whether or not your company had considered certain other items which might have some effect upon the cost of industrial insurance. There is one on my list I didn't cover with you. I wondered whether the company had considered whether there was any way that it would be able to encourage a larger number of its policyholders to pay premiums directly to the office and have the benefit of the 10-percent reduction.

Mr. LINCOLN. Whether there is any way in which that could be advocated, do you mean, amongst policyholders?

Mr. GESELL. Whether there is any way of getting more of your policyholders to pay their premiums in that manner and still have the premium reduction available to them.

Mr. LINCOLN. I suppose ways could be conceived. I don't know that any special way has been considered. The very growth in the proportion of that business speaks for itself. There has been a steady growth in the proportion of business which is paid in that manner.

Mr. GESELL. I realize your company has a better record from that point of view than any other company in the business, but I was wondering if this question possibly isn't involved: These agents are paid a commission based upon the size of the debit from which they collect, are they not? Is it called collection salary?

Mr. LINCOLN. It is based on the actual collections under the present contract.

Mr. GESELL. It is a salary based upon the collections.

Mr. LINCOLN. Commission for collections is predicated on the actual collections which they make.

Mr. GESELL. Then, to some extent, it is to the agents' interest, is it not, for the premiums to be paid at the homes of the insured, so that they can collect them?

Mr. LINCOLN. Well, I could conceive that if the agents' collections and the size of the debit were diminished through that process we would have to find other ways of building up the debit so as to maintain a relatively level income for it.

Mr. GESELL. To keep the same average wage that he gets now.

Mr. LINCOLN. That would have to be by consolidations or otherwise.

Mr. GESELL. But under the present system it is true, isn't it, that the agent has some personal interest in keeping the collections at the homes of the insured.

Mr. LINCOLN. There can't be any doubt of that. That is a part of his income, and he receives collection commissions predicated on those policies which are in force on his debits.

Mr. GESELL. That being true, do you believe the agents encourage to the fullest possible degree the payment of the premium direct to the home or branch office?

Mr. LINCOLN. I don't know whether "to the fullest possible degree" would be an exact description. I think where they find policyholders are in a position or there are circumstances which would direct the policyholder toward this method of payment that they would probably call it to their attention. I can't say whether they would or not; I don't know.

Mr. GESELL. Let me ask you one other thing: It is a little cheaper if the policyholder pays by the month than if he pays by the week, isn't it?

Mr. LINCOLN. The insurance premium is cheaper.

Mr. GESELL. I suppose you are aware that many of your agents and agents in other companies collecting weekly premium business frequently collect a month's premiums in advance.

Mr. LINCOLN. I suppose they do sporadically. I would be surprised if there were any great number that had a continuous practice of that through the year.

Mr. GESELL. What is the feeling of your company with respect to this problem of weekly payments? Do you believe that it would be impossible for the policyholder to carry the same insurance on a monthly basis?

Mr. LINCOLN. On the contrary, we have introduced the monthly premium insurance for that purpose.

Mr. GESELL. Well, I was referring as to the policyholders who were now on weekly; do you feel that they wouldn't be able to carry the same insurance as they have if they were on a monthly basis?

Mr. LINCOLN. I think there are such a large number of families in which the income is paid weekly or biweekly that it would be unlikely that many of them in that classification, that category, would be in a practical position to pay premiums monthly. We have some figures—I haven't them at my tongue's end—as to the proportion of workers in this country who are paid weekly, biweekly, and monthly.

They are quite striking. The large majority—I can't give you the figures—are paid either weekly or biweekly.

Mr. GESELL. Is it the policy of your company to encourage as much business going on the monthly basis as possible?

Mr. LINCOLN. I think the policy is to sell ordinary insurance where ordinary is appropriate, and monthly where monthly is appropriate, and weekly where that is the proper method, in our judgment, for the policyholder to take. Certainly our policy is to have the insurance sold in the type according to the manner of payment which best suits the policyholder.

Mr. GESELL. Of course, there is an area of judgment there that rests with the agent.

Mr. LINCOLN. As in everything.

Mr. GESELL. What I was trying to get at was whether it was the policy of your company to encourage the agents to put as much business as properly belonged on the monthly basis, on the monthly basis.

Mr. LINCOLN. Undoubtedly; and if that same business belonged in the ordinary department, it would be our policy to have it there.

ATTITUDE TOWARD ENDOWMENT INSURANCE

Mr. GESELL. I haven't discussed with you yet endowment insurance. I would appreciate your stating for us what the position of your company is with respect to the sale of industrial endowment insurance.

Mr. LINCOLN. During the period when endowment insurance could be sold in the industrial department, it was one of the types of insurance in our portfolio which we believed the public wishes. In fact, since the New York Legislature passed a law a year ago which forbade endowment insurance in the industrial department, the decrease in insurance in and of itself speaks for the desire of the people, we believe, to have endowment insurance. The New York Legislature has so far reorganized its position in the matter that it passed a law at the last session which will take effect the 1st of January; which will make it possible for endowment insurance to be sold in the industrial department in all States except New York; and carrying that information one step further, a bill was introduced in the legislature to permit endowment insurance to be sold everywhere, including the State of New York, and that passed the State senate by a vote of 47 to 1. It never got on the floor of the assembly because it was tied up in the rules committee under procedural practice there, and it wasn't possible for it to get out.

Acting Chairman O'CONNELL. When was the bill passed prohibiting it?

Mr. LINCOLN. A year ago, in the 1938 session, I should say in March or April of 1938.

Acting Chairman O'CONNELL. Prior to that you could sell endowment insurance in the industrial department, and in the 1938 session you were forbade to do it?

Mr. LINCOLN. Yes, sir.

Acting Chairman O'CONNELL. And your company discontinued the sale of it in all States?

Mr. LINCOLN. We discontinued the sale of it in all States when that law took effect, which I think was January 1 of this present year, and we have not sold industrial endowments in any State during the current year.

As of January 1 next it will be permissible in every State except New York.

Acting Chairman O'CONNELL. Was your company interested in that legislation, the last bill that was passed?

Mr. LINCOLN. I guess I will have to ask you what you mean by interested. We were highly interested.

Acting Chairman O'CONNELL. Did you sponsor the legislation?

Mr. LINCOLN. We had no sponsorship of the bill which permitted endowment insurance to be sold in other States.

Acting Chairman O'CONNELL. That was the bill I had reference to.

Mr. LINCOLN. That was the outgrowth of a reorganization by the so-called Piper committee of the effect of the bill passed 1 year ago.

Acting Chairman O'CONNELL. Did you oppose the bill passed a year ago?

Mr. LINCOLN. Yes, sir.

Mr. GESELL. And your company has advocated the repeal of that legislation?

Mr. LINCOLN. Yes; we have.

Mr. GESELL. You say you believe the public wants endowment insurance.

Mr. LINCOLN. To a very large degree. There is every evidence of it.

Mr. GESELL. Will you tell us what some of the evidences of that are?

Mr. LINCOLN. One evidence of it is the fact that when a survey was taken by representatives of the New York Insurance Department, or a spot check you might say of policyholders holding endowment insurance in the city of New York, it was found that 97 percent of them said they knew they had endowment insurance and I think 92 percent said they had endowment insurance and they wanted it, while knowing that life insurance as such was cheaper, they preferred the endowment insurance.

Now, as we go about the field interviewing our representatives in the field, we find that there are whole racial groups which will have nothing but endowment. I have in mind the French Canadians, those thrifty people down in Quebec. These people want endowment and nothing else. I have in mind some of the racial groups in the States. I have in mind one section which we visited, I should say centered in and about Wilkes-Barre, Pa., where we were told that all those people settled up and down in that country wanted endowment insurance, preferred it. And our general studies of the whole subject led us to the firm conviction that endowment insurance has its place and that there are people who prefer it to whole-life insurance, even with the knowledge that the life insurance would be cheaper. They want to build up a fund for themselves or for the child's education, something of that sort. All those things put together have persuaded us, and I think, I may say, they will even-

tually persuade the New York Legislature that endowment insurance in the industrial department has its place.

Mr. GESELL. What is the average size of the endowment policies that you have on your books at the present time?

Mr. LINCOLN. May I make inquiry? Mr. Davis, assistant actuary, says in the neighborhood of \$250.

Mr. GESELL. Am I correct in saying that a large amount of the endowment insurance sold by your company was sold to children?

Mr. LINCOLN. I wouldn't be able to say what the proportion is. The greater part, Mr. Davis says. You say to children—on the lives of children, of course you mean.

Mr. GESELL. On the lives of children; yes.

Now, what purposes do you understand such a meager endowment would fulfill in the case of a person say 20 years old, or 21, when the endowment matured?

Mr. LINCOLN. What you and I would call meager might not be at all meager to the family which takes it out. They want to have some established fund for the child when it reaches the age say of advanced education, when the child reaches an age when matrimony may be anticipated, and to them it is not meager.

Mr. GESELL. You feel, then, that it is one of the purposes of industrial insurance to provide for people in low-income groups, funds for educational purposes or to help expenses anticipated in the future, such as educational requirements and things of that sort?

Mr. LINCOLN. I think the extent to which that insurance has been accepted by the public is probably the best proof of that.

Mr. GESELL. Well, as far as the acceptance is concerned, that is somewhat of a debatable point.

Mr. LINCOLN. I don't think so. I think some of us may be too prone to assume that the policyholder doesn't know what he or she is buying, and I think that is an unwarranted assumption.

Mr. GESELL. Of course the agents in the old days when this endowment insurance was being put on your books received a higher commission for placing an endowment policy than they did for placing a whole-life policy, did they not?

Mr. LINCOLN. I think the effect of that matter of compensation probably was as you describe it. There wasn't a higher commission, I believe, for endowment as such, but the effect of selling a policy with a higher premium probably had that result. You understand now our endowment commission, when we sell endowments, is lower than the commission for a whole-life policy.

Mr. GESELL. I understand that, but during the time that most of this endowment went on your books, the contrary situation obtained.

Mr. LINCOLN. It was the effect of the manner of payment of agents at that time.

Mr. GESELL. So that it might be possible, might it not, that the agents were engaging in rather a strenuous effort to educate people on endowment policies.

Mr. LINCOLN. It might be possible.

Mr. GESELL. And some of this demand to which you refer may have resulted out of the motivations of the agent, rather than from the fundamental distinction in analysis of the two different types of policy form.

Mr. LINCOLN. I answer your question, it may have, but I doubt very much if that is the true situation, the true mental concept of the policyholder.

Mr. GESELL. I have no further questions.

Acting Chairman O'CONNELL. Do you happen to know or could you tell me briefly what the rationale behind the 1938 legislation was, that is the legislation prohibiting the sale of endowment insurance on an industrial basis?

Mr. LINCOLN. I am afraid I couldn't give you any intelligent reason for it. I never have seen any and I haven't heard any expressed. There was a hue and cry in the State of New York about industrial life-insurance business at that time, and the legislature responded to it in this respect and in some other respects.

Acting Chairman O'CONNELL. You opposed that legislation I understood you to say?

Mr. LINCOLN. Yes, sir; but personally in fact I was out of the State; I was in the far West when the bill was introduced, put through and passed.

Acting Chairman O'CONNELL. Excuse me, Mr. Gesell, had you intended developing anything more about that legislation from any other witness? I am rather interested. I hadn't known that that legislation had been enacted and I thought possibly Mr. Lincoln or someone could tell us the purpose of it.

Mr. LINCOLN. It happens that the gentleman is in the room who had to do with the actual contact with the legislation when it was passed.

Acting Chairman O'CONNELL. I don't want to disrupt your program.

Mr. GESELL. That will be quite all right with me. I hadn't more than intended to touch upon it with one other witness. I doubt if the subsequent witness will be able to give any information as to the legislative consideration of the problem at all, mostly from an actuarial point of view.

Acting Chairman O'CONNELL. Whom did you have in mind?

Mr. LINCOLN. Vice President Taylor was in close contact with that and I believe he is in the room. He is here if you would like to hear his story.

Mr. GESELL. That is all right with me.

Acting Chairman O'CONNELL. I don't want to disrupt the program, but I would be interested to know what the position of the proponents of the legislation was and what the position of Mr. Taylor was.

Mr. LINCOLN. We would be glad to have you hear it.

There are one or two items that I want to make reference to, if counsel is finished, with your permission.

Mr. GESELL. I have simply to introduce two schedules which I might introduce in advance. One is a schedule showing the compensation of certain active and retired officers of the Metropolitan Life Insurance Co. prepared from schedule G of the company's annual statements and checked with a representative of the company, and the other is a schedule showing the present active officers of the company and the history of their careers with that company while employed in executive capacities.

(The schedules referred to were marked "Exhibits Nos. 998 and 999" and are included in the appendix on pp. 6269 and 6272.)

MR. GESELL. Both of these schedules have been checked with the Metropolitan for accuracy.

MR. LINCOLN. May I at this time, or before I am excused, make reference to one or two things we would just like to call to your attention? They have to do with the subject matter which has been brought up yesterday or today.

For instance, yesterday there were some figures brought out by counsel as to the number of terminations of agents as to the supposed cost of those terminations and the applicability of that ratio of cost to the total number of terminations which produced a pretty substantial figure.¹

I do want to impress on the committee that the cost of the training of the agent doesn't mean an out-of-pocket expenditure of the company which would be reflected in the dollar figure that was discussed here yesterday. It simply means that the company is using some of its people whose time is allocated to that purpose, and there is no necessary relation between the application of the dollars estimated and produced from the Piper report yesterday and the actual cost to the company. In other words, it might happen that if we had no agency changes at all there would be no diminution in the cost. That is one feature that I would like to mention.

MR. GESELL. Before you leave that there are one or two questions.

Do you mean by that that in computing that figure you have taken into account that a certain proportion of, let's say, your assistant superintendents' time is taken up with the training of those men?

MR. LINCOLN. As I understood when I inquired a little more about the source of the figures we had here yesterday, those were made on an allocation and an estimate of time and time studies which produced a result converted into dollars in the figures you had there, but we feel that that doesn't represent, and shouldn't be taken to represent, that the company has spent that money. Those assistant managers are not necessarily going to be eliminated from the service if we don't have that particular activity.

MR. GESELL. In other words, they would receive the same salary if they trained a man or if they didn't train a man.

MR. LINCOLN. They might be engaged in other activities, but the net result would not be any appreciable difference in the cost.

MR. GESELL. But on the over-all picture you would agree, wouldn't you, Mr. Lincoln, that agency turn-over is a bad thing?

MR. LINCOLN. We exert every effort to prevent it, and the trend of those efforts was very strikingly brought out in the figures presented here yesterday.

MR. GESELL. And if you do have a high agency turn-over it does increase the cost of doing business?

MR. LINCOLN. There is no way, I maintain—I was discussing this same thing yesterday—that you can develop an actual out-of-pocket cost to the company by reason of it. It just goes without saying to any sensible person that the higher your turn-over, the worse your situation, and that is a thing to struggle against, but to put a dollar value on it I think is impossible.

¹ Supra, p. 5849.

Acting Chairman O'CONNELL. Mr. Gesell didn't ask you to put a dollar value on it. He suggested that high agency turn-over increased cost.

Mr. LINCOLN. It is my recollection that yesterday the discussion more or less ended with an application of that dollar turn-over to the number of agency turn-overs, with the number during 10 years, and produced a very striking figure.

Acting Chairman O'CONNELL. I don't believe we were under any misapprehension as to how the figure was arrived at, or what it meant. The figure was taken from you people.

Mr. LINCOLN. It was taken from some estimates given to the Piper committee.

Acting Chairman O'CONNELL. They were prepared by your company?

Mr. LINCOLN. Yes, sir.

Acting Chairman O'CONNELL. There is no quarrel about the accuracy of the figures. All you want us to do is to understand the basis upon which they were made. I think we understand the basis upon which they were made.

Mr. LINCOLN. I think that is a fair statement.

Now, I wanted to bring out what wasn't brought out here before, that the average of the new weekly and industrial policies written by our agencies currently this year is 1.75 per agent per week. We fail to see how there is any indication of pressure, high, low, or otherwise, in an average production per agent of one and three-quarters policies a week.

Acting Chairman O'CONNELL. I don't think it indicates one thing one way or the other.

Mr. LINCOLN. With your permission I would like to have it in the record; and the average premium on our new weekly industrial policies, if we may put it in the record, is about 36½ cents per week.

One thing more: You will understand, although I don't believe it was brought out orally here, that under our agency contract the agent receives no commission at all on the business which he writes, the industrial business, unless it persists through the year. In other words, his compensation for what you call putting the policy on the books is determined by its persistency through the year. We call it the first-year commission.

Mr. GESELL. Am I correct, Mr. Lincoln, that in the main the form of your agency contract is similar to that of the Prudential?

Mr. LINCOLN. I am not able to say.

Mr. GESELL. I didn't go into some of the details because we had rather a long session here going into the Prudential contract.

Mr. LINCOLN. I can't say. That is easily verified. I don't know whether it is true or not.

Did you want to hear from Vice President Taylor?

Acting Chairman O'CONNELL. I would like to ask you one more question: Yesterday you were asked what the average term of service of your agents was.¹

Mr. LINCOLN. I brought that out this morning. On the agents themselves, not counting managers and assistant managers, the average term of service is slightly over 6 years.

¹ Supra, p. 5850. Also "Exhibit No. 1730," appendix, p. 6359.

Mr. GESELL. Mr. Lincoln is to advise us as to what period that covers, what basis of experience that covers.

Mr. LINCOLN. That is taken as of March 1, 1937, and covers every agent in the service; whether he has been there 30 or 40 years or 30 days, the average is 6 years.

Mr. GESELL. I was looking for a figure which will show us the total number of years divided by the number of agents that came in and the number who stayed.

Mr. LINCOLN. That must be it, as of a given date, I should think. I didn't make up the figure.

Mr. GESELL. We can work out such an arrangement with you.

Mr. LINCOLN. We will be glad to work it out.

Mr. O'BRIAN. I don't think we have that now.

Mr. GESELL. We can work that out with your representative.

Mr. LINCOLN. Do you want to hear Mr. Taylor?

Mr. GESELL. I have no further questions of this witness.

Mr. LINCOLN. Mr. Taylor is here and he can tell you the story of that endowment legislation.

Acting Chairman O'CONNELL. Let's have Mr. Taylor just for a few moments.

(The witness, Mr. Lincoln, was excused.)

Acting Chairman O'CONNELL. Will you hold up your right hand? Will you solemnly swear the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. TAYLOR. I do.

**TESTIMONY OF CHARLES G. TAYLOR, JR., SECOND VICE PRESIDENT,
METROPOLITAN LIFE INSURANCE CO., NEW YORK, N. Y.**

Mr. GESELL. What is your full name, please, sir?

Mr. TAYLOR. Charles G. Taylor, Jr.

Mr. GESELL. Mr. Taylor, would you be good enough, in the next 10 minutes, to tell us the story with respect to the recent legislation in New York on endowment insurance, presenting for the committee both the arguments pro and con with respect to that legislation?

Mr. TAYLOR. Well, one side of that can be disposed of quite easily. It was one of those peculiar bills where no arguments were made pro. The history of the bill is rather unusual. It was presented in the senate and reported out of the senate committee without a hearing. On request we got a hearing, the hearing composed of the now deceased chairman of the committee sitting and signing papers during the whole of the discussion. We did have a hearing in the house.

I don't remember now whether the bill was actually acted upon by the insurance committee of the house, but it got into the hopper, in the last days. We were led to believe by some in touch with the bill that it probably wouldn't pass, but it did pass. There was no proponent of the bill that appeared at any time.

Acting Chairman O'CONNELL. Someone introduced the bill, and I take it a majority of both houses of the legislature voted in favor of the bill, so there must have been somebody behind it.

Mr. TAYLOR. As a practical legislator, if you have ever been in the legislature I don't know, you know there are many bills that go through the legislative assemblies, of the States particularly, more or less automatically. If they get out of the committee, they get on the calendar, and if there is no opposition, they fly along, and we didn't make any opposition on the floor.

Acting Chairman O'CONNELL. Did the insurance commissioner of the State of New York take any position as regards the legislation?

Mr. TAYLOR. He was not particularly favorable to that bill.

Acting Chairman O'CONNELL. Was he asked to report on the bill, do you know?

Mr. TAYLOR. Not so far as I know.

Acting Chairman O'CONNELL. Then you don't know whether he took a definite position in favor of or against the legislation?

Mr. TAYLOR. I don't think he did. There was a good deal of discussion and acrimony going on between certain individuals and a good deal of insurance discussion at that time, and I think he was avoiding getting in the picture any more than he had to.

Mr. GESELL. Do I understand from what you say, Mr. Taylor, that there was no real bona fide interest in the bill at all?

Mr. TAYLOR. Yes, sir.

Mr. GESELL. The insurance department has taken this position since its enactment, has it not?

Mr. TAYLOR. That is not the story. You didn't ask me that.

Acting Chairman O'CONNELL. He's asking you now.

Mr. GESELL. Reading from this statement by Mr. Pink of his recommendations to the legislative committee on endowments, he states:

The Department was not entirely convinced that the law enacted the last session of the legislature preventing the writing of industrial endowment insurance was in the right direction.

We recognize and have called attention to the fact that entirely too much endowment insurance has been written particularly on the lives of children. On the other hand, to entirely prohibit it seems somewhat arbitrary and paternalistic. Those who buy ordinary insurance are permitted to exercise their discretion and choose the kind of insurance they want. There seems to be no sufficient reason for telling the poor man that he can only choose certain types irrespective of his own desires. While it may be that this legislation has gone too far, the law was intended to correct an obvious maladjustment in the distribution of family income. Its enactment was aided by the fact that there was a larger loss due to lapses under endowment than under life policies. We, therefore, favor the continuance of this law for the present experiment. The law is on the books, and it should be thoroughly tried before any amendment is made.

That would indicate that there was at least some reason for the enactment of this piece of legislation. I didn't get it from your testimony.

Mr. TAYLOR. Well, you asked me, sir, and I am trying to give you frankly what happened.

Acting Chairman O'CONNELL. I wanted to develop with you, if I could, what the motivations were, what the reasons were that the legislation was enacted in so far as you knew them.

Mr. TAYLOR. I couldn't give you the reasons because nobody ever presented them.

Acting Chairman O'CONNELL. At least it is apparent that there was and probably still is a school of thought that felt that endowment

insurance in the industrial field—that too much has been written and that the losses are so great that it is socially undesirable, and that that at least is one of the motives behind that legislation. Isn't that a fair statement?

Mr. TAYLOR. Well, of course Mr. Pink says in that report practically that he wouldn't have advocated the passing of the bill. We have taken our own steps. There are some objections to 15-year endowments on the industrial plan. We used to sell those and we cut them out. We have taken our own steps before the legislation to cure the situation.

Mr. GESELL. Can you tell us, then, Mr. Taylor, why your company objected to the enactment of this legislation? That is something within your own knowledge.

Mr. TAYLOR. Yes; we objected to it because we thought it was very undesirable to deny the man who could buy only a small amount of industrial insurance and could pay for it by weekly payments the opportunity to do what his more fortunate fellow-citizens could do. Now there are those who argue theoretically about some social disadvantage. However, if you interpret the word "social" as against the purchase of endowment insurance by people in the industrial ranks or classes; on the other hand, those who have had practical experience in the business know that great advantage does come from endowments; we have in our files letters from people who advise us of the advantages of their maturing endowments.

I had presented to the legislative committee in the argument in opposition to the bill under discussion, a letter from a man whose income I suppose must at least have been six or seven thousand dollars a year. When he heard about this excitement—there was some discussion in one of the New York papers about the same thing—he wrote me about a full page letter to say that his wife, unknown to him, had purchased two endowment policies on the children when they were young, if he had known anything about it he would have opposed it, but she paid the premiums out of money that she wouldn't have saved in any other way. These policies were about to mature, and he was a great advocate of endowment insurance and thought it ought to be permitted.

Mr. GESELL. Of course it is a little like this argument of whether we should have a national sweepstakes, isn't it? Those people who always hit the jack-pot are always for it.

Mr. TAYLOR. I wouldn't compare it to the national sweepstakes because there is no such element as that in it. Everybody can go through with it if they will or are able to do it.

Mr. GESELL. A very small percentage of the endowment policies mature.

Mr. TAYLOR. No; a considerable percentage of endowment policies go through to maturity or to cash-surrender values.

Mr. GESELL. It was 28 percent on the 1910 issue, wasn't it?

Mr. TAYLOR. I think that is the figure, Mr. Gesell, but that 28 percent is people who get something and in the sweepstakes it is one in a million, so I think that is a very unfair comparison. Furthermore, there are a great many people who surrender their endowments for their cash values. During this period of the depression, you can take the testimony of the former chief examiner of the New York Insurance Department who in writing some of his remi-

niscenses stated that thousands of people who had come in to him in the insurance department about their insurance questions during the depression admitted that if it hadn't been for the endowment industrial policy they had they wouldn't have had any accumulation of money and they had funds that were of very great advantage to them in the time of stress which they wouldn't have had any other way.

Mr. GESELL. I think the 10 minutes is up.

Acting Chairman O'CONNELL. Thank you.

Mr. GESELL. I am afraid our other program won't permit any longer testimony.

The next witness is Mr. Gerhard, of the Prudential. With your permission, Mr. Cardozo will examine him.

**TESTIMONY OF F. BRUCE GERHARD, SECOND VICE PRESIDENT
AND ASSOCIATE ACTUARY, PRUDENTIAL INSURANCE CO., OF
AMERICA**

PRUDENTIAL INSURANCE CO.—ACTUARIAL STUDIES

Acting Chairman O'CONNELL. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GERHARD. I do.

Mr. CARDOZO. Will you state your full name for the record.

Mr. GERHARD. F. Bruce Gerhard.

Mr. CARDOZO. You are connected with the Prudential Insurance Co. of America?

Mr. GERHARD. Second vice president and associate actuary.

Mr. CARDOZO. Are you connected principally with the industrial department or with the ordinary department?

Mr. GERHARD. With both.

Mr. CARDOZO. How long have you been with the company?

Mr. GERHARD. A little over 10 years.

Mr. CARDOZO. I have two tables here which I should like you to identify. They show the distribution of policies in force in the Prudential in the industrial department?

Mr. GERHARD. They do.

Mr. CARDOZO. And the amounts of insurance?

Mr. GERHARD. Right.

Mr. CARDOZO. Does the Prudential still have any policies in force which were issued in the first year in which it wrote industrial insurance?

Mr. GERHARD. Yes, it does; three policies are still in force of the issue of 1875.

Mr. CARDOZO. Are those necessarily premium-paying policies?

Mr. GERHARD. Well, they may be or they may be paid up under the age 75 concession, I am not sure which.

Mr. CARDOZO. How many policies are there now in force or as of December 31, 1938, in the Prudential industrial department? I think that is shown on another page.

Mr. GERHARD. You mean including the paid-up policies and extended term?

Mr. CARDOZO. How many premium-paying?

Mr. GERHARD. 21,863,818.

Mr. CARDOZO. How many on the paid-up basis?

Mr. GERHARD. The nonforfeiture paid up, 795,575; and those paid up by disability, 36,892.

Mr. CARDOZO. Does that figure of 795,575 represent policies which have become paid up because of the exercise of an option by the insured?

Mr. GERHARD. That is right.

Mr. CARDOZO. And how many policies are there on extended term and paid-up insurance?

Mr. GERHARD. 3,375,557.

Mr. CARDOZO. Do they represent policies which have become automatically paid up?

Mr. GERHARD. That is right.

Mr. CARDOZO. What is the amount of industrial insurance now in force as of this date?

Mr. GERHARD. Total amount is \$7,100,461,694.

Mr. CARDOZO. I should like to enter those tables.

Acting Chairman O'CONNELL. They may be admitted.

(The tables referred to were marked "Exhibit No. 1000" and are included in the appendix on p. 6272.)

Mr. CARDOZO. Do you recognize this table as showing the monthly premium industrial policies now in force, or as of that date?

Mr. GERHARD. I do.

(The vice chairman, Representative Casey, took the chair.)

Mr. CARDOZO. How many monthly premium industrial policies are there now in force?

Mr. GERHARD. As of the end of the year, 1,035,871.

Mr. CARDOZO. That is as of December 31, 1938.

Mr. GERHARD. That is right.

Mr. CARDOZO. I should like to offer this table in evidence.

The VICE CHAIRMAN. It may be admitted.

(The table referred to was marked "Exhibit No. 1001" and is included in the appendix on p. 6274.)

Mr. CARDOZO. Do you recognize this table?

Mr. GERHARD. I do.

Mr. CARDOZO. What does that show?

Mr. GERHARD. This shows a distribution of number of policies, number of industrial policies, by individual ages up to age nine, inclusive, and by age groups for the adult ages, and for various years.

Mr. CARDOZO. Does this show that more industrial policies on the weekly premium plan are issued at age one or have been in the last few years than at any other age?

Mr. GERHARD. That is right.

Mr. CARDOZO. Would you say that there are more industrial weekly premium policies issued under age 10 in the Prudential than at any other group of 10 years of ages?

Mr. GERHARD. Yes.

Mr. CARDOZO. I offer that for the record.

The VICE CHAIRMAN. It may be admitted.

(The table referred to was marked "Exhibit No. 1002" and is included in the appendix on p. 6275.)

Mr. CARDOZO. Do you recognize this table?

Mr. GERHARD. I do.

Mr. CARDOZO. Does this table show an analysis of the industrial receipts, disbursements, and so forth, for the 12 months ending December 31, 1937, and for the 12 months ending December 31, 1938, in the industrial department?

Mr. GERHARD. Yes.

Mr. CARDOZO. I notice that according to this the total expenses of the Prudential appear to be 24.33 percent of the income in 1937 and 25.28 percent of the income in 1938. Is that a correct figure?

Mr. GERHARD. That is a correct figure, and it does include all of the expenses, including investment expenses, which are the result of the investment operations of the company, and including the expenses of our field offices to administer mortgage loans.

Mr. CARDOZO. Are those figures not usually included in total expenses?

Mr. GERHARD. They would be included in total expenses, but I believe that most companies operate on a different basis, using a commission basis by which there is an interest differential, so that they wouldn't have these expenses.

Mr. CARDOZO. It would appear as less income.

Mr. GERHARD. It would appear as less income.

Mr. CARDOZO. Is there any particular comment you would like to make about this statement?

Mr. GERHARD. No; I think not.

Mr. CARDOZO. I will introduce that in the record.

The VICE CHAIRMAN. It may be admitted.

(The table referred to was marked "Exhibit No. 1003" and is included in the appendix on p. 6275.)

Mr. CARDOZO. Do you recognize this as a table showing the number of policies issued during 1938 to 1939, according to plans of insurance and months of issue?

Mr. GERHARD. I do.

Mr. CARDOZO. Does this table show that there has been less industrial insurance sold in 1939 than in 1938, during the first 6 months?

Mr. GERHARD. Yes.

Mr. CARDOZO. Do you attribute that to the change from writing endowment insurance to not writing endowment insurance?

Mr. GERHARD. I would say that is a very important factor.

Mr. CARDOZO. Has there been more or less adult ordinary endowment insurance sold in 1939 than in 1938?

Mr. GERHARD. Adult ordinary endowment insurance—there has been less.

Mr. CARDOZO. And has there been more or less infantile ordinary endowment insurance sold?

Mr. GERHARD. Well, there has been more because we didn't sell any infantile endowment insurance in 1938.

Mr. CARDOZO. Did you start writing monthly debit ordinary and regular ordinary infantile policies this year?

Mr. GERHARD. Monthly debit ordinary policies have been issued since 1936, but the new infantile ordinary policy was introduced for the first time this year.

Mr. CARDOZO. Did you introduce that partly because of the change from endowment insurance to not writing endowment insurance?

Mr. GERHARD. Yes; in other words, we thought there were families with substantial incomes who desired endowment insurance on their

children and who were perfectly able to pay for them and they should have the opportunity to apply for that kind of insurance.

Mr. CARDOZO. Have you had more ordinary insurance sold this year than you had last year?

Mr. GERHARD. We have had more ordinary insurance sold through our industrial agency staff.

Mr. CARDOZO. You have agents who write only ordinary insurance?

Mr. GERHARD. We have.

Mr. CARDOZO. And have they written more ordinary insurance this year?

Mr. GERHARD. They have written less.

Mr. CARDOZO. And your agents who wrote both industrial and ordinary insurance have written more ordinary insurance this year?

Mr. GERHARD. They have written more ordinary insurance, substantially more.

Mr. CARDOZO. Do you attribute that to their not writing any industrial endowment insurance?

Mr. GERHARD. I think that is a very important reason, probably the reason. In other words, they had to do what they could to keep up their income, and their activities were shifted over to a considerable extent to the ordinary field.

Mr. CARDOZO. And is ordinary insurance sold by those agents less expensive than industrial insurance?

Mr. GERHARD. Yes.

Mr. CARDOZO. Is your company writing endowment insurance anywhere in the country now?

Mr. GERHARD. You mean industrial endowment insurance—no.

Mr. CARDOZO. Do you feel you would like to write endowment insurance in the industrial department?

Mr. GERHARD. Well, we are very glad to continue the experiment of not writing endowment insurance in the industrial department, an experiment which was forced upon us by the Legislature in New York. That is, it was forced upon us as far as New York was concerned and then we thought that we would try the experiment throughout the entire country which we have during this year and we would be very glad to continue that.

Mr. CARDOZO. Do you feel that endowment insurance doesn't entirely fulfill the purpose of industrial insurance?

Mr. GERHARD. I would say this, that the prohibition of endowments is we feel of some aid in getting the agents to put the insurance in the families where most of it belongs. In other words, we get a better distribution with the prohibition of endowments.

Mr. CARDOZO. You find that there was some demand among families to put endowment insurance on the children?

Mr. GERHARD. Oh, yes; our operations have always indicated the demand, and the report of the field survey of the New York Insurance Department, referred to previously, I think confirms that very definitely.

Mr. O'CONNELL. Did your company take any active part in connection with that legislation in New York? Did you oppose it?

Mr. GERHARD. We opposed it at the time it was first proposed because we felt it was legislation of an extreme type and that these people did desire endowments and that they should have the right to apply for them.

Mr. O'CONNELL. But if I understand you correctly, since the legislation was passed, although it applies only in the State of New York your company is applying that rule throughout the country.

Mr. GERHARD. That is right. In other words, as long as we are forced to it in New York, we felt that we would take advantage of that by extending it throughout the country and seeing just how it worked.

Mr. CARDOZO. Do you find that the results are satisfactory?

Mr. GERHARD. I would say so, yes; as demonstrated by this schedule here which shows a larger amount of intermediate insurance written and a larger amount of ordinary.

Mr. CARDOZO. And if for any reason the Metropolitan should start to write industrial endowment insurance next year, what would your company do?

Mr. GERHARD. Well, of course, we would be at a very serious disadvantage competitively, and while I am not in a position to state now what we would do, I think it is quite probable that we would have to follow for competitive reasons.

The VICE CHAIRMAN. Would you say that the legislation enacted in the State of New York was less harmful than you anticipated?

Mr. GERHARD. I think that would be a fair statement.

Mr. CARDOZO. Have you made a special study of the relative costs of industrial and ordinary insurance, as shown by this document?

Mr. GERHARD. Yes; that is right.

Mr. CARDOZO. You have stated that ordinary insurance does not cost as much as industrial insurance. Can you describe what you did in making up this special study?

Mr. GERHARD. Well, this was a study made to try to break down the difference in costs into their component parts, with particular reference to trying to show how much of it was due to the higher mortality which comes from the fact that the industrial insurance is offered on a much broader basis, and offered to a very wide group of the population, and is not selected anywhere nearly as severely as the ordinary. That was one phase of the calculation, to bring out how much of the additional cost was due to that, and then how much was due to the higher expense rate, breaking that down into component parts of commissions, taxes, and all other expenses.

In doing this, we used in every case our best estimate of our own experience; that is to say, in using the mortality we used our own recent mortality experience on industrial policies.

Mr. CARDOZO. That is, you didn't just use the premium rates that are current, but you used rates that you felt reflected present mortality experience.

Mr. GERHARD. Absolutely; and the same as far as expenses were concerned. The figures are based upon a very careful analysis of the actual expenses of the company.

Mr. CARDOZO. I would like to call your attention to table A in this study.¹ Would you describe what the three columns there show. The one headed "Net level premiums per \$1,000 insurance," what does that show?

Mr. GERHARD. The column headed "Net level premium per \$1,000 insurance" gives the annual cost of the insurance without any loading for expenses whatever.

¹ See "Exhibit No. 1004," appendix, p. 6277, at p. 6278.

Mr. CARDOZO. In other words, this just reflects the mortality element?

Mr. GERHARD. That is right.

Mr. CARDOZO. And on the policies under "life plan, premiums ceasing at age 70," at age 20, for instance, I see that the net level premium for ordinary would be \$9.61 and for industrial \$10.81, and that reflects the difference in mortality?

Mr. GERHARD. Exactly.

Mr. CARDOZO. When you go down to 20-year endowment at age 20, the net level premium for ordinary is \$35.71, for industrial \$36.64. That also just reflects the difference in mortality.

Mr. GERHARD. Yes; and, of course, in the case of endowment the difference is very slight because of the accumulation of a relatively large reserve there is a much smaller amount of risk today.

Mr. CARDOZO. And the mortality element is of less consequence.

Mr. GERHARD. Exactly.

Mr. CARDOZO. Would you describe what the other two columns represent?

Mr. GERHARD. The next column, called "Gross hypothetical premium per \$1,000 insurance," represents the premium that we would have to charge in accordance with the company's own experience now, loaded for our actual expenses, if our expenses in the future were just exactly as they were in the year 1937 when this analysis was made, so that we would be able just exactly to mature our contracts without any contribution to surplus or payment of any dividends.

Mr. CARDOZO. And what is the column, "Tabular premium per \$1,000 insurance"?

Mr. GERHARD. That is the actual premium being charged by the company.

Mr. CARDOZO. And that in all cases is slightly higher than the gross hypothetical premium?

Mr. GERHARD. Exactly.

Mr. CARDOZO. I would like to turn over to table B.¹ Under the column headed "Life—Premiums cease at 70," in the industrial department, can you pick out the items that show that industrial insurance costs more than ordinary insurance? For instance, I refer you to item 3, "Expenses: Commissions." At age 20 in the industrial department that is how much?

Mr. GERHARD. \$3.07.

Mr. CARDOZO. And in the ordinary department?

Mr. GERHARD. Eighty-four cents.

Mr. CARDOZO. And that reflects the difference in collection commissions?

Mr. GERHARD. Very largely it is due to the difference in collection commissions.

Mr. CARDOZO. And the item immediately above that in both of those sections under industrial is \$10.81, is it not?

Mr. GERHARD. That is right.

Mr. CARDOZO. And in the ordinary that is \$9.61.

Mr. GERHARD. And that is again just a restatement of the premium for the insurance benefit alone.

¹ See "Exhibit No. 1004," appendix, p. 6277, at p. 6278.

Mr. CARDOZO. That reflects the mortality?

Mr. GERHARD. The mortality.

Mr. CARDOZO. Are there any other principal differences between the expenses of industrial and ordinary insurance as shown by this study?

Mr. GERHARD. No; I think the study shows that the other items of expense do not vary materially as between industrial and ordinary. In building up the total cost we have in the industrial department included our benefit for specific disabilities, loss of limbs or eyesight, and also the accidental death benefit, because they are granted without extra premium charge. In the ordinary department we have also included a waiver of premium benefit which is included without any extra premium charge, and for the accidental death benefit for which a specific premium is charged, we have nothing.

Mr. CARDOZO. I would like to call your attention to table D¹ which is the 20-year endowment policy. Are the expenses for commissions relatively just as much higher in the industrial department as they are in the ordinary department, as they were in the case of life paid up at 70?

Mr. GERHARD. Yes; they are.

Mr. CARDOZO. Both of these are for \$1,000 of insurance, are they not, the endowment and the whole life?

Mr. GERHARD. That is right.

Mr. CARDOZO. And for a policy on the life plan paid up at 70, at age 20 the industrial expenses for commissions were \$3.07, were they not—age 20, table B?

Mr. GERHARD. Oh, B, age 20—

Mr. CARDOZO. Expenses for commissions.

Mr. GERHARD. \$3.07, that is right.

Mr. CARDOZO. And what was the expense for commissions on the 20-year endowment plan in the industrial department at the same age?

Mr. GERHARD. \$8.06.

Mr. CARDOZO. Is there any other comment you would like to make on this study?

Mr. GERHARD. No; I believe not.

Mr. CARDOZO. I would like to put that in the record, please.

The VICE CHAIRMAN. It may be admitted.

(The documents referred to were marked "Exhibit No. 1004" and are included in the appendix on p. 6277.)

Mr. CARDOZO. I would like now to refer to the industrial policies currently being issued and those that have been issued in the past few years. In 1934 I understand you adopted some new policy forms. Could you tell us what were the principal changes that were put into the form in that year?

Mr. GERHARD. In 1934?

Mr. CARDOZO. Yes. Was that the year in which you started to give new nonforfeiture values? Was that done by concession?

Mr. GERHARD. That was done by concession. On December 31, 1934, by concession of the company, it was provided that in the case of policies terminating before three full years' premiums had been paid; there would be a special extended insurance benefit equal to 1 week for every 3 weeks of premiums paid on life policies, with

¹ "Exhibit No. 1004", appendix, p. 6277, at p. 6280.

two minor exceptions at very young ages where I believe it was 4 and 5 weeks in two specific instances, and 1 week of extension for every 2 weeks of premiums paid on endowment policies. That was incorporated in our new issue of policies in 1937.

Mr. CARDOZO. Did you make any other changes in the 1937 policies?

Mr. GERHARD. Yes; we did.

Mr. CARDOZO. What were they?

Mr. GERHARD. Well, the principal changes were that the application was made a part of the contract and a copy of the application was attached to the contract. Provision was made for naming the beneficiary and giving the insured the right to change the beneficiary.

Mr. CARDOZO. Was the beneficiary to be named in the policy itself?

Mr. GERHARD. If the insured desired, but it was not required.

Mr. CARDOZO. Were there any other changes in that year?

Mr. GERHARD. Yes; the basis of premiums was changed to what we call the modified principle under which the net premium and the gross premium increase by 20 percent after 5 years, and under which it was further provided that dividends were to be used to postpone this period of increase.

Mr. CARDOZO. Previous to that, how did you pay your dividends in the industrial department?

Mr. GERHARD. Paid-up additions to the sum insured.

Mr. CARDOZO. Was that system of paying dividends stated in the policy itself?

Mr. GERHARD. Yes; and by the way, these policies issued in 1937 provided for the payment of paid-up additions as well; that is to say, both forms of dividends were provided.

Mr. CARDOZO. Only part of the dividends was to be used to apply on the premium?

Mr. GERHARD. That is right.

Mr. CARDOZO. Did you have any other change in that year?

Mr. GERHARD. As I mentioned, this special extended insurance was included in the policy.

Mr. CARDOZO. Didn't you have a provision also to pay 47 weeks' premiums at the home office?

Mr. GERHARD. That is right; with a credit for 1 year's premiums given for payment of 47 weeks' premiums in advance.

Mr. CARDOZO. Was that made retroactive?

Mr. GERHARD. It was.

Mr. CARDOZO. Do you have any other principal change you would like to mention in the 1937 policies?

Mr. GERHARD. The nonforfeiture values in the policy were calculated by applying to the industrial reserve the same formula that was applied to the ordinary reserve to get the nonforfeiture values in the ordinary policy.

Mr. CARDOZO. Did that liberalize the benefits?

Mr. GERHARD. It liberalized them somewhat in the earlier years and provided for a surrender charge at 20 years and thereafter which had not previously been in effect.

Mr. CARDOZO. And in the 1939 edition what change did you make?

Mr. GERHARD. In the 1939 edition a definite space was provided in the policy for the naming of the beneficiary.

Mr. CARDOZO. Did you make any change in the facility of payment clause at the same time?

Mr. GERHARD. Yes. The facility of payment clause was changed to provide that if the beneficiary was the estate of the insured, or if the beneficiary named in the policy did not make claim and give a valid release within 60 days, or died before the insured, the company could pay the amount of insurance under the policy to a relative who was equitably entitled to the proceeds.

Mr. CARDOZO. What other provision was added to the 1939 policy?

Mr. GERHARD. A provision by which it was agreed that a 10-percent refund of premiums would be made at the end of each year for direct, continuous payment of premiums to an office of the company.

Mr. CARDOZO. Did you make that retroactive to other policies?

Mr. GERHARD. No; that was not made retroactive.

Mr. CARDOZO. That is only 10 percent, and I understand the agents receive, some of them, 15 percent, and some 12 percent for collection commissions. Why is it that you don't give the full differential?

Mr. GERHARD. There are substantial field expenses in connection with these policies where the premiums are paid direct to the office. There are records that have to be kept, there must be a receipt for the premium, and there must be general service rendered the policyholders which is otherwise rendered by the agents, and our researches indicate, so far as we have had experience with this benefit, that these incidental services amount to at least 2 percent of the premium, if not more, and of course our current contracts for a good many years have provided for a collection commission of 12 percent or thereabouts.

Mr. CARDOZO. Going back to the 1934 and '35 changes, prior to that time how long did premiums have to be paid before a nonforfeiture benefit was available according to the contract?

Mr. GERHARD. Three years.

Mr. CARDOZO. At that time was there any change in the method of conducting the business that justified giving nonforfeiture benefits earlier than after 3 years' premiums had been paid?

Mr. GERHARD. There had been over a period of years an improvement in the earnings on industrial policies due to an improvement in mortality, and also a reduction in the expense, and this improvement in earnings made possible the granting of various increased benefits, and this extended insurance was just one of the series. It was felt that it was no more than right that a policyholder who had paid his premiums for an appreciable time, but less than 3 years, should get some nonforfeiture benefit, and the particular rule involved was considered a convenient rule and one that could be readily applied and would give some benefit to pretty nearly every policyholder who discontinued before the end of 3 years.

Mr. CARDOZO. Are there certain expenses in the industrial department which you consider first-year expenses and acquisition costs?

Mr. GERHARD. Yes.

Mr. CARDOZO. Do you feel that they use up part of the reserve so that it is not justified to pay the full reserve?

Mr. GERHARD. Certainly.

Mr. CARDOZO. Until premiums have been paid for perhaps 3 years?

Mr. GERHARD. Or a longer time.

Mr. CARDOZO. But you do give some of the reserve as a nonforfeiture value earlier?

Mr. GERHARD. That is right.

Mr. CARDOZO. And therefore those expenses are paid by whom in case the policy goes into one of these nonforfeiture benefits?

Mr. GERHARD. We try to keep our nonforfeiture benefits within the actual accumulation under the policy. In other words, the amount of money received, accumulated, and charged with the expense and the mortality is less than the reserve for a considerable period.

Mr. CARDOZO. Do you pay nonforfeiture benefits on some of those policies if they terminate before the full amount has been paid in enough to pay the expenses? Perhaps I didn't word that right. Do you pay nonforfeiture benefits in some cases before the policyholder has paid in enough to pay all the expenses on his policy?

Mr. GERHARD. I think that would be true in some instances where this special extended insurance is granted after the payment of just a few premiums.

Mr. CARDOZO. And then the expenses on that person's policy are paid by whom?

Mr. GERHARD. Well, the expenses are charged against the industrial business as a whole.

Mr. CARDOZO. The other policyholders, the persisting policyholders, pay those expenses?

Mr. GERHARD. Just the same as the cost of the grace period is also charged against the policyholders as a whole.

Mr. CARDOZO. So that under some circumstances you do feel that it is justified to have the persisting or other body of policyholders pay some of the expenses for a discontinuing policyholder?

Mr. GERHARD. I would say provided it is a very small amount. Of course, this extended insurance in those cases where only a few weeks' premiums have been paid really costs very little because the life has just been insured and he must be in reasonably good health, and our mortality in the first year under industrial insurance is considerably lower than after that, so that the actual cost of paying the extended insurance in the case of policies which terminate for nonpayment of premiums shortly after issue is very small indeed.

Mr. CARDOZO. I see. But now, if a policyholder stops paying premiums after the policy has been in force for any time after 3 years, you still do not give him the full reserve as a surrender value, I understand.

Mr. GERHARD. We do not.

Mr. CARDOZO. You don't even after 20 years' premiums have been paid?

Mr. GERHARD. That is right.

Mr. CARDOZO. That in effect is a surrender charge.

Mr. GERHARD. That is right.

Mr. CARDOZO. Will you tell us on what you base a surrender charge, on what grounds you make a surrender charge?

Mr. GERHARD. In the very long durations, as for instance after 20 years, the amount of accumulation under the policy is in ordinary times as great or greater than the reserve value. There are, however, several things that have to be taken into account when it comes to the payment of these nonforfeiture values. We had that brought home to us very definitely during the very difficult times in the spring of 1933 when there was a tremendous cash drain on the life-insurance

companies. They were very much like a bank on which there is a run, and it indicated that it was quite possible that in a similar occurrence in the future, if things got a little worse, we might have to sell securities. Now if we had to sell securities at panic prices, it is quite evident that a very substantial loss would be involved to the body of policyholders who continued their policies, and we felt that it was only right that the people who do surrender, or who do forfeit their policy by nonpayment of premium, should before they are given the nonforfeiture value have charged against the reserve something to take care of this possible depreciation in time of emergency.

And there is another aspect to this, which is that the very fact that we may have this run sometime in the future means that we have to keep our securities in a more liquid condition than would otherwise be necessary, and when you consider that the policies run for a period of many years—a policy issued at one year can run on a premium-paying basis up to age 70 and still be in force after that until 96—we feel that we have to provide for contingencies far into the future, and that this sacrifice of a certain amount of interest earnings because of the right of withdrawal of cash is something that the policyholders who withdraw should defray.

Mr. CARDOZO. And they defray it in part out of the reserves.

Mr. GERHARD. Out of the surrender charge made against the reserves.

Mr. CARDOZO. Now, have you changed from a 3.5-percent basis on your reserves to a 3.25-percent basis in recent years?

Mr. GERHARD. We have, in 1937.

Mr. CARDOZO. Your older policies pay surrender values, as I understand it, on a 3.5 percent basis.

Mr. GERHARD. On the basis provided in the policy.

Mr. CARDOZO. When you went on a 3.25-percent basis, what was the effect on your aggregate reserves?

Mr. GERHARD. It increased the aggregate reserves.

Mr. CARDOZO. And could you have brought about the same effect in a different way, in other words, accumulating a larger surplus, for instance, without changing to a 3.25-percent basis?

Mr. GERHARD. You mean, could we have increased our surplus by the amount represented by the difference between the reserves on the 3.25-percent basis and on the 3.5-percent basis? Obviously we could have.

Mr. CARDOZO. And would the effect on the policy-holders have been the same?

Mr. GERHARD. It would have been practically the same as what we did, except that we feel that in view of the very severe shrinkage in interest rates and the possibility of these low interest rates continuing into the future, and perhaps even there being a further shrinkage, that these reserves should be put on a basis which more nearly reflects a very conservative estimate of our interest earnings, and that it is better to have it expressed in the reserve under the policy, rather than the present surplus.

Mr. CARDOZO. That is the reason that you did it that way, rather than doing it in the other way?

Mr. GERHARD. That is the reason.

Mr. CARDOZO. Now, I would like to go back to this change that you put into effect which puts the industrial policies on a modified basis.

Policies are now issued with premiums, as I understand it, that are supposed to rise 20 percent after 5 years.

Mr. GERHARD. Yes.

Mr. CARDOZO. Do you expect that that premium will rise?

Mr. GERHARD. We do not.

Mr. CARDOZO. Have you had any experience on those policies yet?

Mr. GERHARD. We have none that have run 5 years. Of course we have the experience of our earnings in our industrial department, which have been carefully analyzed over a long period of years.

Mr. CARDOZO. So you assume that if your earnings continue as they have, those premiums will not rise?

Mr. GERHARD. Yes; we have a very considerable margin; that is to say the earnings could be reduced somewhat and still the premiums would not rise. There is a margin there, and the margin, if it continues, will be used to buy paid-up additions.

Mr. CARDOZO. What has been the effect of putting the policies out on this basis?

Mr. GERHARD. It has made it possible to grant a considerable increase in the initial benefit per premium unit paid. To put it another way, it has made it possible to grant a larger amount of insurance for the same premium.

Mr. CARDOZO. In other words, if a policyholder wanted a policy for \$250, whereas previously he might have to pay, say 20 cents a week, he would now pay 20 percent less than that?

Mr. GERHARD. Well, it wouldn't necessarily be 20 percent. That is, the difference in benefits isn't exactly the same as the difference in premiums. It varies, but it runs somewhere around 12 or 15 percent increase in benefits, as compared with the previous benefits.

Mr. CARDOZO. And a policyholder who stopped paying premiums within the first 3 or 4 years would have paid in less for the same amount of protection, excluding the nonforfeiture benefits, than the policyholder under the old system?

Mr. GERHARD. That's it exactly. In other words, it evens out somewhat the amount of insurance protection. Where all of the earnings were used to buy paid-up additions to the insurance, the amount of insurance increased very considerably in the later years, and this modified plan makes it possible to grant more in the beginning, and as a result of that there will be much less steep increases in the insurance in the future.

Mr. CARDOZO. And under your present plan a policyholder who stopped paying premiums within the first 3 years would not only get a larger amount of protection per premium unit, but would also now receive some extended insurance, so that he would have got more coverage for the same amount of money paid in as he would have paid under the old policies for less coverage?

Mr. GERHARD. Yes. Of course the extended insurance benefit, however, under 3 years, was applied to all our policies. In other words, for instance at the time that this was introduced we had policies which were on the old plan and which provided the same extended insurance benefit as was in the new policies.

Mr. CARDOZO. I was referring to the policyholders taking out policies now.

Mr. GERHARD. Yes; they are better off, to a considerable extent.

Mr. CARDOZO. Could you tell us what would be the effect of using a different mortality table? You are using the standard industrial table for valuing your reserves and nonforfeiture benefits now, aren't you?

Mr. GERHARD. We are.

Mr. CARDOZO. If you started to use a mortality table which reflected current industrial mortality, what would be the effect on your aggregate reserves?

Mr. GERHARD. Well, it is very hard to say. We have made a number of experiments, and the reserves in some instances would be lowered and in some instances would be higher.

Mr. CARDOZO. You mean at some ages, and on some plans—

Mr. GERHARD (interposing). And certain durations, too.

Mr. CARDOZO. And therefore it is hard to say whether the aggregate reserves would be higher or lower?

Mr. GERHARD. Yes; but I would say that the tests that we have made indicate that the aggregate reserve would probably be a little higher, but very little.

Mr. CARDOZO. Then, with respect to an individual policyholder, would he have a larger or smaller cash surrender value or would that vary according to plans and ages?

Mr. GERHARD. That would vary the same as the reserve would. In some cases it would be higher and in some lower, in the aggregate very little difference, but probably a very little higher, a couple of percent, or something like that.

Mr. CARDOZO. In the case of this extended insurance, which is the automatic benefit, is it not, under your policy, would he get a longer term of extended insurance?

Mr. GERHARD. He would get a longer term; yes.

Mr. CARDOZO. Do you think in all cases he would get a longer term of extended insurance?

Mr. GERHARD. I should say practically in all cases; yes.

Mr. CARDOZO. Then, to that extent it would be to his advantage to have a new mortality table.

Mr. GERHARD. That's right. Otherwise it would not make any appreciable difference.

Mr. CARDOZO. Can you tell why you haven't adopted a new mortality table for your new policies which you are issuing now?

Mr. GERHARD. Of course, we have adopted it in the calculations of our premiums, and the reason we haven't adopted it for valuation is that the valuation, the table that we use in valuation, is prescribed by the various State laws—the New York law, for instance.

Mr. CARDOZO. Under the New York law—excuse me, I don't want to go into the law with you just now.

Mr. GERHARD. In other words, it is a practical difficulty. We have to make our valuations on the basis of the table which is prescribed by the laws of the different States in which we operate.

Mr. CARDOZO. Yes, of course.

Do you think it has any effect on the question of unclaimed or abandoned funds in the company as to whether you use automatic paid-up insurance as your nonforfeiture benefit or automatic extended insurance as your nonforfeiture benefit?

Mr. GERHARD. Well, I don't know. I would say, though, that the longer that the benefit runs, perhaps the more likely it is for it to be overlooked.

Mr. CARDOZO. It is possible that a policyholder could have automatically paid-up insurance and lost the policy and not know anything about it?

Mr. GERHARD. Oh, yes; surely.

Mr. CARDOZO. But in the case of extended insurance, would that become unclaimed funds if he lost his policy?

Mr. GERHARD. No; that would not become unclaimed funds.

Mr. CARDOZO. It would eventually just go off the books?

Mr. GERHARD. Yes; it would eventually go off the books if the claim is not presented.

Mr. CARDOZO. Do you have a substantial amount of unclaimed funds?

Mr. GERHARD. No; we have quite a small amount. I think I can find some figures here. Of course, we have a department—

Mr. CARDOZO (interposing). I am referring to Question 6-H of the Piper committee's questionnaire.

Mr. GERHARD. Yes; that is a schedule showing our unclaimed funds. We have a special department the special function of which is to make every reasonable attempt to locate the payee in these cases where there are unclaimed funds, and this schedule shows the amounts which have been paid over a series of years as a result of the efforts of that department.

Mr. CARDOZO. From what source do most of the unclaimed funds come? Can you tell that?

Mr. GERHARD. They are mostly pure endowments on policies which were transferred to extended insurance with the pure endowment benefit, and when the endowment period has expired, so that it is quite evident some amount is payable; and also policies which have become paid-up by their terms, and on which the insured has not been located by age 96; and also cases where the policy is paid up and no word has been received from the insured after a certain age, which I think is 75.

Mr. CARDOZO. Do you think most of them come from matured endowments, either under nonforfeiture benefits or otherwise?

Mr. GERHARD. Yes.

Mr. CARDOZO. Now what is the amount as of the last date shown here of these unclaimed funds?

Mr. GERHARD. The amount of unclaimed funds is \$397,986, and there is in addition to that an amount of dividends on which the insured has not been located equal to \$506,768 as of the end of 1937.

Mr. CARDOZO. Now I would like to just take up one more question in connection with the policy form. Your current policy is incontestable one year from its date of issue, is it not, except for certain reasons?

Mr. GERHARD. That's right.

Mr. CARDOZO. This policy also can be reinstated at any time within 1 year after default in premiums, I understand. If a policy is reinstated, is there anything stated in the policy that shows whether or not it is incontestable after it has been reinstated?

Mr. GERHARD. No.

Mr. CARDOZO. Does the company contest policies on which the insured has died more than 1 year after the date of issue, but on which there has been a revival?

Mr. GERHARD. No, not in the case of industrial policies.

Mr. CARDOZO. But so far as the terms of the policies are concerned, there is nothing there that states they could not contest it, is that right?

Mr. GERHARD. That is right.

Mr. CARDOZO. I have no further questions.

The VICE CHAIRMAN. It is not clear in my own mind. After a policy has been revived your 1-year contestability clause runs as far as the strict technicalities of the contract itself are concerned?

Mr. GERHARD. After a policy has been revived—or, let's put it this way: In the application for revival no effort is made to reinstate any incontestable clause, and it is the practice of the company not to consider any contestable period after revival. In other words, by the terms of the policy it can be contested only within 1 year from its date, and that is the practice, also.

Mr. CARDOZO. You state it can be contested after it has been in force for 1 year. If it has been in force for 6 months, and the policyholder stops paying premiums, and it is revived 6 months later, and then 1 month after that, 13 months from the date of issue, the policyholder should die, the policy really has not been in force for a full year, has it?

Mr. GERHARD. Well, we consider it as far as the administration of the claim department is concerned as having been in force.

Mr. CARDOZO. But from the terms of the policy—

Mr. GERHARD (interposing). I guess from a strict interpretation it was not in force for 1 year.

The VICE CHAIRMAN. There are no further questions.

(The witness, Mr. Gerhard, was excused.)

Mr. GESELL. Mr. Van Nalts is the next witness.

The VICE CHAIRMAN. Will you hold up your right hand? Do you solemnly swear the testimony you give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. VAN NALTS. I do.

TESTIMONY OF WILLIAM W. VAN NALTS, SECRETARY, THE PRUDENTIAL INSURANCE CO. OF AMERICA, NEWARK, N. J.

ELECTION OF DIRECTORS

Mr. GESELL. Will you state your full name, please?

Mr. VAN NALTS. William W. Van Nalts.

Mr. GESELL. What is your connection with the Prudential?

Mr. VAN NALTS. I am secretary of the Prudential.

Mr. GESELL. How long have you been associated with that company?

Mr. VAN NALTS. Forty-five years last March 12.

Mr. GESELL. How long have you been secretary?

Mr. VAN NALTS. This is the ninth year.

Mr. GESELL. As one of your duties are you responsible for the conduct of the elections of directors of that company?

Mr. VAN NALTS. I am responsible for the sending out of the material, the proxies and so forth, yes.

Mr. GESELL. The Prudential was a stock company entirely up until what date?

Mr. VAN NALTS. The Prudential is a stock company now, but we started the proceedings for mutualization under the laws of 1913.

Mr. GESELL. Prior to that time the right to elect the directors rested entirely with the stockholders?

Mr. VAN NALTS. Yes; that is right.

Mr. GESELL. The company is still in process of mutualization, is that correct?

Mr. VAN NALTS. Correct.

Mr. GESELL. Can you give us some idea of what the situation is at the present time with respect to mutualization and how far it has progressed? ¹

Mr. VAN NALTS. Well, the stock of the company was 40,000 shares, and 39,415 and a fraction have been acquired for the benefit of the policyholders and lodged with the trustees for the policyholders.

Mr. GESELL. Those shares are held by how many trustees?

Mr. VAN NALTS. Two trustees.

Mr. GESELL. And they hold them for the benefit of the policyholders?

Mr. VAN NALTS. And vote them at the stockholders' meeting.

Mr. GESELL. In whom does the actual right to elect the directors rest at the present time?

Mr. VAN NALTS. The actual election is by the stockholders of the company. The directors are selected by the policyholders at a meeting held in December.

Mr. GESELL. Now let me see if I get that straight. There is a meeting of the policyholders.

Mr. VAN NALTS. A meeting of the policyholders on the first Monday in December.

Mr. GESELL. And by their meeting at that time they indicate their preference for directors?

Mr. VAN NALTS. Yes.

Mr. GESELL. And they so instruct the trustees?

Mr. VAN NALTS. Exactly.

Mr. GESELL. Who hold the stock for them?

Mr. VAN NALTS. Right!

Mr. GESELL. And the trustees, then, voting for the stockholders, vote in accordance with the direction given to them by the policyholders?

Mr. VAN NALTS. That's right.

Mr. GESELL. How often is there an election of directors of the Prudential?

Mr. VAN NALTS. There has been an election of a director whenever a vacancy occurred.

Mr. GESELL. You have regular elections of directors.

Mr. VAN NALTS. The 16 directors of the company who are elected by the stockholders are divided into four groups, and the term of four gentlemen, four directors, expires each year.

¹In this connection see "Exhibit No. 1011," entered later, which appears in the appendix on p. 6288.

Mr. GESELL. So that every year four of these men, or someone chosen in their place——

Mr. VAN NALTS (interposing). Their successors are selected by the policyholders, by their proxies or by votes in person, and the trustees are instructed to vote for the four names of the men recommended for the board.

Mr. GESELL. How many directors of the company are there?

Mr. VAN NALTS. There are 16 directors elected by the stockholders and three directors appointed by the chancellor of the State of New Jersey, known as State directors. They are appointed by the chancellor for 3 years. The term of one such director expires annually and his successor is reappointed by the chancellor for a term of 3 years.

Mr. GESELL. Thus, under your procedure, once every year four directors of the company come up for reelection?

Mr. VAN NALTS. Correct.

Mr. GESELL. How many policyholders are there in the company, Mr. Van Nalts?

Mr. VAN NALTS. Well, that is statistical information I am not informed on exactly, but I should say there must be some twenty-odd million policyholders.

Mr. GESELL. The great majority of those policyholders are industrial policyholders, are they not?

Mr. VAN NALTS. I think it is merely—well, yes; a great majority are industrial policyholders.

Mr. GESELL. Which policyholders are entitled to vote in the election?

Mr. VAN NALTS. Any policyholder, industrial or ordinary, whose policy has been in force 1 year or more and who is 21 years of age or more, is entitled to cast one vote.

Mr. GESELL. It doesn't make any difference how large his policy is?

Mr. VAN NALTS. It does not.

Mr. GESELL. It doesn't make any difference how many policies he may have?

Mr. VAN NALTS. That's right—one vote.

Mr. GESELL. Each policyholder has one vote if he is 21 years old and has been with the company a year?

Mr. VAN NALTS. Right.

Mr. GESELL. When is this election of directors held?

Mr. VAN NALTS. The election of directors by the stockholders is held on the day of the annual meeting of the company, which is always the second Monday in January.

Mr. GESELL. And when is the policyholders' meeting before that?

Mr. VAN NALTS. The policyholders' meeting has always been, up to date (and we have had 24 of them in 24 years), the first Monday in December preceding.

Mr. GESELL. What kind of notice do you give the policyholders with respect to this election?

Mr. VAN NALTS. Of course, we publish the notice on call for the meeting as prescribed by the chancellor, and the notice we send out to policyholders; that is, to our agents for circulation among policyholders, is a letter from the president giving the reason for the meeting and outlining the policyholders' voting rights and giving the names

of the four directors who have been nominated by the committee of the board of directors and approved by the board for submission to the policyholders, and also stating that there are two forms of proxies, one containing those names, and a blank form on which the policyholder may vote for anybody he pleases.

Mr. GESELL. I will come to those different forms of proxies in a moment. You notify the policyholder by a letter or leaflet which is handed——

Mr. VAN NALTS (interposing). Which is circulated by agents to the best of their ability among all the policyholders as they come in contact with them. The notice call for the meeting is, of course, prescribed by the chancellor.

Mr. GESELL. Is this the form of letter to the policyholders, which I now show you?

Mr. VAN NALTS. Yes, that is it.

Mr. GESELL. I wish to offer this for the record.

The VICE CHAIRMAN. It may be admitted.

(The letter referred to was marked "Exhibit 1005" and is included in the appendix on p. 6280.)

Mr. GESELL. In addition you say you publish a notice in the newspapers?

Mr. VAN NALTS. Yes.

Mr. GESELL. I take it that is the strict statutory notice that is required?

Mr. VAN NALTS. That is prescribed by the chancellor.

Mr. GESELL. Published in newspapers only in Newark, N. J.?

Mr. VAN NALTS. No; the notice of the policyholders' meeting has, up to this year, been published in a paper published in the capital of each State of the United States and of each province of Canada, once each month for 5 months, July to November, inclusive.

Mr. GESELL. That, I take it, is a small box notice which is put with the legal notices and things of that sort?

Mr. VAN NALTS. It is a regular notice to the policyholders telling them a meeting of the policyholders will be held on a certain date, and what they can do.

Mr. GESELL. Have you the form of such notice with you?

Mr. VAN NALTS. Yes; the notice that has been sent out this year I have.

Mr. GESELL. Can you read that for the record please?

Mr. VAN NALTS. The notice reads as follows:

To the Policyholders of the Prudential Insurance Company of America:

Notice is hereby given that a meeting of the policyholders of the Prudential Insurance Company of America will be held at the Home Office of said company in the City of Newark, N. J., on Monday, the 5th day of December (it will be the 4th day of December in 1939, this time) at twelve o'clock Noon, for the purpose of selecting four persons to be voted for by the policyholders' trustees as members of the Board of Directors at the annual election of Directors of the company, to be held on the 9th day of January 1939 (which will be the second Monday of January 1940, this time).

I didn't read it all.

At such meeting every policyholder of the corporation who is of the age of twenty-one years or upwards and whose policy has been in force for at least one year last past shall be entitled to cast one vote in person or by proxy.

That is signed by the president.

Mr. GESELL. Most of these policyholders have policies or premium books or something of that sort. Do you put any notice on any of them?

Mr. VAN NALTS. We have not.

Mr. GESELL. No notice in the premium book and no notice on the policy. Is that correct?

Mr. VAN NALTS. That is correct. We have something of that sort under consideration.

Mr. GESELL. Most of the policyholders, I take it, don't vote in person.

Mr. VAN NALTS. That is true.

Mr. GESELL. They vote by proxy?

Mr. VAN NALTS. By proxy.

Mr. GESELL. Am I correct in saying that anyone can be nominated for position as a director in the Prudential if he receives sufficient proxies on his behalf?

Mr. VAN NALTS. Yes.

Mr. GESELL. There is no administration slate such as we considered under the New York law where a list proposed by the existing board of directors goes out and after a certain time there is no opportunity for any other group to present candidates?

Mr. VAN NALTS. No; the names are sent to the policyholders and it is plain that they can vote for anybody they please.

Mr. GESELL. The board in each case nominates its own directors.

Mr. VAN NALTS. Yes.

Mr. GESELL. And the policyholder is advised that he may nominate anyone else he chooses?

Mr. VAN NALTS. Yes.

Mr. GESELL. And it isn't until the final vote at the policyholders' meetings that it can be definitely determined whether the directors selected by the existing directors or directors nominated by someone else have been chosen.

Mr. VAN NALTS. That is true.

Mr. GESELL. You must then have two forms of proxy.

Mr. VAN NALTS. Yes.

Mr. GESELL. Am I correct in saying that one form of proxy which we will call the white proxy designates the nominees selected by the existing board of directors and that a green proxy in similar form is forwarded with provision for the policyholder to write in anyone whom he may designate?

Mr. VAN NALTS. You are correct, sir.

Mr. GESELL. Are these the forms of white and green proxy which I now show you?

Mr. VAN NALTS. They are.

Mr. GESELL. Would you be good enough to read the green proxy for us?

Mr. VAN NALTS [Reading from "Exhibit No. 1006"]:

I, the undersigned, being of the age of twenty-one years or upwards, and a policyholder in the Prudential Insurance Company of America, whose policy has been in force for at least one year, do hereby constitute and appoint Edward J. Ill, A. Harry Moore, and Charles P. Messick or any one of them my attorneys and agents for me and in my name, place, and stead to vote as my proxy at the meeting of the policyholders of The Prudential Insurance Company of America to be held at the office of said Company on Monday, December 5, 1938, at twelve o'clock noon, or at any adjournment thereof, for the following named persons as Directors of said Company for four years:—

Then follow four blank spaces [reading further]:

In the event of the death or disqualification of any of the above-named persons, then to vote for such other duly qualified person or persons as they may select; and further to vote upon all questions or matters which may properly be presented at such meeting, or any adjournment thereof, all as fully as I could do if personally present. It witness hereof I have hereunto set my hand and seal this blank day of blank, one thousand nine hundred thirty-eight—

and there is a space for the signature of the insured, and seal, and then this certification appears at the bottom:

I do hereby certify that I am personally acquainted with the person signing the above proxy, that such person is to my knowledge a policyholder in the Prudential Insurance Company of America, whose policy is now in force and has been in force for at least one year, that said person is of the age of twenty-one years or upwards and that the said proxy was signed, sealed, and delivered in my presence—

signed, witness, and space for the policy number under which the vote is taken.

The VICE CHAIRMAN. That is the title?

Mr. GESELL. It is titled "Proxy."

The VICE CHAIRMAN. The agent?

Mr. VAN NALTS. It just says witness.

The VICE CHAIRMAN. Who checks up on the witness?

Mr. VAN NALTS. It is just the witness there.

Mr. GESELL. I wish to offer these for the record.

The VICE CHAIRMAN. They may be received.

(The proxies referred to were marked "Exhibit No. 1006" and are included in the appendix on p. 6281.)

Mr. GESELL. I believe you said the green ones are the ones on which the policyholder may make his independent nomination.

Mr. VAN NALTS. They are provided for that purpose. Occasionally one of the policyholders will scratch one of the white proxies and write in another name and that is treated as a green one.

Mr. GESELL. How are the proxies distributed?

Mr. VAN NALTS. They are sent to all our local offices throughout the United States and Canada and letters are addressed to our keymen, superintendents and managers, referring to the two forms of proxy and to the letter addressed to the policyholder, setting forth practically all the material that is in the letter to the policyholder, and urges that everybody entitled to vote be given an opportunity to do so.

Mr. GESELL. Are these letters the forms of letters sent out to the managers and other persons?

Mr. VAN NALTS. The letter on top is the one we send to managers, superintendents, and others, and the letter underneath is the one that goes with my instructions on the examination of proxies.

Mr. GESELL. I wish to offer these documents for the record.

The VICE CHAIRMAN. They may be admitted.

(The documents referred to were marked "Exhibit No. 1007" and are included in the appendix on p. 6282.)

Mr. GESELL. Then, I take it that the agent brings these proxies to the policyholder. Is that correct?

Mr. VAN NALTS. Oh, yes; we send out proxies, for instance last year, probably an average of 20 per man, not as an allotment, and these agents take them around on their debits and they are submitted for signatures.

Mr. GESELL. Are the agents paid anything specially for doing this or is this part of their duty?

Mr. VAN NALTS. This is simply a duty which they perform and I have never heard that anybody was dissatisfied with it.

Mr. GESELL. What length of time do they have to get them signed?

Mr. VAN NALTS. These letters go out very early in September, as a matter of fact September 6 last year, and will again this year on September 6, so the agents have practically most of September, all of October and all of November to get them in.

Mr. GESELL. Do you recognize this schedule which I show you as a schedule showing for the industrial divisions and ordinary agents separately the number of white and green proxies printed each year from 1916 to 1938, and the number of such proxies available for each man or agent for distribution?

Mr. VAN NALTS. That is true. I made this up.

Mr. GESELL. I notice from this schedule, Mr. Van Nalts, taking the year 1938 as an example, that there were in the industrial divisions 569,000 white proxies as against 29,500 green proxies, making 24.8 white proxies per man as against one-half a green proxy per man.

Mr. VAN NALTS. Yes.

Mr. GESELL. I take it then the policyholder doesn't get both a white and a green proxy.

Mr. VAN NALTS. The agents have these and in fact they make a requisition for more than we send out and yet they don't come in. The fact of the matter is they tell the policyholders they can vote for anybody they please; the policyholders evidently desire to vote for the ones on the white ticket.

Mr. GESELL. I wish to offer this schedule for the record.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 1008" and is included in the appendix on p. 6284.)

Mr. GESELL. That schedule also shows the number of additional requests for each type of proxy received each year, does it not?

Mr. VAN NALTS. Yes.

Mr. GESELL. When these proxies come in how are they handled?

Mr. VAN NALTS. There are 21 departments in the office in which clerks handle the accounts of our agency staff. These proxies are sent by our mail department right to these divisions that are familiar with the agents who secured them, and they are carefully examined by the clerk in charge of the district from which the proxies come. Any green proxy or any proxy bearing a change or mark of any character is sent to the secretary's office for presentation to a proxy committee, and the proxies left in the 21 departments are the white ones, and they vote for the nominees of the board. One clerk examines those proxies very carefully and counts them out in lots of 1,000, another clerk verifies the count, and they are put in wrappers and on the outside of the wrapper is indicated the district from which they came, making the 1,000. That process goes on throughout the 12 or 13 weeks that they have to send in the proxies.

Mr. GESELL. Is there any comparison of signatures as against the signatures, let's say, of the person who signs the proxy on his insurance application?

Mr. VAN NALTS. No; we take the certification of the agent that he has done his duty.

Mr. GESELL. As the proxies come in, I take it some of them are in considerably in advance of the election.

Mr. VAN NALTS. Yes; as a matter of fact here is the way they came in in 1938. There were 12 weeks' shipment of proxies to the home office. It started with sixty-seven-odd thousand the first week, eighty-seven thousand, eighty-one thousand, sixty-nine, thirty-seven, and it tapers down each week until the last week, only 930, so that three hundred seventy-six-odd thousand were received during the period.

Mr. GESELL. Then you keep track of these proxies as they come in to determine how many green ones you are getting and how many white ones you are getting.

Mr. VAN NALTS. Yes.

— The white proxies are all left in the department until the day of the policyholders' meeting—anything that indicates a difference is sent.

Mr. GESELL. Do you have to get any percentage of white proxies in to carry the election?

Mr. VAN NALTS. No.

Mr. GESELL. Any number of votes are sufficient?

Mr. VAN NALTS. They have been sufficient, any number of votes.

Mr. GESELL. It is simply necessary for them to be in excess of the nomination for any one individual on the green proxy.

Mr. VAN NALTS. Yes; those nominations for individuals have just been one, two, or three votes.

Mr. GESELL. No one has ever been nominated through the green proxy method?

Mr. VAN NALTS. Not at all.

Mr. GESELL. I notice in the 1938 election that there was one vote for yourself, one for James J. Hines, and one for Thomas E. Dewey.

Mr. VAN NALTS. Yes.

Mr. GESELL. Can you tell us what the greatest number of votes that you have ever received for an individual on the green proxy has been?

Mr. VAN NALTS. Well, I don't believe any on the green proxy, as I recall, has ever received more than four votes.

Mr. GESELL. I notice in '38, votes up as high as 15.

Mr. VAN NALTS. Well, those were for the proxy committee. Some of them may have misunderstood. I don't think there have been anything but three or four. In 1938 there were thirty-odd names listed. The total vote is 79; in 1937, ten-odd names; total vote 28.

Mr. GESELL. Have you a schedule showing what the situation was in that respect each year?

Mr. VAN NALTS. This may be of service to you. It is practically that.

Mr. GESELL. This schedule shows the number of votes by proxy and in person for the persons nominated by the board of directors and the number of individuals who received votes on the green proxy, does it not?

Mr. VAN NALTS. Yes.

Mr. GESELL. I notice in 1938 that there were thirty-odd names voted for by proxy for a total of 79 votes.

Mr. VAN NALTS. And you will find these in those minutes that you referred to a moment ago.

Mr. GESELL. And that the four nominees of the board of directors received 376,756 votes, or thereabouts, by proxy, and 31 votes in person, or totals in the neighborhood of 376,787.

Mr. VAN NALTS. Yes; the difference in the number between the four directors is where a policyholder has scratched a white proxy.

The VICE CHAIRMAN. What would the highest man get?

Mr. VAN NALTS. The highest vote that anybody had here among the company directors is 376,770.

Mr. GESELL. That is for a company director.

Mr. VAN NALTS. That is for a company director.

Mr. GESELL. What is the highest amount that anyone got on the green proxies?

Mr. VAN NALTS. Three.

The VICE CHAIRMAN. There was no recount asked for?

Mr. VAN NALTS. We didn't think it was desirable.

Mr. GESELL. I wish to offer this schedule for the record.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 1009" and is included in the appendix on p. 6286.)

Mr. GESELL. I take it there is no prohibition under any circumstances in the New Jersey law against a company using its own agents and representatives to solicit proxies.

Mr. VAN NALTS. The general counsel of the company might know.

Mr. BRADLEY. That is correct.

Mr. GESELL. Can you answer me this, Mr. Van Nalts, can a policyholder of the Prudential call at the home office or write and get a copy of the list of policyholders of the company?

Mr. VAN NALTS. I don't know that anybody can get a list of the policyholders of the company. It would be a tremendous job to do that.

Mr. GESELL. In other words, if I happened to be a policyholder of the company and decided I wanted to put someone of my own choice on the board of directors and decided that I would undertake that venture and attempt to get a policyholder's list I couldn't even find one at your company?

Mr. VAN NALTS. We couldn't make up a list without a tremendous amount of labor and expense. It would be of no benefit to the policyholders.

Mr. GESELL. If I were attempting to put someone of my own choice on the board of directors it might be of some benefit to me.

Mr. VAN NALTS. No; we wouldn't care about that. [Laughter.]

Mr. GESELL. So as a practical matter anybody who wants to really get under way and move to put on someone other than that person selected by the board of directors hasn't a possible chance of doing so.

Mr. VAN NALTS. I don't know.

The VICE CHAIRMAN. What is the answer?

Mr. VAN NALTS. I don't know what the chance is.

Mr. GESELL. You don't think he has any.

Mr. VAN NALTS. I don't know whether he has.

Mr. GESELL. Do you occasionally have policyholders who inquire about this matter?

Mr. VAN NALTS. Once in a while, but not very often.

Mr. GESELL. What do you do in the case of an inquiring policyholder?

Mr. VAN NALTS. Well, it depends upon what his inquiry is. I answer him.

Mr. GESELL. Well, let me show you the file of a Mr. Meyer Levow of 1334 Prospect Avenue, New York City. With that file in front of you will you tell us what was done in that case, the nature of the inquiry, the nature of the reply, and any other investigation that was made by your company.

Mr. VAN NALTS. The first letter reads—

Kindly send me a list of all policyholders to whom proxies are being sent. I make this request as a holder of policy No. so-and-so, issued on May 7, 1932. Will you reply by return mail? I am respectfully yours.

Mr. GESELL. He wrote in and asked for a list of the policyholders to whom proxies were being sent, did he not?

Mr. VAN NALTS. Yes.

Mr. GESELL. And what was the reply to that letter?

Mr. VAN NALTS [reading]:

Your letter of the 24th ultimo addressed to the President has been referred to me—

That reply was made by the vice president and general counsel.

The statute requires that notice of the policyholders' meetings shall be given in the manner fixed by the chancellor. On May 15, 1934, the chancellor directed that a notice should be published once each month during the months of July, August, September, October, and November, in the newspapers published in the capital in every State in the United States and the Provinces of Canada where the company does business. Proxies are not mailed to policyholders but can be secured for any election at any of our branch offices. I am sorry that reply to this letter was delayed. The meeting of the policyholders was on Monday the 3rd inst.

Mr. GESELL. There is really no mention of the policyholders' list at all, is there?

Mr. VAN NALTS. No; it tells how we sent the notice.

Mr. GESELL. He wrote again about it, didn't he? What did he say the second time?

Mr. VAN NALTS [reading]:

In reply to your letter of the 4th I wish to state that proxies have been mailed to policyholders in the past. As a holder of a policy in a mutual life-insurance company it is my privilege to have a list of all policy owners in the Prudential Insurance Company. I request this list be sent to me at once or I shall be forced to start an action on a writ of mandamus to compel you to give me this list.—Respectfully yours.

Mr. GESELL. What did the company do after receipt of that second letter?

Mr. VAN NALTS. They didn't do anything.

The VICE CHAIRMAN. I imagine it was all rather boresome.

Mr. VAN NALTS. I don't know, I didn't handle the case.

Mr. GESELL. Isn't it correct, Mr. Van Nalts, that the company made an investigation of this fellow to find out who he was, where he lived, why he was writing, and all about it?

Mr. VAN NALTS. Yes.

Mr. GESELL. Do you recognize this as the report furnished by the chief investigator of the company?

Mr. VAN NALTS. Yes.

Mr. GESELL. Who ordered that investigation?

Mr. VAN NALTS. I don't recall; I don't know.

Mr. GESELL. Is it the practice of the company to make investigations of people who inquire with respect to such matters as these?

Mr. VAN NALTS. Well, we don't have many of them in the first place, and it is only a natural thing to want to know who a man is who makes an inquiry.

The VICE CHAIRMAN. That is, you didn't want to liquidate him.

Mr. GESELL. I wish to offer this investigation for the record.

(The report referred to was marked "Exhibit No. 1010" and is included in the appendix on p. 6286.)

Mr. GESELL. Am I correct in saying that recently you have stepped up the number of white proxies that you have obtained?

Mr. VAN NALTS. You mean stepped up the number we send out?

Mr. GESELL. Yes.

Mr. VAN NALTS. That is done simply because of the additional ones requested each year.

Mr. GESELL. It is not done because of any other reason?

Mr. VAN NALTS. No; not to my knowledge.

The VICE CHAIRMAN. That is, those four votes of the preceding year didn't cause you any apprehension.

Mr. VAN NALTS. The four votes that I got?

Mr. GESELL. Have you ever seen this memorandum before?

Mr. VAN NALTS. Yes; I saw that memorandum but I don't know anything about it.

Mr. GESELL. Do you not think that that memorandum contains some explanation as to why there has been a step-up in the number?

Mr. VAN NALTS. It would seem so, but I don't believe it had any effect.

Mr. GESELL. That memorandum indicates, does it not, that the company was concerned that some group might obtain sufficient green proxies to have some position in the management?

Mr. VAN NALTS. Well, perhaps that thought was in the writer of it, but really I never saw any danger of it, and I don't think there was any consideration of that in sending out the increased number of proxies, because the number of increase was not appreciable.

Mr. GESELL. Is it your practice to vote all these white proxies when you get them?

Mr. VAN NALTS. Yes, sir.

Mr. GESELL. Has it been your practice to do that in the past?

Mr. VAN NALTS. Oh, there was a time when we didn't think it necessary.

Mr. GESELL. Tell us about that a little, Mr. Van Nalts.

Mr. VAN NALTS. Well, I have forgotten the years when all these proxies came in and at that time the revenue tax was required. The counsel of the company said that it wasn't necessary to vote more than about a thousand of the proxies. There were no dissenting votes anywhere; they were all votes for the company's nominees.

Mr. GESELL. What is your purpose, then, in getting in so many of these proxies?

Mr. VAN NALTS. We are not trying to get in so many as it is to give a policyholder the opportunity to vote. If we didn't send out a large number of proxies they won't have that.

MR. GESELL. I might have assumed it was to give them an opportunity to vote if it wasn't for the fact that when you got them you didn't cast them.

MR. VAN NALTS. Well, that is back history. I don't know. We didn't think it necessary to vote them. I don't know as a matter of fact what the reason was. The counsel of the company said it wasn't necessary to vote more than a thousand. My attention has been called to the fact afterward that we paid a penalty for it.

MR. GESELL. You wouldn't agree that one of the considerations in the solicitations of the white proxies is to have at hand sufficient proxies so in case any opposition developed you would be able to meet it.

MR. VAN NALTS. Well, I don't think I could deny that. I think that is a natural thing.

MR. GESELL. That is all I was getting at.

MR. VAN NALTS. Yes.

MR. GESELL. Now is it your practice to destroy the proxies after they are cast?

MR. VAN NALTS. No; not right after they are cast. We retain the proxies until the term of the director selected has run out.

MR. GESELL. Am I correct in saying that representatives of the Commission made a request of your company to examine some of those proxies?

MR. VAN NALTS. That is true.

MR. GESELL. Have you a statement which you would like to make with respect to that?

MR. VAN NALTS. Yes. Shall I read the statement to you? [Reading:]

Representatives of the Securities and Exchange Commission requested from our company, The Prudential Insurance Company of America, that they be permitted to investigate into the signatures appearing on proxies voted in connection with our annual election of directors, their belief being that they would find proxies which had not been signed by the policyholders purported to have signed them. We were glad to give them access to the proxies cast in the election of directors during recent years. It is our practice to keep the proxies for a period of four years, the term for which the directors are elected. An aggregate of 782,467 proxies were voted in the 1934, 1936, and 1937 elections, and these proxies, together with the proxies cast in the other elections of recent years, were made available to the representatives of the Commission. The representatives of the Securities and Exchange Commission thumbed through approximately 4,000 proxies comprising bundles of proxies cast by policyholders resident in St. Louis, Mo., Detroit, Mich., New York City, and Chicago, Ill., in the 1934, 1936, and 1937 elections.

From the approximately 4,000 proxies through which they thumbed, they took out 110 proxies for particular examination and signature comparisons with the signatures of the policyholders as they appeared on the applications for insurance contained in our files. The representatives of the Commission reported to us the results of the signature comparisons of the 110 proxies to be as follows, namely, that 21 proxies could not be compared because the policy numbers stated did not correspond with the true policy numbers; that 5 proxies were signed by minors; and that 44 were signed by unauthorized persons contrary to the certification on the proxy that the policyholder had personally, in the presence of a witness, appeared and signed the proxy in question.

The representatives of the Commission went over with certain of the officers of the Company these 110 proxies. We have no desire to question what they report to have found in their examination and comparison and have made no attempt to check up in any way on their findings. The existence of any practice as to the signing of proxies by persons other than proper policyholders

has not been known to any executive officer of the Company, and, there having been no contested elections, we have had no real occasion to go into the matter. In this connection it should be pointed out that as an administrative matter the securing of proxies has all along been made so easy for the agents as to make it unlikely that many would attempt to avoid the small effort required. During the years 1934, 1936, and 1937 only from ten to fifteen proxies were obtained on the average by each agent, and in 1938 only about 20 on the average. There were no allotments and agents were free to obtain fewer proxies or none at all if they wished. Agents have from ten to twelve weeks in which to obtain these few proxies, during which time on the average they are seeing regularly over two hundred policyholder families each week. We intend to adopt every possible method to avoid irregularities in connection with the securing of proxies.

Mr. GESELL. The reference to proxies signed by minors might need clarification, Mr. Van Nalts. It is true that you have to be 21 years old to vote, is it not?

Mr. VAN NALTS. Yes, that is true; and the policy on the life of a minor does not entitle the parent to vote.

Mr. GESELL. In most cases are these proxies witnessed by the agents?

Mr. VAN NALTS. I should say yes. They come in from the agency staff. They are witnessed by the agent or his assistant superintendent or one of our representatives.

Mr. GESELL. I have no further questions of this witness.

The VICE CHAIRMAN. I have none.

(The witness, Mr. Van Nalts, was excused.)

Mr. GESELL. That completes the presentation for today.¹

The VICE CHAIRMAN. We will adjourn now until 10:30 tomorrow morning.

(Whereupon, at 4:10 p. m., a recess was taken until 10:30 a. m., Thursday, August 31, 1939.)

¹ Mr. Gesell subsequently offered the transcript of 5 broadcasts of the Prudential Insurance Co., which were entered in the record as "Exhibit No. 1012" and appear in the appendix on p. 6295.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, AUGUST 31, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:40 a. m., pursuant to adjournment on Wednesday, August 30, 1939, in the Caucus Room, Senate Office Building, Ewin L. Davis, Commissioner, Federal Trade Commission, presiding.

Present: Commissioner Davis (acting chairman), Representative Casey, and Mr. O'Connell.

Present also: Mr. Brackett, Gerhard A. Gesell, special counsel, and Michael H. Cardozo, attorney, Securities and Exchange Commission.

Acting Chairman DAVIS. Are you ready to proceed with the hearing?

Mr. GESELL. I am.

Acting Chairman DAVIS. Call your first witness.

Mr. GESELL. The first witness this morning is Mr. Williams. I should like, before Mr. Williams is sworn, to introduce for the record a memorandum concerning the mutualization of the Prudential Insurance Co. of America, which was prepared by Mr. Bradley, general counsel of that company, and explains some of the matters that were covered yesterday in the testimony in a little more detail. I believe it is desirable to have that in the record.

Acting Chairman DAVIS. Do you want it in the printed record?

Mr. GESELL. I believe that to be desirable; yes.

Acting Chairman DAVIS. Let this be inserted in the printed record.

(The document referred to was marked "Exhibit No. 1011" and is included in the appendix on p. 6288.)

Mr. GESELL. I should also like to offer for the record five broadcasts of the Prudential Insurance Co. made on June 8, June 23, July 3, August 1, and August 21 of this year. These broadcasts were furnished by the company and it is my understanding they were made over the Columbia network. The portions being offered are only the commercial portions relating to insurance problems.

Acting Chairman DAVIS. Do you want those printed in the record?

Mr. GESELL. Yes, please.

Acting Chairman DAVIS. These forms have only the commercial or advertising features?

Mr. GESELL. Those forms relate to the insurance phases of the broadcasts only, and I want them printed in their entirety.

Acting Chairman DAVIS. Let these be printed in the record of the committee.

(Copies of the 5 broadcasts referred to were marked "Exhibit No. 1012" and are included in the appendix on p. 6295.)

Mr. GESELL. I am ready to proceed with Mr. Williams.

Acting Chairman DAVIS. Do you solemnly swear that the statement you are about to make in this hearing will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. WILLIAMS. I do.

TESTIMONY OF CHARLES F. WILLIAMS, CINCINNATI, OHIO,
PRESIDENT, WESTERN & SOUTHERN LIFE INSURANCE CO.

WESTERN AND SOUTHERN LIFE INSURANCE CO.—HISTORY AND DESCRIPTION

Acting Chairman DAVIS. First, Mr. Williams, will you state your full name and residence and occupation for the record.

Mr. WILLIAMS. Charles F. Williams, Cincinnati, Ohio. I am president of the Western & Southern Life Insurance Co.

Mr. GESELL. Mr. Williams, how long have you been with the Western & Southern?

Mr. WILLIAMS. I have been with the company since it has been organized.

Mr. GESELL. When was the company organized?

Mr. WILLIAMS. It was organized on May the 7th, '88.

Mr. GESELL. It is the fourth largest industrial insurance company in the United States, is it not?

Mr. WILLIAMS. I think so; yes, it is.

Mr. GESELL. It is a stock company?

Mr. WILLIAMS. It is a stock company.

Mr. GESELL. Therefore, it is the largest stock company selling industrial insurance in the United States?

Mr. WILLIAMS. Yes; it is the largest stock company.

Mr. GESELL. How many policyholders has your company?

Mr. WILLIAMS. We have roughly two and a half million.

Mr. GESELL. Does that include both the ordinary and the industrial?

Mr. WILLIAMS. No; that is the industrial.

Mr. GESELL. How many ordinary policyholders have you?

Mr. WILLIAMS. Ordinary, I would say about 250,000 or 300,000.

Mr. GESELL. Can you tell us how much industrial insurance your company has in force?

Mr. WILLIAMS. We have \$577,000,000 industrial and \$315,000,000 ordinary.

Mr. GESELL. Has your company been writing industrial since the date of its organization?

Mr. WILLIAMS. Yes; we were organized as an industrial company in '88.

Mr. GESELL. In how many States does your company operate?

Mr. WILLIAMS. Our territory is simply from Pittsburgh on the the east to St. Louis on the west, and from the northern line or northern part of West Virginia and Kentucky to the southern part of Michigan.

Mr. GESELL. That would cover eight States.

Mr. WILLIAMS. It covers eight States. Yes.

Mr. GESELL. Will you name those States for me?

Mr. WILLIAMS. Yes; we are in the eastern part of Pennsylvania, northern part of West Virginia, northern part of Kentucky, the southern part of Michigan, and the eastern part of Missouri, and then all of Ohio, Indiana, and Illinois.

Acting Chairman DAVIS. Mr. Williams, did you mean the eastern part of Pennsylvania or the western part?

Mr. WILLIAMS. I meant the western part of Pennsylvania.

Mr. GESELL. Can you give us some idea of the history of the company and your family's connection with it?

Mr. WILLIAMS. The company was organized by my brother in 1888.

Mr. GESELL. What was his name?

Mr. WILLIAMS. His name was William J. At that time he was secretary of the Knights Templars Masonic Mutual, which was a fraternal organization. We had heard of the industrial business which was just organized then, it was organized about 8 or 10 years, rather it was brought to this country about in '78, and we were just hearing about it out West, and we thought it had great possibilities. We formed this company. It was no stock-promotion scheme. We had about \$130,000 in cash. We put in \$100,000 and issued the stock and had about \$30,000 in capital. And then we started and for 21 years there were no dividends declared, nor did we get much salary. As a matter of fact, we had to put into the surplus, or rather into the reserves, because the second year we had to put in ten more, then we had to put in ten more about the fourth year, then we had to put in twenty more, then we had to put in forty-five thousand, then we had to put in forty-nine thousand, and in 1909 we had to put in \$385,000 to make our reserves good.

Mr. GESELL. Am I correct in saying that the contributions by the stockholders to surplus, to maintain reserves and prevent capital impairment, amounted to \$518,993.75?

Mr. WILLIAMS. Just exactly. I think that is the correct figure.

Mr. GESELL. That money has all been paid back, has it not?

Mr. WILLIAMS. Oh, yes; with interest—I think with interest on it, I am not sure.

Mr. GESELL. Will you continue with your discussion of the history of the company?

Mr. WILLIAMS. Then, of course, it was a family proposition when we had that money in there, and the result was that the stock was held 40 percent by my brother and 60 percent by myself. All our stock was kept intact. We personally, of course, watched every investment that this company ever made, and you might say we watched almost every life-insurance policy that was issued. We begin declaring dividends in 1910 or '11, about that time, and, of course, they gradually increased. We tried to do it so that all our dividends were paid out of our excess interest earnings. In other words, we were on 3.5 percent full level premium, and the excess of 3.5 percent which we made on our investments paid our dividends. We gradually increased the capital stock, until today it is \$15,000,000, and our surplus, I think, is about nine million, and I think we have probably every reserve that is possible to put up—I mean, to strengthen the company. We believe, of course, in the safety of our people.

Acting Chairman DAVIS. Speaking of dividends, you refer to the stock dividends and no reference to the policies.

Mr. WILLIAMS. No; we are a stock company.

Acting Chairman DAVIS. In paying these dividends that you speak of, over a considerable period of time and amount, were they all paid in cash, or were they in part stock dividends?

Mr. WILLIAMS. We did both. We paid both cash and stock.

Acting Chairman DAVIS. Could you tell what proportion during that period?

PROFITS

Mr. GESELL. Do you recognize this schedule as a schedule showing contributions by the stockholders, and the cash and stock dividends?

Mr. WILLIAMS. Yes.

Mr. GESELL. This schedule shows during the period from 1906 to 1938, inclusive, the company declared cash dividends totaling \$19,102,500, and stock dividends totaling \$14,900,000.

I should like to offer the schedule for the record.

Acting Chairman DAVIS. Without objection, this will be inserted in the printed record.

(The schedule referred to was marked "Exhibit No. 1013" and is included in the appendix on p. 6299.)

Mr. GESELL. Now, the company has always been a closely held family company, has it not?

Mr. WILLIAMS. It has been.

Mr. GESELL. Your family has always been in control, has it not?

Mr. WILLIAMS. Oh, yes. In 1922 my brother and I distributed our stock to our families, my brother's 40 percent, he now being deceased, going to his four children and my 60 percent is in my five children.

Mr. GESELL. But the Williams family, so to speak, has always had the control.

Mr. WILLIAMS. Yes.

Mr. GESELL. And there has never been any public participation as such in the stock of the company.

Mr. WILLIAMS. No, never.

Mr. GESELL. Do you recognize these schedules which I now show you as schedules showing the ownership of the capital stock of your company as of December 31, 1910, December 31, 1925, and December 31, 1938, respectively?

Mr. WILLIAMS. Yes; that is right.

Mr. GESELL. I wish to offer these schedules for the record.

Acting Chairman DAVIS. These schedules will be inserted in the printed record.

(The schedules referred to were marked "Exhibit No. 1014" and are included in the appendix on p. 6300.)

Mr. GESELL. Now, am I correct in saying, Mr. Williams, that you and other members of your family have been in active positions of management in the company, in addition to having the stock control?

Mr. WILLIAMS. I would say it has always been under the management of brother and myself, and since he died, myself.

Mr. GESELL. You have been the principal executive as well as the principal stockholder?

Mr. WILLIAMS. Yes; I have really been the principal executive since 1919. Brother became very ill then and I have been practically running it ever since.

Mr. GESELL. Now, am I correct in understanding that the company, in addition to paying these dividends which we have been discussing, paid the income taxes for directors, stockholders, and employees during the period from 1913 to 1936?

Mr. WILLIAMS. Yes; we paid for all the employees and officers and directors, and then the officers, directors, and stockholders. Yes; I think all of them until 1936.

Mr. GESELL. Do you recognize this schedule as a schedule which reflects the income taxes paid by the Western & Southern Life Insurance Co., both in totals and to officers, directors, and stockholders and employees for the taxable years 1913 to 1936?

Mr. WILLIAMS. Yes; that is right.

Mr. GESELL. I notice that the total income taxes paid from 1931 to 1936 for officers, directors, stockholders, and employes totaled \$5,835,469.70, and that of that amount all but seventeen-odd thousand, or \$5,817,675.34, were paid to officers, directors, and stockholders.

Mr. WILLIAMS. That is the income tax; yes.

Mr. GESELL. That is the Federal income tax?

Mr. WILLIAMS. Yes.

Mr. GESELL. So that if we were to determine how profitable this enterprise has been to the stockholders it would be necessary to take into account these income-tax payments, would it not?

Mr. WILLIAMS. Oh, yes.

Mr. GESELL. I wish to offer this schedule for the record.

Mr. WILLIAMS. Mr. Gesell, were they not on that list of dividends that were included in the dividends?

Mr. GESELL. I believe not. I believe these are in addition to those. These are not in the nature of cash dividends, are they?

Mr. WILLIAMS. No.

Acting Chairman DAVIS. They may be admitted.

(The schedule referred to was marked "Exhibit No. 1015" and is included in the appendix on p. 6301.)

Mr. GESELL. Have you or any of the other principal officers or controlling stockholders had business relations with the company through outside affiliations of any sort?

Mr. WILLIAMS. Never.

Mr. GESELL. You have confined your business activities to the operation of the insurance company?

Mr. WILLIAMS. That is right.

Mr. GESELL. Is it your feeling that officers and directors should not deal with their own company, even when it is a stock company?

Mr. WILLIAMS. I don't see how they can do it. No; of course not.

Mr. GESELL. You think it is undesirable for that situation to exist?

Mr. WILLIAMS. Yes, yes; it is even worse than undesirable.

Mr. GESELL. Now, you, I believe, said that you were president.

Mr. WILLIAMS. I am president.

Mr. GESELL. What salary do you receive?

Mr. WILLIAMS. \$60,000.

Mr. GESELL. Am I correct in saying that your son, Mr. C. M. Williams, is executive vice president of the company?

Mr. WILLIAMS. Executive vice president.

Mr. GESELL. What does he receive?

Mr. WILLIAMS. \$7,500.

Mr. GESELL. Am I correct that Mr. Clyde P. Johnson is vice president?

Mr. WILLIAMS. He is general counsel and vice president.

Mr. GESELL. Is he related to one of these principal stockholders?

Mr. WILLIAMS. No; his father was the attorney for the company when it organized and had his stock all the time. The reason I say the stock is "as is" is that we have options, there is no stock out that is not optioned.

Mr. GESELL. Then he is not related to any principal stockholder?

Mr. WILLIAMS. No.

Mr. GESELL. Mr. Richard A. Ryan; is he a vice president?

Mr. WILLIAMS. He is vice president.

Mr. GESELL. Is he your brother-in-law?

Mr. WILLIAMS. He is my brother-in-law.

Mr. GESELL. What salary does he receive?

Mr. WILLIAMS. I think the same as Johnson, I think twenty-two, twenty-three.

Mr. GESELL. \$22,500?

Mr. WILLIAMS. \$22,500.

Mr. GESELL. Am I correct in saying that Mr. E. S. Reynolds is also your brother-in-law?

Mr. WILLIAMS. He is a brother-in-law.

Mr. GESELL. What is his position with the company?

Mr. WILLIAMS. He is auditor.

Mr. GESELL. He receives \$9,000 a year?

Mr. WILLIAMS. \$9,000.

Mr. GESELL. Is Mr. William R. Burlingame related in any way to the Williams family?

Mr. WILLIAMS. He married a granddaughter of my brother and, of course, I guess—well his wife owns the bulk of that stock; he, of course, is the husband. Well, he would be my grandnephew.

Mr. GESELL. He is one of the directors of the company?

Mr. WILLIAMS. He is one of the directors.

Mr. GESELL. And receives compensation, does he not?

Mr. WILLIAMS. Well, he receives probably \$1,000 a year. I would say a very small salary, but he receives something.

Mr. GESELL. I believe you referred to the surplus of the company, Mr. Williams. What did you say it was at the present time?

Mr. WILLIAMS. Well, I think it is around eight or nine million dollars.

Mr. GESELL. Reading from your company's reply to the Commission's investment questionnaire, the following figures are shown for the surplus of the years '29 to '38 and I want to ask you if, in your best judgment, those figures are correct: \$5,051,072.39 for 1929, \$5,734,677.69 for 1930, \$8,215,779.14 for 1931, \$10,236,125.24 for 1932, \$11,949,003.01 for 1933, \$12,320,425.09 for 1934, \$12,022,076.69 for '35, \$12,275,032.55 for '36, \$8,153,172.95 for '37, \$8,807,682.09 for 1938.

Mr. WILLIAMS. Yes; that is right.

Mr. GESELL. Can you give us some idea of what the principal sources of profit have been for your company during its period of operation?

Mr. WILLIAMS. Well, of course, prior to 1910 there were Irish dividends, but since that time the bulk of them has come from the excess

interest earnings, and the other, of course, from the underwriting profits.

MR. GESELL. Your company has never made any gains from loading, has it?

MR. WILLIAMS. Yes; I think we lost money on our loading.

MR. GESELL. Your expenses have been in excess of the loading factor in the premium?

MR. WILLIAMS. Yes.

MR. GESELL. You have made money from interest earnings.

MR. WILLIAMS. Interest earnings.

MR. GESELL. Money from gains in mortality?

MR. WILLIAMS. Gains in mortality; yes.

MR. GESELL. And you have made money from lapse and surrender?

MR. WILLIAMS. Yes; on that I would like to explain that, of course, the annual statements you get show the profit that it says in there from cash surrenders and lapses. Of course, with our company there can be no lapses any more in the industrial; there can be, of course, lapses in the ordinary, and that profit in that item must be offset by the loss in special salaries which are paid to bring that up. In other words, if you didn't have those lapses you would be better off, that is the way to express it.

MR. GESELL. Yes; in other words, though it may result in some loss to the policyholder, represent a loss to the policyholder, it doesn't necessarily represent a gain to the company.

MR. WILLIAMS. No; and here is the way I look at it, Mr. Gesell. I think a life insurance policy is sort of a contract, don't you know, that, if carried out to its limit, that is to its maturity, both parties win, the company wins and makes money and the insured does; if it takes cash surrender or lapse, the policyholder loses, the agent loses, and the company loses.

MR. GESELL. Well, it is true, however, that your surplus has gained from surrenders and lapses, has it not?

MR. WILLIAMS. Yes; you release a certain amount of reserve which, of course, would go in there.

MR. GESELL. Am I correct in saying that that amount has been slightly in excess of a million dollars a year during recent years?

MR. WILLIAMS. Oh, I would say that. You are not taking into consideration the other losses; I said about special salaries.

MR. GESELL. No.

MR. WILLIAMS. Surely, you are right.

MR. GESELL. That much fund has been released to surplus?

MR. WILLIAMS. Released, that is right, that is right.

MR. GESELL. Now the gains from mortality have run considerably higher, have they not, from around \$2,000,000 up to as high as \$4,760,000 in 1938?

MR. WILLIAMS. Yes. we have had a very good mortality, which, of course, we take the credit for—watching the business. We have made it from the mortality.

MR. GESELL. You feel that is a result of good risk selection?

MR. WILLIAMS. Yes; I think it is by watching that, together with watching the other essentials.

MR. GESELL. Do you think it would be fair to say that those gains from mortality have been the principal source of profit to the company?

Mr. WILLIAMS. No; I think when you examine it that you will find excess interest earnings are, up until recently. Now that they are dropping—the interest rate—they will be; I don't think there will be any question.

Mr. GESELL. Since '29 the gains from mortality have been greater than the gains from investment income?

Mr. WILLIAMS. Yes; you mean since the depression, let us say since the depression.

Mr. GESELL. And your impression is that prior to 1929 the gains from investment income were greater than the gains from mortality.

Mr. WILLIAMS. Oh, yes. I think there is no question about that.

Mr. GESELL. Can you give us briefly some idea of what the investment policy of your company has been? You have a rather different portfolio from many companies, have you not?

Mr. WILLIAMS. Well, of course, first of all we are Irish; my father was Welsh or Irish. We sort of like to see what we have there, and of course up until the depression the main thing we invested in was real-estate mortgages. Of course since that time we all got a little bump in mortgages. I think we did not get hurt as badly as the others. We had to take over some real estate; I think you will find around \$15,000,000 of real estate, but the real estate we immediately put in such shape as to bring in a profit to us and now it nets us about 4½ percent—4 and a fraction percent, and I doubt if there is any company that realizes half of that sum from their real estate.

Mr. GESELL. In other words, you have a closely supervised real-estate account and the majority of the rest of your portfolio is pretty well in Governments, is it not?

Mr. WILLIAMS. Yes; and we did not go into competition with the big companies in endeavoring to obtain real-estate mortgages under the inflated prices, and so forth, and we have confined ourselves now pretty well to the Government issues.

Mr. GESELL. Do you feel that there are some advantages which accrue to your company by reason of the fact that the area in which it operates is limited to these eight States or portions of these eight States?

Mr. WILLIAMS. I think there is no question about that because Cincinnati is right in the center and I can reach any place over night, so that we don't hesitate to go and keep in touch with our men, you see. Now I personally, and have for many years, had what we call regional conventions, at which I have had every man and his wife present, and I can say that I sat down once a year with every agent and his wife to dinner, and I have done the same with our home office force and have kept right in touch with them, and I think that is one of the reasons why we can explain to them; in other words, when we sit down there we don't have any long talk, we just try to show the wives that this is a real business and how their husband has got an all-time job and if he gets old he can still continue, and so forth.

Mr. GESELL. Then you feel there are practical operating advantages which result from being not more than overnight from your farthest agent.

Mr. WILLIAMS. Oh, yes; especially in the insurance, because we don't write any insurance but profitable insurance. In other words we have only the life policies, the limited life policies, and the endowment policies, we don't write any reinsurance or take reinsurance;

we don't issue any group or term or annuities or anything of that nature.

Mr. GESELL. Has your company tried to expand into other States?

Mr. WILLIAMS. No; we never did. We thought seriously of going into Philadelphia at one time.

Mr. GESELL. You have felt it is best not to expand?

Mr. WILLIAMS. We know now; we know it is best not to expand.

Mr. GESELL. You think there are some disadvantages which come from size, growing too large and too rapidly?

Mr. WILLIAMS. Well, of course, we have got a one-man company now, we can watch everything, and of course our hope is—we have a little over \$900,000,000 now; we would like to have a billion-dollar company, but after that I don't think I would care to go very much farther.

Mr. GESELL. You would feel that if you got much over a billion you would find yourself losing contact with the problems of the agency force and the policyholder?

Mr. WILLIAMS. I think that would be bound to follow.

Mr. GESELL. And you might find that your company could no longer remain closely supervised as a one-man organization and it would become, perhaps, more burdened down with administrative confusion, coordinators, and things of that sort?

Mr. WILLIAMS. Yes. No matter how good a man you have, and he may be a better man than myself in this business—there are—you cannot delegate that. I tried it one time, sending some others out on some of these conventions. The men don't like it. They want to see the boss.

Mr. GESELL. And what do you feel would be the optimum size from the point of view of efficient operation of a business such as yours?

Mr. WILLIAMS. Well, of course, that depends a good deal upon the management. Let's put it this way: Is it the best thing in the world for a company to be run by one man? Of course, personally I think it is, but some prefer to have some sales work handled by committees, but I will say roughly a lot of the smaller companies are in too large a territory. In other words, I doubt if there are over 10 or 15 life companies that should be in all the States.

Mr. GESELL. Do I understand you correctly when I say that you feel that if you grow much above a billion dollars, taking the kind of business you have now, that you will have gone beyond the optimum size for efficient operation?

Mr. WILLIAMS. Oh, yes; you would, and I wouldn't want that.

Mr. GESELL. Has your company ever given consideration to mutualizing?

Mr. WILLIAMS. Well, we thought over and over. We figured this way: There has never been a mutual company that can write industrial business.

Mr. GESELL. What do you mean by that? We have a few that are writing it.

Mr. WILLIAMS. No; they started in as stock companies. You see, with the Metropolitan, I remember very distinctly that affair. They had about thirty-three millions of assets and they had about three billions of insurance in force, and I think the Prudential had about the same amount.

It may be that when we get larger, if we want to continue larger, that might be probably one of the things to do, although I am frank to tell you I am a stock man, and I think a stock life insurance company can always be operated more cheaply than a mutual company.

Mr. GESELL. You have kept pretty well to the same net cost, have you, as the mutual companies in selling?

Mr. WILLIAMS. Oh, I think we are below. I think we issue the lowest rate in the ordinary of anybody, and our industrial is every bit as low. In addition to that, in our industrial we give, of course, additional benefits at maturity of the policy.

Mr. GESELL. There are no dividends to policyholders?

Mr. WILLIAMS. No dividends to policyholders.

Mr. GESELL. You have from time to time voluntarily granted various concessions to policyholders, have you not?

Mr. WILLIAMS. Oh, yes.

Mr. GESELL. Do you recognize this document as containing the principal concessions which have been made from time to time to the policyholders of your company?

Mr. WILLIAMS. Sure; that's it.

Mr. GESELL. Some of those concessions are concessions which you have made retroactive to policies which were written prior to the time some change in the law requiring that concession for new policies came into effect?

Mr. WILLIAMS. Oh, yes; we never have put in a matter or a provision in a new policy that we didn't give the old policyholders the same benefit. We believe that the old policyholder is the man that stood by us, and we want to stand by him.

Mr. GESELL. I wish to offer this document for the record.

Acting Chairman DAVIS. This will be inserted in the printed record.

(The document referred to was marked "Exhibit No. 1016" and is included in the appendix on p. 6301.)

Mr. GESELL. You feel, then, that if there is present in the company a management which has a personal profit interest in the operations of that company that a more efficient management will result?

Mr. WILLIAMS. Oh, I think there is no question about it.

Mr. GESELL. Do you recall that a committee was appointed by the president in 1935—meaning you, the president—to consider the problem of mutualization?

Mr. WILLIAMS. Yes; that's right.

Mr. GESELL. Do you recognize this as a report of that committee made to you in 1935, or made to the board of directors, I should say?

Mr. WILLIAMS. Well, yes; that's it.

Mr. GESELL. I should like to read the portion on mutualization. It states as follows:

This matter has been given careful consideration by the committee. While there are some arguments to be advanced in favor of it, the committee is not favorably disposed to recommending it either from a general standpoint of the merits of a mutual company as against a stock company or from the specific standpoint of this company. Many of the best minds are opposed to mutualization of insurance companies and feel that the stock company is in a preferred position. Equally as reputable an opinion can be found to the contrary.

This company is in an enviable position at the present time so far as its financial structure is concerned, and we are of the opinion that no policyholder in any company in the United States is better protected at the present time by company assets and resources of unquestionable value than is a policyholder in the Western and Southern. It has been the policy of the company to build up for the protec-

tion of its policyholders a large surplus, and its public statements today show the splendid strength of the company. Mutualization would necessarily exhibit an entirely and radically different financial structure which might be misinterpreted by the insuring public. Consequently, as anything that might disturb the company's present enviable financial position should be avoided, the committee believes that action in reference to the mutualization would be inadvisable at this time.

That report was on September 10, 1935, was it not?

Mr. WILLIAMS. Yes; that is correct.

Mr. GESELL. I wish you would explain for us a little more than does this report what is meant by the fact that mutualization would necessarily exhibit an entirely and radically different financial structure.

Mr. WILLIAMS. Well, here is the situation: As I understand it, these mutual companies, especially the large companies, have to distribute dividends to their policyholders, and they can only keep a surplus, as I understand it, of about 10 percent of their reserve. Of course, our surplus is 20 or 25 percent of our reserve. We think we are stronger, and we are stronger, in proportion to our liabilities, than any other financial institution.

Mr. GESELL. Will you tell us, Mr. Williams, what you consider to be the fundamental purpose of industrial insurance? What social function is it intended to perform?

Mr. WILLIAMS. Industrial insurance, of course, has been defined by statute as being a policy under \$1,000 in which the premiums are collected weekly at the home of the policyholder.

PURPOSE OF INDUSTRIAL INSURANCE

Mr. GESELL. Yes. Now, I want to know what you consider the purpose of that type of insurance.

Mr. WILLIAMS. Well, of course, the purpose of all insurance is to take up the slack at the time of the death of the insured.

Mr. GESELL. Would you feel that the primary purpose of industrial insurance is, by and large, to provide burial for the policyholders?

Mr. WILLIAMS. No; I wouldn't say that, Mr. Gesell. I think that, as a matter of fact, we watch that very closely; that is, we would not permit an undertaker to pay any premiums on a policy, nor would we pay the policy under that facility of payment clause to the undertaker.

Mr. GESELL. Expenses of burial, the last illness, and the adjustment afterward.

Mr. WILLIAMS. Oh, yes; all of the things that go into that.

Mr. GESELL. And you would say that is primarily the purpose of selling industrial insurance, to provide funds for those emergencies at time of death?

Mr. WILLIAMS. Yes; well, it may start out that way, but I would say today that we have a fine class of policyholders; for example, today we take a city, and we do not permit them to solicit in a certain part of that city, the so-called slum part of it; we wouldn't issue any policy on a person on relief, or anything of that nature, and of course they do use it for expenses necessary.

Mr. GESELL. Is your company withdrawing from the industrial field?

Mr. WILLIAMS. Well, I won't say we are withdrawing from it, but I could see in the past few years, of course, that a man could not live entirely on his industrial unless you wanted to push him on making sales, and we found out, of course, that when you push a man who is not a salesman, it is a very poor business; for example, a real salesman can go out and write maybe a dollar and a half of business this week; if you force a man to go out and maybe he writes only 30 cents of business this week, that 30 cents is worse than the business the other man wrote. We started in to push for the ordinary; and we found out, of course, when we got our men writing more ordinary they were writing better industrial. If you notice our record now, our persistency now I think is good, if not better than any other company's.

Mr. GESELL. You felt that—to continue the salesman's point of view—to continue emphasis upon the production of industrial insurance under present-day conditions was resulting in the writing of a poor class of business?

Mr. WILLIAMS. Yes; it would.

Mr. GESELL. I was very interested in the portion of your remarks which were published in the Field News of your company on June 19, 1939, under the keynote address which you made to the managers, entitled "More Ordinary." A portion of that I would like to read to you so you see what I have in mind. Your remarks run as follows:

You are all aware of the criticism to which Industrial insurance has been subjected within the past few years and, strange to say, some Industrial agents were among the principal disturbers. In addition to that, we have radio critics and term-insurance advocates seeking to destroy the production of Industrial and curtail the earning capacity of field men in the Industrial branch. Industrial insurance first educated the people of this country to the benefits of life insurance, but to a certain extent it appears to have outlived its usefulness, one reason being that a few hundred dollars is no longer the important money that it used to be; it doesn't go as far or buy as much.

Another adverse feature was the tendency of the old-time Industrial agent to make a living off Industrial exclusively and to neglect insurance on the breadwinner of the family, where the family's life insurance should start.

So far we have not been greatly affected by restrictions concerning Industrial insurance, like the companies that operate in New York, but there is indication that this legislation will spread throughout the country and that it will become still more restrictive as time goes on. You are familiar with the spread of savings bank insurance, which is conducted without the benefit of agents or agents' commissions, and then there is the Social Security Act and other blanket insurance legislations.

I recite these facts so that we may know where we stand and that we may chart our course accordingly.

In view of the developments of recent years, it appears to the company, as it should to every man in the field, that the future rests entirely with the development of Ordinary. The real purpose of this meeting is to impress upon you managers individually and you, in turn, to impress upon your superintendents and see that they impress upon their agents, the necessity of switching to Ordinary. By switching to Ordinary I mean we must write Ordinary in volume and upon a unit basis, and we must adhere to the slogan which gave us the excellent results in Industrial: "Adequate value of Adequate Quality at Adequate Cost." This means a cost that will be profitable to our policyholders, the agents, and the company.

Do you recognize those remarks?

Mr. WILLIAMS. Yes; I do.

Mr. GESELL. From that I gather that you feel that the future of industrial insurance is not too bright.

Mr. WILLIAMS. You can put it that way. Of course, I think there will always be industrial insurance, but I was talking to the managers there. I think it is impossible any longer for an agent to live on industrial insurance.

Mr. GESELL. Do you feel that the market for industrial insurance has become more saturated than it used to be and it is harder to place a good quality of business?

Mr. WILLIAMS. Of course, when you say there is a saturation point for insurance, that I personally believe will never be reached.

Mr. GESELL. There are new people coming into the country.

Mr. WILLIAMS. New people coming in and the old ones dying off. What was that last? I lost that remark.

Mr. GESELL. I wanted to know whether you didn't think it was more difficult for an agent to sell industrial insurance today than it was during the pioneer days.

Mr. WILLIAMS. I think he must be a better salesman today than ever before.

Mr. GESELL. And as a result, the tendency may be to push men a little more.

Mr. WILLIAMS. Yes.

Mr. GESELL. And the result of that may be a poor grade of business.

Mr. WILLIAMS. It will be a poor grade of business.

Mr. GESELL. Written in families which may not be able to afford additional business.

Mr. WILLIAMS. That is right.

Mr. GESELL. And that will result, you feel, in bad selection of risks, maldistribution of insurance within the family, and from an over-all point of view poorer earnings to the company and the agents.

Mr. WILLIAMS. Yes. My sole reason there was that I think it would hurt the agent more than it would anybody else, because he will be stuck with a lot of bad business, which is always bad.

Mr. GESELL. I should think it would hurt the policyholder pretty bad, Mr. Williams.

Mr. WILLIAMS. Well, our policyholders, you see, can't lose anything in industrial. In other words, if they pay 2 weeks they have really 20 weeks' insurance, and they get an extension for the face of the policy, depending upon how many premiums they pay. We don't wait for the third year in the industrial.

Mr. GESELL. It would result, though, would it not, with a more limited market and a continual emphasis upon the sale of industrial, in policyholders taking policies they couldn't afford to carry?

Mr. WILLIAMS. Oh, yes. Whenever you issue a policy and there is a cash surrender or extension, no matter what you do, as I say, I think it is a contract which, if they both carry it out, they both make money, it is profitable; but if any one of them loses, you are right, there would be a loss to the policyholder, to the agent, and to the company. You are right.

Mr. GESELL. I have no further questions for this witness.

Mr. O'CONNELL. Mr. Williams, do you happen to know what percentage of your industrial business is done on an endowment basis?

Mr. WILLIAMS. Yes; I have those figures here for you if you wish. I think our actuary can give me that figure. Twenty percent, he says.

Mr. O'CONNELL. Twenty percent on the endowment basis?

Mr. WILLIAMS. Yes.

Mr. O'CONNELL. Are most endowments written on minors?

Mr. WILLIAMS. Yes; most of them are on people under 20. Our actuary has those figures for the endowment business. I guess we will have to change that a little bit. There is 58 percent of the premiums written on children below the age of 20 that are endowments; that is, of the insurance written on children under 20, there is 58 percent of that business, 57.9, to be accurate, on the endowment plan.

Mr. O'CONNELL. Of the insurance in force, of all your insurance in force, what percentage is endowment?

Mr. LEARSON.¹ Twenty percent of the debit collected is endowment insurance.

Mr. O'CONNELL. Is the percentage of endowment insurance that you are writing tending to increase or decrease at the present time?

Mr. WILLIAMS. I would say about the same.

Mr. LEARSON. I would say about the same. The tendency is to decrease at the present time.

Mr. O'CONNELL. In any States in which you operate are there any restrictions on writing endowment insurance?

Mr. WILLIAMS. None.

Mr. O'CONNELL. None comparable to the legislation passed in New York?

Mr. WILLIAMS. None of that.

Mr. O'CONNELL. As a matter of company policy do you put more emphasis on the sale of one type of policy than another?

Mr. WILLIAMS. No; we watch that pretty well. For example, we would not issue an endowment policy on a head of a family.

Mr. O'CONNELL. You would not?

Mr. WILLIAMS. No; we would not. We think the head of a family should get all the money he could get for that premium.

Mr. O'CONNELL. In other words, you encourage him to take straight life?

Mr. WILLIAMS. Yes, sir.

Acting Chairman DAVIS. Did I understand you to say you did not write annuity policies?

Mr. WILLIAMS. No; we do not write annuities.

Mr. O'CONNELL. How are your agents compensated, on a commission basis?

Mr. WILLIAMS. A commission plus persistency.

Mr. GESELL. The next witness, Mr. O'Connell, will discuss in some detail the agency operations of this particular company.

Mr. O'CONNELL. I have no further questions.

Acting Chairman DAVIS. That is all. Mr. Williams, we thank you for your appearance. Your testimony has been very interesting.

Mr. WILLIAMS. It has been a pleasure to me.

(The witness, Mr. Williams, was excused.)

Mr. GESELL. Mr. Ruehlmann.

Acting Chairman DAVIS. Will you hold up your right hand? Do you solemnly swear that the statements you are about to make will be

¹ R. J. Learson, actuary, Western and Southern Life Insurance Company.

the truth, the whole truth and nothing but the truth, so help you God?

Mr. RUEHLMANN. I do.

Acting Chairman DAVIS. Be seated and give your full name and position and residence for the record.

Mr. RUEHLMANN. John H. Ruehlmann, Cincinnati, vice president.

Acting Chairman DAVIS. You mean of Western & Southern?

Mr. RUEHLMANN. Yes, sir.

TESTIMONY OF JOHN H. RUEHLMANN, VICE PRESIDENT, THE WESTERN & SOUTHERN LIFE INSURANCE CO., CINCINNATI, OHIO

AGENCY SYSTEM

Mr. GESELL. How long have you been with the Western & Southern?

Mr. RUEHLMANN. Twenty-six years.

Mr. GESELL. How long have you been vice president?

Mr. RUEHLMANN. Ten years.

Mr. GESELL. Have you some particular responsibility as vice president of the company?

Mr. RUEHLMANN. Chiefly in connection with the field operations.

Mr. GESELL. You are the executive officer primarily charged with responsibility for the field operations of the Western & Southern?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. Have you been an agent yourself, Mr. Ruehlmann?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. You came up from a debit, as they say.

Mr. RUEHLMANN. Yes, sir; 36 years ago.

Mr. GESELL. You have sold, yourself, then, industrial insurance?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. How many agents does the Western & Southern have at the present time?

Mr. RUEHLMANN. Eighteen hundred fifty-four, approximately.

Mr. GESELL. Do all of those agents sell industrial insurance?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. Your agents are, I take it, then, similar to the agents of other companies we have been considering—that is, qualified to sell both ordinary and industrial.

Mr. RUEHLMANN. Yes, sir; they do.

Mr. GESELL. Each agent has a debit?

Mr. RUEHLMANN. Correct.

Mr. GESELL. I take it then you have some eighteen hundred debits.

Mr. RUEHLMANN. Eighteen hundred fifty-four; yes, sir.

Mr. GESELL. What is the average size of the debit measured in terms of premium collections?

Mr. RUEHLMANN. \$206 is the way it works out. Some are larger, of course, and some are quite small.

Mr. GESELL. Can you give us some idea of the smallest and the largest so we will have the range?

Mr. RUEHLMANN. The smaller debit will be approximately, say, about \$80. We have very few of those, and in like number we have very few in excess of \$300.

Mr. GESELL. The great bulk would be in the neighborhood of from 175 to 275?

Mr. RUEHLMANN. Two hundred fifty, say.

Mr. GESELL. How many industrial policyholders has your company?

Mr. RUEHLMANN. Two million five hundred thousand. That is policies, I beg your pardon, Mr. Gesell.

Mr. GESELL. How many policies do you figure per person?

Mr. RUEHLMANN. Approximately one and a half.

Mr. GESELL. What is the average size of the policy—industrial policy?

Mr. RUEHLMANN. \$228.

AGENCY TURN-OVER

Mr. GESELL. Now, I want to ask you a little about your agency turn-over. Do you find you have to take on a lot of new agents every year?

Mr. RUEHLMANN. Yes; that is one of the things we have to contend with.

Mr. GESELL. That is one of the big problems of your business, isn't it?

Mr. RUEHLMANN. It is; yes, sir.

Mr. GESELL. How do your finals run per year? In other words, how many men do you have to take on per year?

Mr. RUEHLMANN. The finals will run approximately 11, 12, 13 a week.

Mr. GESELL. Can you give me some idea of how many that is a year?

Mr. RUEHLMANN. Well, it will run anywhere from five to six hundred. It has been a decreasing number. This year it is considerably less than it has been in previous years.

Mr. GESELL. Do you make the usual computations to show what number of your finals are so-called chargeable finals or controllable finals?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. Do you recognize this schedule dated July 6, 1939, as a schedule which shows the ratio of chargeable finals to the number of debits at year's end for the years 1933 to 1939, inclusive?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. That schedule shows, does it not, that in 1933 you had 1,305 chargeable finals, which brought the ratio of your chargeable finals to the number of debits at the year's end to 71.5, and that for 1938 the ratio had declined steadily to 42.8 percent?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. For the first 25 weeks of 1939 it is down to 17 percent.

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman DAVIS. It may be inserted in the printed record. (The schedule referred to was marked "Exhibit No. 1017" and is included in the appendix on p. 6303.)

Mr. O'CONNELL. Is that 17 percent on a yearly basis or 17 percent for the first 25 weeks?

Mr. GESELL. That is for the first 25 weeks, I believe.

Mr. RUEHLMANN. That is correct, and on the yearly basis it would be approximately 30 percent. It won't be as heavy in the last half of the year as it is in the first half, as a rule.

Mr. GESELL. May I ask, Mr. O'Connell, how many controllable finals are shown for 1938?

Mr. O'CONNELL. Four hundred and three.

Mr. GESELL. Mr. Ruehlmann, of those 403 controllable finals—

Mr. O'CONNELL. Did you say for 1938—no; 794.

Mr. GESELL. There were 794 chargeable finals for the year 1938, were there not?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. Can you give us some idea of the various reasons for those finals?

Mr. RUEHLMANN. There would be other employment, irregularities of various natures, individuals not suited to the business, probably some insubordination of various types, and then there may be probably one or two other miscellaneous items, individuals leaving to take up other employment or probably family conditions changed where they had to move from the territory in which we were operating, or something of that sort.

Mr. GESELL. Would you say that the great bulk of them fell in two categories; either irregularities or persons not suited to the business?

Mr. RUEHLMANN. That pretty generally will cover it. Of the 794 that we had last year, there were just shortly over 100 that were for deficiency.

Mr. GESELL. That is your principal irregularity, is it not?

Mr. RUEHLMANN. Apparently it is the highest by number.

Mr. GESELL. What do you mean by deficiency?

Mr. RUEHLMANN. Improper accounting for moneys collected, or a lack of accounting for moneys collected.

Mr. GESELL. That may not necessarily mean that the agent himself has had any financial profit from the method in which he accounted for the funds.

Mr. RUEHLMANN. On the contrary, I would say that he has profited by it.

Mr. GESELL. You believe that many of those deficiencies result from the practice of excess arrears?

Mr. RUEHLMANN. I don't think they do in our case.

Mr. GESELL. They are rather cases where the agent has simply appropriated policyholders' funds?

Mr. RUEHLMANN. Correct, sir.

Mr. GESELL. When you say men are not suited for the business, you mean they can't produce?

Mr. RUEHLMANN. There are a number of things that enter into that. Men don't like selling, they have been accustomed probably to different types of employment and it is difficult for them to make house-to-house canvasses or calls. They never get set as to the new vocation and its requirements. They don't like the irregular hours which we are compelled to use, and a number of other things such as that.

Mr. GESELL. Do you recognize this memorandum as a memorandum written from your division to the president with respect to the chargeable finals in 1939?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. I would like to read this memorandum which is dated April 11, 1939, and captioned, "causes for 160 Finals in 1939" [reading from Exhibit No. 1018]:

1. Lack of Training: 89 finalized because of nonsuccess, inability to produce, dissatisfied, insufficient earnings, other employment, not qualified for business. 67 of these had been with the Company less than one year. Practically no one in this group ever made sufficient money to really become interested in the business.

Stopping there for a moment, that in effect means that some 89 out of these 160 persons who were finalized probably should never have been taken on in the first place.

Mr. RUEHLMANN. Correct.

Mr. GESELL (reading further from Exhibit No. 1018):

2. Lack of Supervision: 43 finalized for deficiency, manipulating Company funds, irregularities. 20 of these were in service less than a year.

Now, this is the comment I wish to ask you about: "Who taught them to be crooked?"

I take it by that question it was meant to indicate that these new men had learned tricks from the old agents.

Mr. RUEHLMANN. That is quite correct.

Mr. GESELL. Would you elaborate on that for us a little and explain just what was meant?

Mr. RUEHLMANN. Ordinarily the introduction and training of an agent is entrusted to a superintendent who, it is to be regretted, on occasions himself is not inclined to abide strictly by the rules. He will permit a little irregularity of this nature or that nature. The new man coming into the business gets some wrong conception of what is permitted and what is not permitted, resulting sometimes in their taking leeway which they shouldn't do, and developing into shortages of this nature.

Mr. GESELL. You have got three classifications here—deficiencies, which I take it is where the agent just takes the policyholders' funds—

Mr. RUEHLMANN. Correct.

Mr. GESELL. Irregularities, and the third, manipulating company funds. Under that heading, do you include cases where an agent has given credit to a policyholder who may be about to lapse, by taking advance payments from another policyholder?

Mr. RUEHLMANN. That is done; yes, sir.

Mr. GESELL. Will you explain that practice to us a little more, and give us some indication of why an agent would want to take the advance payments of one policyholder and put them against the deficiencies of another?

Mr. RUEHLMANN. To avoid complying with the company rules, which require that premiums in arrears 4 weeks must be reported for cancellation. When a case is lapsed it affects the salary earnings of the agent. Now, he has some policyholders, in fact the great majority will pay premiums considerably in advance, as against a small number who are in arrears and don't pay. Now, any debit to be healthy has to have lapses every week. Some agents do not learn that, and despite all of the supervision we have aiming to keep the debits clean, and by that we mean to lapse the business the instant that it ceases to pay premiums, irrespective of the D. L. P., we do have conditions such as that occurring, but they are not nearly as

frequent, as you can see from the statement you have, as one might imagine.

Mr. GESELL. It is the result basically of the compensation that is used by the company, is it not, in that the compensation method is such as to place a temptation in the way of agents to manipulate funds in this manner to keep up their compensation.

Mr. RUEHLMANN. I would have to say no to that, Mr. Gesell. That isn't the case. A man makes money by taking his lapses off promptly under our system of operation. We do not press and crowd the man for an excessive amount of production. We aim to have him produce regularly and at the same time to stimulate him through aid from his superintendent, that his earnings will stay at a reasonable level and not be subject to violent fluctuations, such as happens when he practices the payment of excess.

Mr. GESELL. Of course, what the agent is doing, though, am I not correct, is hoping that by paying premiums for the policyholder for a time, the policyholder himself will catch up and the lapse will never occur, and if that can be done then his compensation will benefit.

Mr. RUEHLMANN. That is the effect that he is trying to produce, but a real agent doesn't do that, Mr. Gesell.

Mr. GESELL. He may be misguided, but that is what he is trying to do.

Mr. RUEHLMANN. Correct.

Mr. GESELL. And the reason he is trying to do that is because of the nature of his agency contract.

Mr. RUEHLMANN. I wouldn't say that. Now, the individual who wants insurance is always willing to pay for it and the agent substituting himself for the policyholder accomplishes no real purpose. Nobody gains.

Mr. GESELL. I will come back to the contract and perhaps I can point that up a little more. I would like to offer the memorandum which we have been discussing for the record.

Acting Chairman DAVIS. That may be inserted in the printed record.

(The memorandum referred to was marked "Exhibit No. 1018" and is included in the appendix on p. 6304.)

Mr. GESELL. What is the average period of service of your agents?

Mr. RUEHLMANN. That is about 3.8 years.

Mr. GESELL. Do you recognize this schedule which I show you as the schedule showing the number of employees of the company, field, clerks, and home office, of more than 5 years' service?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. That schedule indicates, does it not, that in 1934 the total employees who had 5 years or more service numbered 32.3 percent of all employees, and by 1938 the percentage has steadily risen to 40.4 percent. I wish to offer that schedule for the record.

Acting Chairman DAVIS. It may be inserted in the record.

(The schedule referred to was marked "Exhibit No. 1019" and is included in the appendix on p. 6304.)

Mr. GESELL. Tell me Mr. Ruehlmann, what does one of these finals cost your company?

Mr. RUEHLMANN. There are some figures that you can rely upon as being more or less of a definite nature, such as the compensation of

the superintendent required to devote his entire time to going over the debit, usually for a period of 2 weeks. I would say that approximates in the neighborhood of \$80 to \$85, depending upon his compensation. Then there is the loss of business that always follows a final. That would probably be a matter again of another \$100 or \$200, making in the neighborhood of \$300 that you can see of tangible effect.

Mr. GESELL. Do you recognize this form, entitled "Minimum cost of a final" as a form which was prepared to bring graphically to the attention of the managers of the company the cost of an agent's final in their districts?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. I notice that this memorandum reads as follows [reading from "Exhibit No. 1020"]:

½ of Superintendent's average weekly earnings during final and introduction (3 weeks)-----	\$78.06
Manager's time recruiting and training new agent—10 hours at \$2.80--	28.00
Special Commission—average per final in 1938-----	85.03
Deficiencies—average per final in 1938-----	1.55
Cost of New Agent's Minimum Earnings Guarantee-----	10.86
To Manager—three-fourths time on final lapses-----	3.97
To Superintendent—4 times on final lapses-----	21.16

Multiply Number of Your Finals By this Figure----- \$228.63

which is the total of those items I have read. [Reading further:]

Losses Not Measureable In Dollars: Morale; Production; Good Will and prestige on debit; By other agents needing Superintendent; Wasted Home Office supervision and expense; Policyholders' business needlessly sacrificed; Poor collections, conservation, and lower compensation.

I take it, you think finals are a very bad thing for the company.

Mr. RUEHLMANN. We certainly do. We do everything we can to eliminate them, yes, sir.

Mr. GESELL. I wish to offer that memorandum for the record.

Acting Chairman DAVIS. Let this be inserted in the printed record. (The memorandum referred to was marked "Exhibit No. 1020" and is included in the appendix on p. 6304.)

Mr. GESELL. Let me now ask how you select agents, and what you do to train them.

Mr. RUEHLMANN. The method of recruiting is various, chiefly through solicitation by the superintendent and agents. Men come into the office, and they are contacted to become interested in the business. We prefer that individuals call of their own volition rather than to go out and induce them to leave other employment and come with us.

Following that, an application for agency is completed, and it sets forth rather voluminous information, such as the type of work the individual has been previously engaged in, whether or not he had been an insurance man before, the amount of insurance he carries on himself, his age, his dependents, what the state of his finances is, whether he would be in debt, the various societies he belongs to; and then our superintendents and our managers will go out in the neighborhood where he has been, look over some references that he may have given, and thereupon we have a retail credit bureau report made which gives us information from an entirely different source.

With the information from the application blank, the recommendations and letters of the manager and superintendent, and the credit

report, we apply all of that to what we call a rating chart, in which certain credits are given for the age of an individual, his marital status, whether he owns his own home, whether he has insurance, his previous sales ability, his schooling, whether he is a high-school graduate, and things like that, so that a man to meet all of the rating requirements measures up to 100 percent.

We will accept applicants who will obtain a mark of 85 percent and above. Below that we don't accept them.

Mr. GESELL. Then, after they have been accepted, what sort of training is given?

Mr. RUEHLMANN. The individual is handed an instruction book. He is taken out with the superintendent, introduced to the debit, given a collection book which contains a full list of the cases he is to call on, his instruction book and ordinary rate book. The superintendent then will teach him how to make his collections, how to make his account, enter his receipt books, enter up his collection book, and then stay with him absolutely for a period of 2 weeks, showing him how to interview people and how to make the sale.

Mr. GESELL. I didn't mean to interrupt you. The training is all on the debit with a man who knows the business, learning by practical experience?

Mr. RUEHLMANN. For a limited period, and then follows other training.

Mr. GESELL. You have a regular training course, do you?

Mr. RUEHLMANN. After a fashion; yes, sir. We give him a book which sort of outlines to him the things he should know about the business; we also talk with him about the various requirements of the States to obtain a license. In addition to that, we have some ordinary sales literature which is handed to him, and the superintendent's training with that agent never ceases.

Mr. GESELL. You say you have some sales literature. You had a lesson on "Closing the Sale," did you not? I would like to read you a paragraph, and see from that—this is it, is it not?

Mr. RUEHLMANN. Yes.

Mr. GESELL. I would like to read you a paragraph from this training course and see whether you think this gives the man much technical information on how to close the sale:

Try to close early in the interview. Remember when your mother was baking how she used to test the cake with a straw? If it came out sticky she put the cake back in the oven and applied more heat.

Do not hesitate to test your prospect early in the interview. If he begins to ask questions during your presentation try him out: "You would like to have this contract, wouldn't you?"

When the response to such a feeler indicates your prospect is not yet ready, turn on some more heat.

That isn't technical.

Mr. RUEHLMANN. Well, I would say that rather expresses the business pretty much as it actually happens.

Mr. GESELL. And you think that is fairly representative of the type of training that a man gets?

Mr. RUEHLMANN. That is ordinary.

Mr. GESELL. It would be equally applicable to industrial?

Mr. RUEHLMANN. I would say there is quite a difference in making industrial sales and ordinary sales, Mr. Gesell.

COMPENSATION OF FIELD FORCE

Mr. GESELL. Let me ask you, how are your agents compensated?

Mr. RUEHLMANN. They are compensated on the flat commission basis, based upon the amount of their debit, and special commission which takes into account the amount that they write over and above the amount of chargeable lapse to them, and then their ordinary commissions.

Mr. GESELL. Do they get a collection salary?

Mr. RUEHLMANN. A collection commission which will run, say, from a minimum of 12 percent to a maximum of 30 percent, the higher commission basis being on the smaller debits so as to make a more reasonable basic salary for a man to start out with.

Mr. GESELL. Then he gets a commission based upon the amount of money he collects from his debit?

Mr. RUEHLMANN. Exactly.

Mr. GESELL. Then he also receives a commission for the amount of business which he sells?

Mr. RUEHLMANN. Right.

Mr. GESELL. What account is taken as to the persistency of his business, so far as his contract is concerned?

Mr. RUEHLMANN. So far as the contract is concerned, we give him a certain number of times on the difference between this issue less his chargeable lapses. As an incentive to hold down his writings and to produce only business which will stay on the books, we do give him additional times for persistency, business which stays on the books over a period of a year to 2 years.

Mr. GESELL. But he gets immediately, does he not, his commission as he sells new business?

Mr. RUEHLMANN. Yes, sir; at the rate of 20 times the first year, plus an additional time each year up to 25 times.

Mr. GESELL. Do you recognize this schedule, which I show you now, as a schedule showing the proportion of the industrial premiums which go to agents', managers', and assistant managers' compensation?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. I notice that in the year 1925 the industrial premiums totalled \$12,198,038, that the agents' collection commission accounted for 15.4 percent of that money, that the managers' and superintendents' salary accounted for an additional 10.6 percent, and that special commissions accounted for an additional 6.2 percent; or a total of 32.3 percent in 1925 of the industrial premiums were direct compensation to the managers and district officers and field men.

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman DAVIS. Let this be inserted in the printed record. (The table referred to was marked "Exhibit No. 1021" and is included in the appendix on p. 6305.)

Mr. GESELL. Do you have any system of allotments for your men?

Mr. RUEHLMANN. No, sir.

Mr. GESELL. Do you require them to produce any definite amount of business in order to keep their jobs?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. Will you explain that answer, please?

Mr. RUEHLMANN. We set no definite allotment that a man must make. We have a minimum requirement that we call a self-sustaining unit, and that requires a man to make 10 cents a week industrial increase and to pay for \$1,500 of ordinary per month.

Mr. GESELL. And if he fails to do that, what happens?

Mr. RUEHLMANN. Failing to do that, before we come to that point, in the supervision of the agency results at the home office we are constantly pointing out to the field the lower one-fourth in the record. The attention of the managers or even the superintendents, for that matter, is directed to these under-average men and they are told to lend them whatever aid they can to build them up to become more proficient in the work that they do.

If, after a reasonable time, they fail with this additional help, there is nothing left to do but to final them out, and that is what happens.

Mr. GESELL. Do you have sales contests?

Mr. RUEHLMANN. No; we do not.

Mr. GESELL. You mean by that answer that your company does not, as a company, sponsor them?

Mr. RUEHLMANN. The company does not sponsor sales contests.

Mr. GESELL. What about the individual managers?

Mr. RUEHLMANN. There may be something to spur the interest in the offices, but so far as we know, we know of nothing of that kind.

Mr. GESELL. Is it a matter of company policy to discourage that type of business?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. Is that because you feel that contest business is of poor persistency?

Mr. RUEHLMANN. Well, we always feel that the instant that you encourage a man to do things above his average ability you are tempting him to do that which he shouldn't do; and he is apt, then, to take business which he wouldn't do under normal conditions, and of course sadly or badly affect his persistency.

Mr. GESELL. I understood Mr. Williams to say when he was on the stand that there are certain kinds of business that you won't write, certain areas in cities that you won't solicit.¹ Will you explain that in a little more detail for us?

Mr. RUEHLMANN. In the larger cities there are so-called restricted areas; that is, areas where the people of the extremely poor type reside. Anyone coming along could write them a policy today, come back next week, and the next agent will get them, too. What we aim to do, we aim to keep away from the areas where the so-called suit-case business resides.

Mr. GESELL. What kind of business?

Mr. RUEHLMANN. "Suit case"—rooming-house business, areas near the rivers and near the railroads. Ordinarily people who live there are of an extremely poor type and the business doesn't persist. It is on the books and off again, unless there were special attention paid by the local office and the home office. Business of that nature would be on the books three or four times a year.

Mr. GESELL. You stay away from relief cases?

Mr. RUEHLMANN. Absolutely.

¹ *Supra*, p. 5937.

Mr. GESELL. You stay away from slum areas?

Mr. RUEHLMANN. Slum areas.

Mr. GESELL. By and large, what is your minimum family income of the families among which you actively solicit industrial insurance?

Mr. RUEHLMANN. We have made no investigation into that at all. We aim, through our persistency compensation that we make to our agent to have him use judgment, and to keep away from writing business that is easily written, and to be selective about the type he gets.

Mr. GESELL. You have no definite rule that you shall not solicit business in families with income below a certain amount?

Mr. RUEHLMANN. That is handled pretty well through these restricted areas.

Mr. GESELL. Have you any rules as to what percentage of the family income you will permit to be taken from any family which contains policyholders from your company for weekly premium business in your company or any other company?

Mr. RUEHLMANN. No, we don't. We try and handle that through the supervision in the local office, which prevents the loading up of business on individual families or lives.

Mr. GESELL. When would you think loading took place, measured in terms of percentage of family income going to premiums?

Mr. RUEHLMANN. In an individual case it is possible entirely for one person to be able to pay \$1, and in another instance it may be difficult for him to pay 20 cents. It necessarily is governed by the individual with whom you are doing business. We try to follow and watch it by the manner in which current premiums are being paid. From that source we necessarily must rely upon the branch office for the records, as we don't keep such records at the home office.

Mr. GESELL. Would you feel that in families with income of \$40 a week or less that, if the percentage got up above 9 or 10 percent, there had been an overloading, a bad underwriting on the policy, on the rule?

Mr. RUEHLMANN. On the contrary, I know just oodles of such cases where there is no loading at all. They pay their premiums right on the nose. It is a difficult thing; you just can't measure it.

Mr. GESELL. You mean you know of cases where families are expending in excess of 10 percent of their income on weekly premium insurance and still have an over-all income of only around \$40 or \$50 a week for the family?

Mr. RUEHLMANN. I can't answer that, because I have no definite information. I would say this to you: In my experience as an agent I can recall that there were those who in those days made \$30 or \$35, when that was big money, and they were always in arrears, and there was the frugal individual with three or four children who made \$15 or \$16 a week who paid his dollar a week on the nose.

Mr. GESELL. I can see, so far as individual cases are concerned, it depends on the family. I was thinking in terms of broad underwriting rules.

Mr. RUEHLMANN. We don't have any.

Mr. GESELL. Does your company sell monthly business?

Mr. RUEHLMANN. No; we do not.

Mr. GESELL. All weekly?

Mr. RUEHLMANN. And all ordinary.

Mr. GESELL. Do you encourage payments in advance?

Mr. RUEHLMANN. We encourage reasonable advance; yes, sir.

Mr. GESELL. Do you think that if anyone looks at the debit books of an agent in your company he would find a considerable amount of insurance where the families were a month ahead?

Mr. RUEHLMANN. I think they would.

Mr. GESELL. Do you think you would find a considerable number of cases where the policyholders paid by the month?

Mr. RUEHLMANN. I think there would be less of that number. There would be some, but there would be less of that.

Mr. GESELL. Of course, if a policyholder can pay that way he gets his insurance cheaper, doesn't he?

Mr. RUEHLMANN. That doesn't follow. Most times that is at the convenience of the policyholder. Pay days are monthly in many instances, and the agent arranges to call at the convenience of the policyholder on pay day, whenever that may be.

Mr. GESELL. I wondered why your company didn't offer monthly business to such policyholders.

Mr. RUEHLMANN. We just feel satisfied as we are going on now. We have talked about it, and been planning on it, and as a matter of fact, a committee has the matter under consideration now.

Mr. GESELL. For those policyholders who can afford to pay monthly, they would be able to get their insurance cheaper, wouldn't they?

Mr. RUEHLMANN. Probably so; but it is up to the individual's notion whether they want to pay monthly or not.

Mr. GESELL. Coming back to a couple of other matters, do you expect your agents to do much night work?

Mr. RUEHLMANN. We expect them to make night calls; yes, sir.

Mr. GESELL. Coming to the question of sales contests again a moment, you do have such things as founder's week, industrial-policy week, Legion week, and ordinary-policy week, do you not?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. What are those weeks?

Mr. RUEHLMANN. Founder's week—our company was incorporated February 28, 1888, and founder's week is always used to commemorate that occasion, and we use it and sort of write the agent an encouraging letter to step up the production a little bit on that particular week.

May 7 is the anniversary of our policy week. I forget exactly what we call that. Isn't that industrial-policy week?

Mr. GESELL. Industrial-policy week; yes.

Mr. RUEHLMANN. Our first issue comprised 11 policies, if I have that figure right in mind, and there is one particular thing of interest there. There were nine of those policies that remained on the books when we first began to use this.

Mr. GESELL. These special weeks, Mr. Ruehlmann, are weeks designed to step up production, aren't they?

Mr. RUEHLMANN. They do have that particular effect; yes.

Mr. GESELL. There is no monetary advantage to anyone who participates?

Mr. RUEHLMANN. None whatever.

Mr. GESELL. But they are from the point of view of home-office policy an occasion when production can be stepped up beyond the usual rate.

Mr. RUEHLMANN. Right.

Mr. GESELL. So they may have, may they not, some of the same evils as in the other kind of sales contest that you were talking about?

Mr. RUEHLMANN. They are distinctly in a different class from sales contests as I think of sales contests.

Mr. GESELL. You think they are in a different class because of the monetary situation?

Mr. RUEHLMANN. They are not required to do certain things. They are more of a matter of everybody participating in them, and you are not asked to write over your head or anything of that sort.

Mr. GESELL. From the point of view of your company's lapse ratio, give us some idea of the percentage of your policies sold during 1931 which lapsed by the end of the second week.

Mr. RUEHLMANN. I don't believe 1931 is here, Mr. Gesell. Oh, yes, here it is, I am sorry. About 15.7.

Mr. GESELL. And by the end of 1931, the conclusion of 52 weeks?

Mr. RUEHLMANN. 65.33.

Mr. GESELL. In other words, 65.33 of the policies sold during 1931 lapsed before they had been in force a year?

Mr. RUEHLMANN. Yes, sir.

Mr. GESELL. Coming down to your 1937 experience, what percent of the policies sold during '37 had lapsed before they had been in force 52 weeks?

Mr. RUEHLMANN. After 52 weeks it is 38.8.

Mr. GESELL. And the number which lapsed after 2 weeks?

Mr. RUEHLMANN. Was 7.2.

Mr. GESELL. I should like to offer for the record a schedule prepared from the work sheets of the company, reflecting industrial persistency for the years 1931 to '38 of the Western and Southern.

Acting Chairman DAVIS. Without objection, let that be inserted in the printed record.

(The schedule referred to was marked "Exhibit No. 1022" and is included in the appendix on p. 6305.)

Mr. GESELL. I have no further question of this witness.

Mr. O'CONNELL. What percentage do you pay your agents for the acquisition of new business? What rate of commission?

Mr. RUEHLMANN. Contractually, 20 times the first year, with an additional 1 time for each year of service up to 25 times.

Mr. O'CONNELL. Each year of service on the part of the agent?

Mr. RUEHLMANN. Each year of service on the part of the agent.

Mr. GESELL. That is 20 times what?

Mr. RUEHLMANN. Twenty times the increase in premium; for instance, if an agent issued new business of \$0.75, and there were cancelled \$0.30, his increase would be \$0.45, and we would pay him 20 times \$0.45, or \$9.

Mr. GESELL. And does that take in the account death and cancelations from maturity of policy?

Mr. RUEHLMANN. No. Lapses which are beyond the control of the agent, such as deaths, maturities, and disabilities, are not chargeable. The agent is relieved of that entirely.

Mr. GESELL. So it is 20 times the increase taking in the account only chargeable lapses.

Mr. RUEHLMANN. Right. There are other cancelations that he is relieved from by transfer, such as the expiration of the premium-

paying period, or when policies become fully paid up by reason of the age of the insured.

Mr. O'CONNELL. And there is no difference in the ratio dependent upon the type of insurance written?

Mr. RUEHLMANN. Oh, yes. You mean as to plan?

Mr. O'CONNELL. Yes.

Mr. RUEHLMANN. None whatever. It is all based strictly on a premium basis. As a matter of fact, when those computations of salary are made the bookkeepers know nothing about whether it be life or endowment business. There was a period in years gone by when we deferred payment of special commission on endowment business. We tried to discourage its sale.

Mr. O'CONNELL. You think there was a natural tendency on the part of the agents to push the sale of endowment policies?

Mr. RUEHLMANN. No; there were particular conditions at the time, during the depression period, but we wanted the greatest amount of money to go out, insurance to be issued, for the premium which was sold.

Mr. O'CONNELL. You mean you get less insurance for endowment policies?

Mr. RUEHLMANN. You do because it runs for a period and the money has to come back.

Mr. O'CONNELL. Conversely, I take it the compensation of the agent would be greater for an equivalent amount of endowment insurance than any other type.

Mr. RUEHLMANN. No, indeed. We can't see it at all. We leave that entirely to the choice of the person who wants to buy insurance.

Mr. O'CONNELL. Would not a \$500 endowment policy pay a substantially higher premium than a \$500 ordinary?

Mr. RUEHLMANN. I see what you mean.

Mr. O'CONNELL. So the compensation of the agent would be greater.

Mr. RUEHLMANN. It would take a higher premium, but the opportunity to sell \$500 industrial endowments with our company is strictly limited. There is practically no endowment business written in our company on lives after 20 years of age. Nearly all of the endowment business of our company is on the so-called infantile lives, from birth to age 10, a reducing amount written from ages 10 on up to 19.

Mr. O'CONNELL. Well, endowment insurance would still be a more profitable type of insurance for the agent to sell.

Mr. RUEHLMANN. That is regulated somewhat by the amount of insurance which we will permit to be written on a given risk.

Mr. O'CONNELL. How do you regulate the amount of insurance?

Mr. RUEHLMANN. Well, the first year we won't take over \$500; thereafter we limit it again as to the amount which may be taken the second, the third, the fourth, or the fifth year until the total amount on the individual life is in force.

Mr. O'CONNELL. That is, whatever type of insurance he wishes to take.

Mr. RUEHLMANN. The plan is up to the individual; yes, sir.

Mr. O'CONNELL. Do you take into account insurance held by other companies?

Mr. RUEHLMANN. Yes; we do.

Mr. O'CONNELL. When you accept an application, is the applicant required or expected to tell you what insurance he has in force with other companies?

Mr. RUEHLMANN. Yes; the question is asked; yes, sir.

Mr. O'CONNELL. I have no further questions.

Acting Chairman DAVIS. Mr. Ruehlmann, you are excused. We appreciate your appearance.

Mr. GESELL. The next witness is Mr. Davis. If the committee will permit, Mr. Cardozo will examine him. We won't be able to complete, however, before the customary 12:30 recess. What is the committee's pleasure?

Acting Chairman DAVIS. The committee will stand in recess until 2 o'clock.

(Whereupon, at 12:15 p. m., the subcommittee recessed until 2 p. m. of the same day.)

AFTERNOON SESSION

The subcommittee hearing was resumed at 2:05 p. m., upon the expiration of the noon recess.

TESTIMONY OF MALVIN E. DAVIS, ASSISTANT ACTUARY, METROPOLITAN INSURANCE CO., NEW YORK—Resumed

ACTUARIAL STUDIES

Acting Chairman DAVIS. Mr. Davis has been sworn. We have your name and position already in the record.

Mr. DAVIS. Yes.

Mr. CARDOZO. Mr. Davis, you are the assistant actuary of the Metropolitan in charge of the industrial department, are you not?

Mr. DAVIS. I am.

Mr. CARDOZO. Will you just tell us again how many industrial policies there are in force? Perhaps this will help you; as of December 31, 1938.

Mr. DAVIS. 33,957,874.

Mr. CARDOZO. Does that include weekly and monthly?

Mr. DAVIS. Weekly and monthly industrial premium policies.

Mr. CARDOZO. Thank you. Now, would you tell us the average size of these industrial policies?

Mr. DAVIS. Our weekly premium policies are in the neighborhood of \$250.

Mr. CARDOZO. And that includes weekly premium policies which are paid up under nonforfeiture benefits?

Mr. DAVIS. Yes.

Mr. CARDOZO. Question 1 C; that shows that the weekly premium paying policies average \$238.90 without dividend additions or with?

Mr. DAVIS. That is correct, as of the end of 1937.

Mr. CARDOZO. I would like to refer to that figure a little further down, weekly policies in force under nonforfeiture provisions; what is the average size of that policy?

Mr. DAVIS. \$46.36.

Mr. CARDOZO. What is the average size of the weekly premium endowment policies? I think you stated yesterday an estimated average.

A rough estimate will be satisfactory.

Mr. DAVIS. About \$200.

Mr. CARDOZO. The average size of the weekly premium industrial endowment policy?

Mr. DAVIS. Yes; exclusive of our long-term endowment. Those are the short-term endowments, endowments of terms of less than 30 years, frequently referred to as short-term endowments.

Mr. CARDOZO. We have had some testimony as to the difficulty of estimating the number of policyholders that there are in the industrial department. Would you describe why that is so difficult—what the problems are connected with making that estimate?

Mr. DAVIS. The records that we keep are based on policies rather than policyholders, because our liability under our contracts is according to policies. One policyholder has two or three policies on his life; we still have to keep our records for each one of those policies individually, consequently we keep a record of the policies rather than the policyholders. No practical purpose would be served by going to the expense of keeping a running record of the number of policyholders. We can estimate that from our records of the claim papers.

Mr. CARDOZO. In other words, you take the number of policies on the average claimant—I mean on the average deceased person.

Mr. DAVIS. Yes; not one grand average; we break that down according to years in which the policies were issued. We break the business up into a number of classes and apply that ratio of policies to policyholders for each one of those classes.

Mr. CARDOZO. By doing that can you tell us what the estimated number of policyholders is, either as of last year or at present, or any recent year?

Mr. DAVIS. We estimate that we have insured under all our industrial policies about 22½ million persons.

Mr. CARDOZO. That is in the industrial department, Mr. Davis?

Mr. DAVIS. In the industrial department.

Mr. CARDOZO. That includes weekly and monthly policies?

Mr. DAVIS. Weekly and monthly, all industrial business.

Mr. CARDOZO. You don't have it broken down by weekly and monthly?

Mr. DAVIS. No; I haven't.

Mr. CARDOZO. I understand that the Metropolitan issues many policies on new-born children. Can you tell us if there are any figures showing how many births there are in relation to the number of policies that are issued to new-born children?

Mr. DAVIS. We insure about every fifth man, woman, or child in the United States and Canada, and we insure in the first year of life about one-fifth of the number of children born.

Mr. CARDOZO. Are there some States, do you suppose, in which you insure one out of every three children born?

Mr. DAVIS. Yes; and we will probably insure one out of three of the entire population. In the more concentrated industrial type of State we would have a larger proportion of the total population insured and would insure a larger proportion of the young children born.

Mr. CARDOZO. Yesterday there was some testimony from the actuary of the Prudential on the effect that the New York law, in effect prohibiting endowment insurance, has had on new issues.¹ That tes-

¹ See testimony of F. Bruce Gerhard, *supra*, p. 5901.

timony showed that there had been more monthly premium ordinary and regular ordinary insurance sold, apparently by the agents who previously were selling principally industrial insurance. Can you tell us whether any similar result has been felt by the Metropolitan?

Mr. DAVIS. Last year we issued weekly premium insurance, industrial monthly premium insurance, ordinary monthly premium insurance, as well as the regular quarterly, semiannual- and annual-premium ordinary policies. This year, when we were prevented from issuing industrial endowments, policies that last year we wrote as monthly premium industrial endowments are being written this year as monthly premium ordinary endowments, as special intermediates. We introduced a new classification of ordinary policies called special intermediates, where we issued policies for \$500 and \$750.

Mr. CARDOZO. Are those monthly premium policies?

Mr. DAVIS. Monthly premium, monthly debit policies. We collect the premium monthly at the home of the insured.

Mr. CARDOZO. Can you say offhand whether those policies are less expensive than the weekly premium policy?

Mr. DAVIS. There is no reason why they should be. We are insuring the same persons that we were undoubtedly insuring last year under monthly premium industrial policies. They would have the same mortality. The size of the policy is about the same. We collect those premiums monthly. Practically all the elements of expense will be the same, plus the fact that certain provisions that must be incorporated in ordinary policies may make them somewhat more expensive.

Mr. CARDOZO. Such as loan values, you mean?

Mr. DAVIS. Loan values, settlement options, and the various requirements of ordinary policies.

Mr. CARDOZO. Will the agents get as high commissions on the monthly ordinary policies as they would have on the weekly industrial policies?

Mr. DAVIS. We are speaking of a transfer of monthly industrial to monthly ordinary, and so far as the agents are concerned, their compensation is exactly the same.

Mr. CARDOZO. I am sorry, my original question was to find out whether or not the monthly ordinary policies are less expensive than the weekly industrial policies.

Mr. DAVIS. That is true, but there is no indication that we have written this year any policies as monthly ordinary that last year we were writing as weekly industrial. In fact, indications are from analysis of our figures that most of the business that we were writing last year as weekly premium endowment business we are just not writing at all this year.

Mr. CARDOZO. You are writing less industrial business this year than last year?

Mr. DAVIS. Considerably less.

Mr. CARDOZO. By number of policies?

Mr. DAVIS. And from any other standpoint.

Mr. O'CONNELL. As of what date were you prohibited from writing endowment policies?

Mr. DAVIS. The beginning of this year.

Mr. O'CONNELL. So you wrote endowment industrial insurance all through 1938?

Mr. DAVIS. All through 1938.

Mr. O'CONNELL. And you say your figures indicate you are selling less industrial insurance of the types you sell now than you sold of all types last year?

Mr. DAVIS. That is right.

Mr. O'CONNELL. Have you any percentage figures?

Mr. DAVIS. I have some figures; yes. Our principal plans are our life paid up at age 75, which is the whole-life contract with premiums limited to age 75; a 20-payment life, and last year a 20-year endowment policy. At the infantile ages, that is at ages 1 to 9, we wrote 371,000 weekly premium policies last year on these plans. This year we wrote 234,000. Both figures referred to are for the first half of each year, respectively.

Mr. O'CONNELL. Both figures are for 6 months?

Mr. DAVIS. For 6 months; yes.

Mr. CARDOZO. Have you written more monthly premium policies, either industrial or ordinary, this year than last year, including intermediate policies?

Mr. DAVIS. We did not write monthly premium policies at the infantile ages last year, consequently when we made a comparison on monthly premiums we would limit our figures to business issued at age ten and over.

Mr. GESELL. Did you write more of these policies?

Mr. DAVIS. On the life plans we wrote in the first 6 months of this year, 79,000 fewer weekly premium policies at the adult ages, that is age 10 and over, and 70,000 more monthly premium policies, both industrial and these special intermediate policies.

Mr. CARDOZO. And at the infantile ages you started writing monthly premium policies in which department, in the ordinary department or the intermediate department?

Mr. DAVIS. We are not writing monthly premium intermediate policies at the infantile ages.

Mr. CARDOZO. Did you start writing some new policies under age 10?

Mr. DAVIS. Yes; ordinary policies for \$1,000.

Mr. CARDOZO. They are not monthly premium policies?

Mr. DAVIS. Yes; they may be monthly premium.

Mr. CARDOZO. And have you written a considerable number of those?

Mr. DAVIS. Six thousand in the first half of this year, on a monthly premium basis.

Mr. CARDOZO. Would you say there is some increase in your monthly premium business even at the ages over 10?

Mr. DAVIS. There has been some transfer at the older ages, that is age 10 and over, between weekly and monthly premium business.

Mr. CARDOZO. And you mean by that that there is some increase in the monthly premium business?

Mr. DAVIS. To offset the decrease in the weekly.

Mr. CARDOZO. And the economic conditions have been such that that would account for the increase?

Mr. DAVIS. The increase is probably accounted for by an action taken voluntarily by us, of limiting our weekly premium business to policies for amounts less than \$500, which would naturally result in some of those policies being written on a monthly premium basis.

Mr. CARDOZO. Has there been any time when you wrote more weekly premium endowment policies than you wrote whole life weekly premium policies?

Does that table show whether or not you issued more short term endowment policies in 1925?

Mr. DAVIS. We did.

Mr. CARDOZO. Was it considerably more?

Mr. DAVIS. Yes; we wrote \$700,000,000 in short-term endowment insurance and \$400,000,000 on the life or long-term endowment plans.

Mr. CARDOZO. Do you suppose the ratio would be even greater if it were by number of policies?

Mr. DAVIS. Yes.

Mr. CARDOZO. You wrote considerably more endowment policies in that year?

Mr. DAVIS. Yes.

Mr. CARDOZO. At that time a man who bought, for instance, a \$200 endowment policy would pay considerably higher premiums than a man who bought a \$200 whole-life industrial policy, would he not?

Mr. DAVIS. Naturally, there is a savings element in the premium.

Mr. CARDOZO. And that savings element builds up a larger reserve?

Mr. DAVIS. Quite true.

Mr. CARDOZO. If he stopped paying premiums before he had paid for 3 years would he have received any of that savings?

Mr. DAVIS. Not on policies issued prior to 1937. Since then he will receive a benefit if he has paid premiums for at least 6 months.

Mr. CARDOZO. But prior to that time a policyholder who took out an endowment policy of \$200 would forfeit a considerably larger amount of this saving than a policyholder on a whole life policy.

Mr. DAVIS. Such savings as there might be in the policy, yes.

Mr. CARDOZO. Well, there might be a considerable amount for somebody in the Industrial department, might there not?

Mr. DAVIS. The word "considerable" has a rather wide latitude.

Mr. CARDOZO. Would there be as much as \$30 in the reserve on a \$200 policy?

Mr. DAVIS. If you speak of the "reserve" as being equivalent to savings, I don't think that is correct.

Mr. CARDOZO. What is the difference?

Mr. DAVIS. The reserve is a theoretical figure predicated on the assumption that a company's expenses are the same each year, that is, it is based upon a net level premium which permits a loading margin, a difference between the net level premium and the level premium charged the policyholder, of a constant amount each year. The expenses during the first year are considerably heavier than they are in subsequent years, consequently the company is not able to build up that reserve for a number of years, and even afterward, though the company's records may indicate that the company has the full reserve, that still is not the true accrued amount for the policyholder, because the expense of the canceling transaction is not considered. Furthermore, we have made quite a detailed study of the subject here recently as we have in some previous years, and there is a decidedly higher

mortality on people who remain after there is a heavy period of termination when we go past the first year or two. In other words, there is a mortality selection on the part of the people withdrawing. Sick people don't cancel their policies.

Mr. CARDOZO. But from the point of view of the policyholder, isn't it correct to say that he pays a larger premium than the mortality requires, so that when he gets older he won't have to pay an increasing premium?

Mr. DAVIS. That element is not reflected by the reserve in the early years; it is a good deal less than the reserve.

Mr. CARDOZO. But that is the purpose of the reserve, isn't it?

Mr. DAVIS. As over a long period of time, yes, but not in the first period and we were discussing the situation the first few years.

Mr. CARDOZO. You mean that the purpose of the reserve in the first year or two might be said to—you were going to say there is no reserve the first year or two.

Mr. DAVIS. Quite rightly there may not be, there may be on some policies, probably not on others. In other words that word "reserve" is not an actual figure, it is purely a theoretical figure. In fact, there is no such thing as the reserve under a policy, it may be computed on several different bases, with widely different amounts.

Mr. CARDOZO. You have been holding reserves on your industrial policies on the standard industrial table at 3½ percent.

Mr. DAVIS. That is true. That doesn't mean, however, that each policy's share is the amount that those figures might indicate we hold against that policy.

Mr. CARDOZO. You say you are now paying some nonforfeiture benefits in the form of extended insurance after the policy has been in force for 26 weeks?

Mr. DAVIS. That is correct.

Mr. CARDOZO. Is that because you have now decided that there is sufficient reserve built up on those policies so that you can pay that?

Mr. DAVIS. We do grant an allowance now to the surrendering policyholder after he has paid premiums for 6 months, because we find that with the decreasing expense rate we have been experiencing over a number of years we have reached the point where we can make the allowance. That allowance is not the reserve.

Mr. CARDOZO. It amounts to less than the reserve?

Mr. DAVIS. A good deal less than the reserve after 6 months. That has been brought about by a decrease in expense rates. In 1907 our renewal expense rate was 25.8 percent of our premiums. That is 30 years ago. In 1922 it was 23.5; in 1937 it was 18.6 percent. Now that reducing expense rate does make it possible for us to collect a fund earlier than we were able to do in the past.

Mr. CARDOZO. And you decided that that period has been 2½ years earlier than it used to be?

Mr. DAVIS. Yes.

Mr. CARDOZO. To come back to the endowment policy, is there more expense incident to putting the endowment policy on the books, a \$200 endowment policy, than to put a \$200 whole life policy on the books?

Mr. DAVIS. Yes. Industrial insurance——

Mr. CARDOZO (interposing). I should say, was there more expense in the earlier days?

Mr. DAVIS. I understand. Yes; because industrial insurance is treated in terms of the premium; that is, in the main an agent will sell not a hundred dollar policy but a policy calling for a premium of 25 cents. That may be written on the endowment plan or it may be written on the life plan. For selling that 25-cent premium he gets the same commission—he used to prior to recent times—whether it was on the endowment plan or on the life plan, but if it is related to the insurance, it is more on the endowment plan.

Mr. CARDOZO. I would rather relate it to insurance, because perhaps the policyholder would think that he needed, say, \$200 of insurance, for whatever purpose he wanted his industrial insurance for.

Mr. DAVIS. That is an assumption that I think there is evidence against, because most of our endowment policies are written on the lives of children, and as was disclosed among other factors by the examination, or a field study made by the examiners of the New York Insurance Department, 92 percent of the people, even after a representative of the State asked them again whether they did not realize that they could get more insurance for their money if they took the whole life or some other long-term plan rather than a short-term endowment, specified they realized the amounts were less but they wanted the endowment. So it is not that they are buying the insurance, they are buying the savings element as well as the insurance protection, because undoubtedly industrial insurance is not purely burial insurance. It has served many valuable purposes other than just providing a sum of money at time of death.

Mr. CARDOZO. As a matter of fact, though, the average endowment policy is around \$200.

Mr. DAVIS. Somewhere around there.

Mr. CARDOZO. And the average whole life policy is around \$230?

Mr. DAVIS. Probably a little bit more than that.

Mr. CARDOZO. It is somewhere between \$200 and \$250 for both of them, and therefore it seems as though the policyholder did want policies of around \$200 to \$250. Now, is there more expense for a policy of that size in the endowment plan than in the whole life?

Mr. DAVIS. Well, yes; and there should be.

Mr. CARDOZO. What is that due to?

Mr. DAVIS. It is due to the fact—that is what I was mentioning before—that we pay the agent according to the premium that he writes, so that he would get the same on writing the same premium irrespective of what plan he writes.

Mr. CARDOZO. He gets a higher commission on a \$200 endowment policy than on a \$200 whole life policy, so there is a little more expense incident to writing an endowment policy than to writing a whole life policy.

Mr. DAVIS. Of course, when you write an endowment policy and conduct endowment business you not only conduct a life-insurance element but also a savings element, and you would naturally expect more expense.

Mr. CARDOZO. Would that account for the reason why you did not give any earlier nonforfeiture benefits on the endowment policies than you did on the whole life policies?

Mr. DAVIS. If I understand your question, you say that with a higher expense, why did we pay them as early as we did on the life?

Mr. CARDOZO. I asked whether that accounted for your not paying them earlier.

Mr. DAVIS. Because of our expense we didn't pay them any earlier than we did. That also accounts for it on the life plan. In general we found that we were not in a position, when we made our rates, to permit a value prior to 3 years, until we made our studies in 1934 and 1935 and 1936 and found that we were getting, due to decreased expenses, or accumulating, funds earlier that would permit us to make an allowance. For instance, most of the endowments are written on the lives of children. At age 5, for instance, I recall, where the premiums are paid for a year now, and discontinued, that policy gets paid-up insurance in addition to the year for which premiums were paid for 1½ years.

Mr. CARDOZO. Before 1937 the policyholder who took out a whole-life policy, let's say at age 2, which was a very popular age, wasn't it, in 1918 or 1925—

Mr. DAVIS (interposing). Prior to 1923 we did not issue business below age 2. Since then, age 1 has been the popular age.

Mr. CARDOZO. At age 2 a policyholder who took out, say, a \$200 or \$250 endowment policy, 20-year endowment, would pay about \$12 or \$13 a year, wouldn't he?

Mr. DAVIS. Our rates were that at all infantile ages, for 5 cents a weekly premium the amount of insurance would be \$50. That is, for 25 cents a week it would be \$250.

Mr. CARDOZO. That would be \$13 a year?

Mr. DAVIS. That's right.

Mr. CARDOZO. And for a whole-life policy for \$250 would it be somewhere between \$3 and \$4 a year?

Mr. DAVIS. At age 2? Somewhere in there.

Mr. CARDOZO. In other words, there would be about a \$10-a-year difference, perhaps slightly less.

Mr. DAVIS. Yes.

Mr. CARDOZO. For the first 3 years the policyholder who had the endowment policy would pay in something like \$30 more than the man with the whole-life policy?

Mr. DAVIS. That's right.

Mr. CARDOZO. And if he stopped paying premiums just at the end of 3 years, just before he got into the nonforfeiture benefits, he would have received just exactly the same as the holder of the whole-life policy, would he not? In other words, he would have been covered for 3 years.

Mr. DAVIS. That is right.

Mr. CARDOZO. And he would have paid in about \$30 more.

Mr. DAVIS. That is right.

Mr. CARDOZO. Do you suppose that the higher agent's commission would account for that extra \$30?

Mr. DAVIS. It would certainly go a long ways to do that. I don't know, not having the figures exactly, how those things would balance up. The fact that we were accumulating a little better condition with premiums paid more than 3 years was the reason why we started to give values at the beginning of 1937 after premiums had been paid for 6 months.

Mr. CARDOZO. Had you made studies previous to 1937 to see whether you could do that?

Mr. DAVIS. We made studies prior to 1929. It has been our practice to revise our general premium rates in general about every 10 years. We started in 1879 with a set of rates, we revised them in 1887 or 1888, we revised them in 1896, again in 1907 to 1909, and again in 1916. In 1926 we again undertook studies as to what increases we could make in our benefits. At that time we noticed and we took into account the fact that we were starting to write larger premiums, larger individual premiums per policy, and we felt possibly the persons who were taking out larger policies could to some extent pay their premiums monthly and that we could issue monthly premium industrial policies for the larger amounts. So in 1927 we introduced industrial monthly premium policies with a lower premium rate.

With the introduction of the monthly premium policies, we were splitting what we were formerly writing as weekly premium business. We did not know what the effect would be on weekly premium business to be issued thereafter, both on mortality and expense. Some of the saving we have been able to make in monthly premium expense would be lost to weekly premium business because the larger policies would no longer be in that class. Furthermore, we also did not know to what extent the better risks might take in monthly premium policies, causing us a lower mortality gain on weekly premium business. So we postponed immediate revision at that time of weekly premium rates to await some experience with our business after we had taken the monthly premium policies off as a separate class. Unfortunately, before we were able to get any kind of an experience, we had the depression.

Mr. CARDOZO. So in about 1935 you felt your studies showed that you probably could have put into effect—

Mr. DAVIS (interposing). I was just coming to that. So at the beginning of the depression we postponed studies of revision of rates to await the passing of the depth of the depression to see what we could expect under normal current conditions. In 1935 we again began to study the possibility of introducing a new set of rates. We have been working on that since then and still have not been able to complete our work.

Mr. CARDOZO. But again in 1935 you might possibly have been able to put into effect this nonforfeiture benefit after 6 months, according to your figures, if it hadn't been for the depression?

Mr. DAVIS. The change from 3 years to 6 months obviously did not occur overnight. It was a development.

Mr. CARDOZO. But in 1935 by far the largest number of your industrial policies that terminated before their natural culmination terminated within the first 26 weeks, did they not?

Mr. DAVIS. I am not sure that I understand your question.

Mr. CARDOZO. Didn't the largest number of lapses of the first 3 years occur within the first 26 weeks?

Mr. DAVIS. Yes; that is true. That is our general experience.

Mr. CARDOZO. And by the time your policies have been in force for 3 years they are much more persistent.

Mr. DAVIS. They are much more persistent after they have been in force for 6 months, in fact. There is undoubtedly the fact that the

human instability of intentions makes itself felt in our business as well as in other businesses. People do change their mind, and policies that are written are subject to that constant change of mind on the part of the policyholder. He has embarked on a program and the temptation is to change his mind and use the money for something else.

Mr. CARDOZO. That accounts for the early lapse.

Mr. DAVIS. That is a very important factor in the early lapse. The longer he has paid premiums, the more he is interested and used to paying those and the more he will persist. Consequently, we do find a very rapid drop in our lapse rate. In fact, it is our current experience that we lose about one policy out of five that we write—we lose that during the first 6 months. For policies that do persist for 6 months, they stay on the average for 12½ years, and that in spite of the fact that many of the policies, like the 15-year endowment, can only pay premiums for 15 years while the 20-year endowment, and 20-payment life policies can only pay premiums for 20 years.

Mr. CARDOZO. Those 1-out-of-5 that lapse within the first 26 weeks do not receive any nonforfeiture benefits?

Mr. DAVIS. They do not.

Mr. CARDOZO. I would like to move on to the next subject. Do you pay dividends in the industrial weekly policies?

Mr. DAVIS. We pay our annual dividends in the form of premium credits.

Mr. CARDOZO. There are some other dividends, mortuary and maturity, are there not?

Mr. DAVIS. We have mortuary and maturity dividends that we pay on death or maturity of the policy.

Mr. CARDOZO. Does the policy state the manner in which the weekly premium annual dividends will be paid?

Mr. DAVIS. No; it does not.

Mr. CARDOZO. It just says they will be paid in accordance with the decision of the company.

Mr. DAVIS. With the approval of the superintendent of insurance; yes.

Mr. CARDOZO. Is there any place that the industrial weekly premium policyholder can go to find out how his dividends are computed or what their amount is? Is there any public record of any kind?

Mr. DAVIS. Where they can find what their amount is?

Mr. CARDOZO. Their amount and how it is computed.

Mr. DAVIS. We publish a pamphlet, a booklet for distribution to our industrial policyholders, which sets forth the dividend scale. That will tell him for policies issued in a certain year, his policy number falls within a certain range, there is a premium credit due him of 7 or 8 or 10 weeks, whatever the case may be. Of course, it will not calculate that in dollars or cents, but that is a simple matter for him to do.

Mr. CARDOZO. Do you put it in the annual statement, in the annual report of your company?

Mr. DAVIS. No.

Mr. CARDOZO. You do put in something for your ordinary policyholders in there?

Mr. DAVIS. That is right.

Mr. CARDOZO. Is that because the New York statute requires it?

Mr. DAVIS. That is a legal requirement; yes.

Mr. CARDOZO. Why isn't it put in for the industrial department?

Mr. DAVIS. There is no requirement for it and I can't testify why it hasn't been made a requirement.

Mr. CARDOZO. You mean that the statute doesn't require it? I don't want you to interpret it. I will read the statute, section 103, of the insurance law of New York.

In addition to any other matter which may be required by law or pursuant to law by the Superintendent of Insurance to be stated therein, every annual report of every life insurance corporation doing business in the State of New York made pursuant to Section 44 of this Chapter, shall contain an accurate, concise, and complete statement of the following matters: to wit * * *

And then subdivision 12:

The rates of annual dividends declared during the year for all plans of insurance, for policies issued during each of the last five years, and during each fifth year of the preceding seventy years, and for ages at entry, 25, 35, 45, and 55, and the precise method by which such dividends have been calculated.

As far as you know——

Mr. DAVIS (interposing). Of course, we receive an annual statement blank made up by the commissioners of insurance of the States in which we supply the data that the commissioners deem they need under the law, plus any additional data that they desire.

Mr. CARDOZO. Do you ever add any material to that statement that isn't actually required?

Mr. DAVIS. Not in addition to the schedules; no. We may add another line under disbursements on that page of the statement if we have a disbursement that isn't called for by any of the lines. Naturally we would add that to account for the total, but we wouldn't add any complete new schedule. That schedule as we file it has been filed every year with the insurance departments. If the insurance departments feel they need the data, they are free to say so. They never have said so.

Mr. CARDOZO. In other words, the industrial policyholders have no official record.

Mr. DAVIS. They have better than an official record in this notice we send to them; this pamphlet we distribute which certainly means much more to industrial policyholders than a technical description of the dividends in the annual statement on file with the insurance department.

Mr. O'CONNELL. Let's not decide how much more valuable that would be. I think the question was as to whether that information was available in official form with the superintendent of insurance or in your office, and I take it the answer is "no"; is that correct?

Mr. DAVIS. It is not available in official form.

Mr. CARDOZO. Under this method of paying dividends, does a holder of a \$200 endowment policy receive a larger dividend than the holder of a \$200 industrial whole life policy?

Mr. DAVIS. He does.

Mr. CARDOZO. Why does he receive more?

Mr. DAVIS. The dividends are paid in terms of the premium, and with the premium being higher, he gets a higher dividend.

Mr. CARDOZO. Would an endowment policy usually call for a higher dividend than a whole life policy of the same face amount?

Mr. DAVIS. I don't understand what you mean by "call for."

Mr. CARDOZO. Would there usually be a higher dividend for such a policy?

Mr. DAVIS. Yes; because we pay the same number of weekly premiums.

Mr. CARDOZO. I am sorry, I don't mean that; I mean in life insurance in general would that be so?

Mr. DAVIS. That I can't answer in general because dividend scales vary so with individual companies.

Mr. CARDOZO. The three elements for dividends are mortality, expenses, and interest, I gather. Is that right?

Mr. DAVIS. Three of them; yes.

Mr. CARDOZO. In an endowment policy, is the mortality element more important than in a whole life policy?

Mr. DAVIS. It is less important.

Mr. CARDOZO. And is the expense element more important in an endowment policy? Is there likely to be larger savings in expenses in an endowment policy than in a whole life policy?

Mr. DAVIS. That would depend. That would not be uniform. We could not generalize on that, especially as it applies to industrial insurance.

Mr. CARDOZO. And would there be likely to be more excess interest in an endowment policy?

Mr. DAVIS. Yes; there is a larger fund invested.

Mr. CARDOZO. So that one thing you can be sure of is that the interest element warrants a higher dividend to the endowment policyholder.

Mr. DAVIS. Yes; that is if we are earning excess interest.

Mr. CARDOZO. And would that act——

Mr. DAVIS (interposing). We don't calculate our dividends in such a generalized way as that.

Mr. CARDOZO. How do you calculate your dividends in the industrial department?

Mr. DAVIS. We calculate our dividends by dividing our surplus earnings according to the four principal sources from which they arise. We treat the policies issued in any one calendar year as a class. That is, at the time we have set the premiums we have arranged the premiums to be equitable between plans and ages according to the mortality that we are experiencing at that time, not according to the tabular reserve mortality, but according to the mortality we are experiencing at that time; according to the expense rates which we have at that time, plus any known changes which we can make allowance for, and according to a rate of interest that we can conservatively expect to earn over a period of time.

We incorporate in those policies nonforfeiture values that we feel will return an equitable portion to the withdrawing policyholder without injuring the persisting policyholder. After those policies are issued, when divisible surplus earnings arise, we divide them pro rata among the members of the class.

Mr. CARDOZO. The class being by year of issue?

Mr. DAVIS. The year of issue is the class. The distribution of our divisible surplus earnings between classes is done by dividing individually the four principal sources of surplus earnings. At this point I might say that we are speaking of the four principal sources of surplus earnings in a technical sense; that is, when we speak of mortality

profit we are speaking of the difference between the mortality rate experienced and the mortality rate of the reserve table. It is not the profit which you would expect in normal parlance as being the difference between what we actually experience and what we expected to experience when we made our premium rates. If we followed the other method, we would have a changing basis of calculation every time we make a study. It would be very difficult for the State insurance examiner to check the procedure, and there would be no automatic check against the annual statement. Consequently, the subdivision of the surplus earnings into the four principal sources is done so as to have them follow the lay-out of the gain and loss exhibits of the statements.

Mr. CARDOZO. I don't want to get too detailed on that. Have you finished, sufficiently, the explanation?

Mr. DAVIS. No; I had not finished my explanation.

Mr. CARDOZO. Could you make it as quickly as possible? We have a long program.

Mr. DAVIS. The four principal sources of surplus earnings are then divided by what we consider to be an equitable method between the four classes. In that way we express those four principal sources in terms of the number of weekly premiums that each source produces, we cross add those, and we get the divisible surplus earnings in terms of a number of times the weekly premium in force at the end of the year.

We then determine upon a dividend scale that will pay out very close to those earnings.

Mr. CARDOZO. You mentioned the use of the mortality tables. I would like to ask what the effect of using a mortality table that reflects current experience would be. Would it increase or decrease reserve at most ages, or can't you generalize on that?

Mr. DAVIS. In general, it would slightly increase our reserve. At some ages it would decrease them; at others it would increase them. In general, tests that we have made indicate that it would probably slightly increase our reserve. I say probably.

Mr. CARDOZO. You mean aggregate reserve?

Mr. DAVIS. Our aggregate reserve. I say probably because the total amount of reserve depends more upon the incidence of the mortality table than upon its level. The steeper the mortality curve the higher will be the aggregate reserves in general.

Mr. CARDOZO. And what effect would it have on nonforfeiture values such as the extended insurance, can you tell that?

Mr. DAVIS. The cash value?

Mr. CARDOZO. The cash value would go substantially with the reserves.

Mr. DAVIS. Not necessarily, because if we found another method of calculating our reserves which would produce reserves, say, substantially larger, we still could not pay a higher cash value than we are giving at the present time because, as I was saying before, the amount that we have on hand available for nonforfeiture benefits has no bearing especially in the early years to the reserve that we hold. It is true that a more modern table, getting back to the main question, would permit us to grant somewhat longer extended insurance periods for the same amount of cash values.

Mr. CARDOZO. In all cases do you think at all ages, or practically all ages?

Mr. DAVIS. In general; yes.

Acting CHAIRMAN DAVIS. When were mortality tables last established or advised?

Mr. DAVIS. The present table for reserves—and I emphasize for reserves, sir, because that is a different mortality table from the one we actually use in determining premiums—is for standard industrial business what is known as the Standard Industrial Mortality Table, which reflects the mortality from 1896 to 1905. That is the table for industrial insurance that is in the New York law and acceptable by other States. It is the most recent table acceptable for industrial business, for reserve standards.

Acting Chairman DAVIS. Is it not a fact that life expectancy since the establishment of that table has increased, particularly with respect to children?

Mr. DAVIS. Very considerably, sir.

Acting Chairman DAVIS. Well, it would be in order for those mortality tables to be revised, wouldn't it?

Mr. DAVIS. The National Association of Insurance Commissioners, in recognition of that fact appointed a committee, I believe it was 2 years ago, to study the subject. That committee reported at the meeting of the National Association of Insurance Commissioners in June of this year and recommended general revision of State insurance laws on that subject.

Acting Chairman DAVIS. And that related to the mortality tables for the determination of premiums also?

Mr. DAVIS. No. The laws cannot specify the mortality table to be used for premiums. The company must decide what mortality it will allow for in its premiums.

Acting Chairman DAVIS. Do the companies use the same mortality tables for the determination of premiums, the different companies?

Mr. DAVIS. They could not very well. For instance, when we revise our premiums we use our own recent mortality, and our data as to our recent mortality is not available to some of the other companies; they would probably base it, if they were of sufficient size so that their own statistics were of sufficient reliability, on their own recent experience.

Acting Chairman DAVIS. When did your company last revise your mortality tables for the determination of premiums?

Mr. DAVIS. As I was mentioning to Mr. Cardozo previously, we revised our rates in general in 1916. Since then, in 1927, we introduced our industrial monthly premium policies. We postponed at that time the revision of weekly premium rates to await the effect on the separation of what formerly was all weekly premium business into industrial monthly and weekly premium business, and shortly after that split was made, before we had sufficient time or experience, we were faced with the depression and in 1935 we again undertook a study of determining mortality tables and other factors for a complete revision of our rates. We have been working on that. In fact, we informed the New York State legislative committee that we were contemplating a complete revision of our rates after 1938.

We hoped to complete it in the earlier part of 1939 but pressure of work has just kept us from doing so.

Acting Chairman DAVIS. Does that apply to the insurance you write other than industrial? In other words, you write a good deal of ordinary life insurance.

Mr. DAVIS. More than we do industrial; yes, sir.

Acting Chairman DAVIS. With annual or semiannual premiums?

Mr. DAVIS. That is right.

Acting Chairman DAVIS. Your study contemplates revision of premiums for policies of that type?

Mr. DAVIS. Similar study is in process for revision of premiums in the ordinary department of our company.

Mr. O'CONNELL. Do I understand that your answer to Mr. Davis' previous question was that the rates you are using were established in 1916?

Mr. DAVIS. That is right, on weekly premium policies.

Mr. CARDOZO. The insurance commissioners found a table of industrial mortality that they felt substantially reflected present mortality for the industrial field.

Mr. DAVIS. I don't believe they went as far as that. For instance, the mortality table in their report does not follow the incidence of our mortality experience at all.

Mr. CARDOZO. You do have studies showing the present mortality experience?

Mr. DAVIS. Yes.

Mr. CARDOZO. If you used such a table for all purposes, would your rates change very much?

Mr. DAVIS. The interest we assume, sir, would have a more important effect than the mortality rates.

Mr. CARDOZO. If you used a different table your rates would not change very much, in other words?

Mr. DAVIS. If we were to take all modern factors into consideration, interest as well as reduction in the average size of policy, limiting it to \$499 as a maximum as I previously mentioned? I just wanted to make sure of your question.

Mr. CARDOZO. If it were purely on the basis of mortality the answer would not be the same?

Mr. DAVIS. Oh, no. If it were purely on the basis of mortality our rates would be decreased.

Mr. CARDOZO. Another effect might be to increase the length of extended insurance that would be given under nonforfeiture benefits?

Mr. DAVIS. By the use of a more modern table?

Mr. CARDOZO. Yes.

Mr. DAVIS. Yes.

Mr. CARDOZO. And extended insurance is your automatic nonforfeiture benefit now, is it not?

Mr. DAVIS. That's right.

Mr. CARDOZO. During the past 10 years, or during the 10 years from 1928 through 1937, did not your company write many new policies, which are shown on this table to aggregate 39,000,000? I realize you haven't seen this before, but I would like you to look at the different years; for instance 1928, the first column there, shows that the new issues of the Metropolitan were 4,811,950 policies. Do you think that that substantially accurately reflects it?

Taking the year 1935 instead—I believe that is 1935, is it not?

Mr. DAVIS. '36.

Mr. CARDOZO. '36? The new issues for that year were about 3,579,411 policies in the industrial department.

Mr. DAVIS. What was your figure?

Mr. CARDOZO. For 1936, 3,579,411 policies.

Mr. DAVIS. That's right.

Mr. CARDOZO. Is that about the number of new policies that the company has been writing each year during the last 10 years, do you think?

Mr. DAVIS. It is rather difficult to say. There naturally is a variation from year to year. Even with these we only have 3 years.

Mr. CARDOZO. That will be enough. What year do you have there?

Mr. DAVIS. '35.

Mr. CARDOZO. And how many new policies were written in 1935?

Mr. DAVIS. 3,637,301.

Mr. CARDOZO. Would you look at this for 1934? How many were written in that year?

Mr. DAVIS. 3,898,358.

Mr. CARDOZO. That is taking 3 years. Each year there were slightly over three and one-half million new policies written, were there not?

Mr. DAVIS. Yes; that is, weekly premium and monthly industrial premium, of course.

Mr. CARDOZO. Do you suppose over a period of 10 years it would be safe to say there were over 30 million new policies written on that same basis?

Mr. DAVIS. Weekly premium and monthly industrial premium; yes.

Mr. CARDOZO. Do you know whether or not over the past 10 years there has been an increase in the number of industrial policies in force at the end of the year? In other words, taking 1928 or '29 as the beginning, and the end of 1938, last year, has there been an increase in the number of policies in force?

Mr. DAVIS. Our increase in force varies from year to year with the economic conditions. Many industrial policyholders surrendered their insurance.

Mr. O'CONNELL. Would you answer the question first? Do you know what the answer is?

Mr. CARDOZO. Do you know whether there were more policies in force at the end of December 1938, than there were as of December 31, 1929?

Mr. DAVIS. There is a decrease in the in-force number of policies during that period.

Mr. CARDOZO. In other words, there were over 30 million policies written and the company did not increase in policies in force at all?

Mr. DAVIS. Right.

Mr. CARDOZO. Could you give some explanation of what you think causes that situation?

Mr. DAVIS. During that period?

Mr. CARDOZO. During that period.

Mr. DAVIS. We went through a depression.

Mr. CARDOZO. Do you suppose the depression accounts for the whole thing?

Mr. DAVIS. It has an important effect during that 10-year period. We paid in surrender values alone to our industrial policyholders about \$1,000,000,000.

Mr. CARDOZO. Do you suppose that if you did that for a 10-year period before the depression that it would be found that the increase was anywhere near the number of new policies issued during the 10-year period?

Mr. DAVIS. No; we would not expect it to be. Policies terminate and go out. We do, as I said, even in current experience, lose about one-fifth of our policies during the first 6 months after issue.

Mr. O'CONNELL. Do you mean through lapse?

Mr. DAVIS. Yes.

Mr. CARDOZO. On that page you will notice studies have been made by the Commission of these figures for various companies. For instance, the John Hancock, which is the third column: You notice the total for the years 1928 to 1937 shows their new issues were 11,896,271 policies, and they increased in that 10-year period 1,433,790 policies. The Metropolitan, on the other hand, wrote 39,041,221 new policies and had a decrease of 95,577 in policies in force.

I was wondering if you can give any explanation of the reason why.

Mr. DAVIS. The figures themselves are not significant, unless we had a study of the terminations that indicates the difference in mode of termination between the two classes.

Mr. CARDOZO. There is obviously a larger volume of terminations.

Mr. DAVIS. It may be accounted for to some extent by maturities; it may be accounted for by liberality in paying cash values on policies that do not require cash values. We paid, in 1932, \$50,000,000 in cash on policies which by their terms did not provide for cash values.

Mr. CARDOZO. Would you attribute it at all to writing policies on people on whom no policy should have been written? The company couldn't have been expected that they would keep it.

Mr. DAVIS. Looking at it from hindsight, probably after the policyholder has lapsed, we might say that that policy should not have been written. There were probably some of them in there. Whether that is to a major extent is questionable. There is a difference in looking at it from hindsight as compared with foresight. Policyholders will buy a policy and let it lapse through change of mind. That is true of ordinary insurance, industrial insurance, and all insurance. After they have lapsed you say, "Well, that policy shouldn't have been sold."

Mr. CARDOZO. If a policyholder lapses his policy before a non-forfeiture benefit is available, he does lose?

Mr. DAVIS. He has had his protection during that period.

Mr. CARDOZO. Has he paid just for his protection, or has he paid more than his protection was worth?

Mr. DAVIS. At the present time, under our current policies—

Mr. CARDOZO (interposing). Let's talk about the policies used during this 10-year period.

Mr. DAVIS. There has been a change during the period so that policies on which premiums were paid for more than 6 months and less than 3 years did have some small fund available. That is why after 1937, they received that extended insurance.

Mr. CARDOZO. But on most of those policies there was no such benefit available in case they terminated before 3 years.

Mr. DAVIS. Of course, you are saying that these policies——

Mr. CARDOZO (interposing). I don't say all 30,000,000 terminated without anything. I mean that on any that terminated before 3 years' premiums had been paid there would be no value available. Isn't that true?

Mr. DAVIS. Other than the protection that they have had. But to look at purely the number of policies, or even the amount of insurance, does not reflect the really significant picture.

Mr. O'CONNELL. Though it is true, is it not, that over a period where a policyholder lapsed his policy before he has paid in 3 years as premiums he really did sustain an actual loss. Isn't that a fact?

Mr. DAVIS. A minor one, which some of them didn't. Some of them had very good insurance—very cheap insurance.

Mr. O'CONNELL. At any event, the premium they paid included an element other than the cost of insurance, did it not—an element which we might call savings? Isn't that true? I would like just simply to have you answer that question. Isn't that true?

Mr. DAVIS. There is no simple answer to that, sir. It again reflects the thought that the reserve is the savings element, and that is not correct.

Mr. O'CONNELL. I heard your explanation of that before.

Mr. DAVIS. And that same explanation would apply, sir.

May I finish my comment on that?—because it is a source of considerable misunderstanding. In reviewing lapses or the relationship of lapses to terminations, policies by themselves, the relationship of the number of policies that lapse to the number of policies terminated from all causes, does not reflect a very meaningful picture, because what meaning is there to a policy on which only 1 week's premium has been paid, which lapses, as compared with a policy on which premiums have been paid for several years? It is a classification only by a basis of policies which does not take into account the number of premiums paid. Thus, for instance, in 1937, 45 percent of our policies that terminated terminated because of lapse; 54 percent of the amount of insurance that terminated terminated because of lapse. It was lapsed without a doubt.

But if we reflect the significant element as to the premiums paid by the policyholders—that is, the premiums paid by the policyholders on every mode of termination—we find that instead of the lapse percentage being 45 or 54 it is less than 3. In other words, of the premiums paid on all policies terminating in 1937, less than 3 percent were paid on policies that terminated because of lapse.

It is an entirely different picture when you take into consideration the significance to the people that have been insured, as reflected by the premiums paid; and even for those that do lapse, they have had protection.

Mr. CARDOZO. But they have paid in more than the value of the protection that they had, according to the rates. They do not get their whole reserve back, do they?

Mr. DAVIS. We are again to the same point—that the reserve is not the savings element.

Mr. CARDOZO. I would just like to ask one other question about this: If you look at this table again, isn't it true that these same facts that you have stated apply to other companies as well as to yours, such as the John Hancock, Western & Southern, and American National,

which are also large industrial companies? I notice that all of them have increases in insurance in force over the 10-year period, but all of them wrote many less policies than the Metropolitan, and that applies to practically every year on this table.

Mr. DAVIS. That, again, is of no meaning, Mr. Cardozo, unless you analyze what brought about the terminations.

Mr. CARDOZO. Might it not possibly be because of the other companies writing insurance only on people who would be likely to keep it?

Mr. DAVIS. Well, if you look at the Western & Southern, I listened to the testimony this morning, and the early lapse rate quoted by the person testifying for the Western & Southern was a good deal higher than ours, yet their figure shows an increase and ours shows a decrease. Our early lapses are not the explanation for these figures.

Mr. CARDOZO. Not necessarily early lapses, but failure to carry out the necessary insurance.

Mr. DAVIS. Mr. Cardozo, when cash values become contractually available, many policies lapse. On the average, our experience in recent years with weekly premium policies is that people who surrender their policies for cash have paid, on an average, premiums for 12½ years. It is true that they may have taken out a policy on a 15-year or 20-year endowment plan, and they haven't carried it for 15 or 20 years, and surrendered it for cash value after 12 years.

Mr. CARDOZO. Has the purpose for the insurance been fulfilled, do you suppose, after they surrendered it for cash?

Mr. DAVIS. An endowment policy is issued and bought for a combination of two things—protection and savings. Say that it is written on a 20-year endowment plan. If a person wishes to cash that in, not after 20 years but after 12½ or 15 years, I think the primary purpose has been served. These endowment policies are largely written on the lives of children.

Mr. CARDOZO. While you are on that, you have issued a lot of endowment policies on the lives of persons who are not children, have you not?

Mr. DAVIS. Yes; but most of them are written at the younger ages. The majority are written at the younger ages. And these people do take out these policies to create a little fund for when that child reaches an age where it will get married and start out in life for itself. That time frequently arrives before the maturity date of that policy, and for them to cash it at that time is a normal thing for them to do.

Mr. O'CONNELL. At what age are most of your endowment policies written?

Mr. DAVIS. Age 1.

Mr. O'CONNELL. And what is the average face amount of the policy; about \$200?

Mr. DAVIS. At age 1 it would be a bit more than that.

Mr. O'CONNELL. How much more?

Mr. DAVIS. Oh, \$300, possibly.

Mr. O'CONNELL. Have you any figures as to the percentage of policies in that group that actually terminate by reaching the end of the period?

Mr. DAVIS. By maturity?

Mr. O'CONNELL. Yes.

MR. DAVIS. Not by individual age. I don't have. In general, on our 20-year endowments about one-fourth of them mature. The percentage varies from year to year, depending a good deal on economic conditions. When there are bad economic conditions prevailing, they surrender them for cash value earlier.

MR. O'CONNELL. You say one-fourth of them mature. Is that the current figure?

MR. DAVIS. That is over a period of time.

MR. O'CONNELL. Twenty-five percent mature. Something else happens to the rest. Do you know what percentage surrender?

MR. DAVIS. No; I don't.

MR. O'CONNELL. Do you know what percentage lapse before they have a cash surrender value?

MR. DAVIS. Before they have a cash surrender value they are entitled to paid-up insurance. We have always, since 1907, provided a non-forfeiture value if premiums were paid for 3 years.

MR. O'CONNELL. Would you know how many of those policies lapsed before 3 years, percentagewise?

MR. DAVIS. Somewhere around one-third.

MR. CARDOZO. We have some figures here on that which—

MR. DAVIS (interposing). In that connection I think I have some statistics that will be of interest to you.

MR. O'CONNELL. I will let Mr. Cardozo develop them if he has them.

MR. CARDOZO. In a letter sent to Governor Lehman by the Metropolitan it stated that of the 1910 issue 28 out of each 100 matured as premium-paying policies, 4 as paid-up endowment policies for reduced amounts; death claims were paid on 4 policies; 4 ran to term insurance which expired; 19 were surrendered for cash; and 41 lapsed.

MR. O'CONNELL. Forty-one percent lapsed in that issue of 1910?

MR. CARDOZO. Yes.

MR. DAVIS. In that connection, again we are speaking of policies without reflecting their significance as to premiums paid. We have made a study of our 20-year endowment policies issued during 1909 to 1918 and have compared, on all of those policies, from the time of issue to the time of maturity, the premiums paid with the amounts paid back to the policyholders. Of all those 10 years of issue of 20-year endowment policies, \$151,400,000 was the amount of premiums. We paid as dividends and as refunds for direct payment of premiums to an office \$14,300,000. We paid as death claims \$10,600,000. We paid as cash surrender values \$53,800,000. We paid at maturity as endowments \$71,300,000, a total of cash payments of \$150,000,000.

In addition to that we spent for health work for these policyholders, most of which was nursing service, \$2,800,000, a total of \$152,800,000, against premiums of \$151,400,000.

In addition to that we spent about \$4,000,000 in taxes on that business.

MR. CARDOZO. If that \$150,000,000 in premiums had been put in a savings-bank account at the same time as the premiums were paid, do you suppose that the policyholders would have ended up with more than they did under the endowment policy?

MR. DAVIS. They would have, maybe, but if that business hadn't been available there is no question that very little of that amount would have been available to these people.

Mr. O'CONNELL. There, again, the answer to the question is "yes," I take it?

Mr. DAVIS. It is a supposition that isn't true to fact.

Mr. O'CONNELL. Let us be the ones to interpret that.

Mr. DAVIS. The answer cannot be "yes," because he has had insurance protection.

Mr. O'CONNELL. As I understood it, you were comparing premiums paid with the actual money paid out, and you find that \$151,000,000 was paid in premiums, and the policyholders received benefits that you figure to be \$152,000,000 or \$153,000,000. The question merely was, If that same amount of money paid in premiums was put into a savings bank at the same time over the same period the income, or the return to the same body of people at the end of the time, would have been substantially in excess of the amount they received under the insurance plan; isn't that correct?

Mr. DAVIS. Of course, you wouldn't have had the service of protection.

Mr. CARDOZO. To the extent the protection was necessary they did get repaid in the form of death claims. You included the death payments, didn't you?

Mr. DAVIS. But besides what is actually paid as claims there is a service of furnishing insurance protection. It is not merely a savings transaction.

Mr. CARDOZO. To the extent it turned out it was necessary for those policyholders to have protection; in other words, the ones who died, you have included the death claims.

Mr. O'CONNELL. In terms of the payment for protection you had a figure of about \$10,000,000 in the figures.

Mr. DAVIS. That is the actual amount paid in death claims, but what I am trying to explain is that the service of furnishing the insurance protection would not be given in a savings bank. It is more than just paying the amount of the death claim, but the service of furnishing that insurance protection, which a savings bank wouldn't furnish, which involves an expense which would also have to be allowed for.

Mr. CARDOZO. I have no further questions.

Mr. DAVIS. There is one other point I would just like to clarify.

Mr. CARDOZO. Mr. Davis would like to know if he may offer one more statement.

Acting Chairman DAVIS. What was it?

Mr. DAVIS. We have been discussing somewhat the issue of insurance on the lives of children, and in that connection there is one item of information that I think will be of interest to the committee. When we speak of insurance issued we must remember that only reflects insurance issued, not insurance in force. As we were saying the other day, naturally we write more insurance on children, because the older members of the family have already been insured. It is true that at the present time the Metropolitan is collecting about 6 percent of all its premiums on the lives of children under age 10. That includes the premiums on ordinary policies and, as Mr. Henderson brought out the other day, many persons, where the father has an ordinary policy, will have an endowment policy or a small policy on the child in the industrial department. So I think it is a fair comparison to compare the premiums being received by the company on the lives of children

with the total premiums received by the company, and that is 6 percent.

Mr. GESELL. The next witness is Mr. Mehlman.

Acting Chairman DAVIS. We appreciate your appearance. You are excused, Mr. Davis.

Acting Chairman DAVIS. Do you solemnly swear that the statement you are about to make will be the truth, the whole truth, and nothing but the truth?

Mr. MEHLMAN. I do.

TESTIMONY OF HARRY MEHLMAN, INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.

COST STUDIES

Acting Chairman DAVIS. Will you state your full name and your official position.

Mr. MEHLMAN. My name is Harry Mehlman, connected with the monopoly study, insurance division.

Mr. GESELL. M-e-h-l-m-a-n?

Mr. MEHLMAN. Right.

Mr. GESELL. You are an actuary on the staff of the insurance section of the Commission, are you, Mr. Mehlman?

Mr. MEHLMAN. Yes.

Mr. GESELL. You are an associate of the American Institute of Actuaries?

Mr. MEHLMAN. That is right.

Mr. GESELL. Have you prepared certain cost studies on industrial insurance policies?

Mr. MEHLMAN. I have.

Mr. GESELL. Will you explain to us in a general way the nature of the cost studies which you have prepared?

Mr. MEHLMAN. The material to be presented is concerned with the matter of the cost of industrial insurance—that is, what the industrial policyholder is paying for his life-insurance protection. The material will give some index of the variations in this cost as between different companies and as between different plans of insurance. It will also include indexes designed to compare the cost of industrial insurance with the cost of ordinary insurance.

Mr. GESELL. Now, with respect to the various schedules that we are to discuss in the course of your testimony, am I correct in saying that your sources have been primarily the policy form and rate books of the companies involved and that on occasion you have referred to other material on file with the Commission from the companies and to the standard manuals?

Mr. MEHLMAN. That is correct.

Mr. GESELL. First of all, directing your attention to the schedule entitled "Industrial Insurance Net Costs, Policy Whole Life Paid Up On Policy Anniversary After Age Seventy-four, Age Twenty-five, Amount of Insurance, \$250, 1939 Issue,"¹ will you state for the committee the manner in which that schedule was prepared and what it reflects?

¹ Entered later as "Exhibit No. 1023," see appendix, p. 6306.

Mr. MEHLMAN. This table shows for a group of representative companies—some large, some of them small, several issuing participating insurance, but most of them issuing nonparticipating insurance—the comparative 10- and 20-year net costs of the industrial policy identified as “Whole Life, Paid Up on Policy Anniversary After Age Seventy-Four.” As was previously mentioned, the age is taken as 25, the amount of insurance \$250, and it is assumed that the policy is issued on the weekly premium plan.

Mr. GESELL. The information here is with respect to some 14 different companies, is it not?

Mr. MEHLMAN. That is right.

Mr. GESELL. I notice that most of the names of principal companies appear, but not that of the Prudential. Can you explain why the Prudential is omitted from this schedule?

Mr. MEHLMAN. Some time in 1937 the Prudential changed the form of their policy in this respect: Up to that time they had issued a policy which provided for payment of the same premium from year to year, subject to reduction on account of dividends allowed. In 1937, however, the Prudential put out a new policy under which the premium is level for only 5 years and then increases 20 percent thereafter, the idea being, as I understand it, for the dividends which commence at the end of the fifth year to operate to make that policy cost the same from year to year.

Mr. GESELL. I take it that this being a new form of policy, the experience on that type of policy is not available in order to make the necessary computations on this schedule.

Mr. MEHLMAN. Yes; we would have no way of knowing what dividends are likely to be paid on that policy since there is no past experience.

Mr. GESELL. Will you tell us how the net costs for the various companies in the years indicated on this schedule have been computed?

Mr. MEHLMAN. May I say first that you will note in the case of some of these companies the form of policy is slightly different. For example, the Colonial Life issues a policy which is a whole-life policy but the premiums are paid only until the policy anniversary after age 69. Likewise, the Monumental Life issues a policy which is an endowment payable on the policy anniversary after age 75. I mention that for the reason that comparisons are not strictly comparable when the form of policy is different; that is, so far as this type of comparison is concerned.

Now, as to the method in which this table is devised, if you will refer to column one, you will note that there is a caption, “Amount of Insurance for 5 cents weekly.” That is the manner in which most of these weekly premium industrial policies are sold. The unit of insurance is defined for a 5-cent weekly premium.

The second column is headed, “Aggregate Premium Per Year for \$250 Policy.” This is arrived at in the following manner. It is assumed a 5-cent premium per week is the equivalent of \$2.60 annually. If \$2.60 annually will buy a certain amount of insurance, it is possible to arrive at a different amount which represents the aggregate premium for a \$250 policy.

Mr. GESELL. For a year?

Mr. MEHLMAN. For a year. For example, in the case of the Monumental Life, 5 cents per week will buy a hundred dollars of insurance.

Therefore, \$2.60 per year, that is 52 weeks at 5 cents each, will buy \$100 of insurance, and multiplying the \$2.60 by two and a half we arrive at the aggregate premium of \$6.50 per year for a \$250 policy.

Mr. GESELL. Then what you have done, having arrived at that figure, you have computed what it would be necessary for 10 years or 520 weeks, to keep that policy in force, and then have taken account for such dividend payments as there may be during that 10-year period and having computed the premiums less dividends, and then having made allowance for the cash values at the end of the year, you have arrived at your net cost policy surrendered end of the twentieth year figure appearing under column 7.

Mr. MEHLMAN. Yes. This figure, column 4, "Ten years' dividends," is based upon the only information which is available, namely, what dividends the company is paying this year.

Mr. GESELL. You have taken, then, the present dividend scale.

Mr. MEHLMAN. Yes; of course, that would not necessarily be a duplicate of the dividends that actually would be paid under that policy.

Mr. GESELL. And then having arrived at the net-cost-policy-surrendered-end-of-tenth-year figure under column 7, you have made similar computation to reach a twentieth-year-net-cost figure.

Mr. MEHLMAN. That is right. In each case the figure captioned "Net cost policy surrendered" represents the difference between the aggregate amount that the policyholder has paid into the company and the aggregate amount which he has received back from the company.

Mr. GESELL. Looking at this schedule,¹ it would appear, Mr. Mehlman, that to begin with 5 cents a week buys varying amounts of insurance ranging from as low as \$91 to as high as \$105. Is that correct?

Mr. MEHLMAN. That is correct. The explanation of the figure "\$91," however, is that it is a slightly different form, but you will find in the case of companies actually issuing the same form that it will vary from \$96 with the John Hancock to \$105 with the Equitable.

Mr. GESELL. And similarly the cash-surrender values available at the end of the 10- and 20-year period differ for the different companies?

Mr. MEHLMAN. Yes; there is practically no similarity there.

Mr. GESELL. And taking the net-cost figures at the end of the tenth and twentieth year we again find a wide disparity in net cost.

Mr. MEHLMAN. Yes, sir.

Mr. GESELL. Taking, for example, the twentieth-year figures, what is the high?

Mr. MEHLMAN. The high appears to be the Home Beneficial, with a net-cost, policy surrendered, of \$88.38.

Mr. GESELL. In other words, if the policy indicated on this schedule, namely, a whole-life policy payable until death in the Home Beneficial, were taken out and carried for 20 years and then surrendered, it would cost the policyholder on the basis of the present experience, for \$250 coverage, \$88.38.

¹ "Exhibit No. 1023," appendix, p. 6306.

Mr. MEHLMAN. That represents the net difference between the amount he will have paid the company and the amount he will receive back.

Mr. GESELL. Now, supposing this same policyholder had instead bought his insurance from the John Hancock—how much would it cost him?

Mr. MEHLMAN. Then the difference would have been only \$48.13.

Mr. GESELL. In other words, we have a difference between those two companies for a small little \$250 policy at age 25 of over \$40 in net costs over a 20-year period.

Mr. MEHLMAN. That is right.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman DAVIS. It may be printed in the record.

(The schedule referred to was marked "Exhibit No. 1023" and is included in the appendix on p. 6306.)

Mr. GESELL. Mr. Mehlman, have you made a similar study taking a "whole-life, paid-up on policy anniversary after age 74" for age 1, amount of insurance \$250?

Mr. MEHLMAN. Yes.

Mr. GESELL. Does the same disparity as to what 5 cents a week will purchase and as to surrender values and as to net-cost figures, both for ten and twenty year periods, appear?

Mr. MEHLMAN. The same sort of disparity.

Mr. GESELL. The schedule was prepared in the same manner?

Mr. MEHLMAN. Yes.

Mr. GESELL. Turning to that schedule, what is the high and what is the low for the net cost at the end of the twentieth year?

Mr. MEHLMAN. The low is the John Hancock with a net cost of \$16.99, and the high is the Monumental Life with a net cost of \$46.19.

Mr. GESELL. Again we have even a greater variation between the low and the high on the net-cost basis.

Mr. MEHLMAN. Yes, sir.

Mr. GESELL. Is this the schedule which you have just described which I show you now?

Mr. MEHLMAN. Yes; it is.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman DAVIS. The schedule may be printed in the record.

(The schedule referred to was marked "Exhibit No. 1024" and is included in the appendix on p. 6307.)

Mr. GESELL. Mr. Mehlman, have you made similar studies for policies using age 25 and age 1 as your starting point, the amount of insurance \$250, based on the 1939 issues, the policies being in each case a 20-year endowment policy rather than a whole-life policy?

Mr. MEHLMAN. That is right.

Mr. GESELL. You have before you the schedule entitled "Industrial Life Insurance, Net-Cost, Policy: 20-Year Endowment, Age 25," have you not?

Mr. MEHLMAN. Yes, sir.

Mr. GESELL. Would you like to make some comments with respect to that schedule?

Mr. MEHLMAN. The variations between companies on the 20-year endowment appear to be even greater than in the case of what is known as the industrial whole-life policy. I use the term "industrial whole life" because the form of policy generally issued in the indus-

trial field comparable to the whole-life policy in the ordinary field is the policy known as "whole life paid up on policy anniversary after age 74." So, so far as the industrial policyholder is concerned, that may be deemed to be the whole-life form. On this 20-year endowment, you will note that in the 20-year net cost the variation is from a low of minus \$15.10 for the Metropolitan Life to a high of \$62 for the Washington National.

Mr. GESELL. In other words, looking at the net cost for 20 years for 20-year endowment for age 25, there is a difference of from minus \$15 to plus \$62, or a total difference of \$77 in the net cost for a 20-year period.

Mr. MEHLMAN. Yes; and in explanation of that minus figure, that is possible for the reason that you are comparing aggregate premiums paid to the company with payments received by the policyholder; and when you consider a policy such as a 20-year endowment, which has a larger investment element than the whole-life policy, the interest involved in the maturity value which is returned at the end of the twentieth year causes the net-cost figures to appear in some cases as minus figures.

Mr. GESELL. In other words, if I put 10 bucks in the bank and leave it there for 20 years and take it out again I still have something left.

Mr. MEHLMAN. Yes; and under these calculations we are taking each dollar of premium as equal to \$1; but when we consider the benefits returned to the policyholder, which include interest, we are considering them as the full amount, including the interest.

Mr. GESELL. I notice in two instances the Equitable Life and the Metropolitan; and, in fact, in four—also the Sun Life and the Western & Southern—there are available maturity dividends at the end of the twentieth year. Can you tell us what those maturity dividends are?

Mr. MEHLMAN. They are special dividends, voluntary, not included by policy provision, which are paid by the companies mentioned. If the policy is carried through for the full 20 years, then at the time it matures a special maturity dividend is paid.

Mr. GESELL. I wish to offer the schedule which has just been discussed by the witness for the record.

Acting Chairman DAVIS. Let it be printed in the record.

(The schedule referred to was marked "Exhibit No. 1025" and is included in the appendix on p. 6308.)

Mr. MEHLMAN. There is one further qualification necessary on these schedules relating to the 20-year endowment. The Colonial Life, John Hancock, and Metropolitan have been included, although they are no longer issuing industrial 20-year endowments. They ceased issuing those policies at the end of 1938. However, for purposes of comparison, we have used their policies as last issued in 1938.

Mr. GESELL. With respect to the 20-year endowment for age 1 a similar disparity is shown, is it not, when the net-cost figures are computed on the 10- and 20-year basis?

Mr. MEHLMAN. Yes. In the case of 20-year net cost the variation is from a low of minus \$56.75 for the Metropolitan to a high of \$10, which appears to be the net cost for a number of companies.

Mr. GESELL. Is this schedule which I show you the schedule which pertains to the computations with respect to the 20-year endowment, age 1, policies?

Mr. MEHLMAN. Yes.

Mr. GESELL. I wish to offer it for the record.

Acting Chairman DAVIS. It may be printed in the record.

(The schedule referred to was marked "Exhibit No. 1026" and is included in the appendix on p. 6309.)

Mr. GESELL. At this point, Mr. Mehlman, am I correct in saying that this method which you have followed in computing the net cost is the orthodox method that is customarily used?

Mr. MEHLMAN. Yes; it is the standard method that is employed generally in the life-insurance business by life-insurance agents and is used also by publishers of insurance data such as the Alfred M. Best Co. and the National Underwriter Co.

Mr. GESELL. The assumption has been on all the schedules that the policyholder will carry through his policy for at least a 20-year period, has it not?

Mr. MEHLMAN. Either on a 10-year period or a 20-year period.

Mr. GESELL. There are no allowances made on these schedules for the differences in net cost which might result in cases where a policyholder carried for 1 year or 2 years or 3 years?

Mr. MEHLMAN. No; there is not.

Mr. GESELL. Am I correct in saying that there is considerable amount of mathematical computation necessary to arrive at the figures on these schedules?

Mr. MEHLMAN. I would say yes.

Mr. GESELL. The information is not entirely readily available, is it?

Mr. MEHLMAN. No; it requires various computations.

Mr. GESELL. In not every instance do the same companies appear on each of the schedules which have been introduced thus far. Have you an explanation as to why the same companies were not used in each case?

Mr. MEHLMAN. For the most part, the same companies are used. Occasionally some company did not issue the particular form of policy at the age used.

Mr. GESELL. Is it correct that occasionally, too, the information was not available for the policy of the particular company for the particular information shown on the schedule?

Mr. MEHLMAN. Yes; and also I might say that we have used ages 1 and 25 because each in its way represents or typifies the age at which most policies are issued. For example, age 25 typifies the age at which most adult industrial policies are issued and age 1 appears to typify the age at which most juvenile industrial policies are issued.

Mr. GESELL. For comparative purposes purely, have you prepared two schedules, one for whole-life paid-up policies and one for 20-year endowments, showing net costs at ages 2, 25, and 35, for a representative number of companies?

Mr. MEHLMAN. Yes.

Mr. GESELL. Are these the schedules which I show you now?

Mr. MEHLMAN. Yes.

Mr. GESELL. I wish to offer these schedules for the record.

Acting Chairman DAVIS. They may be received for printing in the record.

(The schedules referred to were marked "Exhibits 1027 and 1028" and are included in the appendix on pp. 6310 and 6311.)

Mr. GESELL. Have you any comments which you wish to make with respect to these schedules?

Mr. MEHLMAN. The schedules differ slightly from those previously introduced, in that the dividends used represent the dividends that were actually paid according to the history of the company, whereas in the previous schedules we were compelled to use the current dividend scale, not necessarily representing what the dividends will be in the future.

Mr. GESELL. In other words, these are based upon actual experience and do not contain the element of conjecture involved in taking conjectured dividends and projecting them into the future.

Mr. MEHLMAN. That is right. Also, the companies used in these net cost studies are different because we were unable to procure information on all the companies which appear in the current policy net cost studies.

Mr. GESELL. Now, Mr. Mehlman, have you prepared a schedule which will indicate for age 25 in the Metropolitan Life Insurance Co., using it purely for purposes of example, the variation in net cost as between whole life policies and endowment policies when taken on the weekly or monthly premium basis?

Mr. MEHLMAN. Yes; the schedule, however, shows the comparison between weekly and monthly first on the whole life plan and secondly on the 20-year endowment.

Mr. GESELL. Is this the schedule which I show you now?

Mr. MEHLMAN. Yes.

Mr. GESELL. What is the variation shown as between weekly and monthly for the whole life paid-up on policy anniversary after age 74, taking the tenth year net cost figure?

Mr. MEHLMAN. For a policy surrendered the end of the tenth year, the net cost on the weekly premium policy is \$40.28; on the monthly premium policy, \$28.82.

Mr. GESELL. Coming to the endowment experience, what is the difference between the weekly and monthly?

Mr. MEHLMAN. The weekly is \$49.79, and the monthly is \$20.71.

Mr. GESELL. That schedule is based upon the issues of 1928?

Mr. MEHLMAN. Based upon the issues of 1928, and again the dividends used in this schedule represent the actual dividends paid. Also, this is based on merely age 25.

Mr. GESELL. I should like to offer this schedule for the record.

Acting Chairman DAVIS. All right, it may be admitted.

(The schedule referred to was marked "Exhibit No. 1029" and is included in the appendix on p. 6312.)

Mr. GESELL. Mr. Mehlman, do you believe that if you were a policyholder about to take out industrial insurance, or looking at this problem on behalf of the policyholder to determine for him which company had the lowest net cost, that it would be necessary for you to consider factors other than those involved in the computations contained on the schedules which have been introduced today?

Mr. MEHLMAN. Yes.

Mr. GESELL. Will you tell us what some of those factors are?

Mr. MEHLMAN. Well, this standard basis of computing net costs is subject to error, because it disregards the interest element on the premiums which have been paid. In other words, as I have pointed out before, we consider the premiums without interest and we compare it with the cash value at the end of the period which has been

accumulated through the operation of the interest element. That is one thing. Also, it does not take account of variations between the policies. There are numerous variations in policy provisions, and these industrial net cost studies do not reflect those differences. They do not reflect differences in death benefits. It is the practice of some companies to pay mortuary dividends, providing that if the death of the insured occurs after 5 years a particular extra death benefit will be paid, such as 5 percent of the face amount of the policy, and if death occurs after 10 years the mortuary dividend perhaps will be 10 percent. These studies do not take account of those differences.

Mr. GESELL. Have you prepared schedules which are designed to illustrate some of the difficulties involved by the differences of policy provisions, and taken those into account in computing a net cost figure? First of all, have you prepared such a schedule?

Mr. MEHLMAN. Yes.

Mr. GESELL. Is one of the problems involved the problem of graded death benefits?

Mr. MEHLMAN. Yes.

Mr. GESELL. Have you prepared a schedule showing the differences in graded death benefits for policies issued on the whole life and 20-year endowment plans for a representative number of companies as of the issue of 1939?¹ And is this the schedule containing that information?

Mr. MEHLMAN. Yes; for age 1.

Mr. GESELL. Have you some comments which you wish to make on this schedule?

Mr. MEHLMAN. This schedule illustrates very well the wide variation in the actual benefits to the policyholder. The part captioned "Whole Life Paid Up at Anniversary After Age 74" shows considerable variation regardless of the duration of the policy. You will note, for example, that after the policy has been carried for 1 year, there are practically no two companies which pay the same death benefit. You will find, in the case of one company, that \$58.14 is paid, another company pays \$47.17, another one pays \$63.95. If you follow the schedule through, you will see similar variations in the other years. That means that after a policy has been in force 3 years, in case of a Prudential policy, the death benefit, effective death benefit, is \$94.34, whereas in the case of the Metropolitan the effective death benefit is \$125. Now, if you refer to the section captioned "Twenty-Year Endowment," you will find that there is a variation not only in the benefits in any particular year, but also as to the period it requires before the ultimate death benefit becomes available.

Mr. GESELL. That is true, is it, Mr. Mehlman, even though the amount of the policy is the same and the premium is substantially the same?

Mr. MEHLMAN. The premium is substantially the same, especially on the 20-year endowment, and the ultimate death benefit is substantially the same, but the early death benefits vary considerably, both in amount in any particular year and as to the period required for the full benefit.

¹ Entered later as "Exhibit No. 1030" see appendix, p. 6313.

Mr. GESELL. And it is that variation in amount before the ultimate benefit is payable, that this schedule is intended to reflect?

Mr. MEHLMAN. Yes.

Mr. GESELL. Are there any examples in the case of the 20-year endowment policies which you would like to call particularly to the attention of the committee?

Mr. MEHLMAN. Well, you will note under the column headed "Less than 3 months," which means the amount of benefit that would be paid under the policy if death occurred before the policy had been carried 3 months, that there is a variation from a low of \$23.59 to a high of \$75. This means that if a policy were taken with the Prudential for \$250 ultimate benefit, the death benefit paid if death occurred during the first 3 months would be only \$23.59, but if the same type of policy were taken with the Franklin National, the death benefit would be \$75.

Mr. GESELL. That same disparity is to be found under the columns 1, 2, and 3 years, is it not?

Mr. MEHLMAN. Yes.

Mr. GESELL. And even subsequently thereto.

Mr. MEHLMAN. You will note that 10 of the companies provide for the \$250 ultimate benefit after the policy has been carried 4 years, 3 of the companies require 5 years, 1 company requires 9 years, and 1 company requires 11 years.

Mr. GESELL. So that if you were a child age 1 taking out a 20-year endowment, you would have a difficult time telling what your benefits would be from year to year.

Mr. MEHLMAN. I think so.

Mr. GESELL. I wish to introduce this schedule for the record.

Acting Chairman DAVIS. It may be printed in the record.

(The schedule referred to was marked "Exhibit No. 1030" and is included in the appendix on p. 6313.)

Mr. GESELL. Mr. Mehlman, have you prepared, again using this representative list of companies, a schedule which is intended to reflect similar variations with respect to the extended term insurance and paid-up life insurance, options in the policies, the varying bases of valuation, the varying mortality tables used, and similar information? ¹

Mr. MEHLMAN. Yes.

Mr. GESELL. Is that information contained on the schedule entitled "Industrial Life Insurance, Reserves and Non-Forfeiture Benefits, Policy: Whole Life, Paid Up on Anniversary After Age 74, Age 25, Amount of Insurance \$250, 1939 Issue."

Mr. MEHLMAN. Yes.

Mr. GESELL. Have you some comments which you wish to make with respect to that schedule?

Mr. MEHLMAN. You will note, first of all, that there are 3 mortality tables which appear as valuation standards among the companies selected. One is the Standard Industrial Table, another is the American Experience Table, and the third is the Actuary's Table. Not only that, but after you have determined the mortality table, there are a number of different ways of establishing the reserve of the policy. You will find that some companies value their policies on

¹ Entered later as "Exhibit No. 1031," see appendix, p. 6314.

what is known as the full level premium plan; others on the modified preliminary term, New Jersey Standard; others on the modified preliminary term Illinois Standard; and one company on the full preliminary term basis. Each of these mortality tables would result in different reserves, that is, the reserves for any particular form of policy would vary according to the mortality table selected, but even in the case of two companies using the same table of mortality the reserves might still vary if they used a different basis of valuation, that is, either full level premium, modified preliminary term, Illinois Standard, or full preliminary term. As a consequence, when you look at the reserves at the end of the fifth year, for example, you find considerable variation between companies. The cash values, in turn, are derived from the reserves, and there is even more variation since it is optional with the company as to the amount of surrender charge it will make in deriving its cash value on its reserves—that is, within the statutory limitations. However, even in the case of those companies which have the same cash value, which is rare, you will still find, perhaps, a variation in even the amount of extended term insurance granted or in the amount of paid-up life insurance granted.

The reason is that in order to determine the extended term insurance, or to determine the paid-up life insurance, it is necessary to apply the cash value as a single premium in accordance with the mortality table used, so that if one company had a \$7.50 cash value and were using the Standard Industrial Table, and another had a \$7.50 cash value and were using the American Experience Table, those two companies would provide the same cash value, but they would provide different extended term insurance benefits and different paid-up insurance benefits.

Mr. GESELL. Then you have shown here, for the end of the fifth, tenth, and twentieth year following the policy issuance, what the paid-up values and extended term values, surrender charges, cash values, and reserves for the policies would be.

Mr. MEHLMAN. That is right.

Mr. GESELL. Now, turning to a specific case or two, referring to the columns under the fifth-year portion of the schedule, can you point out to us two companies which, though having the same basis of mortality table, the same interest rate, and the same basis of valuation, offer considerable differences with respect to cash values, extended term insurance values, and paid-up life insurance values?

Mr. MEHLMAN. I don't know if I can find one example that will illustrate all of that.

But I can point out that the Equitable Life, District of Columbia, values its policy on the Standard Industrial 3½ percent table, full level premium, and has a statutory reserve under the policy in the amount of \$13.10 at the end of the fifth year. It grants a cash value of \$6.86. The Metropolitan valuing its policies on the same basis and setting up the same statutory reserve of \$13.10 grants a cash value of \$10.47.

Mr. GESELL. When you come over to the extended term insurance available, is there a difference shown?

Mr. MEHLMAN. It so happens the Equitable does not grant extended term insurance but grants only paid-up life insurance.

Mr. GESELL. So that a policyholder in the Metropolitan would have extended term insurance but with the Equitable Life of the District he wouldn't.

Mr. MEHLMAN. No; the automatic option in the event he defaulted in payment of premium under the policy would be the paid-up policy he would receive. In the case of the Metropolitan the automatic option is the extended term insurance. However, to illustrate the variation in extended term insurance, I call to your attention to the Monumental Life under which no cash value is granted but which allows extended term insurance of 4 years and 230 days. In contrast with that, the Western & Southern allows a cash value of \$6.86, but if the insured in the Western & Southern were to select the extended term insurance benefit, he would receive only 2 years and 175 days of extended insurance, the explanation being that the Western & Southern is computing the extended insurance on the Standard Industrial Table whereas the Monumental is computing it on the American Experience Table.

Mr. GESELL. I should like to offer this schedule for the record.

Acting Chairman DAVIS. It may be inserted in the printed record.

(The schedule referred to was marked "Exhibit No. 1031" and is included in the appendix on p. 6314.)

Mr. GESELL. At this point, Mr. Mehlman, have you any comments which you wish to make with respect to the foregoing tables?

Mr. MEHLMAN. I think the foregoing tables show quite clearly that it is indeed difficult to compare the net costs of policies. It is difficult for a person who knows where the sources of information are, and so far as the policyholder is concerned, I think it is virtually impossible for him to get some concept of what the comparative values and net costs are.

Mr. GESELL. Have you attempted to develop a method of computing net cost which will take into account so far as possible these many variations in the various policy provisions of the companies?

Mr. MEHLMAN. Yes.

Mr. GESELL. Will you describe that method for us?

Mr. MEHLMAN. The method is designed to provide an index of the comparative values of policies. The procedure in deriving these indexes is as follows: The premiums which the policy requires are discounted back to the issuance date of the policy. Similarly, the dividends which according to the company's current scale will be payable during the period which is being studied, and the cash value or other nonforfeiture benefit available at the end of the period, are discounted back to the issuance date. The difference between the discounted value of the premiums on the one hand and the discounted value of the dividends and nonforfeiture value on the other hand, may be deemed to be an index of the amount paid by the policyholder for the benefits enjoyed by him during the period. From this resultant figure there is deducted the value of the benefits provided by the policy. This includes not only the value of the contractual death benefit but also the value of the disability and accidental death benefit which is generally included in all industrial policies and the value of special benefits such as mortuary dividends and health and welfare services furnished by a few companies.

In discounting both the payments made by the policyholder and the benefits received by him, account is taken not only of interest at the rate of $3\frac{1}{2}$ percent, but also of survivorship probabilities according to the mortality table which probably comes closest to reflecting current industrial mortality. The table used was the table designated as Table X which appears in the report of the committee appointed by the National Association of Insurance Commissioners to study the need for a new mortality table and related subjects. This report was released June 21, 1939.

While the Table X referred to in that report as reflecting so far as possible, so far as information is available, current industrial mortality, is not definitely a modern industrial table, it is the best index we have of modern industrial mortality.

Now to illustrate the method by which the discounted values are derived, suppose a cash value is to be paid 5 years hence. Its present value would be derived by discounting the cash value for 5 years at $3\frac{1}{2}$ percent per annum, the assumed rate which conforms pretty closely to what the companies on these tables have been earning in recent years, and multiplying this result by the probability according to the Modern Industrial Table that the insured would survive to the end of the fifth year. Hence it may be said that the index shown for any period represents the true index of the discounted value of the margins which the policyholder is paying to the company, and which in turn the company is using for expenses, accumulation of surpluses, and contingency reserves against excessive mortality beyond the tabular rate assumed by the mortality table, fluctuations in the interest rate, and losses in asset values.

These indexes, of course, are based on methods that necessarily involve approximations, but in my opinion these indexes reflect the broad differences in costs as between companies.

Mr. GESELL. Are the indexes contained on the two schedules which I now show you?

Mr. MEHLMAN. Yes.

Mr. GESELL. Those schedules reflect the variations in net cost on this basis which you have described, first for a whole life policy paid up on policy anniversary after age 74, issued at age 25 for \$250, issue of 1939, and second for age 25, \$250, issue of 1939, 20-year-endowment policy.

Mr. MEHLMAN. Yes.

Mr. GESELL. I wish to offer these schedules for the record.

Acting Chairman DAVIS. They may be inserted in the printed record.

(The schedules referred to were marked "Exhibits Nos. 1032 and 1033" and are included in the appendix on p. 6317.)

Mr. GESELL. In effect, can you find, Mr. Mehlman, from these indexes that the variations in net cost and the standing of the respective companies is approximately the same as was shown in the original computations which were presented in the first schedules, the differences being only with respect to degree rather than order?

Mr. MEHLMAN. Yes; that is generally true. I notice that in a few cases the order of companies is changed. For example, under the standard net cost tables previously introduced, the John Hancock net cost on 20-year whole life was shown as \$48.13, whereas the Metro-

politan net cost was shown as \$52.16. Under the indexes devised, the John Hancock shows as \$28.20, and the Metropolitan shows as \$28.17.

Similarly, the Washington National policy which appears under the previous tables to be slightly lower than that of the People's, now comes out some \$4 higher according to the index method, and there are a few changes in the case of the 20-year endowment.

But, I also wish to point out that under this index method we do not derive any minus cost figures, and the reason is that the interest element has been taken into account.

Mr. GESELL. Have you taken this index procedure which you have described and made computations for industrial and ordinary policies with a view to showing comparisons between industrial and ordinary policies for the same age and same type of insurance, same date of issue and same amount?

Mr. MEHLMAN. Yes.

Mr. GESELL. Are your computations in that respect for the whole life and endowment policies, respectively, age 25 at issue, shown on these two schedules which I present to you now?

Mr. MEHLMAN. Yes.

Mr. GESELL. I wish to offer these schedules for the record.

Acting Chairman DAVIS. They may be printed in the record.

(The schedules referred to were marked "Exhibits Nos. 1034 and 1035" and are included in the appendix on pp. 6318 and 6319.)

Mr. GESELL. Have you any comment which you wish to make with respect to the schedules just introduced?

Mr. MEHLMAN. In order to comment on these schedules, it is necessary for me first to point out again the essential differences between industrial and ordinary insurance. It must be kept in mind that industrial insurance is defined as that form of life insurance sold in small units, usually under \$500—that is, \$500 face amount of insurance—under which premiums are collected weekly or monthly by agents who call on the policyholder. Some industrial policyholders take advantage of the opportunity to save on their insurance costs by paying their premiums directly to the company or its branch office rather than through soliciting agents, but not all companies grant such an allowance and even where the allowance is granted the majority of the policyholders do not avail themselves of the opportunity.

Hence, the definitive characteristics of industrial insurance may be said to be the small unit of protection per policy, and the system of weekly or monthly premium payments collected through soliciting agents.

In contrast, ordinary insurance is usually sold in units of \$1,000 or more and assumes the payment of premiums annually, semiannually, or quarterly directly to the company or one of its branch offices without a soliciting agent acting as an intermediary in the premium-payment transactions.

It is to be expected, due to the smaller size average policy, the greater frequency of premium payment, and the system of premium collections through soliciting agents with consequent compensation to such agents for this service, that the cost of industrial insurance, other factors being equal, would exceed the cost of ordinary insurance. It is intended through the material presented in the tables just introduced to derive some index of these comparative costs.

In preparing these tables we have taken account of many of the essential differences between ordinary and industrial policies. For example, it is generally admitted that the mortality on industrial policies is higher than on ordinary policies. In calculating the mortality cost under the ordinary policies we have used the Table Z mortality table which also appears in the report made to the National Association of Insurance Commissioners by the committee to study the need for a new mortality table and related topics.

This report includes a table which is deemed to be representative of modern mortality under ordinary policies, so that when we have discounted the benefits under ordinary policies, we have used Table Z, whereas in discounting the benefits under industrial policies we have used Table X previously referred to as the modern industrial table.

Also, account has been taken of the early favorable mortality under ordinary policies due to medical selection.

There is much more medical selection in the case of ordinary policies, and on that account the mortality is usually lower during the period of the first 5 policy years.

We have also taken account of the fact that industrial policies contain a disability and accidental death benefit. That is, industrial policies, I believe, are not usually without disability and accidental-death benefit. In the case of ordinary policies, this type of benefit is available but it is sold for additional premium and it is optional with the insured whether he takes it or not.

We have also taken account in these figures of the mortuary dividends which seem to be more a characteristic of industrial policies. They appear occasionally in the case of ordinary policies but not nearly to the same extent. And in the case of both ordinary and industrial policies we have taken account of the maturity dividends payable at the end of the twentieth year under the 20-year endowment policy. Therefore, I would say that all of the differences in benefits upon which a value can be placed have been given proper consideration.

Mr. GESELL. So that these schedules eliminate so far as humanly possible on the basis of available data those differences between Ordinary and Industrial insurance which are attributable to differences in policy forms, differences in mortality and similar items such as you described a moment ago?

Mr. MEHLMAN. Yes.

Mr. GESELL. And we have then, in the figures contained in these schedules which have been introduced, an index which will show the variation in expense as between ordinary and industrial, attributable entirely to the fundamental differences in those types of insurance from an expense point of view?

Mr. MEHLMAN. I would say it would not quite be on an expense basis, but we have an index of the variant margins which the policy holder is paying to the company, part of it used for additional expense, part of it used perhaps for some other reason.

Mr. GESELL. Have you on the schedules which I now show you computed on a percentage basis what the ratio of the industrial index of net cost to the ordinary index of net cost is for the two types of policy for the years one to twenty, at the intervals indicated?

Mr. MEHLMAN. Yes.

Mr. GESELL. I wish to offer these schedules for the record.

Acting Chairman DAVIS. They may be printed in the record.

(The schedules referred to were marked "Exhibits No. 1036 and 1037" and are included in the appendix on p. 6320.)

Mr. GESELL. Will you refer to the schedules which have just been introduced, referring to some of the ratio differences that exist as between the industrial net cost index and the ordinary net cost index?

Mr. MEHLMAN. In the case of the comparative indexes on the whole life policy, we find that the first year net cost index varies from a low of 107 percent in the Prudential to 162 percent in the Colonial life, these percentages being the ratio of the industrial index to the ordinary index. As we consider the indexes in succeeding years, 2 years or 3 years or 5, 10, or 20 years, we find that for the most part those percentages increase. There may be a slight drop or a leveling off in comparing the third and fifth year, the reason being that the industrial policy commences to pay cash value at the end of the fifth year. Previous to that time they do not allow cash values.

Mr. GESELL. Take the twentieth year and take some company on that schedule for the local life plan and give us the percentage ratio which shows the differences between industrial and ordinary.

Mr. MEHLMAN. Well, in the case of the American National, the index for the industrial is 210 percent of the index for the ordinary.

Mr. GESELL. Does that mean industrial costs 210 percent more for that period?

Mr. MEHLMAN. That would mean that the margin which the policyholder is paying to the company for the industrial insurance slightly exceeds twice the margins under an ordinary policy in the same company, but I have to mention this, that the ordinary policy is not generally sold for less than \$1,000, whereas the industrial averages between \$250 and \$300. And in deriving these indexes we have used the annual premium in the ordinary policy and we have used what is comparable to the weekly premiums in the industrial, so that these indexes are showing the relative cost as between selling the policies in small amounts on an industrial basis with weekly premium collections, and selling them on an ordinary basis with the larger average size policy and with annual premiums paid direct to the home office of the company.

Mr. GESELL. I have no further questions for this witness.

Acting Chairman DAVIS. All right, you are excused and we thank you, Mr. Mehlman.

(The witness was excused.)

Mr. GESELL. The next witness, the last witness today, is Mr. D. C. Bronson, assistant actuary of the Social Security Board. I would like to say, in calling this witness, that Mr. Bronson is being called in his individual capacity as a trained actuary who has the advantage of having available certain statistical material on file at the Social Security Board. He is not testifying as a representative of the Board, nor are these statements in any way representative of any position that the Social Security Board has taken with respect to the matters to be covered by the testimony.

Acting Chairman DAVIS. Will you hold up your right hand. Do you solemnly swear that the statement you are about to make will

be the truth, the whole truth, and nothing but the truth, to the best of your knowledge and belief, so help you God?

Mr. BRONSON. I do.

TESTIMONY OF D. C. BRONSON, ASSISTANT ACTUARY, SOCIAL SECURITY BOARD, WASHINGTON, D. C.

COST OF UNIVERSAL DEATH BENEFIT SYSTEM

Mr. GESELL. Will you state your full name, please, sir.

Mr. BRONSON. D. C. Bronson.

Mr. GESELL. You are assistant actuary at the Social Security Board, are you not?

Mr. BRONSON. Yes.

Mr. GESELL. How long have you been with the Social Security Board?

Mr. BRONSON. A year and a half.

Mr. GESELL. Prior to that, were you in the actuarial department of the Travelers Insurance Co. for a period of 12 years?

Mr. BRONSON. That is right.

Mr. GESELL. You were in the group department of that company, weren't you?

Mr. BRONSON. At the end of the 12 years; yes, sir.

Mr. GESELL. Are you a Fellow in the Actuarial Society of America?

Mr. BRONSON. I am.

Mr. GESELL. Referring to the table entitled "Total deaths in the United States and amounts of payments under an insurance system providing \$250 benefits for all deaths,"¹ describe the nature of the computations and the information contained on that schedule.

Mr. BRONSON. This table gives the estimated number of deaths at all ages among the entire population of the United States for calendar years 1940, '45, '50, '60, '70, and '80. Also for these years it gives the benefit disbursements. \$250 is payable in a lump sum for each of these deaths. The mortality rates used to obtain these figures are from life tables prepared by the Bureau of the Census and published in a volume entitled "United States Life Tables, 1930." These tables cover the period to 1920 to '29, and deal with the white lives of the 1920 registration States, which comprises all but 14 of the 48.

Thus it represents an experience involving over 80 percent of the total population for that decennium.

The exposure, or those alive, to which these mortality rates were applied in our computations, represents a projection of the total population as estimated by the Committee on Economic Security in 1934. That is when they were first studying the estimated cost of the Social Security Act.

These projects are based on two important elements which are reflected in this table before me, namely, a gradual growth in the total population, and a gradual increase in the population's average age. Both of these elements tend to produce a higher total death rate for future years. No attempt has been made to use mortality tables which take into account likely future improvement in the health of the population, though to a small degree this is indirectly given

¹ Subsequently entered as "Exhibit No. 1038," see appendix, p. 6321.

weight in the Committee on Economic Security estimates of future population.

On the above assumptions, plus the fact that no loading for administration expense is included, table 1 before me shows these results. That is, if you wish me to refer to the table.

Mr. GESELL. Yes; if you would take the representative years shown on this table and indicate the number of deaths and the amount of payments issued in dollars which would be required to provide the \$250 benefit for all deaths.

Mr. BRONSON. Taking the first year shown, 1940, the estimate is that in this country 1,598,000 people will die during that calendar year. To provide \$250 at each of such deaths the benefit disbursement would aggregate \$400,000,000.

Mr. GESELL. Now taking 1960, we see an increase in the number of deaths and an increase in the amount of payments which would be required, do we not?

Mr. BRONSON. There is an increase all the way up the line such that in 1980 the total number of deaths is 2,510,000 and the total benefit outgo \$628,000,000.

Mr. GESELL. When you say "benefit outgo," that is simply \$250 times the number of deaths, isn't it?

Mr. BRONSON. That is correct.

Mr. GESELL. It does not take into account any question of administrative expense?

Mr. BRONSON. Correct.

Mr. GESELL. Is this the schedule, which I show you?

Mr. BRONSON. Yes.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman DAVIS. It may be printed in the record.

(The table referred to was marked "Exhibit No. 1038" and is included in the appendix on p. 6321.)

Mr. BRONSON. May I add one thing on that table? I would like to add a word of caution that in these estimates the probable error on the estimates increases, of course, with the later calendar years shown.

Mr. GESELL. You mean it is very difficult, on the basis of present experience, to estimate deaths in 1980?

Mr. BRONSON. Yes.

Mr. GESELL. And the further you go from present-day experience the more difficult it becomes?

Mr. BRONSON. Exactly.

Mr. GESELL. If you will refer to the table entitled "Total population and deaths in the United States by age groups, 1940 and 1980," I should like you to describe the nature of the information and the source of the information presented on that schedule.

Mr. BRONSON. This table is a rearrangement of the first table I mentioned and is based on the same assumptions that I outlined. It breaks down the population and the deaths between young ages, those under 15, and what might be called the active ages, 15 to 64, and the older ages, 65 and over. The break-down is shown for both 1940 and 1980, and this range indicates this change in the age incidence, both of the population and of the death-benefit disbursements.

Mr. GESELL. In effect the schedule shows, both on a percentage and number basis, the number of deaths which could be expected for persons under age 15, the number of deaths which could be expected for persons between the ages of 15 and 64, and the number of deaths to be expected, 65 and over, and computes separately for each of those deaths the amount of death benefits which would be required to make these \$250 benefit payments.

Mr. BRONSON. I said that in error—that death-benefit disbursements. This table does not go into disbursements but confines itself to population in those age groups and the number of deaths.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman DAVIS. It may be printed in the record.

(The schedule referred to was marked "Exhibit No. 1039" and is included in the appendix on p. 6321.)

Mr. GESELL. If you have any further comments to make with respect to that schedule, I would appreciate your offering them.

Mr. BRONSON. Just to show the comparison which this table offers, for instance, in 1940, 37 percent of the deaths would be those age 65 or over, while in 1980, due to the gradual increase in age of the population, over 50 percent would be payable in that group.

Mr. GESELL. Will you refer to the schedule or table captioned "Number of contributors and annual contribution for insurance system providing \$250 benefit for all deaths under various plans of financing"?¹ That schedule shows for five different plans the number of contributors and the annual contribution which would be required from those contributors for the years 1940, 1945, 1950, 1960, 1970, and 1980, under the five different plans shown thereon, does it not?

Mr. BRONSON. Except that when you say "annual contribution" it is annual contribution per individual.

Mr. GESELL. Per individual. Well, now, first of all, referring to the column "Plan A," will you state what that plan is and the nature of the information shown under that heading?

Mr. BRONSON. Plan A is a scheme whereby everybody in the country—man, woman, and child—is a contributor for the benefit payable for each death of a man, woman, or child. In other words, it spreads the contribution base in its widest concept to everyone.

Plan B restricts somewhat the contribution base such that flat annual contributions are called for only by persons under the age of 65, but every person—man, woman, or child—under the age of 65 is considered to contribute.

Plan C still further contracts the contribution base so that those individuals who are dependents of persons over age 65 are eliminated from the necessity of contributions.

(Mr. O'Connell assumed the chair.)

Acting Chairman DAVIS. Dependents of those over 65?

Mr. GESELL. As well as the persons over 65.

Mr. BRONSON. In plan B, we cut out everyone over 65; and in plan C, we cut out the dependents of those people.

Plan D materially restricts the contribution base by confining it to gainful workers, with the amount varying directly with the number of dependents; that is, it is considered that a gainful worker with

¹ Subsequently entered as "Exhibit No. 1040," see appendix, p. 6322.

four dependents would pay five times as much as a single gainful worker.

Mr. GESELL. And plan E?

Mr. BRONSON. Plan E goes a slight step further and excludes gainful workers over 65 from contributions—of whom there are not so many.

Mr. GESELL. It is conceived under all of these plans, is it not, Mr. BRONSON, that everyone in the United States would be covered?

Mr. BRONSON. That is correct. The numerator in determining the payment remains the same.

Mr. GESELL. Am I correct in saying that under the section of the table showing annual contributions per person for the various plans no allowance has been made of any sort for administrative expense?

Mr. BRONSON. That is correct.

Mr. GESELL. Well, now, with those qualifications in mind, under plan A, am I correct in understanding the schedule that in 1940 the flat annual contribution payable by every person in the United States to provide this \$250 benefit on death would be \$3.03?

Mr. BRONSON. That is correct.

Mr. GESELL. And if the plan is limited to only persons under age 65, the annual contribution increases from \$3.03 to \$3.23?

Mr. BRONSON. Yes.

Mr. GESELL. If we exclude dependents of persons over age 65 as well as persons 65 or older, we find that the annual contribution increases to \$3.26?

Mr. BRONSON. Yes.

Mr. GESELL. On plan D, which I understood was limited to payments by gainful workers, with adjustments being made for the size of each family, the annual contribution in 1940 would be \$7.27?

Mr. BRONSON. Yes.

Mr. GESELL. And plan E, being similar to plan D except for the exclusion of workers over 65, would bring the annual contribution to the highest of any of these plans, namely, \$7.55?

Mr. BRONSON. Yes, sir.

(Mr. Davis resumed the chair.)

Mr. GESELL. From 1940 to 1980, in view of the increasing death rate which may be anticipated, the annual contribution would increase slightly for the amounts indicated on the table?

Mr. BRONSON. The increase indicated here would run, by 1980, to perhaps around 40 percent. I don't know whether that is a slight increase.

Mr. GESELL. I wish to offer this table for the record.

(The table referred to was marked "Exhibit No. 1040" and is included in the appendix on p. 6322.)

Acting Chairman DAVIS. It may be printed in the record.

Mr. GESELL. Have you any further comments which you wish to make with respect to that table?

Mr. BRONSON. I would like to point out that it should also be clear that these figures represent the contributions required under what we might call normal mortality experience. A plan of this kind, if it were running on a complete pay-as-you-go method, without any contingency reserve, would actually have to adopt the assessment principle, and the contributions would vary according to the current mortality experience. For example, in the 1918 influenza epidemic the total mortality rate for the country was raised by about 30 percent.

Such a year met with by a plan of this kind would obviously necessitate a 30-percent boost in the contributions, probably effective in the succeeding years because of the lag.

Mr. GESELL. These plans in all cases are somewhat in the nature of a group term plan, are they not?

Mr. BRONSON. Somewhat.

Mr. GESELL. They do not contemplate the building up of any reserve?

Mr. BRONSON. That is why I say "somewhat," because group life insurance does contemplate building up a contingency reserve.

Mr. GESELL. And these do not?

Mr. BRONSON. These do not.

Mr. GESELL. Referring to the table captioned "Total deaths in the United States and amount of payments under insurance system providing benefits graded by age," am I correct in saying that this schedule or table is intended to show the contributions necessary if a graded benefit were provided under the plan varying in amounts for different ages?

Mr. BRONSON. It doesn't express it as contributions but rather as total claim outgo.

Mr. GESELL. In other words, it isn't broken down per individuals; simply the total figures are shown?

Mr. BRONSON. That is right.

Mr. GESELL. Have you any comments which you wish to make with respect to that table?

Mr. BRONSON. This table gives the figures which I was asked to prepare for a plan which modifies the amount of death benefit under age 21 such that when a death occurs under age 10, \$50 is payable; at ages 10 to 14, \$100 is payable; death at ages 15 to 20, \$200 is payable; and death at ages 21 and over, \$250 is payable.

The effect of this graduated death benefit by ages is to reduce the over-all cost by 15 percent in 1940 and by 9 percent in 1980, making the cost estimate for 1940 \$341,000,000 as against \$400,000,000 for the level death benefit of \$250, and for 1980, the corresponding figures are \$569,000,000 as against \$628,000,000 for the level benefit.

Mr. GESELL. I wish to offer the table for the record.

Acting Chairman DAVIS. It may be printed in the record.

(The table referred to was marked "Exhibit No. 1041" and is included in the appendix on p. 6322.)

Mr. GESELL. Mr. Bronson, so far we have had no discussion of the expense feature of any such benefit plan. Am I correct in saying that without having before you for analysis and without having some experience in the actual operation of any given plan, it is very difficult to even estimate what the expenses would be?

Mr. BRONSON. Yes.

Mr. GESELL. There are many different factors which would have to be taken into consideration, are there not, such as the method of premium collection, the type of records to be kept, how the claims were to be handled and matters of that character?

Mr. BRONSON. Yes, sir.

Mr. GESELL. I take it that if the scheme were to be handled by one central administrative unit the expenses would be different than if it were to be handled by geographically administrative units or by individual companies?

Mr. BRONSON. Yes, sir. I have a statement on that.

Mr. GESELL. Have you any comments which you would like to make with respect to this problem of administrative expense, and can you give us your best estimates as to what those expenses would be?

Mr. BRONSON. Yes. I am very hesitant to express any opinion on this matter. In order to give even an intelligent guess as to an expense ratio, a great many unknowns would have to be resolved. I want to mention some of these unknowns: First of all, a scheme of this kind, if it were seriously proposed, might be susceptible of handling under one central administrative unit such as the Federal Government, or through several geographical administrative units, such as the State governments, or by independent economic units, such as private corporations. Under whatever administrative units were devised, there would be the problems of collection, maintenance, and claim disbursement.

Under contribution collection methods, would this be through payroll deductions by employers to the extent possible, or would it be handled by individual collectors or agents, or would the contribution and responsibility be placed entirely on the individual, or some other method?

Under maintenance, how much record-keeping machinery and how much accounting would be required?

Under claim methods, this would involve whether claims would have to be paid in accordance with State laws, whether they would be paid to named beneficiaries, payable to those who bore the funeral and last illness expenses, and so forth; that is, the amount of adjudication required and the facility with which payments could be made.

Expenses are difficult to estimate when the methods of administration are fairly well defined and hence, in view of the nebulous points I have just mentioned, I don't like to express myself expense-wise. But since I am pressed for some statement on this, I might give what I would consider a reasonable possible range of expense cost, running from possibly 20 percent to possibly 40 percent of the death benefit outgo.

Mr. GESELL. Have you prepared a computation which would show what increase would be necessary in the annual contribution under the various five plans we were discussing, assuming first a 20 percent expense; second, assuming a 40 percent expense?

Mr. BRONSON. I have some figures here.

Mr. GESELL. Can you give them to us?

Mr. BRONSON. Do you mean to give them for each year? They are rather lengthy.

Mr. GESELL. Let's take 1940 and 1960, if you have figures for those two periods.

Mr. BRONSON. Previously we have talked about 1980.

Mr. GESELL. Very well, whichever years you have figures for.

Mr. BRONSON. For 1940, plan A, without expense averages \$3.03 per individual; with the 20 percent expense, \$3.64; with the 40 percent expense, \$4.24.

Corresponding figures for plan B, \$3.23 without expense; \$3.88 with 20 percent expense; \$4.25 with 40 percent expense.

Correspondingly for plan C, \$3.26 no expense; \$3.91, 20 percent expense; \$4.56, 40 percent expense.

Plan D, \$7.27 no expense; \$8.72, 20 percent expense, \$10.18, 40 percent expense.

Plan E, \$7.55 no expense; \$9.06, 20 percent expense; \$10.57, 40 percent expense.

At the other end of the range, 1980, the figures are:

Plan A, \$4.19 no expense; \$5.03 with the 20 percent loading; \$5.87 with the 40 percent loading.

Plan B, \$4.73 no expense; \$5.68 for 20 percent loading; \$6.62, 40 percent loading.

For plan C, \$4.86 no expense; \$5.78, 20 percent expense; \$6.75, 40 percent expense.

Plan D, \$9.95, no expense; \$11.94, 20 percent expense; \$13.93, 40 percent expense.

Plan E, \$10.64 no expense; \$12.77, 20 percent expense; \$14.90, 40 percent expense.

Mr. GESELL. Do you think it would be fair to say that if such a benefit plan as this were closely integrated with the existing social security system the administrative expenses could be kept at a fairly low margin?

Mr. BRONSON. Low within this range?

Mr. GESELL. Low within this range; yes.

Mr. BRONSON. To the extent that it could be integrated with the existing machinery of Social Security it certainly would tend in that direction. However, since we have been talking about the universal scheme here, payable to everyone, we must bear in mind that the Social Security Act does not cover everyone. In fact, it does not cover large areas of gainful workers, so only to the extent that this death benefit scheme, the area of it, was confined to the area now covered by the Social Security Board would much savings be expected.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman DAVIS. Have you any questions?

Mr. O'CONNELL. No.

Acting Chairman DAVIS. The committee has no further questions. We thank you for your contribution.

Mr. O'CONNELL. I want to ask one: In making the computations which resulted in the 20- to 40-percent range, could you give me any break-down to indicate within that range what proportion of it would be attributable to the collection of the assumed assessments or contributions, and what percentage attributable to payment of claims?

Mr. BRONSON. I'm sorry; I can't offer any information on that, because of all these unknowns that exist in the figures.

Mr. O'CONNELL. Generally speaking, I should think the major part of the administrative problem would be in connection with the collection of the contributions, as distinguished from the payment of claims.

Mr. BRONSON. Still, if you got a fairly good machinery for collection, and still had a lot of claim problems, the reverse would be true.

Mr. O'CONNELL. Of course in connection with the claim problem the main problem is just to ascertain the death, taking plan A, and we would be dealing with a maximum of your million and a half

deceased, as distinguished from 130 to 135 million people in the collection area.

Mr. BRONSON. Yes; the determination of the death would be simple enough, I presume, but then to whom would the claim be payable?

Mr. O'CONNELL. Oh, yes; there would be problems of that nature.

Mr. GESELL. You need a concrete plan before you, do you not?

Mr. BRONSON. Yes.

(The witness, Mr. Bronson, was excused.)

Acting Chairman DAVIS. The committee will stand in adjournment until 10:30 next Tuesday morning.

(Whereupon, at 4:50 p. m., the hearing was adjourned to reconvene at 10:30 a. m., Tuesday, September 5, 1939.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, SEPTEMBER 5, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:40 o'clock a. m., pursuant to adjournment on Thursday, August 31, 1939, in the Caucus Room, Senate Office Building, Ewin L. Davis, Commissioner, Federal Trade Commission, presiding.

Present: Commissioner Davis, acting chairman, and Mr. O'Connell.

Present also: Mr. Brackett; Gerhard A. Gesell, special counsel; and Michael H. Cardozo, attorney, Securities and Exchange Commission.

AGENCY PRACTICES

Acting Chairman DAVIS. The committee will come to order. Mr. Gesell, I understand you are ready to proceed.

Mr. GESELL. Yes, I am.

I would like to say to begin with that this week we will conclude the hearings on industrial insurance. To complete the study an examination of certain methods employed in the sale of industrial insurance and agency practices affecting lapses and costs of insurance is required. During the next few days, therefore, we intend to present testimony from agents, assistant managers, and managers as well as testimony from several company executives in direct charge of agency policy. In order that the practices of a representative number of companies may be brought to the attention of the committee without too great expense and with a minimum of inconvenience to the companies involved, the great majority of witnesses have been subpoenaed from the District of Columbia, where there are at the present time approximately 23 industrial insurance companies with 36 branch offices and 1,500 industrial agents licensed. We believe that the testimony is fairly representative of the practices of the companies involved.

I would like to call as my first witness Mr. Hollins.

Acting Chairman DAVIS. Mr. Hollins, will you kindly hold up your right hand and be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth to the best of your knowledge and belief, so help you God?

Mr. HOLLINS. I do.

TESTIMONY OF HENRY A. HOLLINS, DISTRICT MANAGER, LIFE AND CASUALTY INSURANCE CO. OF NASHVILLE, TENN., WASHINGTON, D. C.

LIFE AND CASUALTY INSURANCE CO. OF TENNESSEE

Mr. GESELL. Will you state your full name, please, sir?

Mr. HOLLINS. Henry A. Hollins.

Mr. GESELL. With what company are you connected?

Mr. HOLLINS. Life and Casualty of Nashville, Tenn.

Mr. GESELL. Am I correct in saying that you are manager of the local office of that company here in Washington?

Mr. HOLLINS. Yes, sir.

Mr. GESELL. How long have you been manager?

Mr. HOLLINS. About 28 years.

Mr. GESELL. Have you been here in Washington all that time?

Mr. HOLLINS. No; about 22 years.

Mr. GESELL. Now, your company sells industrial insurance, does it not?

Mr. HOLLINS. Yes.

Mr. GESELL. Do you know how much industrial insurance the company as a whole has in force?

Mr. HOLLINS. No; I don't know exactly.

Mr. GESELL. It is around \$171,000,000, is it not?

Mr. HOLLINS. Approximately. I think it is a little more than that at the present time.

Mr. GESELL. How much industrial insurance is in force in your office, Mr. Hollins?

Mr. HOLLINS. I don't know of the amount of insurance in force.

Mr. GESELL. You measure it by the premiums?

Mr. HOLLINS. Yes.

Mr. GESELL. What is the premium collected by your office?

Mr. HOLLINS. \$4,127.

Mr. GESELL. That is the weekly collection, is it not?

Mr. HOLLINS. Yes.

Mr. GESELL. Now, has the Life and Casualty of Tennessee only one office here in the District?

Mr. HOLLINS. That is right.

Mr. GESELL. How many agents are there in your office?

Mr. HOLLINS. Twenty-eight in Washington, and five superintendents—thirty-three in Washington.

Mr. GESELL. Each superintendent has about six or seven men under him?

Mr. HOLLINS. Five or six.

Mr. GESELL. Five or six men under him. What sort of policyholders does your company sell to?

Mr. HOLLINS. We have health and accident industrial sold to colored people, and we have industrial life, also industrial and ordinary sold to whites.

Mr. GESELL. You sell industrial and ordinary to white people?

Mr. HOLLINS. Yes, sir.

Mr. GESELL. Is that industrial weekly premium business?

Mr. HOLLINS. Yes, sir. The ordinary, of course, is not weekly premium.

Mr. GESELL. You have no monthly industrial?

Mr. HOLLINS. No; no monthly. We have some monthly ordinary.

Mr. GESELL. You say you sell to the colored people health and accident industrial?

Mr. HOLLINS. A combination life, health, and accident policy.

Mr. GESELL. It is an industrial policy with health and accident benefits; is that right?

Mr. HOLLINS. Yes.

Mr. GESELL. Do all of your agents sell both industrial and ordinary?

Mr. HOLLINS. Yes.

Mr. GESELL. You have no agents who sell just ordinary insurance?

Mr. HOLLINS. Not at the present time; no.

Mr. GESELL. How many debits do you have here in Washington; one for each agent?

Mr. HOLLINS. Yes.

Mr. GESELL. Do you cover all of Washington?

Mr. HOLLINS. Not all of it; no.

Mr. GESELL. Generally, what type of person do you sell your insurance to?

Mr. HOLLINS. Well, of course, with the two departments, there is health and accident sold to colored, that is not sold to white, and that would be, I should say, the better class of colored people. At least, we attempt to select our risks as best we can. We have certain sections where the agents don't write business.

Mr. GESELL. You say you have certain sections where you don't write business.

Mr. HOLLINS. Yes.

Mr. GESELL. That is colored business?

Mr. HOLLINS. Other, too.

Mr. GESELL. What kind of people live in those sections?

Mr. HOLLINS. The red-light district.

Mr. GESELL. By and large you sell to everyone in town, do you not?

Mr. HOLLINS. That is right.

Mr. GESELL. Do you sell to people on relief?

Mr. HOLLINS. I don't know that we do. I couldn't say that we haven't sold some.

Mr. GESELL. You have no prohibitions against your agents' selling to people on relief?

Mr. HOLLINS. We have no prohibitions. The company makes no definite instruction along that line.

Mr. GESELL. How many agents do you have to take on each year?

Mr. HOLLINS. I couldn't tell you that accurately. More than we should, I can tell you that.

Mr. GESELL. What sort of agency turn-over do you have? Will you give us some idea of how many men come out and how many come in each year?

Mr. HOLLINS. Guessing, around 30 percent.

Mr. GESELL. Thirty percent of your agents are new agents each year?

Mr. HOLLINS. I won't say that is accurate. I am telling you as best I can. I haven't made any record of it and I don't really know.

Mr. GESELL. What would you say the average period of service that your agents are with you?

Mr. HOLLINS. We have some in there that have been there as long as 18 years in this office; some 12 or 15 years; some have been there a few months. I couldn't tell you what that average would be. I haven't figured on that any more than I have the other.

Mr. GESELL. Would it be safe to say that a considerable proportion of your office is fairly new men who you still trying to develop?

Mr. HOLLINS. Twenty percent. I doubt if it is any more than that.

Mr. GESELL. What is the average earning of your agents per week?

Mr. HOLLINS. I should say around \$35 a week.

Mr. GESELL. How are these men paid?

Mr. HOLLINS. Some are paid on a commission basis, that is a commission of what they collect. On the smaller debits, debits that wouldn't pay sufficient to maintain them on a collection-basis, we give them a straight salary.

Mr. GESELL. What is the average size of your debit measured in terms of premium collections?

Mr. HOLLINS. About \$135.

Mr. GESELL. You have some higher than that, do you?

Mr. HOLLINS. \$270.

Mr. GESELL. That is your highest. What is your lowest?

Mr. HOLLINS. \$20.

Mr. GESELL. You have a \$20 debit?

Mr. HOLLINS. One.

Mr. GESELL. Do you have several debits below \$100?

Mr. HOLLINS. Yes.

Mr. GESELL. You say in these smaller debits you pay the man on a different basis for collections than you do on the larger collections?

Mr. HOLLINS. That is right.

Mr. GESELL. How do you pay the man on the smaller debits?

Mr. HOLLINS. \$22.50 salary.

Mr. GESELL. He gets a straight salary for collecting the debit?

Mr. HOLLINS. That is right.

Mr. GESELL. Other men get a commission based on the amount they collect?

Mr. HOLLINS. That is right.

Mr. GESELL. What is that commission?

Mr. HOLLINS. Fifteen percent.

Mr. GESELL. Then I take it all men are paid on a commission basis for the business they sell?

Mr. HOLLINS. That is right.

Mr. GESELL. How does that work?

Mr. HOLLINS. That is so many times on the increase.

Mr. GESELL. What percentage of increase?

Mr. HOLLINS. For those drawing \$22.50 salary, 15 times on the increase.

Mr. GESELL. Is that 15 times weekly increase?

Mr. HOLLINS. That is right.

Mr. GESELL. That is without regard to the persistency of the business written, then?

Mr. HOLLINS. It depends on how much arrears he has in the account. In other words, if a man's account showed he had a great deal of stuff that was in arrears, it would be indicative that he either wasn't keeping his debit in good condition or in some rare instances he was writing poor business.

Mr. GESELL. It is 15 times the net increase, is that right?

Mr. HOLLINS. That is right.

Mr. GESELL. Except as you take into account the business that may have gone off during the week, it is based entirely on the increase and not on the type of business written?

Mr. HOLLINS. That is right, it is based on the increase.

Mr. GESELL. Is that increase in terms of number of policies sold or premium collected?

Mr. HOLLINS. Premium increase.

Mr. GESELL. Do your men get more for selling endowment insurance than they do if they sell whole life?

Mr. HOLLINS. The same number of times on each.

Mr. GESELL. If they place an endowment policy for \$250, they will be paid more, will they not, than if they place a whole life policy for \$250?

Mr. HOLLINS. Yes; he would earn more.

Mr. GESELL. The premium being higher.

Mr. HOLLINS. That is right.

Mr. GESELL. How much of your business is endowment business?

Mr. HOLLINS. It is a rather small proportion according to my opinion. I haven't any record of what proportion is endowment and what is life.

Mr. GESELL. Can you give us your best estimate?

Mr. HOLLINS. That would be a wild guess.

Mr. GESELL. Would it be around 25 percent?

Mr. HOLLINS. I really don't know. I would be glad to answer it if I had the slightest idea.

Mr. GESELL. I thought you might have some estimate, you have been there so many years.

Mr. HOLLINS. No; I couldn't tell you to save my life.

Mr. GESELL. Your company is still writing endowment at the present time?

Mr. HOLLINS. Yes.

Mr. GESELL. Do your agents have to do much night work?

Mr. HOLLINS. I don't think so.

Mr. GESELL. Does the company require night work of them?

Mr. HOLLINS. No.

Mr. GESELL. Do you believe that some of them do it?

Mr. HOLLINS. Yes; I am sure some of them do.

Mr. GESELL. Some of these smaller debits must be spread over a pretty big territory.

Mr. HOLLINS. Some of those small debits will cover as much territory as one of the large ones.

Mr. GESELL. Do you have so-called builders, men who just write business?

Mr. HOLLINS. No. Well, we have one in a new territory, down in Virginia, where the company has never done business before. That is the only one.

Mr. GESELL. How much do you think it costs you to train and put on a new agent?

Mr. HOLLINS. I don't know. The only information I could give you, the only opinion is one I have had from the company, an impression I have gotten.

Mr. GESELL. What is that estimate?

MR. HOLLINS. Anywhere from \$150 to possibly \$300. I mean by that, you take one man off, train a new man and let him start out by himself. And it would include maybe what business you had lost as the result of the change, at least that is the way I understand it.

MR. GESELL. That is the company's estimate of what it costs?

MR. HOLLINS. As far as I can recollect. They haven't given me any estimate recently, possibly for several years.

MR. GESELL. You said this turn-over in your office was more than it should be. What did you mean?

MR. HOLLINS. I mean that I am likely too optimistic sometimes in thinking a man would make a good insurance man, or that I can make one out of him.

MR. GESELL. I take it you think it is desirable not to have a high agency turn-over.

MR. HOLLINS. Yes, sir.

MR. GESELL. Do you consider your company's turn-over high or average?

MR. HOLLINS. Well, I don't know about the company.

MR. GESELL. I mean your office.

MR. HOLLINS. Yes; our office is higher than it should be and I am trying to do my darnedest to get it down.

MR. GESELL. Do you have a hard time getting men?

MR. HOLLINS. Well, I wouldn't say really a hard time. Of course, I am never satisfied with what I have got so far.

MR. GESELL. Do you give these men any kind of training course?

MR. HOLLINS. We try to.

MR. GESELL. What do you mean by that?

MR. HOLLINS. Of course, we send a superintendent with them for 2 weeks. It is his duty to instruct them as to the different policies, different types of policies, the rate book, what the company's experience has justified us in thinking is the right way to do business, and also warn them against some of the things that we think are definitely the wrong way to do business. And then we try to get the superintendent back with this man in a week or 2 weeks after that.

MR. GESELL. It is pretty much a proposition of learning in practical experience out with the superintendent?

MR. HOLLINS. That is right. You can't learn to dance by sitting in the seat and watching somebody else. You have to get out and have your actual practice.

MR. GESELL. You don't have any training course that supplements that practical experience?

MR. HOLLINS. Yes; we have, over a period of 10 weeks this year.

MR. GESELL. You just started that this year?

MR. HOLLINS. No; we have had other years, but we took one definite course this year, and I think every agent in the office had the text book, and we had lectures one evening a week, and board demonstrations of this thing and that and other things relating to life insurance, and then examinations to find out what they had gotten out of it.

MR. GESELL. Do you have any quotas for your men?

MR. HOLLINS. No; we have what we consider would be a good record. We try to sell a man on the idea to put in enough effort and enough thought to reach that quota. A quota for \$300 would be unfair as compared with a \$50 debit; that is if we have one set

of quotas in the whole office, it would be utterly unfair for some and give others quite an advantage.

Mr. GESELL. What do you do then, set an individual mark for each fellow to shoot at?

Mr. HOLLINS. No; we try to sell him the idea; if he will put in the right effort, he will make that quota. If he gets close to it we have nothing to say.

Mr. GESELL. What do you mean, if he makes the quota? I thought you said you didn't have any quota.

Mr. HOLLINS. I said what we think will be a fair record. I try to sell a man an idea, 50 cents a week industrial increase.

Mr. GESELL. And that is for all of the men?

Mr. HOLLINS. That is right.

Mr. GESELL. And I take it you hold the men who have the kind of debits where they would be expected to make that increase a little more sharply to the quota than you would someone out on a different type of debit?

Mr. HOLLINS. In other words, a man with a \$250 debit, we wouldn't press him or feel he wasn't working even if he didn't make the 50-cent increase, and the fellow on the \$20 debit, we feel he should go over it. We know he would if he worked at it.

Mr. GESELL. You try to make the men turn in 50 cents a week increase?

Mr. HOLLINS. No; I wouldn't say that. We don't try to make him do anything. We try to sell him the idea of going out and using his best efforts while he is working, to set his work for that, and make a reasonable effort to get it. If he fails, there is no discharging him or anything like that or making him feel like he is unwanted in the office.

Mr. GESELL. Can you give us some idea what the week's run is like, what the men do from Monday to Saturday? They have special duties each day, do they not?

Mr. HOLLINS. They report each morning.

Mr. GESELL. At what time?

Mr. HOLLINS. Eight o'clock.

Mr. GESELL. And what do they do Monday?

Mr. HOLLINS. They report Monday at 8 o'clock, and they are around the office for 30 or 40 minutes, I presume, and then I can't tell you so much about what happens the rest of the day.

Mr. GESELL. Do you have special days they are supposed to collect and special days they are supposed to sell new business?

Mr. HOLLINS. They are supposed to do both as they go along, together.

Mr. GESELL. You have no days set aside for collection?

Mr. HOLLINS. Of course; Monday, Tuesday, and Wednesday would be definitely days they would be servicing their policyholders, collecting. They also write business during those periods as they go along.

Mr. GESELL. Do you make them report in each morning?

Mr. HOLLINS. Except Saturdays.

Mr. GESELL. Do you have pep meetings?

Mr. HOLLINS. Very few. I think we have had three in the last 4 months.

Mr. GESELL. What do you understand by a pep meeting?

Mr. HOLLINS. Well, my idea of a pep meeting would be to sell the man with the idea that he should tighten his traces and put a little more effort into it than he has been doing.

Mr. GESELL. Are those meetings with all of the men or with the men individually?

Mr. HOLLINS. Such meetings as that are usually held with the whole group.

Mr. GESELL. Can you give us some idea of what you say?

Mr. HOLLINS. We usually go over what we have accomplished so far; in some instances we have the record before the men of what they have done up to that time, and maybe get some expressions from them as to how they felt as to holding their own, if they have been making a good record, and if they have made a poor record, if they felt they would be able to build that up.

Mr. GESELL. That doesn't sound much to me like a pep meeting. That sounds like a more or less academic discussion.

Mr. HOLLINS. I would say ours is more or less that type.

Mr. GESELL. You don't try to insist on the men producing a certain amount of business by the next day or the end of the week?

Mr. HOLLINS. No.

Mr. GESELL. Nothing of that sort?

Mr. HOLLINS. No.

Mr. GESELL. Do you have many sales contests?

Mr. HOLLINS. A very few.

Mr. GESELL. How many do you have a year?

Mr. HOLLINS. What do you mean by a "sales contest," Mr. Gesell?

Mr. GESELL. I thought that was a pretty familiar term in the business. Do you have special periods when the men are given some new incentive to write new business?

Mr. HOLLINS. Well, the home office has a trip to the home office each year; they have for several years. Agents and others from all over the field that make certain records would go to the home-office convention, possibly a convention in some city in their territory.

Mr. GESELL. That is, bringing together the men who had the particularly outstanding record?

Mr. HOLLINS. That is right.

Mr. GESELL. Now, what other kind of contests do you have?

Mr. HOLLINS. Well, we have contests on this quota—that is for July, August, and September—for the leading man on each staff.

Mr. GESELL. What does he get?

Mr. HOLLINS. He gets a trip to New York.

Mr. GESELL. He gets a trip of New York?

Mr. HOLLINS. Yes.

Mr. GESELL. That is a company-sponsored contest, is it?

Mr. HOLLINS. Yes.

Mr. GESELL. How do you determine the leading man?

Mr. HOLLINS. The man with a certain average percent in his collections, or certain debit condition; that is, his gross arrears would be down, and increase.

Mr. GESELL. What other company contests are there?

Mr. HOLLINS. There is a contest for the next May, I believe it is in May, for managers, superintendents, and agents, the leaders, who make the best records, the same as the home-office contest.

Mr. GESELL. There would be about two or three of these home-office contests a year, is that correct?

Mr. HOLLINS. There will be two in this office this year. I don't know about other districts.

Mr. GESELL. Do you also have your own little local contest?

Mr. HOLLINS. At times.

Mr. GESELL. What kind of contests are those?

Mr. HOLLINS. The leading staff would have a lunch at the expense of the other.

Mr. GESELL. You sort of choose up sides and see which one produces the most business.

Mr. HOLLINS. That would be a case of their own. That wouldn't be company-sponsored.

Mr. GESELL. I am trying to find out what goes on in your own office.

Mr. HOLLINS. That would be a local proposition.

Mr. GESELL. You do choose up sides between different superintendents' staffs?

Mr. HOLLINS. Not as a whole. We will say that you and I had a staff apiece, and we were having a little rivalry, and we would decide that there would be a lunch on the fellow that lost over the period of a month, or something like that, with not enough involved to bring in so-called high pressure.

Mr. GESELL. Do you find this business that you write in this manner is just as persistent as the business you write from day to day?

Mr. HOLLINS. Yes; I think we do. There is not enough involved in those little interoffice contests to make you do poor business.

Mr. GESELL. What about these company contests?

Mr. HOLLINS. Well, those run over such a long period that I don't think they have that effect at all.

Mr. GESELL. Mr. Hollins, I show you a letter, dated March 8, 1939, signed by W. B. Walker, vice president of your company, addressed to you. Do you recognize that as a letter you received?

Mr. HOLLINS. I do.

Mr. GESELL. This letter, dated March 8, 1939, reads as follows [reading Exhibit No. 1042"]:

DEAR MR. HOLLINS: The Managers of the Southeastern Division are responding enthusiastically to the call for extra production in order to regain our leadership.

Yesterday morning F. A. Sessome telephoned me he would make \$150 increase for the month of March. H. W. Bennett wired: "\$1 per man increase per week for March. If not enough, let me know." A. S. Henry wired: "Plan biggest all-round week we have ever had."

I feel these three managers have expressed the feeling shared by all of us in the Southeastern Division. We must regain our leadership. Let's put on a drive this next week for the biggest production we have ever had in the Southeastern Division. Contact all of your men Saturday, either by letter, telegram, or personally, and ask them to give you 100-percent cooperation in this drive.

I wish to offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1042" and appears in full above.)

Acting Chairman DAVIS. Do you want this printed or just filed?

Mr. GESELL. In cases where I read them I think it is sufficient to file them. Do you recognize that letter dated May 11, 1939, as another

letter you received from Mr. Walker? This letter reads [reading "Exhibit No. 1043"]:

DEAR MR. HOLLINS: The Mississippi Valley Division for the week of May 8 made more increase than our division by \$135.15. Three or four more weeks like this will mean our leadership for the entire year. We are still in the lead, but by a very slim margin. I know you are going to have an extra large writing for this week in answer to my call sent out last week.

Now, we need to keep this drive up through this next week. Upon receipt of this letter, I wish you would contact all of your men either personally, by telegraph, telephone, or by letter and let them know what we are up against and ask them to really "turn on the heat" for production this next week. I am counting on you, your superintendents, and agents to put this drive over and make it a great success. Let's go after a minimum writing of \$2.00 for each agent.

(The letter referred to was marked "Exhibit No. 1043" and appears in full above.)

Mr. GESELL. Do you recognize this letter addressed to yourself dated September 8, 1938, from J. E. Acuff, executive vice president, as a letter which you received?

Mr. HOLLINS. That is right.

Mr. GESELL. This letter reads [reading "Exhibit No. 1044"]:

DEAR MR. HOLLINS: It is a characteristic of human nature to magnify things in which we excel and minimize those in which we fall short. The Southeastern Division is, I understand, very jubilant over the fact that it is making more industrial increase than the other territory, but is somewhat reluctant to make a comparison in the Ordinary Department.

I am taking advantage of the absence of Mr. Walker and Mr. Dudley, who are away on a field trip, to bring the Southeastern face to face with a situation which I am sure you will agree should not exist. The naked truth is the Southeastern Territory is trailing behind the Mississippi Valley Territory as to Ordinary increase this year and the production of Ordinary business at the present time.

The margin of increase of Ordinary in force in favor of the Mississippi Valley Territory is slightly over one-half million dollars, a sizable sum, but not too great to be overcome by a well-organized concerted effort. The Southeastern Division has the territory, the natural resources, the man power and the leadership. Leading in Industrial, it should be leading in Ordinary production, but it is not! Why?

The purpose of this letter is to call on every red blooded member of the Southeastern field organization to rise to the emergency and really prove the ability of the territory to produce Ordinary business by writing enough new business to wipe out this difference. I am suggesting the last three weeks of this month, September 12 through the week of September 26, for a real drive for Ordinary business, the result of which will eclipse anything the Mississippi Valley Territory might hope to accomplish. I am hoping that you will arouse your district to enthusiastic action. Let's go places and do things in the Ordinary Department in the Southeastern Territory during the next three weeks.

May I have an expression from you as to your personal reaction to the suggestion outlined above, as well as an estimate of the production results we may expect from the Washington district?

(The letter referred to was marked "Exhibit No. 1044" and appears in full above.)

Do you recognize this as a copy of a telegram you received from Mr. Walker?

Mr. HOLLINS. Yes, sir.

Mr. GESELL. This is a telegram dated May 22, 1939, directed to you from W. V. Walker [reading "Exhibit No. 1045"]:

We are now waging the fiercest battle that has ever been staged between the Mississippi Valley Division and our Division. We have no enemies in our camp. We have no slackers. We are in shape to make the best record we

have ever made. Ask your superintendents to contact their agents immediately in order to make a determined effort to double their production of collected on business for this week.

(The telegram referred to was marked "Exhibit No. 1045" and appears in full in the text on pp. 6008 and 6009.)

Mr. GESELL. These letters would indicate to me, Mr. Hollins, that there was considerable emphasis placed upon the production of new business as between your office and the home office.

Mr. HOLLINS. Well, I might say, Mr. Gesell, that we get those letters. I still have my definite notions as to what is good business and what might not be so good. I am trying to make a consistent record so that the boss won't fire me when I don't always step out on a limb.

Mr. GESELL. Do you read these letters to the agents?

Mr. HOLLINS. Not always.

Mr. GESELL. You do sometimes?

Mr. HOLLINS. Yes.

Mr. GESELL. I should think that would make any agent who heard it feel that he had to go out and dig up some new business pretty fast.

Mr. HOLLINS. Well, I think, Mr. Gesell, that a lot of us fellows listen to that and then go ahead and do what we think is consistent. In other words, our office makes a consistent increase, not a large one. It has done it over a pretty long period. We don't have any slumps and haven't had for a long, long time, and that is what I am personally interested in, that we make a reasonable increase and avoid any slumps that might come from high pressure methods.

Mr. GESELL. Is your lapse rate pretty high?

Mr. HOLLINS. Well, I think it is higher than it should be.

Mr. GESELL. How does it run?

Mr. HOLLINS. Definitely or accurately I can't tell you that.

Mr. GESELL. Give us some idea of it, Mr. Hollins, please.

Mr. HOLLINS. Do you mean over a period of a year?

Mr. GESELL. Let's take it this way. How many of the policies written in your office stay in force a year?

Mr. HOLLINS. I just don't have the slightest idea. I mean I wouldn't like to tell you it is a certain ratio, because I haven't looked it up.

Mr. GESELL. Quite a good number of them don't stay in force that period, isn't that correct?

Mr. HOLLINS. I think the new business is more apt to get out and quit than some that has been on for a good many years. In other words, the turn-over in business is in its early life, I would say.

Mr. GESELL. What did you mean when you said you felt the lapse ratio is higher than it should be?

Mr. HOLLINS. I mean this, that I am never satisfied with the fact that when we write an application it doesn't stay on. When I first went in the business I thought all I had to do was write the business; I never thought about it being lapsed at all. I thought people took out insurance because they wanted it.

Mr. GESELL. You can't give us any idea, Mr. Hollins, what your lapse ratio is?

Mr. HOLLINS. If I did it would be a guess.

Mr. GESELL. You know more about it than anybody else, you have been there 22 years.

Mr. HOLLINS. If I had any reason to know I would tell it to you.

Mr. GESELL. You wouldn't want to venture a statement as to even a maximum or a minimum?

Mr. HOLLINS. I don't want to guess. I could find out for you.

Mr. GESELL. Can you prepare figures for us from the records of your office showing what percentage of your business is in force more than 6 months, what percentage of it is in force more than 12 months?

Mr. HOLLINS. It could be done; yes, sir.

Mr. GESELL. Would it be much of a job to prepare those figures for us?

Mr. HOLLINS. It would be quite a little job. However, we can do it. I didn't know that that question was going to be asked. If I had had information I would have had it ready for you.

Mr. GESELL. You would agree, I take it, with Mr. Walker, when he said to you in a letter dated March 21, "Business put on at a time when the agent is worked into a frenzy is worth very little to the agent or to the company?"

Mr. HOLLINS. Exactly right.

Mr. GESELL. Wouldn't you feel that some of these letters that I have just read, if they were read to the agent, might work him into a frenzy?

Mr. HOLLINS. Well, it might an inexperienced man: I doubt seriously whether it would one of those that has been with the business a year.

Mr. GESELL. Do you recognize this letter which I show you, dated May 1, 1939, as a letter written to you by Mr. Walker?

Mr. HOLLINS. Yes, sir.

Mr. GESELL. That refers to one of these convention trips to which you refer?

Mr. HOLLINS. Yes, sir.

Mr. GESELL. The letter states [reading "Exhibit No. 1046"]:

DEAR MR. HOLLINS: The Havana, Cuba, Convention offers the greatest trip in the history of our company. Managers, superintendents, and agents everywhere are "rearin" to go. There is real enthusiasm over the prospects of making this trip.

Now, we are anxious to have each agent, superintendent, and manager express himself openly that he is going to make this trip. We are sending you, under separate cover, enough small pins for your agency force, on which you will find this expression, "Havana Bound." When you pin this on the lapel of your coat you are stating to everyone in your agency organization, to the public, and to your policyholders, that you are going to make this trip. These pins should be received by you this week. Using these pins, we should really turn on the heat for production this week.

(The letter referred to was marked "Exhibit No. 1046" and appears in full above.)

Mr. GESELL. Are many of your agents dismissed for irregularities in their accounts?

Mr. HOLLINS. Not many; no.

Mr. GESELL. How many, would you say? What percentage of those who leave because of irregularities in their accounts?

Mr. HOLLINS. I think we have had one this year.

Mr. GESELL. Do you include in irregularities men who have been paying premiums for policyholders?

Mr. HOLLINS. No; we wouldn't discharge a man for that, unless it became a wholesale proposition.

Mr. GESELL. Do the men in your office frequently pay a policyholder's premium with their own money?

Mr. HOLLINS. I suspect they do.

Mr. GESELL. What makes an agent do that?

Mr. HOLLINS. Well, it frequently happens that it is an old policyholder who tells the agent a tough-luck story, that he has been out of work, or had illness, or the usual things that happen to the average citizen, and asks him to hold it to next week. I think they work on his sympathy to a great extent.

Mr. GESELL. You think that the fact that the agent's compensation might be affected if that agent's business lapsed has nothing to do with his paying the premium?

Mr. HOLLINS. I think that sometimes affects it, of course.

Mr. GESELL. Do you find many cases in your office where an agent will take the advance payments of one policyholder and, rather than credit them to that policyholder, use them to pick up the arrears of another policyholder?

Mr. HOLLINS. No. In the course of my experience in the insurance business I have seen some cases of that, but I don't think we have had anything like that happen in our organization.

Mr. GESELL. What is meant in your company by an agent switching his advance pay?

Mr. HOLLINS. That would be where he was about to reach the deadline and be off draw if his arrears got to a certain height, for instance 70 percent. He might be to 69, and to keep from showing up the fact that his arrears were 70 percent or above he might indicate on there that some business was not in arrears when it was.

Mr. GESELL. That would be by taking money from someone else—

Mr. HOLLINS (interposing). No; not taking it; just merely altering his accounts to keep from showing up the fact of the arrears. It wouldn't mean that he was taking the credits from a policyholder and giving the credits to another policyholder at all. It would mean that he was making a bookkeeping alteration there to keep the home office from finding that his arrears had got above the deadline.

Mr. GESELL. How would he work that, just by making a false entry?

Mr. HOLLINS. That's right.

Mr. GESELL. Do you find that fairly frequent?

Mr. HOLLINS. Not often. We watch that pretty closely.

Mr. GESELL. What do you do to a man when he is switching his advance pay?

Mr. HOLLINS. We let him know how we feel about it. If we catch him doing that again we like to let him out.

Mr. GESELL. Do you recognize this letter which I show you?

Mr. HOLLINS. Yes.

Mr. GESELL. That is a letter to you—

Mr. HOLLINS (interposing). Covering just such a situation.

Mr. GESELL. That is a letter from Mr. Walker dated January 24 of this year, in which he calls attention to eight agents who were switching their advance pay.

Mr. HOLLINS. We checked those and some of those were just normal errors. There were one or two cases where they were purpose errors.

Mr. GESELL. Do you have, in your company, what is known as a pink lapse sheet?

Mr. HOLLINS. Yes, sir.

Mr. GESELL. Will you tell us what the pink lapse sheet is?

Mr. HOLLINS. Well, if a person had a limited-payment life policy and it was paid up, the premiums were fully paid up, that would be a pink lapse. In other words, the policy has matured and completed and the agent would not be presumed to have had the lapse at all. In other words, that is what the pink lapse is.

Mr. GESELL. In other words, that is where a policy becomes paid up—

Mr. HOLLINS (interposing). An endowment policy or a limited-pay life policy. In the health-and-accident department, the health-and-accident feature of the policy is canceled at any time except during a period of illness, either by the policyholder or by the company. In that event, if the policyholder wanted to reduce it, or if the company wanted to reduce it, he would get a pink lapse for it.

Mr. GESELL. Do you refer to this provision in the policy:

The company shall not have the right to cancel the life insurance granted herein as long as the terms and conditions of this policy are complied with. However, either the insured or the company will have the right to cancel or reduce the insurance granted herein against disability from sickness or accident, in which event that part of the premium payable for such disability insurance will be discontinued or proportionately reduced. Such cancellation or reduction of insurance shall be effected by notice mailed to the home office of the company, or to the insured's last address as shown by the company's record, with cash or the company's check for the unearned premium. Should a claim have been filed at time of such notice for an existing disability, such cancellation will take effect on recovery from such disability, or if such disability continue for as long as 26 weeks, the cancellation will take effect at the end of that 26-week period.

Mr. HOLLINS. That is right.

Mr. GESELL. That is the clause you refer to?

Mr. HOLLINS. Yes.

Mr. GESELL. You say when one of those health-and-accident provisions is canceled, in order that an agent won't be charged with that cancellation the cancellation appears on a pink lapse sheet.

Mr. HOLLINS. That is correct.

Mr. GESELL. Your company has no obligation to collect premiums, has it?

Mr. HOLLINS. No.

Mr. GESELL. In other words, if you don't go around and call at the policyholder's home for his premiums and the policy lapses, the company has no liability for not having gone around to get them?

Mr. HOLLINS. No.

Mr. GESELL. Well, now, isn't it a fact, Mr. Hollins, that in cases where you find you have written a bad risk on these health and accident policies that you purposely stay away from the homes of the insured and bring about a lapse which you record on a pink lapse sheet?

Mr. HOLLINS. As far as I have any instruction from the company or any instructions that I might give out at the office, we do not resort to any such tactics.

Mr. GESELL. Do you recognize this letter which I show you now?

Mr. HOLLINS. Yes. That means it automatically becomes lapsable. In other words, if that person was due to lapse, we give the agent a pink lapse on it.

Mr. GESELL. This letter is dated May 26, 1939, addressed to you, signed by J. S. Ward, associate medical director. [Reading "Exhibit No. 1047":]

Re: Robert Stewart, No. 8654730, Debit No. 3, Agent O. L. S.

We were certainly unfortunate in issuing a policy to this young man. A long list of \$5.00 claims have been paid him, the doctor stating the trouble to be "tuberculosis." We also note that on the last three claims he reports "luetic infection."

The quicker you can get rid of this case the better it will be. Make special note of it and watch for an opportunity. We are willing to leave the handling of this to your own good judgment.

Mr. HOLLINS. That is right.

(The letter referred to was marked "Exhibit No. 1047" and appears in full above.)

Mr. GESELL. That would indicate to me that you were getting pretty specific instructions from your home office to lapse this policy as soon as you got a chance.

Mr. HOLLINS. Well, that would be true. We couldn't lapse it as long as he paid his premiums, but if he ever let it lapse, I mean if he ever got 4 weeks in arrears, we wouldn't make any special effort to go back and make an extra call. In other words, I presume in your investigation you know that these men frequently make extra calls in order to keep business from lapsing. We wouldn't make an extra call in a case like that, but under no conditions is any man in this district ever asked to avoid business in order to bring about a lapse. We just don't do it that way. I don't do it that way.

Mr. GESELL. How do you do it?

Mr. HOLLINS. A man services the business as long as he can.

Mr. GESELL. But he keeps his servicing down to a minimum.

Mr. HOLLINS. That is right. He wouldn't make extra calls for that; he wouldn't go out of his way. He would go there and make the usual weekly call just as with anybody else.

Mr. GESELL. And if the policyholder had got more or less accustomed to this man coming back once or twice if he got in arrears, he would be sadly mistaken in this case.

Mr. HOLLINS. I don't know whether this would happen where he would be accustomed to having an extra call made every week, the fact whether he was ever sick or impaired, we would try to discourage that extra call.

Mr. GESELL. Tell us what kind of instructions you gave to this agent, O. L. S.

Mr. HOLLINS. Just what I have told you.

Mr. GESELL. Assume I am the agent. Tell us what instruction you would give me.

Mr. HOLLINS. I would say: Here is this letter. The man has a claim record that looks right bad. If he should let his insurance get back into the lapse period don't put out any extra effort to hold him out.

Mr. GESELL. And that is what Mr. Ward means when he says, "Make special note of it and watch for an opportunity."

Mr. HOLLINS. That is what I mean.

Mr. GESELL. I show you another letter and your reply thereto, and ask you if you recognize that correspondence.

Mr. HOLLINS. Yes.

(The letters referred to were marked "Exhibit No. 1048" and appear in full below.)

Mr. GESELL. The letter is dated November 23, 1937, addressed to you, from the associate medical director, J. S. Ward, and reads as follows [reading Exhibit No. 1048]:

Re: Norma McNab, Debit 28, Agent Phillips.

DEAR MR. HOLLINS: The above policies remain in force. In making application last month for additional insurance, we found the risk undesirable. We are afraid this poor woman is gradually but surely drifting toward closing out her life.

Since we feel assured the impairments noted were on hand when the policies were issued, the Claim Department has suggested that I write you to be on the watch for an opportunity to let these policies appear upon the pink lapse sheet. Deal justly, considering what is best for all concerned.

We await your attention to this.

You replied under date of January 19, 1938, to Mr. Ward as follows [reading the balance of Exhibit No. 1048]:

In reference to your letter of November 23, 1937, the above-mentioned policies lapsed with a D. L. P. of 12-6-37. Lapse Register Page 102.

Very truly yours.

What do you mean, D. L. P.?

Mr. HOLLINS. That is paid to the time it lapsed.

Mr. GESELL. In other words, it was paid up until lapsed. The D. L. P. means where the insurance is paid to the last week for which it is paid.

That was date of last payment, then?

Mr. HOLLINS. That is right.

Mr. GESELL. So that this woman's policy lapsed on December 6, 1937?

Mr. HOLLINS. According to that; yes.

Mr. GESELL. And you received the letter from Mr. Ward dated November 23, 1937. It took less than a month to get this policy off the books, did it not?

Mr. HOLLINS. According to that.

Mr. O'CONNELL. What is the grace period?

Mr. HOLLINS. Four weeks.

Mr. O'CONNELL. That doesn't sound like 4 weeks to me. Is there an explanation of that?

Mr. HOLLINS. This letter was dated January 19, that I wrote to the home office to the effect that it was lapsed 12-6.

Mr. O'CONNELL. As of what date did the policy lapse, the 6th of December? That date appears in your letter, does it not?

Mr. HOLLINS (reading from "Exhibit No. 1048")

In reference to your letter of November 23, 1937, the above-mentioned policies lapsed with a D. L. P. of 12-6-37. Lapse Register Page 102.

Mr. O'CONNELL. The last payment was the 6th of December, then.

Mr. GESELL. You must have made out the pink lapse sheet as soon as the policy lapsed but before the grace period expired, or rather as soon as the premiums were in arrears.

Mr. HOLLINS. Here is a notation on here from the agent, on the bottom of this letter that I got my information from in writing to the company. I don't remember the details of it. There is the notation down there.

Mr. GESELL. Can you read that?

Mr. HOLLINS. Yes. [Reading from "Exhibit No. 1048":]

Above policies lapsed with D. L. P. December 6, 1937. Lapsed Register page 102. Debit 28. Agent C. Phillips.

I just merely relayed that information that I got from the agent on in my file.

Mr. O'CONNELL. In that sort of situation, would your agent call at the home of the insured during the 4-week period?

Mr. HOLLINS. He is instructed to as far as the office is concerned. The service is continued just as usual.

Mr. O'CONNELL. Do you think that is in compliance with the instruction you have from the home office to get rid of the business at the earliest opportunity?

Mr. HOLLINS. I feel that I have a certain responsibility.

Mr. O'CONNELL. Would you mind answering the question? Do you think that is compliance with the instruction from the home office to get rid of the business at the earliest opportunity?

Mr. HOLLINS. It frequently happens that I wouldn't comply if I thought business should be done differently.

Mr. O'CONNELL. You don't think you did comply in that situation?

Mr. HOLLINS. No, sir.

Acting Chairman DAVIS. Have you ever received any instructions from the home office in cases of that kind to cease the customary services?

Mr. HOLLINS. I don't know whether I get that.

Acting Chairman DAVIS. Have you ever received instructions from the home office to cease the customary service?

Mr. HOLLINS. No, sir.

Mr. DAVIS. And you interpreted those instructions to get rid as early as you could of a policy of that kind in the ordinary course of business according to your regular customary procedure?

Mr. HOLLINS. What I am trying to get over is that in a case like that we would use certainly no extra efforts and no extra calls in order to hold it to the books, but we wouldn't deny them the service and walk down another block, and something like that.

Mr. O'CONNELL. You wouldn't use the same efforts to keep that business on the books that you would use to keep other business on the books?

Mr. HOLLINS. No; we wouldn't.

Mr. GESELL. Do you know why the company doesn't follow the procedure outlined in that paragraph of the policy I read a moment ago?

Mr. HOLLINS. That other policy is not that type of policy. That is a life-insurance policy.

Mr. GESELL. The provisions are the same with respect to that, are they not?

Mr. HOLLINS. No. That is a life-insurance policy. The one we are just discussing is a combination life, health, and accident and there is no paragraph in the life policy along that line.

Mr. GESELL. In other words, there is no provision in the life policies for canceling the insurance.

Mr. HOLLINS. There is a contestable period. If we found out that someone had got insurance by false statements——

Mr. GESELL (interposing). That was involved here?

Mr. HOLLINS. No; no.

Mr. GESELL. Are these cases which I read to you straight life insurance policies?

Mr. HOLLINS. That last one was. Both of those were life insurance on that last paper.

Mr. GESELL. Do you recognize this letter dated March 30, 1939, as another letter you received from Dr. Ward?

Mr. HOLLINS. Yes. That is a health and accident policy.

(The letter referred to was marked "Exhibit No. 1049" and appears in full below.)

Mr. GESELL. This letter read [reading "Exhibit No. 1049"]:

Re Freddie Hamilton, #10491954. Debit 11, Agent Walder.

DEAR MR. HOLLINS: This policy carries a claim privilege of \$10.00. Three of these claims were paid in January for pleurisy. No claims were presented during February but a claim was paid last week, the doctor stating the trouble to be "migraine" which is a form of "neuralgia." I notice that in answer to question 3-B the doctor stated that there was some luetic infection dating back to 1937.

This case most certainly needs your attention and as you study it you may decide to let it appear upon the pink lapse sheet.

Mr. HOLLINS. That would be under that cancelation clause of the health and accident policy.

Mr. GESELL. Why didn't the company follow the procedure outlined in the clause of the policy.

Mr. HOLLINS. We would do that; at least I would, ordinarily.

Mr. GESELL. You would write them a formal notice?

Mr. HOLLINS. No; I would forward word to the home office, from a different department.

Mr. GESELL. You mean after Dr. Ward wrote you, you would write back to the home office and have them follow the procedure set up in the policy?

Mr. HOLLINS. That is right.

Mr. GESELL. You don't do anything like that in the case of a life-insurance policy?

Mr. HOLLINS. No; no; there is no provision in that policy for that.

Mr. GESELL. There is no medical examination in connection with any of these types of policies, is there?

Mr. HOLLINS. On the industrial life; yes; certain limits and certain ages.

Mr. GESELL. But the bulk of the business——

Mr. HOLLINS (interposing). Is nonmedical.

Mr. GESELL. Just for the purposes of the record, do you recognize these three letters that I show you now as copies of letters which you wrote to various persons in the home office of your company?

Mr. HOLLINS. That was in 1936, I presume that is it. This is in regard to the ordinary department, and so is that.

Mr. GESELL. You recognize these as three letters that you wrote, do you not?

Mr. HOLLINS. That is right.

Mr. GESELL. I should like to read the letters for the record, one dated May 12, 1936, to Mr. J. E. Acuff, signed by yourself [reading "Exhibit No. 1050"]:

DEAR SIR: In the attempt to do our full share towards the observance of Life Insurance Week, we have a pledge from the agents in this district to write 25 Industrial applications and twenty-five Ordinary applications for the week. From expressions from the different agents and superintendents I feel confident that our production for the week will be quite unusual. With kind regards, I am.

(The letter referred to was marked "Exhibit No. 1050" and appears in full above.)

Mr. GESELL. The second letter, May 2, 1938, to Mr. Guilford Dudley, Jr., vice president, signed by yourself, states [reading "Exhibit No. 1051"]:

Replying to your letter of the 25th the following agents which you mentioned have applications in the hands of the examiner, Reynolds, Vaughan, Howlin, Harnish, and Gusack. I have taken the matter up with the others mentioned, some of whom are much alarmed, but insist that they will do their darndest to produce. At any rate we shall soon see.

I am doing my darnedest to get the whole bunch enthused over production for this and next week and if I succeed in getting some momentum I feel that we shall be able to keep it up.

Our school is beginning to show some results. What would you say to forcing all the men to take up this course? I will be glad to have your opinion.

(The letter referred to was marked "Exhibit No. 1051" and appears in full above.)

Mr. GESELL. The third letter, from you to Mr. W. V. Walker, dated May 23, 1939, states [reading "Exhibit No. 1052"]:

The two finals of which I have just written had some effect on our writing of last week, and to some extent dispirited some of our men. We are trying our best to make a fair increase each week and to continually better the condition of our debits so that you may be able to depend on us for a consistent, progressive record.

Superintendent Holleman's staff wrote \$7,500 ordinary last week and it might be best to write Mr. Holleman complimenting his staff on that unusual (for them) achievement.

I shall take up your letter requesting extra efforts when we meet in the morning and see if we can't produce better results.

(The letter referred to was marked "Exhibit No. 1052" and appears in full above.)

Mr. HOLLINS. That is relating to the ordinary department only.

Mr. GESELL. That last letter?

Mr. HOLLINS. Yes.

Mr. GESELL. Do you recognize this document which I now show you as a statement of the earnings of the representatives of your office for the year 1938?

Mr. HOLLINS. That is right.

Mr. GESELL. I wish to offer this report for the record

(The document referred to was marked "Exhibit No. 1053" and is included in the appendix on p. 6323.)

Mr. GESELL. I have no further questions of this witness.

Acting Chairman DAVIS. You are excused. The committee thanks you for your appearance, Mr. Hollins.

TESTIMONY OF BUFORD EUBANK, FIELD SUPERINTENDENT, THE
LIFE & CASUALTY INSURANCE CO., NASHVILLE, TENN.

Acting Chairman DAVIS. Hold up your right hand.

Do you solemnly swear that the statement you are about to make will be the truth, the whole truth, and nothing but the truth, to the best of your knowledge and belief, so help you God?

Mr. EUBANK. I do.

Mr. GESELL. Will you state your full name, please, sir?

Mr. EUBANK. E-u-b-a-n-k, Buford.

Mr. GESELL. You are employed by the Life & Casualty Co. of Tennessee?

Mr. EUBANK. Yes, sir.

Mr. GESELL. In what capacity?

Mr. EUBANK. Field superintendent.

Mr. GESELL. How long have you been with the company?

Mr. EUBANK. I went with them in July 1927, and stayed with them up until May 1934, at which time I left them for a period of about 2 years, and went back with them in August 1936.

Mr. GESELL. You are responsible to Mr. Hollins, who just testified, are you?

Mr. EUBANK. Yes, sir.

Mr. GESELL. How many debits do you have?

Mr. EUBANK. Five.

Mr. GESELL. Five agents?

Mr. EUBANK. Five agents.

Mr. GESELL. Where are the debits?

Mr. EUBANK. In Alexandria and Arlington County. One debit goes over into Fairfax County.

Mr. GESELL. What are the premiums collected on those debits?

Mr. EUBANK. What is the amount?

Mr. GESELL. Weekly premiums.

Mr. EUBANK. Total amount, between \$475 and \$500.

Mr. GESELL. Are the policyholders on your debits white or colored?

Mr. EUBANK. I have one colored debit, and the rest of them are white.

Mr. GESELL. Are the debits stretched over a pretty large territory?

Mr. EUBANK. Well, the colored debit is.

Mr. GESELL. How many finals do you have per year out of these five men that you have?

Mr. EUBANK. I have had two finals this year.

Mr. GESELL. Two out of five this year. Does it run about two or three a year?

Mr. EUBANK. Well, it will run around close to, I don't believe it will average two a year. I never kept that average, but I will average better than one a year, I guess.

Mr. GESELL. What are the reasons for the finals?

Mr. EUBANK. Well, that is what we have been trying to find out. Usually because a man fails.

Mr. GESELL. What do you mean, he fails to produce?

Mr. EUBANK. Of course, everything hinges more or less on production. If he fails to produce, he fails to make any money; consequently he resigns.

Mr. GESELL. That is what you mean by failed?

Mr. EUBANK. That is right.

Mr. GESELL. Do some of the men dislike the night work?

Mr. EUBANK. We don't have any night work, unless it is on their own initiative.

Mr. GESELL. Do the men have night work that work on your debit?

Mr. EUBANK. Not necessarily. They may do some night work. I know some of them do make some night calls, but we don't tell them to. I will say this, that we do encourage a man to make an evening call sometimes to fill appointments on same; where people are working in the daytime you have to see a man after he gets home from his work. There is no night call involved in service.

Mr. GESELL. In other words, a man may be pretty well occupied all day on his collections and servicing and debits, and in order to produce new business, he may have to work at night.

Mr. EUBANK. He may have to make some night calls to produce a reasonable volume of business.

Mr. GESELL. Have you had any trouble with paying excess and shifting of advances?

Mr. EUBANK. Not a great deal.

Mr. GESELL. Tell us what kind of trouble you have had.

Mr. EUBANK. Well, sometimes we find a man with an excess on his books; we tell him not to. Sometimes they insist on doing it.

Mr. GESELL. What do you mean by paying excess on his books?

Mr. EUBANK. Holding business that should be lapsed past the lapsing date.

Mr. GESELL. In other words, to keep his net increase up, he is paying some of his own money?

Mr. EUBANK. I suppose that has something to do with it. Then, sometimes a man feels kind of friendly toward some people that are in tough luck, and he will let their sympathies prevail on him not to lapse their insurance. Sometimes he does it and sometimes he cuts it out.

Mr. GESELL. Can you give us any idea of how much excess there is on the debits under your immediate supervision?

Mr. EUBANK. If there is any at all right now, I don't know it. Sometimes I find cases. It is not a regular practice. Sometimes it does happen.

Mr. GESELL. Were you ever an agent?

Mr. EUBANK. Yes, sir.

Mr. GESELL. Did you build up much excess on your books?

Mr. EUBANK. I never built up much. I have been stuck a few times.

Mr. GESELL. Don't you suppose it is a pretty fair guess that some of the agents under your immediate supervision now have excess on their books?

Mr. EUBANK. I wouldn't say they don't have, although I don't think they have any to amount to anything.

Mr. GESELL. Do you have any allotment system?

Mr. EUBANK. We don't have any enforced allotment.

Mr. GESELL. I asked whether you had any allotment. Do you have any kind of allotment?

Mr. EUBANK. We try to encourage a man to make an allotment of 50 cents a week increase on the small debits. Some of them make it and some of them don't.

Mr. GESELL. That is the standard you hold up to the men in terms of production?

Mr. EUBANK. Fifty cents a week increase is the amount we try to encourage him to make.

Mr. GESELL. How much business does that mean a man will have to actually write to make that increase?

Mr. EUBANK. That depends on the size of his debits, because the larger the debits, the larger the volume of lapses. A man on a \$200 debit would have to average around two to two and one-half writings to make 50 cents a week increase.

Mr. GESELL. In other words, if he has a \$200 debit, he will have to write about \$2.50 of new business in order to bring about a 50-cent increase.

Mr. EUBANK. That is, on the health and accident. On the white life business he wouldn't have to have that much.

Mr. GESELL. You mean the colored policyholders lapse more than the white?

Mr. EUBANK. The turn-over is greater; yes.

Mr. GESELL. How much would it come on a white debit?

Mr. EUBANK. I don't have a white debit that large. My white debits run around \$100 and under.

Mr. GESELL. Well, let's take a hundred-dollar debit. How much business would a man have to write if that was a white debit in order to bring about an increase of 50 cents?

Mr. EUBANK. If he collected well on his application, and didn't give it away, so the turn-over on the new business wouldn't be so great, assuming the business he wrote was good, 75 cents a week on well collected business should give him about 50 cents a week.

Mr. GESELL. If he has a debit in really good shape, he only has to write a quarter increase in allotment?

Mr. EUBANK. The largest lapses usually come from new issues. Assuming his issue is a substantial collected on issue, that it is well sold, the lapse ratio of the debit itself, wouldn't be more than 25 cents a week.

Mr. GESELL. Why is there so much business lapsing, Mr. Eubank, do you think? What do you think causes it?

Mr. EUBANK. Lots of things cause it. Lots of times a man loses his job. He may have bought the business in good faith and loses his job. Some unfortunate circumstances happen in the home and they have to let the insurance lapse. Sometimes a person moves soon after they buy a policy, and not having been accustomed to that particular obligation, neglects to notify us where they are, and then some people just naturally lapse, we don't know why.

Mr. GESELL. May I suggest that possibly it is because they weren't properly sold originally. Don't you think it is an attempt where a man, in attempting to make the allotted increase, will place business they know isn't going to stick?

Mr. EUBANK. I don't think that has much to do with it. I have found that men that have a fairly substantial regular issue will have a certain number of lapses.

Mr. GESELL. Well, now, is it easier to sell a colored debit than a white debit?

Mr. EUBANK. I don't know that there is much difference. Maybe you can write it a little easier. It is harder to keep on the books.

Mr. GESELL. Why is that? Why can you write it easier?

Mr. EUBANK. I don't know. It is easier to get in to see them.

Mr. GESELL. You think that is the only reason?

Mr. EUBANK. Well, I don't know. I guess it is. You go out soliciting people, and you can get an interview with more of them on call than with whites.

Mr. GESELL. And you think it is easier to write?

Mr. EUBANK. I think it is.

Mr. GESELL. What kind of policies do your agents sell, mostly, what class, endowment, or 20-pay life, whole life, or what?

Mr. EUBANK. We sell all. We sell endowments, 20-pay life, and whole life.

Mr. GESELL. In terms of proportion, which is sold the most?

Mr. EUBANK. I would have to guess at that. I don't know how close I can guess. I would guess we sell more 20-pay life than we do endowment or straight life.

Mr. GESELL. Have you any explanation as to why you should sell so much 20-payment life?

Mr. EUBANK. Well, for one thing, there is a limit on how long the people have to pay. A lot of them like the idea of getting it paid up, and of course there is a lower premium than on the endowment. It is kind of a compromise between the two and it seems to hit a happy medium.

Mr. GESELL. An agent would get more for placing a 20-payment life policy for the same amount than he would for placing a whole life policy?

Mr. EUBANK. He would get the same amount for the same amount of premium.

Mr. GESELL. That doesn't answer my question.

Mr. EUBANK. You mean the same amount of premium insurance?

Mr. GESELL. Coverage.

Mr. EUBANK. Naturally it is a higher premium and he would get more for it.

Mr. GESELL. What do you know about this pink lapse sheet, Mr. Eubank?

Mr. EUBANK. We have a pink lapse sheet schedule on cancelations of health and accident policies. They use the pink lapse sheet to relieve the agents of having to cover the lapse. On mature policies where there is no more premium required, then we put that on a pink lapse sheet.

Mr. GESELL. Have you ever received instructions from Mr. Hollins or anyone else with respect to seizing the best opportunity to lapse some policy that is on your books?

Mr. EUBANK. I have never had any instruction to seize an opportunity; no.

Mr. GESELL. What kind of instruction does he give you about this?

Mr. EUBANK. Sometimes he might hand me a bad-claim record and he might tell me if it ever lapsed to let him know and he would give the agent relief on it.

Mr. GESELL. Then what do you do?

Mr. EUBANK. I don't do anything until it lapses.

Mr. GESELL. Do you tell the agent that lapses?

Mr. EUBANK. No; they are looking for the opportunity. We don't tell our agents to go out and lapse people's insurance. When an agent

has lapsed insurance on his book and he thinks there might be a chance of not having to cover the lapse, he naturally sees if he can get a pink lapse on it.

Mr. GESELL. So far as the agents are concerned, they are rather interested any time they know they can get rid of a policyholder without being charged for it?

Mr. EUBANK. They are not interested in getting rid of a policyholder, but they are naturally interested in not being charged with it if it lapses.

Mr. GESELL. Do you tell them that such and such a policyholder on their debit is a candidate for the pink lapse sheet?

Mr. EUBANK. No.

Mr. GESELL. You don't ever tell them anything about it?

Mr. EUBANK. I don't tell them they are a candidate for a pink lapse sheet.

Mr. GESELL. Do you tell them anything about the instructions you receive from Mr. Hollins?

Mr. EUBANK. No.

Mr. GESELL. So Mr. Hollins was incorrect when he said that the agents don't call back on the policyholders for extra calls when the account is in arrears?

Mr. EUBANK. Frankly, I don't encourage my agents to call back on anybody. I try to give everybody regular, courteous service, and if they lapse the insurance, we can't help it. And I find that by not calling back, we get just as good results on service as we do by calling back, and lots of times better.

Mr. GESELL. So in your case there is no call back for anybody?

Mr. EUBANK. As far as I personally am concerned, I don't make back calls unless there are some unusual circumstances, some misfortune or somebody couldn't be home, but ordinarily because they want me to run back tomorrow I don't do it.

Mr. O'CONNELL. Do you have a debit?

Mr. EUBANK. Not at the present time, but I have had them.

Mr. GESELL. Do you have contests among the members of your staff?

Mr. EUBANK. Oh, sometimes we have a little rivalry. We don't place a lot of importance in it.

Mr. GESELL. Give us some idea about what kind of rivalry you have. The men choose up sides, is that it?

Mr. EUBANK. Sometimes our staff might take another staff on for some little prize, or something, maybe a dinner or something like that.

Mr. GESELL. Do you have pep meetings?

Mr. EUBANK. Well, we have a little sales meeting once in a while to try to stir up a little enthusiasm.

Mr. GESELL. How often do you have these sales meetings?

Mr. EUBANK. Oh, not so often. Maybe once every 2 or 3 months.

Mr. GESELL. Can you give us some idea of what you say at one of these sales meetings, Mr. Eubank?

Mr. EUBANK. I try to enthuse the men.

Mr. GESELL. Not what you try to do, what you actually say. Let's have your talk to the men. Assume the men are here, let's see what your sales talks are like.

Mr. EUBANK. If one man was making a particularly good record, I would compliment him on his good record. If another was a little under, I would ask him if he couldn't get some of the other fellows' enthusiasm to put it over, or things along that line.

Mr. GESELL. Can't you give us some idea of what you would actually say at one of these meetings?

Mr. EUBANK. If a man were particularly low on industrial writing or production, I would try to find out from him as near as I could what his trouble was, ask him if he needed a little help to go with it, or if he had some prospects I would probably help him to close, insist on his doing a certain amount of solicitation, getting names I might be able to go with him on, things along that line.

Mr. GESELL. That is individual discussion of this fellow's problems in front of the other men, is that what it is?

Mr. EUBANK. If we get together in staff meetings, we have a more or less free-for-all discussion, trying to iron out the weaknesses. We make mention of the outstanding things, if any, that some man has accomplished.

Mr. GESELL. You can't give us any better idea of what you say at these meetings, the actual words you use?

Mr. EUBANK. I talk to the boys, I ask them if they can't pull up a little bit on their production, if the production is low, or if the production happens to be good I pat them on the back. If the collections happen to be low, I place a little emphasis on that, or whatever apparently happens to be going on—stress that point a little.

Mr. GESELL. I have no further questions of this witness.

Mr. O'CONNELL. How are you compensated? What is the basis of your compensation?

Mr. EUBANK. Salary.

Mr. O'CONNELL. Entirely salary?

Mr. EUBANK. And a small commission.

Mr. O'CONNELL. How much?

Mr. EUBANK. Two times on the increase.

Mr. O'CONNELL. And no commission on the debit as such?

Mr. EUBANK. No. I get a straight salary as a superintendent and two times on the amount of net increase the staff makes.

Mr. O'CONNELL. You are interested in both the collection ratio and the new business ratio.

Mr. EUBANK. We are interested in the collection ratio particularly, the quality of debits. In other words, if the collections are good it shows a healthy condition of the debit.

Mr. O'CONNELL. If collections are good and the man is a good salesman, you have a net increase upon which you get a commission.

Mr. EUBANK. In other words, if my staff makes a good record I get a little more money than if they make a poor record.

Mr. O'CONNELL. The previous witness referred to a dead line of 70 percent of arrears. Are you familiar with that condition?

Mr. EUBANK. If a man has 70 percent of arrears, he is disqualified for drawing the increase times.

Mr. O'CONNELL. Does that mean that 70 percent is considered to be rather at the dead line for a ratio of arrears?

Mr. EUBANK. A dead line so far as the agent's drawing his commission on the collections until he improves the condition of his debit.

Mr. O'CONNELL. You would say a debit 70 percent in arrears was in rather bad shape?

Mr. EUBANK. I would say there would be considerable potential lapse on the debit.

Mr. GESELL. Does that mean you are not collecting up to date on 70 percent of the business?

Mr. EUBANK. Not necessarily. That might mean that was gross arrears. One case might be 1 week in arrears, another might be 2, another might be 3, another might be 4; the compilation of arrears makes the arrears we refer to as gross arrears.

Mr. GESELL. Does that mean 70 percent of the business is to some degree in arrears?

Mr. EUBANK. It doesn't necessarily mean that, but it would mean that if you have business in arrears, some of it not more than a week, 10 percent of the debit would be carrying practically all the arrears.

Mr. O'CONNELL. A substantial part of it might be 3 and 4 weeks.

Mr. EUBANK. A substantial part of it might be business about ready to lapse at the present time, and it usually does. The majority of arrears come from a minority of the debit, as a rule.

Mr. O'CONNELL. But if each policy in arrears was in arrears 1 week, it would mean that 70 percent of your policies were not being paid.

Mr. EUBANK. If it was 70 percent in arrears, naturally.

Acting Chairman DAVIS. Thank you for your appearance, and you are excused.

(The witness, Mr. Eubank, was excused.)

Mr. GESELL. Mr. Roberson.

Acting Chairman DAVIS. Do you solemnly swear the statements you are about to make will be the truth, the whole truth, and nothing but the truth to the best of your knowledge and belief, so help you God?

Mr. ROBERSON. I do.

TESTIMONY OF ROBERT ELMER ROBERSON, AGENT, PEOPLE'S LIFE INSURANCE CO., WASHINGTON, D. C.

Mr. GESELL. Will you state your full name?

Mr. ROBERSON. Robert Elmer Roberson, Jr.

Mr. GESELL. R-o-b-e-r-s-o-n?

Mr. ROBERSON. That is right.

Mr. GESELL. Did you formerly work for the Life & Casualty Co. of Tennessee?

Mr. ROBERSON. I did.

Mr. GESELL. For what period of time?

Mr. ROBERSON. Approximately 18 years.

Mr. GESELL. Was that here in Washington?

Mr. ROBERSON. Right.

Mr. GESELL. What were you when you left the company?

Mr. ROBERSON. Agent.

Mr. GESELL. Have you ever been a superintendent for that company?

Mr. ROBERSON. For 13 years.

Mr. GESELL. That is assistant superintendent?

Mr. ROBERSON. That is right.

Mr. GESELL. Here in Washington again?

Mr. ROBERSON. That is right.

Mr. GESELL. At the present time are you an agent of the People's Life Insurance Co.?

Mr. ROBERSON. That is right.

Mr. GESELL. How long have you been with the People's?

Mr. ROBERSON. Since June 22.

Mr. GESELL. When did you leave the Life & Casualty Co.?

Mr. ROBERSON. Around June 19.

Mr. GESELL. Of this year?

Mr. ROBERSON. That is right.

Mr. GESELL. So you had been with them for about 18 years up to this June?

Mr. ROBERSON. Yes.

Mr. GESELL. Can you tell us, Mr. Roberson, anything about these pep meetings that were held in the company during the time you were there, what was said and how they are conducted?

Mr. ROBERSON. If you would like me to give my version of why those pep meetings were held, I will tell you.

Mr. GESELL. Did you hold those meetings yourself?

Mr. ROBERSON. When I was superintendent I sometimes held a small pep meeting.

Mr. GESELL. Why are they held?

Mr. ROBERSON. The average agent will get lax, they will get lazy, I do myself, and to keep the man on the job, keep him making a living wage, the company has to have those pep meetings. In other words, they will bring a man back. We all get careless and lazy, and especially an agent when he has wandered around by himself, and those pep meetings are good, I have found that out.

Mr. GESELL. You mean they keep the men steamed up, so to speak?

Mr. ROBERSON. Well, the average man doesn't pay much attention to them. They have those letters; they come and go; and the average man in the insurance business, it seems like nothing inspires him. But it is done to kind of get him on the track again when he wanders away.

Mr. GESELL. Can you tell us what is said at these pep meetings?

Mr. ROBERSON. Sure. In most of the pep meetings we tell a man—we will find two or three men, say, in the group or on a staff that are down below the average—and we will say to these fellows, "Now, John, if so and so can go out there and do it, you can do it." It is just like that. In other words, to pep the men up—to bring them up to standards. As I say, in the 18 years I was there I didn't have a terrible lot of pressure put on me because we generally go out and do what we want to do anyway. We were supposed to do it for our own benefit. That was our living.

Mr. GESELL. You mean at the meetings the men whose production was down below that of the average were picked out and some special mention made of their performance?

Mr. ROBERSON. That is the idea.

Mr. GESELL. And were the results of the previous week of each man reviewed?

Mr. ROBERSON. Well, they didn't go over that. If one man was down, they wouldn't bawl him out in front of the whole office, but they would try to get him to see the right way and come up in his production.

Mr. GESELL. What would they tell a man would happen if he didn't come up in his production?

Mr. ROBERSON. Well, there is only one thing to tell a man. If his production didn't come up, he would have to be dismissed.

Mr. GESELL. You say that even if you tell a man if his production doesn't come up he may be dismissed he doesn't pay much attention to that? I don't quite understand your statement with respect to the effect of these pep meetings.

Mr. ROBERSON. I am just judging by myself in the 18 years of letters that came up from the home office; it didn't make much impression on me because I went out and did the best I could every week, and if it was a special week I went out and tried, but I get what I can every week. That is my idea—to keep my salary up to a living wage. I really, as I say, didn't pay a whole lot of attention to them because I did my best every week.

Mr. GESELL. Can you forget your own particular case sufficiently to give us some idea of your impressions as to the effect of these meetings on the men of the group?

Mr. ROBERSON. You mean the effect on the whole work? We were told we had to keep up our production. We had to do that. We had to do that if we wanted to stay on the job, and if we didn't we couldn't expect to stay on the job. You can't stand still in the insurance business. You either have to go ahead or backward.

Mr. GESELL. Were you told how much business you had to bring in by the end of the following week?

Mr. ROBERSON. No; we never were told we had to write any specified amount at the end of the week. It was in terms of increase.

Mr. GESELL. Were you told how much increase you had to bring in at the end of the week?

Mr. ROBERSON. We were told that we should, and every normal agent should have 50 cents increase a week.

Mr. GESELL. That is a 50-cent industrial increase?

Mr. ROBERSON. A 50-cent industrial.

Mr. GESELL. Were you also told you have to have an ordinary increase?

Mr. ROBERSON. Two thousand a month.

Mr. GESELL. And what would happen if you fell below those standards?

Mr. ROBERSON. Well, to be perfectly frank, very few in there ever made that record. I don't believe there were six men in the office that attained that record any year that I was there, in 18 years.

Mr. GESELL. The result, then, is that a man just has to keep up with the average of the group in order to keep from dismissal?

Mr. ROBERSON. That is right.

Mr. GESELL. What kind of hours did you have to work?

Mr. ROBERSON. Well, personally, I worked every day and then I would go out in the evening and work.

Mr. GESELL. Do you think most of the men worked both day and evening?

Mr. ROBERSON. No; I do not. I don't think most of them do. There are very few that do.

Mr. GESELL. You think there are some?

Mr. ROBERSON. There are some.

Mr. GESELL. Did you have much excess while you were there as an agent?

Mr. ROBERSON. Well, I don't think I had much, but I guess I was like the average agent, I held several cases over.

Mr. GESELL. How much would it run you a week, Mr. Roberson?

Mr. ROBERSON. I should judge mine would be about \$1.50 a week.

Mr. GESELL. Do you think that is fairly representative of the other men in the office?

Mr. ROBERSON. I do.

Mr. GESELL. Did the other men talk to you about the fact that they had excess?

Mr. ROBERSON. Yes, sir; we weren't instructed to carry anything over 4 weeks. We were instructed to lapse every case after 4 weeks, and if we held it, it wasn't by the company's instruction.

Mr. GESELL. I understand that would be contrary to company rules.

Mr. ROBERSON. That is right.

Mr. GESELL. Would you hold it sometimes because of the desire to keep your net increase up?

Mr. ROBERSON. Well, I never had much trouble on that line. I always could make an increase but I have held it because I like to keep the increase up.

Mr. GESELL. In your talks with the agents did you gather some of them had excess on their books because they were anxious to keep their increase up?

Mr. ROBERSON. That is true in some cases; yes, sir.

Mr. GESELL. That is the natural result of the method of compensation, isn't it?

Mr. ROBERSON. Yes, sir; that is right.

Mr. GESELL. When you would write a new policy, life and accident, were you required to bring in the premiums in advance?

Mr. ROBERSON. Two weeks in advance, that is right.

Mr. GESELL. Would you find the policyholders would pay those premiums in advance before they got the policy?

Mr. ROBERSON. Some did and some didn't.

Mr. GESELL. What would you do in the cases where they didn't?

Mr. ROBERSON. Pay them ourselves.

Mr. GESELL. So frequently you would have cases where you paid that 2 weeks' advance yourself in order to get the policy issued down to the policyholder?

Mr. ROBERSON. That is right.

Mr. GESELL. I should think it would be pretty easy sometimes to write business if the policyholder knew you were going to put up the premiums, at least for 2 weeks.

Mr. ROBERSON. Well, you would be surprised, it is hard sometimes to get them to sign their name on one we pay for. That is true.

Mr. GESELL. Do you think it is a fair statement that you and the other men in the office paid these advance premiums in order to get business which in some cases you wouldn't have been able to get otherwise?

Mr. ROBERSON. Well, I believe that if we had held applications until the following week, or maybe several weeks, we would have eventually collected on them, but sometimes we get overenthused and put them in ourselves.

Mr. GESELL. Of course, if you pay 2 weeks' premiums, you would get 15 times 2 weeks' premiums as part of your compensation, don't you, provided you haven't lapsed any business?

Mr. ROBERSON. Provided we are on increase.

Mr. GESELL. So it is to your advantage to pay these first premiums for the policyholder, is it not, provided you are on increase?

Mr. ROBERSON. That is right.

Mr. GESELL. Did you sell to people on relief?

Mr. ROBERSON. Not to my knowledge. I had a very nice debit and I didn't have anybody to my knowledge that was on relief.

Mr. GESELL. Did you have any instructions from the company as to selling to people on relief?

Mr. ROBERSON. No.

Mr. O'CONNELL. Did you know whether they were on relief? Do you have any way of knowing?

Mr. ROBERSON. Certainly. I pretty well know who is on relief and who isn't. If I find a person is on relief I don't fool with them at all.

Mr. O'CONNELL. To what extent do you examine or look into the financial capacity of the policyholder to pay?

Mr. ROBERSON. As I say, on the debits I have collected in I have always been in a better section of the town where they weren't on relief. If I find a person is on relief or isn't working, I don't fool with him. That is what I meant by sometimes putting in first premiums. You take the person who is working, like most of the people are in my section, if they look like they have a nice home and they want insurance and we have sold the contract, they get paid the 1st and 15th, and we will put that contract in. But if I saw a man wasn't working or was on relief and wouldn't be any good, I wouldn't put any such contract through.

Mr. O'CONNELL. Is the character of your work the same in your new employment as it was before?

Mr. ROBERSON. Practically the same, only we don't sell sick benefit.

Mr. O'CONNELL. Is your territory the same?

Mr. ROBERSON. Practically the same, only five squares lower, but it is the same type of high-class people.

Mr. O'CONNELL. Is your debit larger than it was with the other company?

Mr. ROBERSON. My debit with the other company was around \$209, and my debit with this company is around one-hundred-and-ninety-and-some dollars, practically the same.

Mr. O'CONNELL. The same type of insurance except no sick benefits?

Mr. ROBERTSON. The same type only no sick benefits, but I do have sick benefit on my book which was written 6 years ago. In other words, I have some that was written some years ago and that is still on the books. They don't write those any more.

Mr. GESELL. I have no further questions for this witness.

Acting Chairman DAVIS. The committee thanks you for your appearance and you are excused.

(The witness, Mr. Roberson, was excused.)

Mr. GESELL. Mr. Call.

Acting Chairman DAVIS. Do you solemnly swear that the statements you are about to make will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CALL. I do.

TESTIMONY OF ALBERT EDWARD CALL, LOCAL MANAGER, LIFE INSURANCE CO. OF VIRGINIA, WASHINGTON, D. C.

LIFE INSURANCE CO. OF VIRGINIA

Mr. GESELL. Will you state your full name?

Mr. CALL. Albert Edward Call.

Mr. GESELL. With what company are you connected?

Mr. CALL. The Life Insurance Co. of Virginia

Mr. GESELL. Are you the local manager here?

Mr. CALL. Correct.

Mr. GESELL. How many agents have you got?

Mr. CALL. Forty.

Mr. GESELL. How many assistants?

Mr. CALL. Seven.

Mr. GESELL. Do you write just industrial insurance or industrial and ordinary?

Mr. CALL. Industrial and ordinary.

Mr. GESELL. Your agents write both types of insurance?

Mr. CALL. Both types.

Mr. GESELL. Is that weekly ordinary?

Mr. CALL. No; industrial is all that is weekly. We have what we call a weekly intermediate that I understand is carried on our books as ordinary.

Mr. GESELL. Your ordinary is quarterly or semiannual or annual premium?

Mr. CALL. Correct.

Mr. GESELL. What is the premium collection of your office for the industrial business?

Mr. CALL. Weekly, approximately sixty-five hundred.

Mr. GESELL. What is the average size of your debits?

Mr. CALL. They will average one hundred fifty.

Mr. GESELL. Can you give us what the smallest and biggest is?

Mr. CALL. I would say approximately the smallest one is about \$100. The largest will go slightly over two hundred.

Mr. GESELL. How do you pay your agents?

Mr. CALL. Commission and salary.

Mr. GESELL. They get a commission for increase, net increase?

Mr. CALL. Yes. We have two contracts. Some of them work on a commission for net increase. As a matter of fact, they are all fundamentally the same, commission on net increase.

Mr. GESELL. Plus a salary for collection?

Mr. CALL. Correct.

Mr. GESELL. What do they get on collections?

Mr. CALL. \$23 on the new contract; on the old contract about twenty-six or seven.

Mr. GESELL. That is without regard to the size of the debit?

Mr. CALL. Well, it would be based the same, yes, because I would have to go into it and explain those contracts to show you the difference between that.

Mr. GESELL. Let's take the contract you are now using when you take on your agents.

Mr. CALL. \$23 regardless of the size of the debit, up until it reaches a certain point. But when it gets to \$190 it is more.

Mr. GESELL. Now, how many times do they get paid times increase?

Mr. CALL. It isn't figured on a time basis. It is figured on a certain percent of the first-year increase. That is business that they write themselves, so I suppose fundamentally it is on a times basis. I am not in a position to say. That is a point for the actuaries.

Mr. GESELL. You mean you don't understand the contract?

Mr. CALL. I thoroughly understand it, but I don't know on what basis. For instance, if a man makes so much increase, he gets a certain percent over that increase, but speaking on a times basis it is not computed so far as this office is concerned on a times basis. That is the reason I explained I would have to go through and explain the contract for you.

Mr. GESELL. I wish you would.

Mr. CALL. All right.

If a man, we will say—well, we will take it on our average \$150 debit. He is responsible for no business that he assumes on that debit. He goes to work and he is paid on what we term first-year increase. Any business that he writes himself, minus any lapses of any business that he writes himself during the first year. After that business is a year old, it is the company's problem and no one is responsible for it. So we will assume that he makes \$1 a week first year increase. Do you follow me? At the end of his 13 weeks' service with the company, which will mean that he has had eleven issued, if he has maintained a dollar a week increase then he has \$11. We multiply that by three, which will be \$33, and deduct \$10, which makes a net of \$23.

Then we pay him a graduated scale of commission on that \$23, which would give him 35 percent of that \$23, and then that is added to his guaranteed salary for the following 13 weeks, and then it is just a repetition of that until the end of the year.

Mr. GESELL. So that when he comes to the company he has no responsibility for the business that is already on his debit.

Mr. CALL. None.

Mr. GESELL. And he starts out from scratch?

Mr. CALL. That's right.

Mr. GESELL. Could you make available for us a copy of the agent's contract, so that we may insert it in the record?¹

Mr. CALL. I will be glad to.

Mr. GESELL. What is the average of the earnings of your agents?

Mr. CALL. I don't know—\$35, I suppose.

Mr. GESELL. They make \$35 a week?

Mr. CALL. Yes, sir.

Mr. GESELL. Do they have to work at night?

¹ Subsequently furnished by Mr. Call, entered in the record on September 11, 1939, as "Exhibit No. 1091," and published in the appendix to this Part on p. 6353.

Mr. CALL. Yes, sir; any successful man would have to work at night.

Mr. GESELL. Do you have any contests?

Mr. CALL. I think I can answer that "no."

Mr. GESELL. I see you have something you think is almost a contest. What do you mean by that?

Mr. CALL. So far as a contest—well, I will say "yes," so I can get to your question.

Mr. GESELL. Will you explain what you mean?

Mr. CALL. Yes; we have contests.

Mr. GESELL. What kind of contests do you have?

Mr. CALL. Well, the only one that I can think of that I have had in years I recently had, and that was a contest suggested by one of the agents for a trip to the World's Fair. It was just based on, if they made so much increase we would give them a trip. No; no; everybody was to contribute for the cause. Those that made so much increase would get a trip to the World's Fair.

Mr. GESELL. In other words, the agents all put some money into a kitty, so to speak, to take the best agents on a trip.

Mr. CALL. Not necessarily the best, but they were the best during that period.

Mr. GESELL. Do you have any company contests?

Mr. CALL. No.

Mr. GESELL. It is all a matter of your own discretion in your own office?

Mr. CALL. Yes.

Mr. GESELL. Well, now, what kind of turn-over do you have?

Mr. CALL. You mean in agents?

Mr. GESELL. Yes.

Mr. CALL. We have right much turnover, more than I would like to have.

Mr. GESELL. How many agents did you say you had?

Mr. CALL. Forty.

Mr. GESELL. How many of those have you taken on this year?

Mr. CALL. I would say somewhere between 9 and 12.

Mr. GESELL. And what percentage of your agents would you say don't last more than a year with the company?

Mr. CALL. Well, I would have to guess it, because I have never calculated that at all. I would say 25 percent of them.

Mr. GESELL. How many finals did you have in '38? Do you recall?

Mr. CALL. I don't recall.

Mr. GESELL. Were there around 25?

Mr. CALL. Possibly.

Mr. GESELL. Was the size of your office the same?

Mr. CALL. I think it was. We recently added some debits. I know we added about six or seven men the latter part of February.

Mr. GESELL. So, for most of '38 you had probably 34 men?

Mr. CALL. Somewhere near that.

Mr. GESELL. And about 24 finals during that year?

Mr. CALL. Yes.

Mr. GESELL. What are the causes of these finals, Mr. Call?

Mr. CALL. Well, nonsuccess.

Mr. GESELL. You mean inability to making a living out of it?

Mr. CALL. Yes.

Mr. GESELL. Do you have many finals for deficiencies in accounts?

Mr. CALL. No.

Mr. GESELL. Do you discharge men for nonproduction?

Mr. CALL. Well, naturally that would have to come, but I don't recall discharging a man for nonproduction in a long while.

Mr. GESELL. Is there considerable emphasis placed on the production of new business by your home office?

Mr. CALL. No; not enough.

Mr. GESELL. What do you mean, not enough?

Mr. CALL. I mean not enough. I think if they should ask for more we would get more.

Mr. GESELL. You mean you think it is desirable to be driven into writing new business?

Mr. CALL. No; I don't think it is desirable, but I think if you want something you have certainly got to ask for it to get it.

Mr. GESELL. How are you compensated?

Mr. CALL. Salary and commission.

Mr. GESELL. What commission do you get?

Mr. CALL. Well, I get an override on ordinary. Where you are speaking of industrial, I get two times the increase.

Mr. GESELL. Do you have any quotas in your company?

Mr. CALL. Not quotas.

Mr. GESELL. No requirement of production?

Mr. CALL. No requirement. There is a kind of an unwritten law that we should have so much ordinary, but so far as a quota furnished by the company—nothing.

Mr. GESELL. Do you recognize this letter which I show you now, addressed to you, dated March 14, 1939, as a letter you received from Mr. E. A. Crawford, assistant vice president of the company?

Mr. CALL. I do.

Mr. GESELL. The letter, dated March 14, '39, states [reading "Exhibit No. 1054"]:

DEAR MR. CALL: When I noticed that the Washington district started off the first month of the year with an increase of \$2,000, I was really encouraged at the outlook for the year. Imagine my disappointment in a decrease of \$20,700 as shown on the February form 639. This cuts your increase down to a measly \$5,300, and instead of having twelve months in which to make an increase of \$250,000, you have only ten months.

You can depend on my hounding the life out of you throughout the entire year unless your district is keeping pace in the ordinary end of the business, and when the year closes it will not be my fault if you have failed to qualify for the convention in New York as well as earn your cumulative increase in salary. I also propose to write your representatives as often as possible, and will start this within the next few days; in the meantime, won't you do everything possible to get things started in a big way?

Enjoyed seeing you very much last week and have just instructed Mr. Anderson not to give you permission to be absent from your district to attend the World's Fair in New York this year, hoping by this that we would force you to qualify for attendance and go with us next year.

(The letter referred to was marked "Exhibit No. 1054" and appears in full above.)

Mr. CALL. I would like to add this, if I may, that you have to know Mr. Crawford to appreciate this letter.

Mr. GESELL. I got the impression that there was some emphasis on production on Mr. Crawford's part.

Mr. CALL. I have received no letter since then with reference to production. As I say, you have to know Mr. Crawford to appreciate that letter.

Mr. GESELL. So that, though he may write you letters occasionally, he doesn't write them very frequently?

Mr. CALL. No; and I might add, too, that I am going to the fair this week.

Mr. GESELL. You had better not let Mr. Anderson find out.

That letter was dated in March, I believe. Do you recognize this letter, which you received from Mr. Crawford on February 10, 1939?

Mr. CALL. Yes.

Mr. GESELL. This letter states [reading "Exhibit No. 1055"]:

DEAR MR. CALL: I have delayed as long as possible in writing you over ordinary results for 1938—in fact, I tried to forget it completely. What a shame you forfeited \$3.58 cumulative increase in your salary; Assistant Blackman, \$1.22; Assistant Griggs, \$1.39; Assistant Briggs, \$1.43; and Assistant Brown, \$1.77. It is certainly gratifying to observe from your January form 639 that you have an increase of \$26,000 for the month. This certainly gives you a good start for the new year.

Within the next few days you will receive a very interesting announcement as to our 1940 convention which is to be held in New York City—but oh, how I hate to tell you this: The district managers will not be invited *carte blanche*. Each district is going to be given an allotment which will have to be met. I can assure you that the allotment is going to be reasonable and well within the reach of all district managers. Naturally ordinary is going to play an important part in this allotment, and I suggest that you and your assistants go into a huddle right away and make some intelligent, constructive plans for a satisfactory ordinary and weekly premium production during 1939.

I hope that I will not be embarrassed to the extent of having to explain the absence of Mr. Call from the convention in New York—in fact, I had better not!

We shall expect you, each of your assistants, and a goodly number of your agents in Washington to be with us in New York.

(The letter referred to was marked E"hibit No. 1055" and appears in full above.)

Mr. GESELL. Are those letters read to the men, Mr. Call?

Mr. CALL. Most of them are, where I think it is necessary. I don't think I read that one, because that was to me, but I certainly read them when they send them to me for the interest of what they think of the business.

Mr. GESELL. Do you read them at these so-called "pep" meetings?

Mr. CALL. I read them at the meetings. I wouldn't say "pep" meetings.

Mr. GESELL. How many meetings do you have?

Mr. CALL. We really don't have any meetings. Of course, I go in just about every morning so as to see that the dailies are carried on, what should have been done the day before; but, so far as meetings, we have very few meetings.

Mr. GESELL. I take it you do have meetings.

Mr. CALL. Naturally, sir.

Mr. GESELL. Well, then, how often do you have them?

Mr. CALL. Answering your question, how often do I have a pep meeting, we don't have them. We might have a meeting if we are particularly stressing some particular policy, and so on. We might have a meeting for educational purposes, to explain that contract, but so far as the long-drawn-out pep meetings that the industrial insurance organizations usually have, we don't have them.

Mr. GESELL. But you do have meetings with your staff?

Mr. CALL. Yes.

Mr. GESELL. How often do you have those meetings?

Mr. CALL. I couldn't tell you. I go to the office every morning, but I wouldn't say—to have a meeting for one particular thing, I don't think will average twice a year.

Mr. GESELL. But you more or less get together with your staff each morning. Is that correct?

Mr. CALL. Yes.

Mr. GESELL. Well, now, what happens at those meetings?

Mr. CALL. Nothing at all, other than the regular detail, giving out surrender-value checks, finding out if things were taken care of the previous day.

Mr. GESELL. You have no meetings where you call the attention of the men to difference in production, that some men are lagging behind, and things of that sort?

Mr. CALL. No.

Mr. GESELL. How do you do that?

Mr. CALL. That is all handled with my assistants, and I have meetings with those.

Mr. GESELL. Tell us about the meetings with the assistants.

Mr. CALL. That is about three mornings a week. At that time I discuss with them what their staffs are doing, the difference between one staff and another, and so forth, and so on.

Mr. GESELL. How are these assistants paid?

Mr. CALL. They are paid a salary and commission.

Mr. GESELL. What is the commission on weekly premiums?

Mr. CALL. Four times.

Mr. GESELL. Four times increase?

Mr. CALL. Yes.

Mr. GESELL. Do you receive letters from the home office with respect to the individual production or work of a particular man?

Mr. CALL. Yes.

Mr. GESELL. What do you do with those letters—read them to the men?

Mr. CALL. Read them to the assistant and the agent.

Mr. GESELL. Are these three letters which I show you now representative of that type of letter?

Mr. CALL. That is right.

Mr. GESELL. A letter dated June 20, 1939, addressed to you, from H. P. Anderson, Jr., general supervisor of districts, states as follows [reading "Exhibit No. 1056"]:

Re Agent E. A. Herzbrun, debit # 15.

DEAR MR. CALL: We wrote you under date of March 30th in regard to the poor record made by Agent Herzbrun, not only this year but since coming with the Company in September 1938. In your reply dated March 3 it was stated that Agent Herzbrun had assured you that he would make a decided improvement in both branches of the business.

Instead of this improvement taking place, there has been a continued lack of production on the part of this agent, this being true in both branches of the business. We can see no reason for giving this agent further chance to develop, as we think he has had sufficient time.

We therefore ask that you arrange to make his final as soon as possible, advising us as to what date you intend letting this final come through.

(The letter referred to was marked "Exhibit No. 1056" and appears in full in the text on p. 6034.)

Mr. GESELL. Another letter from Mr. Anderson, dated April 14, 1939, re Agent Caldwell [reading "Exhibit No. 1057"]:

We are very pleased to see that Agent Caldwell has shown decided improvement in his weekly premium production since the end of February. If he wishes to remain with the Company, however, kindly have him understand that the production of ordinary business is just as necessary as the production of weekly premium.

Our records show that he entered the Company's services in May 1938, and since that time he has paid for only \$2,000 ordinary.

We are very much interested in having your comments after you have a talk with Mr. Caldwell.

(The letter referred to was marked "Exhibit No. 1057" and appears in full above.)

Mr. GESELL. Here is another letter from Mr. Anderson, dated April 14, 1939, re Agent Wallace [reading "Exhibit No. 1058"]:

Agent Wallace seems to be another representative in your district who thinks he can get by without producing ordinary business. Kindly have him understand that he is entirely mistaken in this idea, as we expect ordinary from all of our men.

It seems a pity for a man making the progress in weekly premium that this agent is making to fall down completely on ordinary production. At the end of the first quarter he reported no ordinary as paid for.

With this agent's qualifications we feel sure that this situation can be remedied. We would be interested in hearing from you over this.

(The letter referred to was marked "Exhibit 1058" and appears in full above.)

Mr. GESELL. Can you tell us, Mr. Call, whether your company has any rules with respect to the class of person that you shall write in selling industrial insurance?

Mr. CALL. Yes. I can answer any question, I think, that you might ask.

Mr. GESELL. Does your company have rules which, for example, forbid you writing industrial policies on people on relief?

Mr. CALL. Yes; definitely so.

Mr. GESELL. That is a definite matter of company policy?

Mr. CALL. Yes.

Mr. GESELL. What other types of persons are you forbidden from writing?

Mr. CALL. The very poor. We have instructions set out as to calling our attention to some classes we are not supposed to canvass. I know particularly the very poor and those people that live in an undesirable neighborhood, and various others. I can't enumerate all of them.

Mr. GESELL. You sell both to colored people and white people, do you?

Mr. CALL. White.

Mr. GESELL. You sell no colored people?

Mr. CALL. None.

Mr. GESELL. I neglected to ask you what it costs you to train a new agent.

Mr. CALL. I couldn't answer that question.

Mr. GESELL. It costs you something, doesn't it, Mr. Call?

Mr. CALL. Well, I suppose in dollars and cents it will cost us something. However, our assistant managers train the agents, and

they have got to do something; but it costs something, no doubt, but how to break that down—I have never tried it.

Mr. GESELL. You find, do you not, that when an agent leaves there is a higher lapse ratio on his debit?

Mr. CALL. Naturally there would be.

Mr. GESELL. That is expensive, I take it, to the company?

Mr. CALL. Yes.

Mr. GESELL. And to the extent that it takes the superintendent's time to train and go with this man, his efforts are taken away from the production of new business, so it again is an expense, is it not?

Mr. CALL. He has to stay with a new man about 2 weeks, and most of our men are men that have never been in insurance before, and naturally they don't get much in 2 weeks.

Mr. GESELL. Do you have any provisions for making payments directly to the office?

Mr. CALL. We do.

Mr. GESELL. Do you give a reduction in premium?

Mr. CALL. Yes.

Mr. GESELL. Of what percent?

Mr. CALL. It will net about 10 percent. For 52 weeks you can deduct 5, and pay 47.

Mr. GESELL. Does that mean the payment has to be made in advance?

Mr. CALL. In advance; yes.

Mr. O'CONNELL. That is for a year's payment in advance?

Mr. CALL. Correct.

Mr. GESELL. Is there any provision for making payments just weekly, as long as the policyholder wishes?

Mr. CALL. Not at any reduction in premium.

Mr. O'CONNELL. Suppose he paid every week on time for a year. Would he get a reduction?

Mr. CALL. No; he has to pay a year in advance.

Mr. O'CONNELL. Can he give that payment to the agent and get a reduction?

Mr. CALL. Yes.

Mr. O'CONNELL. Then there is no advantage in making the payment at the home office of the company, is there?

Mr. CALL. No.

Mr. O'CONNELL. Then there is no reduction granted for making payment at the home office?

Mr. CALL. For instance, if the business is on the agent's books and they pay the agent a year, they only have to pay him 47 weeks, and he will credit his books for a year and transfer it to the special office account. The agent doesn't retain it on his books.

Mr. O'CONNELL. There is no advantage to a policy holder in making a payment direct to the home office or district office of the company rather than to the agent?

Mr. CALL. None whatsoever, unless he pays it by the year.

Mr. O'CONNELL. And he can pay it to the agent and get the same advantage, so there is no advantage.

Mr. CALL. None whatever.

Mr. GESELL. Do you sell industrial endowment insurance?

Mr. CALL. Yes.

Mr. GESELL. Have you any idea what percentage of your business is endowment?

Mr. CALL. I haven't the slightest.

Mr. GESELL. On the basis of compensation which you were describing, does an agent receive more for placing an endowment insurance policy than he does for placing a whole life policy where the amount of protection is the same?

Mr. CALL. Naturally, he would.

Mr. GESELL. Correspondingly he gets more for placing a 20-pay life than a whole life?

Mr. CALL. Correct.

Mr. GESELL. I have no further questions.

Acting Chairman DAVIS. Mr. Call, the Committee appreciates your appearance. You are excused.

Mr. CALL. Thank you.

(The witness, Mr. Call, was excused.)

Acting Chairman DAVIS. The committee will stand adjourned until 2 o'clock, and I suppose you want the witnesses who were summoned to appear today to return at that time. Those who were examined are excused.

(Whereupon, a recess was taken at 12:45 o'clock to reconvene at 2 p. m. of the same day.)

AFTERNOON SESSION

The subcommittee hearing was reconvened at 2:05 p. m., Mr. O'Connell presiding.

Acting Chairman O'CONNELL. Are you ready to proceed?

Mr. GESELL. Yes. Mr. Watkins, will you take the stand?

Acting Chairman O'CONNELL. Do you solemnly swear that the testimony you are about to give in this proceeding is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WATKINS. I do.

TESTIMONY OF A. J. WATKINS, VICE PRESIDENT, HOME BENEFICIAL ASSOCIATION, RICHMOND, VA.

HOME BENEFICIAL ASSOCIATION

Mr. GESELL. What is your full name, sir?

Mr. WATKINS. Andrew J. Watkins.

Mr. GESELL. With what company are you connected?

Mr. WATKINS. Home Beneficial Association, Richmond, Va.

Mr. GESELL. Its home offices are there?

Mr. WATKINS. Yes, sir.

Mr. GESELL. Are you an officer of that company?

Mr. WATKINS. Yes, sir; vice president.

Mr. GESELL. Are you in charge of any particular department of the company?

Mr. WATKINS. Field force.

Mr. GESELL. How long have you been connected with the company?

Mr. WATKINS. Thirty-eight years.

Mr. GESELL. It is a stock company, is it not?

Mr. WATKINS. Yes, sir.

Mr. GESELL. Does it sell both industrial and ordinary insurance?

Mr. WATKINS. Yes, sir.

Mr. GESELL. Can you tell us how much industrial and how much ordinary it has in force at the present time, approximately?

Mr. WATKINS. About \$80,000,000—this is at the end of last year—\$80,000,000 industrial and approximately \$15,000,000 ordinary.

Mr. GESELL. Is that industrial weekly premium business?

Mr. WATKINS. I would say it is all based on a weekly premium, though some pay monthly. A good many people pay monthly.

Mr. GESELL. You have no so-called monthly industrial business?

Mr. WATKINS. No, sir.

Mr. GESELL. In how many States do you operate?

Mr. WATKINS. Three States and the District of Columbia.

Mr. GESELL. When was your company formed?

Mr. WATKINS. In 1899—February 1899.

Mr. GESELL. Can you give us some idea of its history and its growth?

Mr. WATKINS. Well, when the company started out I think there were about 5 men. I was not there from the beginning; I came a few years later, and that was increased, I think, up to about 10 stockholders from time to time. That was in the early days; I think they had about 10 when I came to work there. Shortly after that time—I would say the next 2 or 3 years—it had dwindled down to 4—4 stockholders. There have been only about 4 stockholders.

Mr. GESELL. Since within a few years after it was formed it has been owned by four stockholders.

Mr. WATKINS. Yes; I would say possibly 6 or 7 years, something like that; that is a guess.

Mr. GESELL. Can you give us the names of those four stockholders and tell us their connections with the company, if any?

Mr. WATKINS. R. D. Watkins was president of the company. He died in 1932. M. D. Nunnally is now president. Mr. Morton died, I suppose, 10 years ago—I am guessing at that—and Mr. J. R. Cole.

Mr. GESELL. You said there are four stockholders now. I take it that the stock of those gentlemen, if they are dead, is held by their estates.

Mr. WATKINS. Mr. R. D. Watkins and Mr. Morton and Mr. Nunnally, jointly, in a will, named five executorial trustees to handle their stock for them for a period of 10 years after the death of the last one of the three. I am one of the executorial trustees.

Mr. GESELL. Now, can you tell us what the original paid-in capital of the company was?

Mr. WATKINS. I couldn't give you that definitely.

Mr. GESELL. It was \$5,000, was it not?

Mr. WATKINS. I think it was \$5,000 at the beginning. I was not there at the beginning, but I think it was \$5,000 at the beginning. I think those figures have been furnished. I didn't just go over them at the time they were sent off, but I am under the impression those figures are correct.

Mr. GESELL. This statement has been furnished us. I would like to ask you if, to your best knowledge and belief, it is correct. The statement reads:

On February 24, 1899, the Circuit Court of the city of Richmond, Virginia, granted a charter to the Home Beneficial Association, which charter provided

for an authorized capital of not less than \$1,000 and not more than \$5,000, divided into shares at a par value of \$100 each. Business was commenced in the same year with a paid-in capital of \$2,500, which was increased in 1901 to \$5,000, the maximum authorized, \$2,500 being paid in cash by the stockholders. In 1910 the authorized capital was increased by charter amendment to not less than \$25,000 nor more than \$100,000, and at that time the paid-in capital was increased to \$30,000 by a stock dividend. This was increased to \$100,000 in 1920, by the declaration of a \$70,000 stock dividend. In May 1925 the charter was again amended, increasing the authorized capital to one million dollars, and in that year a stock dividend of \$100,000 was declared, increasing the outstanding capital to \$200,000. On April 19, 1939, the paid-in capital was increased to one million dollars by declaration of an \$800,000 stock dividend.

Mr. WATKINS. That is correct.

Mr. GESELL. That means the capitalization at the present time is what?

Mr. WATKINS. \$1,000,000.

Mr. GESELL. All of that has been declared through stock dividend, has it not, except for the original paid in?

Mr. WATKINS. As far as I know.

Mr. GESELL. Can you tell us, Mr. Watkins, the total amount of the cash dividends which have been paid by the company since its organization?

Mr. WATKINS. I could not, but I think that information has been furnished to you.

Mr. GESELL. Do you recognize this schedule which I show you as a schedule which was furnished us by your company showing the cash dividends paid from year to year?

Mr. WATKINS. I believe that is correct.

Mr. GESELL. This schedule shows the amount of cash dividends paid each year since organization for the years 1906 to 1939, inclusive. The cash dividends have amounted to \$4,511,000. I would like to offer this schedule for the record.

Acting Chairman O'CONNELL. It will be admitted.

(The schedule referred to was marked "Exhibit No. 1059" and is included in the appendix on p. 6325.)

Mr. GESELL. I would like to ask you whether your company has any written contracts with its agents.

Acting Chairman O'CONNELL. Mr. Gesell, before you proceed with that, have you any figures as to the undistributed surplus of the company?

Mr. GESELL. Do you know what the surplus is at the present time?

Mr. WATKINS. The surplus was about \$1,800,000 at the end of last year, and there would be somewhere around a million dollars surplus.

Acting Chairman O'CONNELL. So, to accurately appraise the earnings of the company, we would have the figure of four and a half million or thereabouts of cash dividends, approximately \$1,000,000 in stock dividends, and \$1,800,000 added to surplus.

Mr. WATKINS. \$1,800,000 surplus, and then we have another reserve for contingencies of about \$700,000.

Mr. GESELL. I was about to ask you whether you could tell us whether or not your company has any written contracts with its agents.

Mr. WATKINS. We do not have written contracts with agents.

Mr. GESELL. On what basis do you compensate your agents?

Mr. WATKINS. A commission basis, a percentage of collections, and a times increase, paying 15 or 20 percent on collections, according to the location of the debit. We have some debits that are all country debits and some that are all city debits, which makes the compensation vary, but they are all paid at the same rate of times increase. We pay from 15 to 30 times. Sick benefit increase we pay from 15 to 20 times; that is, a new man beginning to work for us, we pay him 15 times on the increase after 1 year's service and 16 times, and so forth, until it gets to be 20, and on colored life, 20 to 25.

Acting Chairman O'CONNELL. On what?

Mr. WATKINS. Colored life, 20 to 25.

Acting Chairman O'CONNELL. Colored life?

Mr. WATKINS. Yes.

Mr. GESELL. You mean by that, insurance sold on the lives of colored people.

Mr. WATKINS. That is right.

Mr. GESELL. You pay from 20 to 25 percent?

Mr. WATKINS. Twenty-five times increase. On the whole life, from 25 to 30 times; you understand that begins at 25.

Mr. GESELL (interposing). My understanding is that the agent starts off, let's say, on white lives at 25 times increase.

Mr. WATKINS. Yes.

Mr. GESELL. And each year that he has been in service that times increases one.

Mr. WATKINS. That is right.

Mr. GESELL. Until it reaches the maximum of 30.

Mr. WATKINS. That is right.

Acting Chairman O'CONNELL. Colored lives start at 20?

Mr. WATKINS. Yes.

Acting Chairman O'CONNELL. What class of business were you referring to when you started with 15 and went to 20?

Mr. WATKINS. That is the weekly benefit, the sick benefit.

Acting Chairman O'CONNELL. Not the life?

Mr. WATKINS. Of course, that is a combination policy paying weekly benefit.

Acting Chairman O'CONNELL. The other, a life policy, plus a sick benefit, would have a combination of rates to the agent, 15 percent on the benefit portion and 20 percent or upward.

Mr. WATKINS. No; that would be just classed as one policy; that is, the weekly, the one that pays weekly benefits and small death benefit. That is based from 15 to 20 percent—15 to 20 times.

Mr. GESELL. That is your sick benefit policy.

Mr. WATKINS. Yes.

Mr. GESELL. It also contains death benefit.

Mr. WATKINS. It does carry small death benefit.

Mr. GESELL. That is classed as sick benefit policy?

Mr. WATKINS. It is classed as sick benefit policy.

Mr. GESELL. Where your policy is simply a policy for the payment of death or upon maturity of the endowment, that is classified as life?

Mr. WATKINS. As life; yes, sir.

Mr. GESELL. How do you pay your assistant managers?

Mr. WATKINS. We pay them a salary and times on increase of their staff.

Mr. GESELL. What is the percentage of times?

Mr. WATKINS. It is two times the increase of their staff.

Mr. GESELL. What about the managers?

Mr. WATKINS. The manager is paid a salary and one time on the increase of the district.

Mr. GESELL. Is there anyone in the home office of your company who is compensated on the amount of increase?

Mr. WATKINS. No, sir.

Mr. GESELL. All of the home office officials are on a salary basis?

Mr. WATKINS. Yes, sir.

Mr. GESELL. Is there any special reason that your contracts with your agents are not in writing?

Mr. WATKINS. Well, we have really never felt that it was necessary; we always try to explain the contracts to the men at the time they are employed, and all of those men over this period of years have all understood our contracts thoroughly, and naturally if any of the newer agents wouldn't understand, the man sitting next to him would explain it to him, or the assistant superintendent.

Mr. GESELL. Have you changed the basis of the compensation recently?

Mr. WATKINS. We changed the basis of compensation the 1st of October last year.

Mr. GESELL. Was that to the advantage or disadvantage of the agent?

Mr. WATKINS. To the advantage of the agent.

Mr. GESELL. When was the change before that?

Mr. WATKINS. I couldn't state.

Mr. GESELL. Some period of time?

Mr. WATKINS. At certain periods of time there have been several changes that have been put into effect to the advantage of the men from time to time over a period of time. Just when they were made I can't say at the present time. At one time we paid 10 times on the increase; that was some time ago; that was in the early stages of the company.

Mr. GESELL. What happens when a man doesn't have an increase but gets on net decrease?

Mr. WATKINS. Then he would work on collection commissions.

Mr. GESELL. There is no penalty suffered if he gets onto decrease other than his failure to receive the compensation based on increase?

Mr. WATKINS. I would have to think just how I am going to answer your question. You say there is no penalty. Of course, we have certain requirements which we leave to the discretion of the superintendent. The amount of increase required ranges from 10 to 40 cents a week. Some are 40, some 30, some 20, and some 10 cents a week according to the size of the debit. There are times when an agent might not be responsible for certain conditions. We leave that to the discretion of the superintendent. There are times when a man may be on a larger debit and over a period of time he couldn't make an increase on that debit and it would be necessary probably to transfer him to a little smaller debit and give him an opportunity to make increase.

Mr. GESELL. So that a man might be penalized if he didn't make an increase, either by loss of position or by some change in the size of his debit if that condition continued over a period of time.

Mr. WATKINS. Yes.

Mr. GESELL. What is the average earning of the agent per week?

Mr. WATKINS. I couldn't give you that offhand. I might make this statement: We did have occasion to look up the earnings of our employees in Washington a few weeks ago, of all of the employees in Washington in the office here, and it was a little better than \$2,000 a year.

Mr. GESELL. Would it be fair to say that your agents earn probably between \$30 and \$35 on the average?

Mr. WATKINS. Well, I would think it would average nearer \$40 for the agent. Of course a good many make a great deal more than that, and a good many make a great deal less.

Mr. GESELL. We haven't talked about ordinary insurance. Do your agents sell both industrial and ordinary?

Mr. WATKINS. Yes, sir.

Mr. GESELL. How are they compensated for their ordinary?

Mr. WATKINS. Well, ordinary would be from 25 to 45 times, depending on the plan of insurance, the first year commissions. And then after that it is 10 percent of the premium for the following 3 years.

Mr. GESELL. Is that times increase again? Or times the premium?

Mr. WATKINS. This is times the premium, 25 to 45 percent of the premium the first year.

Mr. GESELL. In other words, of the first year premium, ordinary insurance, the agent would get from 25 to 45 percent?

Mr. WATKINS. Yes; depending on the plan of insurance.

Mr. GESELL. Your company sells industrial endowment?

Mr. WATKINS. Yes, sir.

Mr. GESELL. Under your basis of compensation an agent could receive more for placing an endowment policy than he would for placing an ordinary policy in the same amount of protection, would he not, ordinary whole life?

Mr. WATKINS. You mean on the industrial; yes, the agent would receive more compensation. I would say yes.

Mr. GESELL. That is because the premium is higher though the protection is the same.

Mr. WATKINS. Yes, sir; the premium is higher, and there is some more expense to the industrial.

Mr. GESELL. Can you tell us what percentage of your business is industrial business written on the endowment plan?

Mr. WATKINS. No, sir; I would not be able to answer that.

Mr. GESELL. What sort of training is given to the agents before they begin to write industrial insurance?

Mr. WATKINS. We usually have an assistant superintendent go over the work with them in the office and then go with them in the field until they feel they are competent to take care of it.

Mr. GESELL. The training is all practical training with the assistant superintendent?

Mr. WATKINS. Yes, sir. Of course, the assistant superintendent might be with him 1 week, or maybe 2 weeks or 3 weeks.

Mr. GESELL. What is the average size of your debit?

Mr. WATKINS. It would be a little hard for me to say. I wouldn't be able to answer that question. We have a good many men who are building debits. If a man builds it up to probably \$100 then you count the debits from \$100 and above that. I expect the debits above \$100 would possibly run close around \$175 or \$180 and possibly \$200. I can't give you any better figure than that. That is offhand.

Mr. GESELL. These people building debits are called "builders," are they not?

Mr. WATKINS. Some call them "builders," some call them "canvassers."

Mr. GESELL. What is their particular job, just to sell insurance?

Mr. WATKINS. They would sell insurance and collect too, all in one zone.

Mr. GESELL. And then if they are successful in selling a sufficient amount they could build that into their own debit, I take it.

Mr. WATKINS. They do begin building debits from the beginning. Very often one man will start building and probably will be on a few weeks or months and then he will make a creditable showing during that time and we will take him off the building debit and put him on the debit.

Mr. GESELL. You put someone else to continue building the debit he is working?

Mr. WATKINS. Very often the small debit that he has built is transferred into the larger debit.

Mr. GESELL. How are these builders compensated?

Mr. WATKINS. The builders are compensated by \$15 a week collection commission; of course, the larger debit is 15 percent, I say 15 to 20 percent. Of the smaller debits—\$15 weekly collection commissions and then the times on increase.

Mr. GESELL. The same times?

Mr. WATKINS. Yes; that is right.

Mr. GESELL. How many agents have you got working for you at the present time?

Mr. WATKINS. Approximately 900.

Mr. GESELL. Does that include the builders?

Mr. WATKINS. That would include the builders. That is not including assistant superintendents.

Mr. GESELL. Those are men out on the debits.

Mr. WATKINS. Yes; approximately 900.

Mr. GESELL. Can you tell us how many of those men have been with your company more than a year?

Mr. WATKINS. That information has been furnished you.

Mr. GESELL. I have it here if you can vouch for its accuracy. The statement reads as follows:

Agents now working on industrial debits—

That was as of August 25, 1939—

Eight hundred and thirty-four.

Mr. WATKINS. Eight hundred thirty-four. Then I overestimated a little bit when I said approximately 900.

Mr. GESELL (reading):

Agents in the employ of the company for one year, 139; agents in the employ of the company for two years, 120; agents in the employ of the company for five years, 72; agents in the employ of the company for ten years, 72; new

agents employed during 1938, 190; new agents employed during first six months of 1939, 255.

Those figures would indicate that you have a rather heavy turnover of agents.

Mr. WATKINS. That is right.

Mr. GESELL. To what do you attribute that, Mr. Watkins?

Mr. WATKINS. I would say that there are a great many men that begin working in insurance that will only work a very short time, a few weeks, and they will get a position perhaps at a trade.

Mr. GESELL. Get a position where?

Mr. WATKINS. At their trade. Probably they have been out of work and they get a position at their trade or some other line of work that they feel they would like better. There are a great many men that start to work on insurance, and my experience has been that if they work for 6 months, they don't have very many changes after that time, they begin to like the business. But there are so many that will change over just in the first few weeks, they don't like the business.

Mr. GESELL. That, to some extent, is a criticism of the methods used by your company or any other company faced with a problem in selecting the men for the job, isn't it?

Mr. WATKINS. We do investigate pretty closely before we employ a man, and we believe always that we have got a good man, a man that is going to make a success. They not all do.

Mr. GESELL. Do you have many men dismissed for irregularities in their accounts?

Mr. WATKINS. I would say very few.

Mr. GESELL. Many men dismissed for deficiencies in their accounts?

Mr. WATKINS. I would say very few.

Mr. GESELL. Now, does your company sponsor contests, sales contests?

Mr. WATKINS. Well, some might call it a contest. I might state something about what we do along that line. I would hardly call it a contest myself. For instance, July and August are 2 months that are usually rather slow, and we very often offer some little prizes to men who can achieve or make certain accomplishments over that period of time. Some may call that a contest. This is our fortieth anniversary and this year, right at the beginning of the year, we offered watches to men who made certain allotments for the year. But the past several years we have been offering something for July and August, that is the time the fellow usually falls a little bit down, the weather begins to get hot, and we try to do something to urge him to put forth a little more effort.

Mr. GESELL. Do you pay special bonuses to your agency superintendents for a particularly good showing on production and increase?

Mr. WATKINS. I explained the payment for increase. We wouldn't call that a bonus.

Mr. GESELL. In addition to the regular contracts.

Mr. WATKINS. Not to assistants, but to agents we do pay a bonus on sick claims under certain conditions, a quarterly bonus or an annual bonus, that would run through the year. I am trying to give all the different things that we might do in order to get them before you. We do offer the district offices an outing, not to exceed a certain amount, I will say \$5. Then, there is a banquet at the end of

the year under the same conditions—that is, just each district that make their requirements, they get together and have a little outing, and they get together and have their banquet in Washington, or each district wherever they may be located.

Mr. GESELL. Do you recognize this letter dated January 16, 1935, addressed to Mr. J. W. Wright, as a letter which you wrote to him at that time setting up some of the bonus provisions then in effect in your company?

Mr. WATKINS. Yes, sir; I do, and I notice that I overlooked the assistant in the third paragraph. I hadn't got to the agent in the second paragraph.

Mr. GESELL. Would you say that this letter represents generally the types of principal bonuses offered by your company?

Mr. WATKINS. Yes, sir.

Mr. GESELL. The letter reads as follows [reading Exhibit No. 1060]:

DEAR SIR: The usual bonus will be paid for the year 1935 to an agent whose sick claims do not exceed 27 percent, 28 percent, and 29 percent in accordance with the general rules of the company governing the payments of sick-claim bonuses, provided the agent has not less than 90 percent collections which is 5 percent below the district's allotment.

A special bonus of one time will be paid on increase to an agent who makes \$26 or more increase for the year with 30 percent sick claims and 95 percent collections.

A special bonus of \$100 will be paid to the assistant superintendent whose staff makes \$150 increase for the year with 30 percent sick claims and 95 percent collections.

The liberal conditions under which these bonuses are offered should be stressed to your agents and assistants so forcibly that they will become intensely interested in working to win them this year. The man who is paid a bonus has not only gained financially but has also developed qualities that will put him on the road to still greater success.

(The letter referred to was marked "Exhibit No. 1060" and appears in full above.)

Mr. GESELL. Now, Mr. Watkins, can you tell me whether your company has allotments for its industrial agents?

Mr. WATKINS. I did mention to you from the beginning the industrial increase of from 10 to 40 cents a week, according to the size debit.

Mr. GESELL. Are those allotments strictly adhered to? Do you insist upon a man getting those allotments unless he has some particularly valid excuse?

Mr. WATKINS. We put those allotments so reasonable we feel that men ought to make those allotments.

Mr. GESELL. What do you do to a fellow who doesn't make them?

Mr. WATKINS. I say we leave that to the discretion of the manager of the district. There are some men who, where we find they couldn't make that progress over a period of time, it would really be better to have out of the business.

Mr. GESELL. Do you recognize this letter which I show you, dated January 25, 1939, addressed by you to Mr. Wright and staff, as the letter establishing the allotments for the year 1939?

Mr. WATKINS. Yes, sir.

Mr. GESELL. I should like to read this letter for the record [reading "Exhibit No. 1061"]:

GENTLEMEN: The company's goal for 1939—\$13.300 Industrial Increase—\$4,600,000 Ordinary Increase.

To obtain this goal, the Washington No. 1 District has been allotted its quota as follows:

Industrial Allotment:

Increase-----	\$1,000
Sick Claims-----	33%
Collections-----	95%
Ordinary Increase-----	\$350,000

We can not impress upon you too strongly the necessity that each one of you take upon yourself your part of this obligation and do that part each week. The best way to attain a goal is to know exactly what you want. Get it fixed firmly in your mind, recall it every day, and don't quit until that day's quota is achieved.

The company is keenly desirous to close this year with \$13,300 Industrial Increase and \$4,600,000 Ordinary Increase and as a reward for your successful participation in this great purpose, a fine outing and equally wonderful banquet is offered by the Company, as follows:

If at the end of June, the Washington No. 1 District has \$500 Industrial Increase, 95% Collections, and \$175,000 Ordinary Increase, the Company will give the employees of that district an outing not to exceed \$5 per person. If the district makes this Industrial allotment and does not make this Ordinary Increase, the Company will then give an outing not to exceed \$3 per person. If the district makes this Ordinary Increase and does not make this Industrial allotment, the Company will give an outing not to exceed \$2 per person.

If the Washington #1 District makes its allotment for 1939 of \$1,000 Industrial Increase, 33% Sick Claims, 95% Collections, and \$350,000 Ordinary Increase, the Company will give the employees of that district at the end of the year a banquet not to exceed \$5 per person. If the district makes its Industrial allotment and does not make its Ordinary Increase, the Company will then give a banquet not to exceed \$3 per person. If the district makes its Ordinary Increase and does not make the Industrial allotment, the Company will give a banquet not to exceed \$2 per person. Thus, you can win an outing, a banquet, or both, for either \$5, \$3, or \$2 per person. However, we want you to keep it definitely in mind at all times that we are confidently looking to you and every other district to make its full allotment that this year's goal may be reached.

As a further incentive for individual accomplishment, the Company is offering the following bonuses:

The usual bonus will be paid for the year 1939 to an agent whose sick claims do not exceed 27%, 28%, and 29%, in accordance with the general rules of the Company governing the payment of sick claim bonuses.

A special bonus of one time will be paid on increase to an agent who makes \$26 or more increase for the year with 30% sick claims and 95% collections.

A special bonus of \$100 will be paid to the assistant superintendent whose staff makes \$150 increase for the year with 30% sick claims and 95% collections.

The liberal conditions under which these concessions and bonuses are offered should impress you so forcibly that you will immediately become interested in working to win them this year. The man who is paid a bonus has not only gained financially, but has also developed qualities that will put him on the road to still greater success.

(The letter referred to was marked "Exhibit No. 1061" and appears in full in the text on pp. 6045 and 6046.)

Mr. GESELL. There is one thing I can't quite understand, Mr. Watkins. What is this sick bonus of 33 percent or 26 percent?

Mr. WATKINS. It is that the sick claims on the debit don't go above those percentages; we pay a bonus of 1, 2, or 3 percent.

Mr. GESELL. In other words, the agent benefits by keeping the number of sick claims on his debit down.

Mr. WATKINS. Yes; if it were kept down to those figures, then he would receive additional compensation.

Mr. GESELL. How is that a matter which is within the agent's control at all? After the business is written, it would appear to me that the claims would pretty well be a matter of course.

Mr. WATKINS. I would say that would be in using care in selecting good risks. Then if you had some of the malingerers on the books, it would be up to you to make an extra call sometimes.

Mr. GESELL. If you had some what on the books? I didn't quite understand you.

Mr. WATKINS. We would say "malingerers"; people that draw benefits several times a year, 6, 7, 8, or 10 times a year, year after year, for grippe or something of that kind; the agent would have a little additional interest in dropping by at odd times, sometimes, to see if those people were still at home or whether they were out.

Mr. GESELL. You mean that if they are out they can't collect their sick benefit?

Mr. WATKINS. No, sir.

Mr. GESELL. Is that correct?

Mr. WATKINS. That is correct.

Mr. GESELL. And so this was to keep the agents checking up more closely on the sick benefits?

Mr. WATKINS. Yes.

Mr. O'CONNELL. Is that a part of the agent's job—to see whether people who make claims for sick benefits are entitled to the benefits?

Mr. WATKINS. Yes, sir. Our agents pay all claims on the debits.

Mr. O'CONNELL. Do they decide whether or not the claimant has actually been sick?

Mr. WATKINS. We have doctors' certificates. The doctors furnish a certificate each week.

Mr. O'CONNELL. Whose doctor?

Mr. WATKINS. Their family physician.

Mr. O'CONNELL. I am not quite clear just what the function of the agent in this picture is. What does he do? He has something to do with whether or not you pay the claims to sick persons?

Mr. WATKINS. He pays the sick claims.

Mr. O'CONNELL. Who determines whether or not they are paid?

Mr. WATKINS. It is between the agent and the doctor.

Of course, they have a certificate from the doctor. We leave a blank each week for the doctor to fill out, and the doctor fills out the blank as to whether they are sick, signs the blank, and turns it in.

Mr. O'CONNELL. Does the agent always pay the claim on the doctor's certificate?

Mr. WATKINS. Some of them don't wait for the agent to come back. They send it to the office. The agent leaves the blank with them.

Mr. GESELL. Do you always require a doctor's certificate as a condition precedent to paying a sick claim?

Mr. WATKINS. I would say not in all cases. Suppose a person had a broken arm, or something of that kind—

Mr. O'CONNELL (interposing). I was more interested in the class of cases that you seem to think are particularly in the class up to the agent, the chronic cases. Those cases, I take it, are all supported by doctor's certificates. What is the function of the agent in connection with that? Does he rely on the doctor's certificate?

Mr. WATKINS. Sometimes a doctor can be mistaken, at times, too.

Mr. O'CONNELL. That is what I am getting at. Does the agent review the doctor's determination that the man was sick?

Mr. WATKINS. I didn't quite get your question?

Mr. O'CONNELL. You say the doctor may be mistaken?

Mr. WATKINS. That is, the doctor may feel a person is going to be sick another week, and after a day or two or three days later that person may be out and at work.

Mr. O'CONNELL. Who, in the final analysis, determines whether or not you pay a claim to a sick claimant, the agent?

Mr. WATKINS. These blanks are left with the people in the field. Naturally, when the agent goes there, he looks at the doctor's certificate.

Mr. O'CONNELL. Does he look at the patient too?

Mr. WATKINS. If that is a claim, he pays the claim then and there to the people.

Mr. O'CONNELL. Does he always rely on the doctor's certificate? That is the question I asked you before. Does he always rely on the doctor's certificate?

Mr. WATKINS. I would say he would rely on the doctor's certificate when that is filled out, but if he should go back a day or two after that time, and find the people out, and perhaps at work, then you wouldn't have another blank next week, you see. No claim would be made out the week following.

Mr. GESELL. Let's see if I understand. A doctor certifies that someone is sick?

Mr. WATKINS. That is right.

Mr. GESELL. And your agent goes around on Wednesday and finds the person is out of bed and not sick. In that way, his report then is the basis upon which the company can reduce the amount of the benefit it would otherwise pay.

Mr. WATKINS. Yes; if he finds people out on Wednesday, that wouldn't be any claim.

Mr. GESELL. I can understand if a man was out of the house, how the agent's report might be of some significance. What if he found a man out of bed?

Mr. WATKINS. Our policy doesn't confine him to the bed.

Mr. GESELL. So, if he found him in the sitting room and not in the bedroom, he would be able to keep the claim down?

Mr. WATKINS. I wouldn't say we would always take a person off if they were out of the bedroom. There would be times when it would be necessary for them to be out of the bedroom, but certainly if they were out of the home—

Mr. GESELL (interposing). It is a little hard to see how the agent can really check up on the matter at all.

Mr. WATKINS. The agent is there every week.

Mr. GESELL. Isn't it a fact, Mr. Watkins, that these agents actually pay the claims themselves, and get the bonus for keeping the claims down, that there is a very strong tendency at least for some agents to attempt to persuade the policyholder into taking a benefit that may be less than the actual benefit under the policy?

Mr. WATKINS. I don't think so.

Mr. GESELL. It seems to me your method of compensation would lead to that.

Mr. WATKINS. It has worked mighty satisfactorily at all times in the past. Of course, if an agent should aim to take advantage of a person, we would see that he didn't do it.

Mr. GESELL. How would you know?

Mr. WATKINS. That is, if a report was made to us.

Mr. O'CONNELL. Who would make such a report?

Mr. GESELL [to the witness]. Who would make the report. How would you find out?

Mr. WATKINS. The person that was sick. If they didn't think they were treated right, they wouldn't hesitate to let the office know.

Mr. GESELL. I should think it would be rather difficult for some of the policyholders your company has to really tell whether they had got the full amount that was coming to them or not.

Mr. WATKINS. We don't pay part weeks, only for full weeks' sickness.

Mr. GESELL. You have colored policyholders, I take it?

Mr. WATKINS. Yes, sir.

Mr. GESELL. You have illiterate policyholders?

Mr. WATKINS. I would say some of them.

Mr. GESELL. It would be rather difficult, wouldn't it, in the case of an illiterate policyholder, to really know whether he had got proper treatment from his agent or not on his sick benefit?

Mr. WATKINS. If they didn't feel they had got proper treatment, I don't think they would hesitate in letting the office know about it. I looked after sick claims myself for a period of 4 years, and they know pretty well.

Mr. O'CONNELL. How would they let the office know. How would an illiterate policyholder, unable to write English, let the office know?

Mr. WATKINS. Call at the office, or call the office.

Mr. O'CONNELL. Do they do that often?

Mr. WATKINS. Yes, sir; they do call the office at times. Any person that thinks they haven't been treated right would get in touch with our office and we would immediately investigate.

Mr. O'CONNELL. And I suppose to your mind the fact that they don't call oftener is an indication that they are uniformly or almost uniformly fairly used. Do you think so?

Mr. WATKINS. I don't believe I caught your question.

Mr. O'CONNELL. I take it, it would be your feeling that the fact that you don't get more calls than you do from these policyholders would be an indication that they were being fairly used by the agent.

Mr. WATKINS. Being fairly treated by the agents.

Mr. O'CONNELL. You would think that, would you?

Mr. WATKINS. Yes, sir.

Mr. GESELL. I have no further questions of the witness.

Mr. O'CONNELL. I forgot the figure you gave me for the percentage your agents get for collections. What is that percentage?

Mr. WATKINS. That is 15 or 20 percent on collections, according to the location of the debits.

Mr. O'CONNELL. It doesn't make any difference what type of policy is involved?

Mr. WATKINS. These are all industrial policies.

Mr. O'CONNELL. So that 15 percent—

Mr. WATKINS (interposing). Fifteen to twenty percent.

Mr. O'CONNELL. Of the collection is the percentage, and on a whole life policy for a Negro it would be 20 to 25 times the weekly premium?

Mr. WATKINS. Yes, sir.

Mr. O'CONNELL. So that if we take a whole life policy for a Negro of the first year's premium, a minimum of 20 weeks of the premium goes to the agent, and a minimum of 15 percent of the total amount collected during the year goes to the agent. Is that correct?

Mr. WATKINS. Yes, sir.

Mr. O'CONNELL. So that a minimum of 55 percent of the first year's collections would go to the agent for agents' commissions on that type of policy?

Mr. WATKINS. Yes.

Mr. O'CONNELL. It could be more?

Mr. WATKINS. Yes, sir.

Mr. GESELL. May I ask just one further question. What have been the sources of your company's profits over these years? Where do you make your money?

Mr. WATKINS. Well, I would say the investments had much to do with it, and naturally we make some on the premium income.

Mr. GESELL. What would you say had been your principal source of profit, gains from mortality?

Mr. WATKINS. To a certain extent.

Mr. GESELL. Gains from lapses and surrenders?

Mr. WATKINS. Possibly some from that.

Mr. GESELL. I have no further questions.

Mr. O'CONNELL. I have none.

Thank you, Mr. Watkins.

TESTIMONY OF JOHN WILLIAM WRIGHT, SUPERINTENDENT, HOME BENEFICIAL ASSOCIATION, WASHINGTON, D. C.

Acting Chairman O'CONNELL. Will you raise your right hand?

Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, to the best of your knowledge and belief, so help you God?

Mr. WRIGHT. Yes, sir.

Mr. GESELL. What is your full name, please, sir?

Mr. WRIGHT. John William Wright.

Mr. GESELL. Are you a superintendent of the Home Beneficial Association here in Washington, D. C.?

Mr. WRIGHT. I am.

Mr. GESELL. I believe I have covered, Mr. Wright, most of the points with the previous witness. There are one or two things I wanted to ask you. Is there only one office of the Home Beneficial here?

Mr. WRIGHT. Two.

Mr. GESELL. You were in charge of one of these offices?

Mr. WRIGHT. That is correct.

Mr. GESELL. How many agents do you have?

Mr. WRIGHT. Sixty-one agents.

Mr. GESELL. How many of those are debit men?

Mr. WRIGHT. I would classify them as approximately 40 debit men.

Mr. GESELL. How many assistants have you got?

Mr. WRIGHT. Eleven assistants.

Mr. GESELL. So that there are about six men to an assistant?

Mr. WRIGHT. Well, the average is nearly seven.

Mr. GESELL. What is the average debit? What is the average size of it measured in premium income?

Mr. WRIGHT. Are you excluding the builders?

Mr. GESELL. Excluding the builders for the time being.

Mr. WRIGHT. I figured it sometime back, approximately a year ago, and it was averaging in the neighborhood of \$230.

Mr. GESELL. What would you say was the average debit for the builders?

Mr. WRIGHT. I couldn't say. That varies from week to week.

Mr. GESELL. It would be pretty small, would it not?

Mr. WRIGHT. Yes; it would be small compared with the debit men.

Mr. GESELL. Do you collect any premiums that are paid directly to your office?

Mr. WRIGHT. Yes.

Mr. GESELL. About how much do you take in in a week that way?

Mr. WRIGHT. I would say, the smallest week, around \$1,200—\$1,200 or \$1,330—and sometimes it goes as high as one-thousand-eight-hundred-and-some dollars.

Mr. GESELL. That is paid directly to the office by the policyholders?

Mr. WRIGHT. That's right.

Mr. GESELL. On industrial business?

Mr. WRIGHT. On industrial business.

Mr. GESELL. Do those policyholders who pay that way receive any reduction in premiums?

Mr. WRIGHT. They do not.

Mr. GESELL. So that even though you don't have the expense of collecting those premiums the policyholder is charged the same?

Mr. WRIGHT. I would say we do have the expenses. It increases our overhead considerably on account of the office pay roll having been increased.

Mr. GESELL. You are, I suppose, familiar with the fact that certain companies offer reductions in premiums when premiums are paid directly to the office by the policyholder.

Mr. WRIGHT. Yes.

Mr. GESELL. Your company doesn't do that?

Mr. WRIGHT. No.

Mr. GESELL. How much is your weekly collection on industrial business?

Mr. WRIGHT. Well, we have a debit of approximately \$9,500 in my office.

Mr. GESELL. Mr. Watkins referred to some of the company contests which are held, such as anniversary weeks and things of that sort. Do you have little local contests in your own office?

Mr. WRIGHT. At intervals; yes.

Mr. GESELL. Will you tell us the nature of those contests?

Mr. WRIGHT. Well, most of them are suggested by the agents themselves.

Mr. GESELL. You mean they sort of choose up sides and challenge each other?

Mr. WRIGHT. In other words, one agent would feel that he was going to have a good week's production and he would get four or five men to go with him on the side he is on, and maybe challenge all the rest of the men in the office.

Mr. GESELL. What are the prizes?

Mr. WRIGHT. Very often they don't have any prizes at all. Most of the times they don't.

Mr. GESELL. Do the men sometimes put money into a kitty?

Mr. WRIGHT. Once in a while, but I would say most of the times not.

Mr. GESELL. Who gets the commission on this office debit that you have, where the payments are made by the policyholders directly to the office?

Mr. WRIGHT. We have one special office debit which is one-hundred-and-forty-some-odd dollars. There are no commissions paid on that. However, on the other business that is paid into the office, the agent receives full commission.

Mr. GESELL. The agent who originally placed the business or the agent from whose debit the policyholder comes?

Mr. WRIGHT. The agent from whose debit the policyholder comes.

Mr. GESELL. Now, Mr. Wright, do you have meetings of your men?

Mr. WRIGHT. I do.

Mr. GESELL. How frequently are those meetings held?

Mr. WRIGHT. We have a board call daily, Monday, Tuesday, Wednesday, Thursday, and Friday.

Mr. GESELL. What is a board call?

Mr. WRIGHT. To take a report of the previous day's production.

Mr. GESELL. Tell us a little about how that goes.

Mr. WRIGHT. Well, we call the meeting to order and call out each man's name, each agent's and each assistant manager's, and we ask him to report the amount of industrial and ordinary that was written the previous day.

Mr. GESELL. And that is written up on the board?

Mr. WRIGHT. Yes, sir.

Mr. GESELL. At that time do you make comments with respect to particularly favorable production or particularly unfavorable production?

Mr. WRIGHT. At times I do, other times I don't. Sometimes I never go into the meetings at all.

Mr. GESELL. When you are there what kind of comments do you make on cases where a man fails to produce up to standard?

Mr. WRIGHT. No comment is made at all to the men who do not come up to standard requirements or standard production. No mention is made of that at all on the floor. It is just to those men who have had an outstanding day.

Mr. GESELL. What kind of information do you put on this bulletin board of yours?

Mr. WRIGHT. What kind of information on the bulletin board?

Mr. GESELL. Yes; on the board.

Mr. WRIGHT. On the blackboard?

Mr. GESELL. Yes.

Mr. WRIGHT. It is very seldom we ever use it. It is up high, near the ceiling.

Mr. GESELL. Do you list the men and their standing?

Mr. WRIGHT. We list the agents by staffs, and that blackboard is principally or solely for the purpose of recording the new business written. It is erased weekly.

Mr. GESELL. Is there much of a turn-over in your office?

Mr. WRIGHT. It is more than I would like for it to be. I would say it is very small in comparison with what it was years ago.

Mr. GESELL. Let me ask you this: How many new men did you have to take on during 1938? Do you recall that?

Mr. WRIGHT. I think it was about 15.

Mr. GESELL. Out of how many?

Mr. WRIGHT. I don't say I had to take those on. In other words, I started some of those men to fill in debits.

Mr. GESELL. How many men did you take on for replacements?

Mr. WRIGHT. For replacements, I really don't have any check on that.

Mr. GESELL. Would it be about 10? Would it?

Mr. WRIGHT. I should think it would be 10; yes.

Mr. GESELL. How much does it cost you to train a man?

Mr. WRIGHT. I have no way of telling.

Mr. GESELL. Do you find that most of the men are able to meet the quotas which are set?

Mr. WRIGHT. Yes; I do.

Mr. GESELL. What do you do to a man that doesn't meet the quota?

Mr. WRIGHT. It depends on the circumstances.

Mr. GESELL. Have you fired men for not meeting the quota?

Mr. WRIGHT. I don't recall any.

Mr. GESELL. You don't recall any case where a man has been dismissed for failure to produce?

Mr. WRIGHT. No; I don't. I don't recall a single case.

Mr. GESELL. Do you recognize this letter which I show you as a letter you received from Mr. Nunnally, Jr., vice president of the company, under date of July 20?

Mr. WRIGHT. Yes.

Mr. GESELL. That letter, addressed to Mr. Wright under date of July 20, 1938, signed M. D. Nunnally, Jr., vice president, states [reading "Exhibit No. 1062"]:

During the last three weeks our Ordinary Production has fallen off considerably. This has not only caused us to make a decrease during this time, but it has reduced the possibility of many men to win prizes in the Quota-Busters Campaign.

I am exceedingly anxious that every man in your district win one or more prizes, and request that you exert every effort to overcome this condition and get your quota for July and August.

(The letter referred to was marked "Exhibit No. 1062" and appears in full above.)

Mr. GESELL. Do you know a Mr. E. G. Hobson?

Mr. WRIGHT. Yes.

Mr. GESELL. Who is he?

Mr. WRIGHT. Assistant superintendent of agents.

Mr. GESELL. Do you recognize this as a letter which you received from him during life-insurance week?

Mr. WRIGHT. I do.

Mr. GESELL. This letter was dated May 6, 1936, on a letterhead entitled "Life Insurance Week, 1936," addressed to Mr. Wright and staff, signed by Mr. E. G. Hobson, and states [reading "Exhibit No. 1063"]:

IT'S ZERO HOUR

All plans have been made, all the money spent, wonderful services have been rendered, all the forces of preparation have been marshalled and the battle is ready for the fighter.

From now on it is your fight. You have been organized and drilled in your part. The last instructions are being given you. What you are when Life Insurance Week is over, depends on whether you are a producer or just another man in your district.

It's zero hour. "Over the Top" is being sounded and you are on your own. They are out there—Let's go and get 'em.

(The letter referred to was marked "Exhibit No. 1063" and appears in full above.)

Acting Chairman O'CONNELL. Mr. Gesell, what is life insurance week? Is that a national affair?

Mr. GESELL. What is it, Mr. Wright?

Mr. WRIGHT. It is a national affair.

Acting Chairman O'CONNELL. Who sponsors it?

Mr. WRIGHT. I don't know much about it. The insurance companies, I think, sponsor it.

Acting Chairman O'CONNELL. I imagined it was the insurance companies.

Mr. WRIGHT. I don't know that to be a fact, however.

Mr. GESELL. Do you recognize this letter, dated February 18, 1938, addressed to you, as a letter you received?

Mr. WRIGHT. Yes.

Mr. GESELL. Who is the sender of that letter. I can't read his signature.

Mr. WRIGHT. F. R. Brauer.

Mr. GESELL. Who is he?

Mr. WRIGHT. I believe his title is advertising manager.

Mr. GESELL. Of your company?

Mr. WRIGHT. He is a clerk in the home office, I would say.

Mr. GESELL. I wish to offer this letter for the record.

Mr. WRIGHT. It may be received.

(The letter referred to was marked "Exhibit 1064" and is included in the appendix on p. 6326.)

Mr. GESELL. Do you recognize these letters, dated September 23, 1936, and July 7, 1936, respectively, as two letters you received from Mr. Hobson?

Mr. WRIGHT. Yes.

Mr. GESELL. I wish to offer these for the record.

Acting Chairman O'CONNELL. They may be received.

(The letters referred to were marked "Exhibits 1065 and 1066" and are included in the appendix on p. 6327.)

Mr. GESELL. I have no further questions of this witness.

Acting Chairman O'CONNELL. I have none. You may be excused, Mr. Wright. Thank you.

(The witness, Mr. Wright, was excused.)

Acting Chairman O'CONNELL. Do you solemnly swear the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HANNAH. I do.

TESTIMONY OF L. H. HANNAH, VICE PRESIDENT AND MANAGER
OF AGENCIES, EQUITABLE LIFE INSURANCE CO. OF WASHINGTON,
D. C.

EQUITABLE LIFE INSURANCE CO. OF WASHINGTON, D. C.

Mr. GESELL. What is your full name?

Mr. HANNAH. Lauriston H. Hannah.

Mr. GESELL. With what company are you connected?

Mr. HANNAH. Equitable Life Insurance Co. of Washington, D. C.

Mr. GESELL. Are you vice president of that company and manager of agencies?

Mr. HANNAH. Yes.

Mr. GESELL. Your company sells industrial insurance, does it not?

Mr. HANNAH. Yes.

Mr. GESELL. How much industrial insurance has it in force at the present time?

Mr. HANNAH. Do you mean debit or insurance?

Mr. GESELL. Industrial insurance.

Mr. HANNAH. It has a debit of around \$48,000 a week, and that represents approximately seventy million of insurance in force.

Mr. GESELL. How much ordinary have you in force?

Mr. HANNAH. A little over thirty-five million.

Mr. GESELL. In how many States do you operate?

Mr. HANNAH. Four and the District of Columbia.

Mr. GESELL. Are you a stock company or a mutual company?

Mr. HANNAH. Stock.

Mr. GESELL. How many agents does the company have?

Mr. HANNAH. Would you mind my referring to these notes?

Mr. GESELL. Not at all.

Mr. HANNAH. In August of this year we had 393.

Mr. GESELL. Three hundred ninety-three?

Mr. HANNAH. Yes, sir.

Mr. GESELL. Now can you tell us how you compensate your agents?

Mr. HANNAH. On salary and commission basis.

Mr. GESELL. They receive a salary for collections?

Mr. HANNAH. Yes.

Mr. GESELL. Based on the size of the debit?

Mr. HANNAH. Yes, sir.

Mr. GESELL. What type of commission do they receive for new business?

Mr. HANNAH. So many times on the net increase.

Mr. GESELL. How many times?

Mr. HANNAH. Immediately 15 times; then after 6 months another 15 times; and then, depending on the debit condition at the end of the year, they may receive additional times. I can give you that exactly by reading it.

Mr. GESELL. I wish you would.

Mr. HANNAH. If collections are 98 percent or over, five times net increase; if 96 percent to less than 98 percent, four times net increase; 94 percent to less than 96 percent, three times on the net increase; if collections are 92 percent to less than 94 percent, two times on the net increase.

Mr. GESELL. Is that a copy of the agent's contract which you have?

Mr. HANNAH. It is.

Mr. GESELL. I should like to offer this agency contract for the record.

Acting Chairman O'CONNELL. It may be printed in the record.

(The contract referred to was marked "Exhibit No. 1067" and is included in the appendix on p. 6328.)

Mr. HANNAH. You might like to have this in conjunction with that, because we offer the M. D. O., what is known as the ordinary, and that agreement has been changed with this circular letter.

Mr. GESELL. This is in the nature of an amendment to the agreement?

Mr. HANNAH. Yes.

Mr. GESELL. I would like to offer it.

Acting Chairman O'CONNELL. It may be received.

(The amendment referred to was marked "Exhibit No. 1068" and is included in the appendix on p. 6336.)

Mr. GESELL. What is the average size of your debit?

Mr. HANNAH. For instance, around Washington, Wilmington, Wheeling—they are our oldest districts—I presume they run around approximately an average of \$175 each.

Mr. GESELL. I suppose in the territories that are now being developed the debits are smaller.

Mr. HANNAH. Yes, sir.

Mr. GESELL. Have you any idea of what it costs your company to build a debit?

Mr. HANNAH. No, sir.

Mr. GESELL. Any estimates as to what that cost would be?

Mr. HANNAH. Nothing definite. I have seen figures on it, but I wouldn't want to quote them; that is, not from our company in particular.

Mr. GESELL. Is your agency turn-over rather heavy?

Mr. HANNAH. It is heavier than we would like it.

Mr. GESELL. Am I correct in saying that in 1938 your finals were 69 percent of the total number of debits?

Mr. HANNAH. Fifty-nine, isn't it? Did you say '38? Sixty-nine; that is right.

Mr. GESELL. So far this year, the turn-over, the finals have been 69 percent of the number of debits; is that not correct?

Mr. HANNAH. Fifty-nine up to August.

Mr. GESELL. Yes. And in 1937 it was 73 percent.

Mr. HANNAH. Yes, sir.

Mr. GESELL. 1936, 64 percent; is that correct?

Mr. HANNAH. Yes, sir.

Mr. GESELL. Sixty-four percent in '35?

Mr. HANNAH. Yes.

Mr. GESELL. And 66 percent in 1934.

Mr. HANNAH. That is correct.

Mr. GESELL. Is this schedule which I show you an analysis of finals in your company by districts, by years, for those years we have just discussed?

Mr. HANNAH. Yes. Of course, this figure—we don't have 1939; we only have it up to '38.

Mr. GESELL. Yes. The '39 is indicated on here as far as your experience goes.

Mr. HANNAH. Yes, sir.

Mr. GESELL. I wish to offer this analysis for the record.

Acting Chairman O'CONNELL. It may be printed in the record.

(The document referred to was marked "Exhibit No. 1069" and is included in the appendix on p. 6336.)

Mr. GESELL. What are the principal causes of finals in your company, Mr. Hannah?

Mr. HANNAH. Well, there are many causes.

Mr. GESELL. Can you tell us what they are?

Mr. HANNAH. Just offhand, I would say lack of proper salesmanship ability would be one. And then, of course, illness is partly responsible, and the desire to return to former employment is another one. Perhaps they think they can write ordinary, and as a result would prefer to go to a company writing just ordinary. Some go in the Government service, quite a few. Then we have to have finals where the bonding company refuses to continue on their bond. Then we at times abolish debits, and so they all go to make up finals.

Mr. GESELL. Can you give us any idea of what percentage of your finals are attributable to deficiencies in accounts?

Mr. HANNAH. Well, in '38 we had 48 debits finalized with deficiency, and I feel safe in saying that that was responsible for their leaving the service, because I find if a man has deficiencies, he is trying to cover that up, and he can't think of much else, and it stands to reason he would try to cover it.

Mr. GESELL. In 1938 those finals for deficiencies amounted to 15 percent of all your finals, is that not correct?

Mr. HANNAH. That is correct.

Mr. GESELL. Do you think it is correct to say that is your principal cause?

Mr. HANNAH. Deficiencies? No, sir.

Mr. GESELL. What are these deficiencies? Are they necessarily cases where the agent has profited? In other words, where the agent has taken the policyholder's money?

Mr. HANNAH. And hasn't turned it in. I think that quite often he is pushed to pay the installment on the car, on the washing machine, and everything else; and so at such a time, if he happens to have money in his pocket he will pay it rather than to give up these things, thinking that he can collect, get out, and get others to cover it up.

Mr. GESELL. These are all cases where the agent has taken the policyholder's money, not cases, for instance, where he has taken the advance payment of one policyholder and credited it against the account of another policyholder who may be about to lapse. You see the distinction I have in mind.

Mr. HANNAH. I do. I think it is possible for that to be done. For instance, there are many ways of covering up. Perhaps I have never learned all of them. It is hard to account for such a practice because an agent realizes it may result in his final in case he does not make it good.

Mr. GESELL. What would make a man take one policyholder's advance funds and credit them against another man's policy in order to prevent a lapse in that policy?

Mr. HANNAH. Well, of course if the premium is paid in advance and he is taking money out of the account, he can set that date of last payment back and therefore cover up a deficiency.

Mr. GESELL. That is not what I am talking about.

Mr. HANNAH. That is one thing. Another is that it might be possible for him to have a case badly in arrears, and due to the fact that he wants to draw special salary or draw bonus, he can juggle by taking the advance pay, perhaps, until he is checked up, shoves it back, and credits it to a case in what we would ordinarily term "excess arrears."

Mr. GESELL. Now that excess-arrears type of deficiency is a result principally of the nature of your agency contract, is it not? In other words, your agency contract is so designed and so framed that it is to a man's interest to prevent policies from lapsing, and if he can take funds from one policyholder to do that, he is apt to do it.

Mr. HANNAH. It is to the interest of both the agent and the insured to prevent lapses.

Mr. GESELL. I don't know as that quite answers my question. The thing that would make a man take one policyholder's advance payment and credit them to another policyholder is primarily the agency contract, is it not?

Mr. HANNAH. So he can get paid on special salary, on bonus—that is what you mean?

Mr. GESELL. Yes.

Mr. HANNAH. That is possible.

Acting Chairman O'CONNELL. Entirely probable, isn't it?

Mr. HANNAH. I think the agents have even paid on business in excess arrears when they were even overclaiming because of their friendship for the policyholder and their insistence on their carrying them, so to speak.

Mr. GESELL. Do you have any rules in your company against writing business on people on relief?

Mr. HANNAH. Not definitely, but I don't like the idea.

Mr. GESELL. You haven't any rule?

Mr. HANNAH. No, sir.

Mr. GESELL. Do you write business on both colored lives and white lives?

Mr. HANNAH. In certain sections. We do here in Washington and Wilmington. I think about 12 percent of our debit, perhaps, is on colored lives.

Mr. GESELL. Do you have any provisions for payments being made direct to the office at a reduced premium?

Mr. HANNAH. Where they pay on an industrial premium a year—that is, to our home office account—we will give them 5 weeks off.

Mr. GESELL. Is that an advance payment of a year's premiums?

Mr. HANNAH. Yes, sir.

Mr. GESELL. Can they make that advance payment to the agent as well as to the company?

Mr. HANNAH. We would rather have them send it direct to the company.

Mr. GESELL. But can they make it to the agent?

Mr. HANNAH. It seems to me that they can if he brings it in and has it sent in, but I kind of think that we object to the agent's collecting it.

Mr. GESELL. By the way, is there anything in your company's policies which advises the policyholder of this right to pay in this manner?

Mr. HANNAH. I don't think so.

Mr. GESELL. How does the policyholder learn of it?

Mr. HANNAH. We have a manager to go through the books and notify the people who want to pay that way that we will give them that.

Mr. GESELL. You mean the manager goes around individually to the policyholders and tells them?

Mr. HANNAH. No, sir; he goes through the collection book and finds the people who have paid in advance, who desire to pay in advance, and then we got out a circular letter to that effect, notifying the field force that when people desire to pay as much as a year at a time, we would give them 5 weeks off.

Mr. GESELL. I can't see what the manager could discover if he looked at the books to see who had paid a year in advance and then gave the credit. That is kind of putting the cart before the horse. I was wondering how the policyholder knew that if he did make these payments in advance, he would get these special privileges.

Mr. HANNAH. Well, we won't accept a whole year's premiums—that is, on industrial insurance—unless we can give them that amount off. Of course, I believe it is possible for the agent to go ahead, unbeknown to us, possibly, and do it.

Mr. GESELL. Your argument seems to be that if the policyholder pays in advance, then he gets this credit. My question is, How does the policyholder know that if he does pay, he gets the credit?

Mr. HANNAH. We don't accept a whole premium of a year in advance unless it is transferred to the home office.

Mr. GESELL. But what is there to motivate the policyholder to pay in advance in order to get this credit?

Mr. HANNAH. We have sent this circular letter to the manager and the whole office force advising them about it.

Mr. GESELL. That was done just once, was it?

Mr. HANNAH. We have only been operating that way about 2 years, I think.

Mr. GESELL. There is no particular communication direct to the policyholder by the company?

Mr. HANNAH. No, sir.

Mr. GESELL. Do you have quotas?

Mr. HANNAH. Yes.

Mr. GESELL. Does this letter to the field force, dated December 16, 1938, which I show you set up the quotas for the year 1938?

Mr. HANNAH. Yes, sir.

Mr. GESELL. This letter is signed by yourself [reading "Exhibit No. 1070"]:

Re Quota for New Debits for 1939, dated December 16, 1938:

The minimum quota set for each representative or debit during 1939 is to be made on an average per-week basis as follows:

Six Industrial policies issued with an average increase of 55¢.

Ordinary every week with an average Paid-for of \$500 Regular and \$250 M. D. O., with a gain in force of \$500.

Many surpassed the quota last year. Let's all do so this year. Some Managers and Districts have voluntarily set a much larger quota for themselves. Remember I have set the minimum quota and not the maximum.

It is up to the individual to make the difference in record and salary. Do the things necessary from day to day to make the record for the week.

Yours for a surpassing record throughout 1939.

I wish to offer this for the record.

(The letter referred to was marked "Exhibit No. 1070" and appears in full in the text on pp. 6059 and 6060.)

Mr. GESELL. Do you rigidly enforce that quota, Mr. Hannah?

Mr. HANNAH. No, sir.

Mr. GESELL. In other words, if an agent doesn't meet it, nothing happens to him?

Mr. HANNAH. Well, we set that up as a goal to work to, and many of them surpass it.

Mr. GESELL. What about those who don't? What happens to them?

Mr. HANNAH. Well, they don't make as much salary.

Mr. GESELL. Is there any disciplinary measure taken against them by the company?

Mr. HANNAH. Nothing of a serious nature.

Mr. GESELL. What of a nonserious nature is done with respect to them?

Mr. HANNAH. We write to the manager, pointing out at times the standing of the different ones, and let him see if he can't find ways and means to bring about an improvement.

Mr. GESELL. You mean you write the manager and say, "We notice agent so-and-so in your office hasn't met these quotas. Please speak to him and try to get him up to snuff?"

Mr. HANNAH. Yes; something to that effect.

Mr. GESELL. You leave it with the manager to take disciplinary action if he feels it desirable?

Mr. HANNAH. He can make the recommendation.

Mr. GESELL. Are men dismissed in your company for failure to get these quotas on occasion?

Mr. HANNAH. None that I know of.

Mr. GESELL. Oh! no occasions that you know of?

Mr. HANNAH. Not that I know of.

Mr. GESELL. What is the reason for axing them?

Mr. HANNAH. As a goal, just like football, something to work for.

Mr. GESELL. The language of the letter would indicate it was a little more than a goal. It was pretty definite instructions as to what the man should turn in, was it not?

Mr. HANNAH. That was the quota to fight for.

Mr. GESELL. How are your managers paid?

Mr. HANNAH. On a salary and commission basis.

Mr. GESELL. How many times increase is the commission?

Mr. HANNAH. I think one time in a lump sum only for increase in the year and then one time is added to the guaranteed salary and divided out on the installments.

Mr. GESELL. Do the assistant managers also receive a commission on increase?

Mr. HANNAH. Yes, sir.

Mr. GESELL. How many times?

Mr. HANNAH. They get three times on the staff increase, and then based on the collection percent it is possible for them to earn a bonus, which is possible to be paid twice a year. If the collection percent

is 99 or over, they may receive five times average weekly net increase, providing there is not over 80 percent arrears. The same thing holds true for the rest of these figures: 98 percent to less than 99, five times; 97 to less than 98, four times; 96 to less than 97, three times; 95 to less than 96, two times; 94 to less than 95, one time. If he fails to qualify during that six months' period, we allow him another, and then if he qualifies on the second and the first, we pay him on the following table. Do you want me to relate it?

Mr. GESELL. There is again a method of compensation after that 6 months' period?

Mr. HANNAH. Yes, sir.

Mr. GESELL. As a result of these methods of compensation of the agent, the assistant manager and the manager, all three have a definite interest in bringing about an increase, do they not?

Mr. HANNAH. I would think so.

Mr. GESELL. And add to that the setting of this very definite quota with respect to the amount of the industrial increase to be written per agent each week, and is it not fair to say that the effort of your company is to make a very strenuous drive for the production of new business?

Mr. HANNAH. I have found from my own experience, when I began work at 19, that was in 1904, I was at that time clerking in a store and I realized, working on a guaranteed salary, when I found out that I was selling more than others and others were getting more, I was so disgusted over it, I looked for a proposition that would pay me on a salary and commission basis. So, consequently, I got into the insurance business, and I think when many people realize that they have an opportunity to make more commission, that it is encouraging to them.

Mr. GESELL. What about yourself now, do you get any compensation based upon increase?

Mr. HANNAH. No more.

Mr. GESELL. You are quite happy on a salary, aren't you?

Mr. HANNAH. Well, yes; I am making a living.

Mr. GESELL. I want to get an answer to my specific question. Is it not true that through your types of contracts and through the setting of these quotas, your company has as a matter of policy undertaken a definite drive for the production of new business?

Mr. HANNAH. I wouldn't call it so much a drive. It is an appeal. It is a special appeal that appeals to the representative.

Mr. GESELL. Do you have sales contests?

Mr. HANNAH. Yes.

Mr. GESELL. Would you call a sales contest an appeal?

Mr. HANNAH. Yes.

Mr. GESELL. What kind of sales contests do you have?

Mr. HANNAH. Do you mean from a company or district office point of view?

Mr. GESELL. From a company point of view.

Mr. HANNAH. In May we have what is known as an anniversary contest. That is in honor of our secretary, who came with the company in 1885. That usually runs for 5 weeks.

Mr. GESELL. What do the men get out of that?

Mr. HANNAH. The district that has the best all-around record on a per man basis is presented with—well, this time it is a very hand-

some oil painting of the secretary, and we usually have a banquet and present it.

Mr. GESELL. Do you have any contest where there is a direct monetary award to the agents or managers who win?

Mr. HANNAH. We have had contests where the agents, in particular, and sometimes the assistant, would get what would be referred to as a bonus, in addition to what I have referred to here.

Mr. GESELL. Do you have such contests now?

Mr. HANNAH. Not right at this time, but we are getting ready for one pretty soon, but I don't think we will offer anything. As to this one that is coming up in October, the field force asked 2 or 3 years ago that they have a contest in my honor, and so in October we have a contest similar to what we do in May.

Mr. GESELL. I am interested in these contests that have some monetary awards to them.

Mr. HANNAH. No; it is just along the lines I have been telling you about.

Mr. GESELL. What kind of award have you given to the agents in the past in these contests?

Mr. HANNAH. At times we have paid, during a specific period, maybe one time additional on the increase, and then in ordinary paid-for, if it is annually we pay \$1 a thousand extra, if it is semi-annually I think it is 75 cents, and if the premium is paid quarterly I think we pay 50 cents. I am not absolutely sure in giving you that.

Mr. GESELL. That gives me an idea. Just one further question. We referred to M. D. O. during this testimony a little. By that you mean monthly debit ordinary, I take it?

Mr. HANNAH. That is regular ordinary, where the premiums may be paid by the month.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman O'CONNELL. I have none. Thank you.

(The witness, Mr. Hannah, was excused.)

Mr. GESELL. Mr. Cohen.

Acting Chairman O'CONNELL. Do you solemnly swear the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF BERT B. COHEN, AGENT, EQUITABLE LIFE INSURANCE CO., WASHINGTON, D. C.

Mr. GESELL. Will you state your full name, please?

Mr. COHEN. Bert B. Cohen.

Mr. GESELL. Are you an agent employed by the Equitable Life Insurance Co.?

Mr. COHEN. Yes.

Mr. GESELL. How long have you been with the company?

Mr. COHEN. Approximately a year and a half.

Mr. GESELL. Do you sell industrial insurance?

Mr. COHEN. Industrial and ordinary, yes.

Mr. GESELL. You have a debit, I take it.

Mr. COHEN. That is correct.

Mr. GESELL. Where about is it?

Mr. COHEN. In the northeast section of the city, in the vicinity of Eastern High School.

Mr. GESELL. What are the collections a week?

Mr. COHEN. The debit is approximately \$150, which is the average size debit in that office, and my collections will vary from week to week.

Mr. GESELL. How many policyholders on the debit?

Mr. COHEN. Approximately 150 families.

Mr. GESELL. Out of what office do you work?

Mr. COHEN. An office located at Tenth and K Streets Northwest, here in the city.

Mr. GESELL. Who is your manager?

Mr. COHEN. M. E. Dyson.

Mr. GESELL. How many men are there in the office?

Mr. COHEN. Twenty-six agents, five assistant managers.

Mr. GESELL. Is there quite a heavy turnover in that office, of agents?

Mr. COHEN. Yes; there has been quite a heavy turnover.

Mr. GESELL. Have you any idea how many new agents were brought into the office last year?

Mr. COHEN. More than the combined agency force itself. I understand it was a number exceeding 50.

Mr. GESELL. Can you tell us what you do each day of the week? Give us some idea of your duties as an agent.

Mr. COHEN. Each morning at 8 o'clock we report at the office to announce how much we have sold, and during the day to turn in the amount of money we have collected during the previous day. On Monday, Tuesday, and Wednesday most of our days are concerned with collecting our debits; on Thursday, Friday, and Saturday they are given over primarily to new business, although on those days we still have to chase back on many collections.

Mr. GESELL. Do you report in each day to the office?

Mr. COHEN. That is correct.

Mr. GESELL. At what time in the morning is that?

Mr. COHEN. About 8 o'clock.

Mr. GESELL. Is there a meeting held at that time?

Mr. COHEN. Every morning at eight.

Mr. GESELL. Will you tell us what takes place at that meeting?

Mr. COHEN. Well, the meeting is what is generally referred to as a pep meeting or pep talk.

(Mr. Davis took the chair.)

Mr. COHEN. The first thing that is done is that the board is called. The board is a blackboard on which each agent has his name posted, and each day of the week has a space so that there is room under it for the amount of business an agent has written on each day, and a man's name is called in public, he has to announce what he has written, and if he has not written anything, a blank mark, a cross mark, is put in the designated place.

Mr. GESELL. Then what takes place after the board has been called?

Mr. COHEN. After the board has been called, there is always a bit of necessary office procedure which requires about 5 minutes to take up. After that the real pep meeting gets under way, in which the men who have had an outstanding day are usually praised, and those who have not had a good day are, well, they are not praised.

Mr. GESELL. Who conducts this pep meeting?

Mr. COHEN. As a general rule it is the manager of the office, but sometimes an official from the home office will do it.

Mr. GESELL. What officials from the home office have done it, that you recall, in your office?

Mr. COHEN. Mr. Payne, who is an assistant field manager, has done it quite repeatedly. A Mr. Warfield, I think it is, who has the same title with the home office; and on a few occasions Mr. Hannah has not called the board, but he has taken over the meeting itself.

Mr. GESELL. Usually these meetings are conducted by the manager, Mr. Dyson; is that correct?

Mr. COHEN. That is correct.

Mr. GESELL. Will you give us some idea of what he says?

Mr. COHEN. In what connection?

Mr. GESELL. At these meetings.

Mr. COHEN. Well, we have, most every week, some contest or another going on. We have three contests during the year which are given by the home office. One is a year-round contest for finals at the end of the year. Two others take place, one in the spring of the year, which is called the May campaign and lasts approximately 6 weeks, and one which will begin approximately in October. If the manager has nothing else to do, he concentrates on one of these campaigns; or if the two seasonal campaigns are not running, there is most always a weekly campaign, and this requires the bulk of his attention. In this the office may be subdivided one group against another, or probably the office against another office, and I should say most of the time is used in bringing pressure on the men to exert them to do their utmost in helping the office or a group from the office win the coveted award for the campaign then under way.

Mr. GESELL. You have either your big company contest or you have small contests held in the office, as among the men?

Mr. COHEN. It can be one office against another office. For example, our office has just completed a contest with the Wilmington office. Or it can be an interoffice campaign, one half of the office against the other half of the office. Some arbitrary division may be given.

Mr. GESELL. You choose up sides?

Mr. COHEN. That is correct.

Mr. GESELL. And what kind of prizes do you get?

Mr. COHEN. Generally they are cash prizes put up by the men themselves, usually for a dinner or a luncheon or some such thing.

Mr. GESELL. You mean the men themselves put some money into a kitty and that goes to the side that wins?

Mr. COHEN. That is correct.

Mr. GESELL. Do you think it would be fair to say that almost continually throughout the year there is one form of contest or another in progress?

Mr. COHEN. I should say a week in which there is no contest is a rather rare week.

Mr. GESELL. You have meetings on Saturdays?

Mr. COHEN. Not always. Until last year meetings were held on Saturdays, but when the other offices in the city began eliminating the meetings on Saturday, primarily because of a union threat, the meetings were discontinued, but lately there has been a revival of the Saturday meetings, although they are not held every Saturday now.

Mr. GESELL. Well, now, suppose an agent has shown a poor production for the week. Will the manager single him out and point out his record and compare it with the record of the other men?

Mr. COHEN. We had one manager, a Mr. Carson, who would single a man out from the floor in front of all of the other men and complain to the men for crucifying him. He referred to the crosses on the blackboard as his crucifix. The present manager does not do that to the same extent, but he will call you into the office, and usually in the presence of an assistant manager or some official from the home office you will be given a very stiff lecture.

Mr. GESELL. How much do you make a week?

Mr. COHEN. My average is a little less than \$25 a week.

Mr. GESELL. Will you tell us a little about the kind of people who are on your debit?

Mr. COHEN. The status of the people on my debit is roughly, this: I have about 50 percent colored; and most of the people, white or colored, are W. P. A. workers.

Mr. GESELL. You say most of the people are W. P. A. workers?

Mr. COHEN. I think so. They are either W. P. A. or relief or some such status as that. There are only a few of them who actually have Government jobs. The bulk of them who do not have such jobs are cab drivers. In other words, they are definitely in the lower income.

Mr. GESELL. What did you say the territory was that you covered?

Mr. COHEN. It runs from Eleventh Street NE. to Seventeenth NE., from East Capitol to D. That is the vicinity of the car barns and Eastern High School, if you are familiar with the city.

Mr. GESELL. Are there any restrictions in your company as to selling policies to people on relief?

Mr. COHEN. I have never been notified of any.

Mr. GESELL. I take it that your selling activities are pretty well confined to the same area from which you collect your premiums?

Mr. COHEN. That's it; yes.

Mr. GESELL. Have you any idea of the number of policies that are placed with each family on your debit, on an average?

Mr. COHEN. I don't know if I understand you correctly, unless you mean this—that in each home in which we do collect we are constantly forced to try to get new policies in the homes, and it is not unusual to see one person carrying four or five industrial policies on himself when one ordinary would have been a lot cheaper and a lot better.

Mr. GESELL. Are those all necessarily policies in your company?

Mr. COHEN. Yes; I am just referring to my own company.

Mr. GESELL. Do you find the policyholders on your debit also have industrial policies with other companies?

Mr. COHEN. Almost invariably.

Mr. GESELL. And on your rounds do you run into collectors from other companies collecting from the same families you are collecting from?

Mr. COHEN. Naturally.

Mr. GESELL. Does it get to be a bit of a race to see who can get there first to get the weekly premium?

Mr. COHEN. It is rather cutthroat competition there.

Mr. GESELL. Do you find the people are always able to pay on time?

Mr. COHEN. Not on my debit.

Mr. GESELL. Is a good percent of your debit in arrears?

Mr. COHEN. Yes. Sometimes as high as 100 percent of my debit is in arrears.

Mr. GESELL. Do you mean that there may be a time when 100 percent of your debit will be at least a week behind in its payments?

Mr. COHEN. Yes; the gross aggregate of arrears will amount to more than 100 percent of the debit.

Mr. GESELL. Do you find that the policies on your debit lapse quite a bit?

Mr. COHEN. Yes; I have a very heavy lapse ratio on my debit.

Mr. GESELL. Can you give us some idea of how heavy it is?

Mr. COHEN. I really don't know the exact figures I can give you on that, except to say that at the present time I am \$10 off claiming; that is, I have lapsed \$10 worth of business in the last week or month, and I have not been able to write enough to offset that.

Mr. GESELL. You are about \$10 off claiming now?

Mr. COHEN. That is correct.

Mr. GESELL. Do you have to carry much excess?

Mr. COHEN. Yes; it is almost necessary, if a man wants to keep his job.

Mr. GESELL. Will you explain why and how that is?

Mr. COHEN. Well, the company does not want the men to carry excess. We are constantly warned by the home office men not to carry excess, because it simply means taking money out of your pocket and paying for your own job; but at the same time, in order to make the necessary increase and show definite progress in our production we are not in a position where we can afford to lapse business, and I think it is true that practically every man in my office, including myself, is compelled, and has been compelled, to pay for insurance which should be lapsed, simply because of the fact that we could not afford to take that business off the books.

Mr. GESELL. That is, in order to keep you on net increase?

Mr. COHEN. And thereby keep our jobs. That is correct.

Mr. GESELL. You say to keep your jobs. Are men threatened with the loss of their jobs if they don't produce?

Mr. COHEN. Yes.

Mr. GESELL. Have you ever been so threatened, Mr. Cohen; and if so, by whom?

Mr. COHEN. Well, the word "threat"—of course, I don't know exactly how you have it interpreted.

Mr. GESELL. Let me use the word "warned." Have you ever been warned if you don't keep your production up you will be fired?

Mr. COHEN. We are warned of this both in our pep meetings and in interviews with the manager. Only about 6 or 7 weeks ago a Mr. Benton—I forget his exact title—one of the officials in the home office, called about 10 men into the manager's office, the office in which I work, and there he warned them that unless there was an immediate improvement both in debit conditions and lapse ratio and in new business production, the men would be better off if they would start looking for another job. To say this was a threat, I can't say. It was merely a warning.

Mr. GESELL. Well, would you say that that situation was referred to more or less frequently by the manager in the course of his meetings?

Mr. COHEN. Oh, yes; that is where it would come up almost every day.

Mr. GESELL. If a man is on draw, or showing a very slight increase, is his particular situation apt to be pointed out in front of all the other men at the meetings?

Mr. COHEN. Usually the two extremes are pointed out, the man who is making a very good record and the man who is making a very poor record. Very often, however, a man who has a mediocre record is brought into the manager's office and asked to improve it immediately. If he is good in industrial business and weak in ordinary he will be asked to improve his ordinary; if he is good in ordinary and weak in industrial he will be asked to improve his industrial.

Mr. GESELL. Do you find that much night work is necessary in order to do your job?

Mr. COHEN. I don't think that there is any agent in my office who works less than 12 hours a day, from 8 o'clock in the morning until 8 at night, and I do know that many men who have debits where there are night workers, particularly among the Negroes, cannot catch these people in the daytime and must see them at night. Then, too, the bulk of our production is at night, because in the daytime we catch the housewives at home to collect from them, and at night we have to go back and see about selling new business.

Mr. GESELL. You mean in selling new business you have to see the head of the house, and he often isn't home except in the evening.

Mr. COHEN. That's right.

Mr. GESELL. What about this business of policyholders paying directly to the office? Do many policyholders on your debit pay their premiums directly to the branch office?

Mr. COHEN. Very few pay the branch office on my debit.

Mr. GESELL. Were you instructed to advise the policyholders on your debit of that privilege that they had, to pay and get a reduction?

Mr. COHEN. No; I have never been advised at all in that regard.

Mr. GESELL. Have you so told them?

Mr. COHEN. Only in two instances have I had occasion to do that.

Mr. GESELL. Was that where the policyholder brought the matter up himself?

Mr. COHEN. The policyholder himself brought the matter up.

Mr. GESELL. Well, now, let me ask you this: The business you sell is all weekly premium business, isn't it—the industrial business?

Mr. COHEN. Yes; if it is industrial, it is weekly premium.

Mr. GESELL. Do many of your policyholders pay by the month?

Mr. COHEN. I have just a few who pay monthly on my debit.

Mr. GESELL. Most of them pay by the week?

Mr. COHEN. And a very few pay every 2 weeks, on the 1st and 15th.

Mr. GESELL. You referred to a contest which your office has just completed, I believe you said, with the Wheeling, W. Va., branch.

Mr. COHEN. It was with Wilmington, Del.

Mr. GESELL. Can you tell us about that contest a little more—how it started, what the prizes were, and a little more about it?

Mr. COHEN. Well, our office, and I think most of the offices with the company, have a rather vague organization which is commonly called the Boosters' Club, which is nothing more nor less than the office itself, and each week we are compelled to pay a certain amount to the Boosters' Club as dues, and then the Boosters' Club will organize contests between our office and offices located elsewhere. The Wilmington contest was just such a contest. It was organized between our Boosters' Club and I think a Boosters' Club up in the Wilmington, Del., office, the winner to invite the other—or, rather, the loser to invite the winning—district to his city for a dinner, the loser, of course, to pay all the expenses, while the Boosters' Club, because of our dues payment each week, was to pay for part of this, and we were assessed an extra amount each week to help defray the expense of the rest of it. Although the Washington district won, I haven't yet seen any results from this contest.

Mr. GESELL. Is each man to receive some kind of monetary prize if he is with the office that wins the contest, or was it to be a banquet or how was it to wind up?

Mr. COHEN. The original letters in this asked for a \$100 contest. The losing district was to pay \$100 to the winning district, and I imagine by inference this money was to be subdivided among the men, but it was later changed to invite the winning district to the city in which the losing district was located, and there give the men a dinner and probably a show. Even at that, it would be about the same expense.

Mr. GESELL. Can you tell us a little of what your sales talk or canvass is, Mr. Cohen, when you go to a prospective policyholder with a view to selling him a policy? What do you tell the policyholder?

Mr. COHEN. Well, it will largely depend upon the type of person the policyholder is. Since the bulk of mine are Negroes, I will metaphorically draw a hearse up in front of his door and park it there until he signs.

Mr. GESELL. What do you mean by that?

Mr. COHEN. I mean I will have to paint pictures of the Grim Reaper and everything else to frighten the person into believing that unless the person is actually covered with insurance, death might take place almost momentarily.

Mr. GESELL. Then the sale campaign is primarily directed toward showing the policyholder that in his present circumstances, if he dies he won't have funds to bury him?

Mr. COHEN. That is correct.

Mr. GESELL. Do you find that policyholders on your debit can distinguish between a 20-payment life, an endowment policy, or a whole-life policy?

Mr. COHEN. In the year and a half I have been with the company I have only had one policyholder read his policy, and that was because he misunderstood the word epilepsy to be the word leprosy and was scared.

Mr. GESELL. So, by and large, you don't think policyholders read their policies?

Mr. COHEN. I know they don't.

Mr. GESELL. What determines the fact that a policyholder will take out an endowment policy or 20-payment life policy or whole life policy?

Mr. COHEN. The determining factor in most instances is the agent, and the determining factor in the agent's status is the salary, so, because we can get more writing an endowment, we usually sell an endowment.

Mr. GESELL. Do you find you can usually pretty well decide for the policyholder the type of policy he wants?

Mr. COHEN. I think the average agent could if he were properly schooled. I am afraid that this isn't actually the case, because the agent, when he approaches the policyholder, does so from the viewpoint of the agent's own pocketbook, and not the interest and well-being of his prospect.

Mr. GESELL. Do you have any instructions as to what percentage of the family income should be taken out of the family for insurance premiums?

Mr. COHEN. I have never been given any such instructions.

Mr. GESELL. Do you have a pretty good idea of the family income of the various families on your debit?

Mr. COHEN. Generally, you know your people.

Mr. GESELL. Can you give us some idea of what percentage of their money is going for premiums, not only in your own company, but any other companies?

Mr. COHEN. I actually have colored families who pay more for insurance in two or three or four different companies than they get in a week, and how they do that I sometimes don't know.

Mr. GESELL. Do you think there are a considerable number of families on your debit who are paying as much as 15 or 20 percent of their income for premiums?

Mr. COHEN. Oh, yes.

Mr. GESELL. Have you your debit book here with you, by any chance.

Mr. COHEN. No, I don't.

Mr. GESELL. Can you give us, from memory, a case history of any particular family where there may be a considerable number of policies sold against a small amount of income?

Mr. COHEN. Well, yes. I have a colored widow woman who has her whole family and all of her relatives and friends insured with the company. She has a poor woman's salary; I think she told me it amounts to \$7.50 a week, and in the Equitable alone she pays \$2.42 a week in insurance, and she pays as much in other companies, I am sure, as what she carries with the Equitable.

Mr. GESELL. Can you give us another case?

Mr. COHEN. I have a cab driver, a Negro, also, who tells me that his profit at the end of a week is not over \$10. His insurance in the Equitable is \$1.75, and he has insurance in two or three other companies, I think, equal to what the Equitable amounts to.

Mr. GESELL. Now, when a policy is about to lapse in one of these families, what type of sales talk do you use to prevent the policy from lapsing.

Mr. COHEN. I rehire the hearse again.

Mr. GESELL. Is there a form which is used in connection with that to point out to the policyholder some of the dangers which may occur in the event of a lapse?

Mr. COHEN. We have four or five circular letters which may be filled in and mailed to the policyholder which warns him that his policy is about to lapse. We also have a printed form, which is sent to him warning him that a lapsed policy is about the worst thing that could happen to a family.

Mr. GESELL. Is this the printed form you refer to?

Mr. COHEN. Yes.

Reading a portion of this form, it states as follows [reading from "Exhibit No. 1071"]:

I am a lapsed policy. A widow's tears have stained my withered surface. I am only a scrap of paper consigned to the trash heap where I now belong. Once I was a living contract. I was proud of my ability to guarantee my owner's wife a regular income should she have to go on without him. I represented comfort and security for his family. I was a guaranteed estate, free from taxes and administrative costs. But something happened. The money from my premium was used for other things much less important. And then came death, suddenly and unexpectedly it took my owner away. Its swiftness stunned his family and when they turned to me for help they found me as I am today, a lapsed policy.

I wish to offer this for the record.

(The form referred to was marked "Exhibit No. 1071" and is included in the appendix on p. 6337.)

Mr. GESELL. Now, is the application which was signed by the policyholder attached to the policy?

Mr. COHEN. No; only on rare occasions is a copy of it attached, but not as a general rule.

Mr. GESELL. Is the application filled out by the policyholder or by the agent?

Mr. COHEN. The policyholder only sees it when he is signing his name to it. I have never had anyone read it.

Mr. GESELL. In other words, it is filled out by the agent.

Mr. COHEN. It is filled out by the agent and signed by the applicant.

Mr. GESELL. Does the agent ask the questions of the policyholder?

Mr. COHEN. I am afraid if I asked all the questions I couldn't sell the policy.

Mr. GESELL. Will you explain that a little more?

Mr. COHEN. We have on our policy 21 questions concerning the status of a person's health, and some of the questions are so embarrassing that I really couldn't ask them of a perfect stranger, and if I were to ask them I have no way of ascertaining them, because I do not have a doctor's certificate nor the competency of a doctor, and to answer all these questions would actually take just such a status. The 21 health questions are usually just taken for granted that the person is all right, and I fill it in accordingly and the person signs his name and that gives him a clean bill of sale for his health.

Mr. GESELL. Or a clean bill of health for his sale.

Mr. COHEN. That is correct.

Mr. GESELL. Mr. Cohen, do you think it is true that if you were to ask those questions that you would meet more sales resistance than you do at the present time?

Mr. COHEN. I couldn't seem to sell a policy if I asked them all the questions, some of them are too long. They range from every known disease that there is; if I really asked them it would take so much time I couldn't cover my debit or do anything else.

Mr. GESELL. Have you ever heard of what are called "tombstones" or "lamp posts"?

Mr. COHEN. Yes; that is a common ailment.

Mr. GESELL. Will you tell us what it is?

Mr. COHEN. It is a policy sold to a person who has no intention of maintaining it. We do this in order to maintain production.

Mr. GESELL. You mean in order to meet the quota or present an increase which would be acceptable to the manager you write bogus applications known as "tombstones" or "lamp posts"?

Mr. COHEN. That is correct.

Mr. GESELL. Is that a fairly prevalent practice?

Mr. COHEN. I think it is.

Mr. GESELL. Have you done it?

Mr. COHEN. I have done it.

Mr. GESELL. Who paid the premiums on it?

Mr. COHEN. The agent, naturally.

Mr. GESELL. How long do you keep these "lamp posts" or "tombstones" in existence?

Mr. COHEN. Only so long as it takes to feel that it is safe to take it off the book because we may be able to make some increase and so we maintain our jobs.

Mr. GESELL. I suppose that if a man goes off the debit and a new man comes on he may frequently find on that debit quite a few "tombstones" or "lamp posts."

Mr. COHEN. When I first went on my debit I found it in such a condition.

Mr. GESELL. How many did you find?

Mr. COHEN. Several solid pages of it, but it was all lapsed off immediately.

Mr. GESELL. Were you charged with those lapses?

Mr. COHEN. Not at the time; no; except, pardon me, with one exception. It was rather interesting that when I was introduced on the debit my training was confined to 3 days with an assistant manager who spent 2 of the days assuring me that he owned the company and everything in the company and the third day showing me how to write tombstones, and these I did have to pay for when they were lapsed off.

Mr. GESELL. The assistant manager himself instructed you how to write these tombstones?

Mr. COHEN. Yes.

Mr. GESELL. What was his name?

Mr. COHEN. Skaggs, Earl Skaggs.

Mr. GESELL. Is he with the company now?

Mr. COHEN. Yes; he is in an Ohio district.

Mr. GESELL. Do you pay cash surrender checks yourself, does the agent pay them to the policyholder or are they mailed by the company?

Mr. COHEN. There are three ways. One is through the mails and by the assistant manager and sometimes if an assistant manager is busy the agent himself will take it.

Mr. GESELL. Now, am I correct that in some occasions when the surrender value of the policy is paid to the policyholder that occasion is used as the occasion to write a new policy?

Mr. COHEN. Always; yes.

Mr. GESELL. Will you explain how that happens?

Mr. COHEN. Well, in the Equitable the policies can be cash surrendered after 8 years, and generally when a person approaches us to cash surrender a policy, in order to pay up his arrears, or the agent may even approach the person, in either case we quickly point out to the person that the cash surrender is taken away; an insurance policy is on somebody who may die at any moment and to keep that person's life and everything concerning life about him it is best for that person to have an application immediately to take the place of the one cash surrendered, and as a general rule we are either able to replace it and in many cases able to increase the amount of business already in that house.

Mr. GESELL. Have you any cases of that—individual cases that you could call to our attention—specific cases in your debit?

Mr. COHEN. Yes; I have a case on Tennessee Avenue where a woman was paying for \$2.12 worth of insurance a week in the Equitable and because her husband was in the hospital she had to surrender some insurance to meet her current expenses. She cash surrendered 30 cents with me, but after I had finished writing new business in the house her weekly premiums instead of being \$2.12 were \$2.79.

Mr. GESELL. You say when she cash surrendered 30 cents; you mean she surrendered policies amounting to 30 cents a week payment?

Mr. COHEN. That is correct.

Mr. GESELL. So that at the end she ended with more insurance than when she started.

Mr. COHEN. That is correct.

Mr. GESELL. Do you find that there are on your debit what might be called chronic lapsers—people who continually are writing and lapsing policies?

Mr. COHEN. Oh, yes. Sometimes from necessity a family cannot afford to keep its insurance up, and yet, wanting insurance, will take it out immediately, only to have it lapse again. I have had several instances of that on my debit and I think it is rather a common disease among the lower brackets.

Mr. GESELL. People pay a little while, lapse, and take a new policy.

Mr. COHEN. That is right.

Mr. GESELL. Do you make any attempt to what might be called "program" the insurance payments of any particular family and make sure that the proper percentage of coverage and the right types of policies are on various members of the family?

Mr. COHEN. Well, in my particular office we have never really been taught to program insurance. I have never been given any instructions on that, and when I do feel that it should be done I find that it is very hard to do it in those families where there is so much industrial insurance already in force; to put any more in there is defeating the idea of program insurance. Programming insurance can be done when it is used in a home where you can usually sell ordinary and come to some honest understanding with the people about their needs and what insurance can do for them, but only in that particular instance is it possible to use programming.

Mr. GESELL. You mean you find it difficult in the type of policyholder with whom you have to deal really to sit down and discuss insurance programs at all.

Mr. COHEN. I find it is impossible to do that.

Mr. GESELL. It is a matter of placing the policy more than anything else?

Mr. COHEN. Yes.

Mr. GESELL. Do you find that in some of these families on your debit the people are paying premiums on boarders and children who have moved away and things of that sort?

Mr. COHEN. Oh, yes; particularly among the Negroes you find that they will insure their friends and relatives and people on the block and just about anyone they can have a policy issued on as a matter of speculation.

Mr. GESELL. Does your company write health and accident policies?

Mr. COHEN. No; we do not.

Mr. GESELL. Do you write any form of sick-benefit policy at all?

Mr. COHEN. No.

Mr. GESELL. Are there occasions when there are on your debit so-called undesirable risks?

Mr. COHEN. As I explained before, I don't feel that the agent in my company or almost any company who is just turned loose with a rate book and told to write insurance and collect his debit is in position to determine what is a desirable risk and what is undesirable. We have no measuring rod; we have no way of knowing.

Mr. GESELL. Suppose it comes about that you have written a policy on what might be termed an undesirable risk, do you sometimes receive instructions from the company as to how to deal with such a risk?

Mr. COHEN. Well, in one instance I have a family named Fraction—

Mr. GESELL. F-r-a-c-t-i-o-n?

Mr. COHEN. That is correct—where there was a fear that there was syphilis in the family and I was told by a home-office representative not to collect in that family's house any longer because it was an undesirable risk.

Mr. GESELL. Who told you that?

Mr. COHEN. The person was Leonard Payne.

Mr. GESELL. Is he assistant field manager of the company?

Mr. COHEN. That is correct.

Mr. GESELL. How long had the policy been in force?

Mr. COHEN. They have had insurance with the Equitable for quite a few number of years, I don't know exactly how long, but the insurance involved at present was about 3 years of age.

Mr. GESELL. You were told by this man Payne not to collect premiums there?

Mr. COHEN. Yes; we went by the house one day when the woman was on the porch with the money and the book waiting for us and although she hollered to me I was told that I didn't hear anything, it was just the wind, and we kept on walking and the policy did lapse. Later the company gave the woman an invitation to revive the same insurance by paying up all the arrears, but in these homes where there is such a limited amount of money to spend on insurance and any other necessity, these people can't get together all of the money that is necessary to pay

up the arrears. Very frequently the way we cover that is by cash-surrendering their insurance, but in this home there was no insurance old enough to be cash-surrendered, so her insurance is still out of benefit.

Mr. GESELL. Do I understand you correctly that in this case the policy was lapsed by your failure to collect premiums in the manner you had been doing before, on the instruction of this man Payne, assistant field manager of the company?

Mr. COHEN. That is correct.

Mr. GESELL. Are there any other cases where that has occurred on your debit?

Mr. COHEN. No; I don't really know of any.

Mr. GESELL. Have you heard any other agents talk about similar cases?

Mr. COHEN. Yes; but I couldn't give you any specific details of it.

Mr. GESELL. Do you think that the conditions on your debit from what you have gathered by talking to other agents in the company are more or less identical?

Mr. COHEN. I think it is just about on a medium.

Mr. GESELL. You feel it is a representative debit?

Mr. COHEN. I think so.

Mr. GESELL. I have no further questions.

Acting Chairman O'CONNELL. Thank you very much, Mr. Cohen. (The witness, Mr. Cohen, was excused.)

Mr. GESELL. The next witness is Mr. Ulman.

Acting Chairman O'CONNELL. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ULMAN. I do.

TESTIMONY OF JACOB ULMAN, MANAGER, MONUMENTAL LIFE INSURANCE CO., WASHINGTON, D. C.

MONUMENTAL LIFE INSURANCE CO.

Mr. GESELL. What is your full name?

Mr. ULMAN. Jacob Ulman.

Mr. GESELL. With what company are you connected?

Mr. ULMAN. Monumental Life Insurance Co.

Mr. GESELL. You are manager of the local office of that company here?

Mr. ULMAN. That is right.

Mr. GESELL. Does the Monumental have more than one office in Washington?

Mr. ULMAN. Only one.

Mr. GESELL. How many men?

Mr. ULMAN. Eighteen agents and three assistants.

Mr. GESELL. What is the total debit?

Mr. ULMAN. \$2,894.

Mr. GESELL. That is the weekly collections?

Mr. ULMAN. No; that is the weekly debit. That is the total premium debit.

Mr. GESELL. If you collected all you would collect that much?

Mr. ULMAN. That is correct.

Mr. GESELL. Your company sells ordinary?

Mr. ULMAN. Ordinary and industrial.

Mr. GESELL. The same agents sell industrial and ordinary?

Mr. ULMAN. Yes, sir.

Mr. GESELL. Is all of your industrial weekly premium business?

Mr. ULMAN. All of the industrial is weekly premium.

Mr. GESELL. What is the average size of an individual debit?

Mr. ULMAN. About \$165.

Mr. GESELL. What is the average pay for the agent?

Mr. ULMAN. Our average pay for the agent is approximately \$40 a week.

Mr. GESELL. Do you have pep meetings in your company?

Mr. ULMAN. No pep meetings.

Mr. GESELL. You never meet with the men at all?

Mr. ULMAN. Educational meetings.

Mr. GESELL. Tell us about the educational meetings.

Mr. ULMAN. Well, they are of short duration during the week, about 3 of them a week, and we have a regular course called an assembly, consisting of 13 courses that give the men full knowledge of everything practically pertaining to the life insurance business. I can give you an outline of that if you would like to hear it.

Mr. GESELL. That takes how long, 13 weeks?

Mr. ULMAN. That takes longer than 13 weeks. It is 13 assembly meetings, but to do it properly it will take anywhere from 16 to 18 weeks, and it is continued, when one course is finished we go back over it to refresh the men.

Mr. GESELL. I take it you have no meetings, then in which you discuss with the men their production results and the results of the office.

Mr. ULMAN. Oh, I have individual meetings with the men that I talk to.

Mr. GESELL. That is with individual men?

Mr. ULMAN. And we have collective meetings on the floor which last about 10 minutes.

Mr. GESELL. These are the so-called board calls?

Mr. ULMAN. Yes, sir.

Mr. GESELL. Does your company have contests?

Mr. ULMAN. We do.

Mr. GESELL. Are those company contests or are those contests which you initiate yourself?

Mr. ULMAN. We have company contests and contests initiated in the office.

Mr. GESELL. Tell us something about the company contests first.

Mr. ULMAN. The company has—I wouldn't really call it a contest.

Mr. GESELL. Sales campaign?

Mr. ULMAN. Little efforts, a little pressure put on. Around the first of June we have what is called sweepstakes. That is an ordinary effort. At the present time we are just completing what is considered the "go-getters" effort, that is to take up the slack. Of course it is customary for almost any concern that is selling merchandise to have contests of some kind to keep the men from getting down in the dumps, especially in the hot weather.

Mr. GESELL. In this go-getters contest, what are the prizes?

Mr. ULMAN. The awards are a pencil, a brief case, a traveling bag, a watch, and a couple of others that I don't recall.

Mr. GESELL. What are the prizes in the sweepstakes?

Mr. ULMAN. There are no prizes in the sweepstakes.

Mr. GESELL. That is just a matter of seeing which office does the best, or which individual does the best?

Mr. ULMAN. Just a little effort, no prize attached to it.

Mr. GESELL. Any penalties attached?

Mr. ULMAN. None whatsoever, and none of the prizes ever cost the agents anything.

Mr. GESELL. Then you have a so-called merit club.

Mr. ULMAN. That is correct.

Mr. GESELL. What is that?

Mr. ULMAN. That is a club where the agents who qualified during the period of 3 months, beginning the 1st of January to the 1st of April, the 1st of July to the 1st of October, for instance, every man that is in the service of the company at that time and qualifies during those 3 months with an average increase of 25 cents industrial—

Mr. GESELL (interposing). A week?

Mr. ULMAN. An average of 25 cents industrial a week, and places and pays for \$5,000 of ordinary, with a collection percentage of 97 percent, receives six additional times on the industrial increase he has made during that period of time, paid to him the following 3 months in equal installments.

Mr. GESELL. In other words, if the man sells the requisite amount of ordinary and his collections are up to the proper standard and his industrial increase is an average of 25 cents a week, he then gets what might be called a bonus of six times that increase.

Mr. ULMAN. The increase during that period.

Mr. GESELL. Which is paid to him during the following 3 months.

Mr. ULMAN. In equal installments.

Mr. GESELL. I suppose you do have men who qualify maybe all around the clock.

Mr. ULMAN. Not all the men qualify.

Mr. GESELL. All the men are eligible at the beginning?

Mr. ULMAN. All of them.

Mr. GESELL. Do you have what are known as "ordinarians"?

Mr. ULMAN. Yes, sir.

Mr. GESELL. What are they?

Mr. ULMAN. That runs for a period of a year, starting from the 1st of July until the end of June the following year, and the men who place and pay for and have in force during that period of time \$60,000 of ordinary, are classed as ordinarians and are rewarded this year, for instance, by a trip to the New York World's Fair at the company's expense.

Mr. GESELL. What about the turn-over in your office; is it high, low, or medium?

Mr. ULMAN. It is entirely too high. I suppose in our office it is close to 40 percent.

Mr. GESELL. When you say 40 percent, you mean that 40 percent of our sales force are new men each year?

Mr. ULMAN. That is about the turn-over; not the number of men, the change in the office, probably 9 or 10 men.

Mr. GESELL. Nine or ten men over the year, but that may require more men than that being taken on during the year.

Mr. ULMAN. No, not more. That would be about the number of men.

Mr. GESELL. In other words, in your office where you have about 18 agents you may take on 8 or 9 men a year?

Mr. ULMAN. About 10 men a year.

Mr. GESELL. What are the causes for the finals?

Mr. ULMAN. There are several causes. In this town, in particular, nearly everybody wants to work for the Government.

Mr. GESELL. I know how that is.

Mr. ULMAN. They have an application in with the Government. If they get the Government job they quit most any other position. And then again we have quite a transient population here. Lots of them come here and get a job and work a little while, but the climate doesn't agree with them and they want to get out of it, and sometimes they are married and their wife wants to leave and go back. But all of our turn-over is due practically to resignations.

Mr. GESELL. You have very few finals because of deficiencies or irregularities?

Mr. ULMAN. They are very rare.

Mr. GESELL. Would you say about one or two out of the total a year?

Mr. ULMAN. At the very most.

Mr. GESELL. Do you ever final a man for nonproduction?

Mr. ULMAN. No, sir.

Mr. GESELL. How long have you been manager of this office?

Mr. ULMAN. I have been manager for 16 years.

Mr. GESELL. Have you ever during that period finalized a man for nonproduction?

Mr. ULMAN. Not to my knowledge. I have always tried to find out the cause of a man's nonproduction and tried to help him.

Mr. GESELL. Suppose you can't help him.

Mr. ULMAN. Then he probably final himself.

Mr. GESELL. How much does it cost to take on a new agent?

Mr. ULMAN. You can answer that as well as I can. I just don't know.

Mr. GESELL. You have no figure that would give you that?

Mr. ULMAN. None available.

Mr. GESELL. You are quite sure it does cost you something?

Mr. ULMAN. Undoubtedly.

Mr. GESELL. And a high agency turn-over in your office is detrimental to efficient operations?

Mr. ULMAN. It doesn't improve the operations any, but under the system we work on we don't suffer such a terrific loss.

Mr. GESELL. Don't you find you lose a lot of business when a man goes off a debit?

Mr. ULMAN. No, sir.

Mr. GESELL. There is no particular lapse when a new man comes in?

Mr. ULMAN. No, sir.

Mr. GESELL. Do you find many lamp posts and tombstones?

Mr. ULMAN. We can't have them.

Mr. GESELL. That is because of your inspection system?

Mr. ULMAN. That is correct, sir.

Mr. GESELL. One or two might get by the inspectors, might they not?

Mr. ULMAN. I doubt that.

Mr. GESELL. Do you have any quotas?

Mr. ULMAN. No, whatsoever.

Mr. GESELL. An allotment system?

Mr. ULMAN. None whatsoever.

Mr. GESELL. You get up no standard for your men of any sort?

Mr. ULMAN. We try to have them set their own objective.

Mr. GESELL. Then I take it the answer is, you don't set any.

Mr. ULMAN. We set an example, that they strive for 25 cents of industrial a week and placed and paid for two thousand ordinary monthly.

Mr. GESELL. That is your best judgment of what their estimate of what they should do, should be?

Mr. ULMAN. That should be their minimum objective.

Mr. GESELL. Do you point out to the men failure to meet that objective in these meetings?

Mr. ULMAN. No, sir.

Mr. GESELL. You never mention it?

Mr. ULMAN. No criticism regarding their production.

Mr. GESELL. How do the men learn of the existence of this quota?

Mr. ULMAN. This objective is mentioned to them.

Mr. GESELL. Do you have any system for paying direct to your office?

Mr. ULMAN. You mean by the policyholder?

Mr. GESELL. Yes.

Mr. ULMAN. Yes, sir.

Mr. GESELL. Is that in force in the policies being sold at the present time?

Mr. ULMAN. Let me get your question again?

Mr. GESELL. At the present time can I buy a policy in your company which would give me a reduced premium if I paid direct to the office?

Mr. ULMAN. No, sir.

Mr. GESELL. Such business of that character as you have results from the sale of policies now discontinued?

Mr. ULMAN. Yes; to a great extent.

Mr. GESELL. How are you compensated?

Mr. ULMAN. Me, personally?

Mr. GESELL. Yes.

Mr. ULMAN. Salary and commissions.

Mr. GESELL. Is your commission times increase?

Mr. ULMAN. On the industrial.

Mr. GESELL. How many times?

Mr. ULMAN. I have to think—two; it has been so long since I got any.

Mr. GESELL. How are your assistants compensated?

Mr. ULMAN. They get salary and commission.

Mr. GESELL. And you say it is a long time since you got any. When you get your pay check what percentage of it is commission and what percentage salary?

Mr. ULMAN. The greater percent is salary.

Mr. GESELL. Has that been true in all the years, or is that only due to present conditions?

Mr. ULMAN. It hasn't been true all the years.

Mr. GESELL. There have been times when the commission was greater than the salary?

Mr. ULMAN. No, the commissions have been greater than they are at the present time but they have never been greater than the salary.

Mr. GESELL. The salary is the principal compensation you receive?

Mr. ULMAN. With almost any man that is a manager of a company, I would say the same about his.

Mr. GESELL. I have no further questions for this witness.

Acting Chairman O'CONNELL. Did your last pay check include any commissions?

Mr. ULMAN. I always get commissions every week because I get ordinary commissions.

Acting Chairman O'CONNELL. Did you get any commissions on industrial business?

Mr. ULMAN. In the last pay check; no, sir.

Acting Chairman O'CONNELL. You say it is a long time since you got a pay check that did include commissions on industrial business.

Mr. ULMAN. I don't mean it has been a long time but they have been so small.

Acting Chairman O'CONNELL. But you have been getting them fairly regularly?

Mr. ULMAN. Yes, sir.

Acting Chairman O'CONNELL. I have no further questions. Thank you very much.

(The witness, Mr. Ulman, was excused.)

Mr. GESELL. Mr. Boswell.

Acting Chairman O'CONNELL. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. BOSWELL. I do.

TESTIMONY OF HERBERT BOSWELL, AGENT, MONUMENTAL LIFE INSURANCE CO., WASHINGTON, D. C.

Mr. GESELL. What is your full name?

Mr. BOSWELL. Herbert Boswell.

Mr. GESELL. Are you employed as an agent by the Monumental Life Insurance Co.?

Mr. BOSWELL. Yes, sir.

Mr. GESELL. Here in Washington?

Mr. BOSWELL. Yes, sir.

Mr. GESELL. What kind of a debit do you have?

Mr. BOSWELL. I have a country debit, mostly.

Mr. GESELL. Tell us what you mean by a country debit.

Mr. BOSWELL. It is out in the rural section.

Mr. GESELL. Do you collect by car?

Mr. BOSWELL. Yes, sir.

Mr. GESELL. How much do you have to travel a day?

Mr. BOSWELL. Oh, I cover about 750 miles a week.

Mr. GESELL. You have an all white debit, do you?

Mr. BOSWELL. Yes, sir.

Mr. GESELL. What is your average pay, Mr. Boswell?

Mr. BOSWELL. For the time I have been there, it is \$38 a week, average.

Mr. GESELL. How long have you been with the company?

Mr. BOSWELL. Fifteen weeks.

Mr. GESELL. Do you get expenses for your car?

Mr. BOSWELL. No, sir.

Mr. GESELL. Does that have to come out of your pay?

Mr. BOSWELL. Yes, sir.

Mr. GESELL. How much does that run you a week?

Mr. BOSWELL. Oh, about \$7.50, \$8.

Mr. GESELL. Do you have any quotas, Mr. Boswell, that you have to meet?

Mr. BOSWELL. No, sir; I do not.

Mr. GESELL. You have no quota as to increase, either in industrial or ordinary?

Mr. BOSWELL. No, sir.

Mr. GESELL. Have you ever heard the word "quota" mentioned in your office since you have been there?

Mr. BOSWELL. No; the men set their own objective to work for.

Mr. GESELL. What objective have you set?

Mr. BOSWELL. Increase of 25 cents a week, industrial.

Mr. GESELL. And how much ordinary?

Mr. BOSWELL. One thousand a month.

Mr. GESELL. How did you happen to set that objective?

Mr. BOSWELL. We have to have something to shoot for to make an increase.

Mr. GESELL. Tell us exactly what you did when you set this objective for yourself.

Mr. BOSWELL. I try to write \$1.25 a week, and out of that I can make 25-cent a week increase.

Mr. GESELL. In other words, if you put \$1.25 new business in your book, your increase will show about 25 cents a week.

Mr. BOSWELL. It will average that, yes.

Mr. GESELL. Did you consult with your manager before you set this particular objective?

Mr. BOSWELL. No; that is about the average.

Mr. GESELL. That is just about what all the men are doing?

Mr. BOSWELL. Yes.

Mr. GESELL. You find you have to about make that increase, I suppose, to make ends meet on your salary.

Mr. BOSWELL. Yes, sir.

Mr. GESELL. Your manager is Mr. Ulman, the last witness, isn't he?

Mr. BOSWELL. That is right.

Mr. GESELL. Does he have meetings every morning?

Mr. BOSWELL. Not every morning. Every morning, except Mondays. It is not a meeting. We just take care of the business that needs to be attended to.

Mr. GESELL. Well, now, what percentage of your debit do you estimate is paid on a monthly basis?

Mr. BOSWELL. About 20 percent.

Mr. GESELL. The balance of it would be weekly and semimonthly?

Mr. BOSWELL. Yes, sir.

Mr. GESELL. What kind of hours do you work, Mr. Boswell?

Mr. BOSWELL. I would say it took about 30 hours a week to collect the debit, and, of course, you have to solicit new business.

Mr. GESELL. How does it run a day. You start off at 7:45 a. m., don't you?

Mr. BOSWELL. Around about 9:30 a. m. is the time I get to the debit.

Mr. GESELL. You start to work before that. You go to your office. When do you get to your office?

Mr. BOSWELL. About 8.

Mr. GESELL. When do you get home at night?

Mr. BOSWELL. Around about 5.

Mr. GESELL. Do you go out in the evening?

Mr. BOSWELL. Sometimes.

Mr. GESELL. For about how long?

Mr. BOSWELL. A couple of hours, to see prospects and make back calls.

Mr. GESELL. So you work from about 8 to 5, and about 2 hours in the evening?

Mr. BOSWELL. Sometimes; yes, sir.

Mr. GESELL. Do you have many contests in your office?

Mr. BOSWELL. We have had a couple since I have been there. I have only been working 15 weeks.

Mr. GESELL. Do you remember a wampum contest?

Mr. BOSWELL. Yes, sir.

Mr. GESELL. Tell us about that, will you?

Mr. BOSWELL. It is a contest that for every thousand ordinary you write, you get 1,000 wampum.

Mr. GESELL. What do these wampum look like?

Mr. BOSWELL. A certificate, like a dollar bill, and for 500 of them you get a fountain pen and pencil set, and then they have different other prizes for a greater number of wampum.

Mr. GESELL. Do you also get wampum for industrial increase?

Mr. BOSWELL. Yes, sir.

Mr. GESELL. Do you have big chiefs and things like that?

Mr. BOSWELL. We do; yes, sir.

Mr. GESELL. Do you remember a horse-race contest?

Mr. BOSWELL. Yes; they had that when I first came with the company.

Mr. GESELL. Tell us about that contest.

Mr. BOSWELL. They had the horses on the blackboard and as you made your increase the horses were moved up.

Mr. GESELL. You mean each man had his name on a horse?

Mr. BOSWELL. Yes.

Mr. GESELL. And you had one of these races on the blackboard?

Mr. BOSWELL. That is right.

Mr. GESELL. How long did that last?

Mr. BOSWELL. Two weeks.

Mr. GESELL. What sort of prizes did you get?

Mr. BOSWELL. We got paid by the point—50¢, 50 points.

Mr. GESELL. Fifty-cent increase?

Mr. BOSWELL. Fifty-cent writing.

Mr. GESELL. What about your sales talk, what do you tell a policy holder?

MR. BOSWELL. You explain the policy to him and tell him the protection it affords him and the savings for the future.

MR. GESELL. Let's see you sell me a policy. Let's see you go through it as you would if I were a prospective purchaser, the explanation you would make of the policy and the kind of thing you would tell me.

MR. BOSWELL. That is kind of hard to do.

MR. GESELL. You must do it every day of your life, Mr. Boswell.

MR. BOSWELL. I would tell you the benefits of the policy, the protection it afforded.

MR. GESELL. Tell me what are the benefits and what protection does it afford?

MR. BOSWELL. I haven't got my rate book here to tell you.

MR. GESELL. Let's assume I want to take out a 20-year endowment policy for \$250, and you make up any kind of rate you want for it and tell me all about that policy and how you would sell me.

MR. BOSWELL. You would be saving the money that you put in the policy, and at the same time you would have a protection you wouldn't have if you invested in a bank.

MR. GESELL. How would that be?

MR. BOSWELL. With the first payment you make on the policy, you create an estate of \$250.

MR. GESELL. What if I said I thought an endowment policy was kind of expensive?

MR. BOSWELL. Well, I would sell you a paid-up policy, offer you more protection.

MR. GESELL. You would shift to a different type of policy?

MR. BOSWELL. I would advise you which one to take.

MR. GESELL. Which one would you advise?

MR. BOSWELL. The 20-year paid-up life.

MR. GESELL. Why that?

MR. BOSWELL. Because you have more protection for the same amount of money. When you go to cash the policy in, you get almost as much.

MR. GESELL. Why wouldn't you recommend a whole-life policy?

MR. BOSWELL. That would be all right if you were taking it out for protection, but if you were taking it for savings, endowment or 20-pay would be better.

MR. GESELL. Do you ask the policyholder, Mr. Boswell, about how much insurance they have in the family?

MR. BOSWELL. Yes, sir.

MR. GESELL. On what lives it is?

MR. BOSWELL. Yes, sir.

MR. GESELL. Do you have underwriting rules as to what percentage of the family income should go to pay insurance premiums?

MR. BOSWELL. I never try to put too much in a home. I try to study the conditions of the home first.

MR. GESELL. That doesn't answer my question. I asked if you have underwriting rules that tell you how many of the family income should go to the insurance premiums?

MR. BOSWELL. I would say about 5 percent.

MR. GESELL. Where did you get the figure 5 percent?

MR. BOSWELL. I say myself I figure that is what it should be.

MR. GESELL. Has the company any policy on that?

Mr. BOSWELL. I don't think they do.

Mr. GESELL. If I bought this policy from you that you have sold me in this manner, would I fill out the application or would you fill it out?

Mr. BOSWELL. I would fill it out myself.

Mr. GESELL. If I asked to see a copy of the policy, would you hand me one?

Mr. BOSWELL. Yes, sir; we have specimen policies.

Mr. GESELL. Would you let me take it and brood over it overnight?

Mr. BOSWELL. You could read it over; yes.

Mr. GESELL. Do you pay much excess on your debits?

Mr. BOSWELL. No, sir; the company doesn't allow it.

Mr. GESELL. That wasn't the question I asked you. I asked you whether you paid any.

Mr. BOSWELL. No, sir.

Mr. GESELL. Do you have a pretty high lapse rate on your debit?

Mr. BOSWELL. No; I don't.

Mr. GESELL. If I bought this policy from you, would you have to pay the first premium?

Mr. BOSWELL. No, sir.

Mr. GESELL. Do you frequently pay the first premium if the policyholder can't?

Mr. BOSWELL. I never have. We can't because the inspector goes out behind us and checks that.

Mr. GESELL. You find that your policyholders will pay in advance before they get the policy?

Mr. BOSWELL. Most of them do; yes, sir.

Mr. GESELL. What about those who don't?

Mr. BOSWELL. We don't write them up.

Mr. GESELL. I have no further questions for this witness.

Mr. DAVIS. Referring to your work, is there any regulation or requirement as to how many hours per day or per week you agents shall put in?

Mr. BOSWELL. No, sir.

Mr. DAVIS. It is entirely voluntary with each of you as to how much you work?

Mr. BOSWELL. That is right.

Mr. DAVIS. Take yourself, you said that you got to the office about 8 o'clock and ordinarily got home about 5. Where do you take lunch?

Mr. BOSWELL. Well, any restaurant that was close by at noontime.

Mr. DAVIS. You put in that time pretty solid in your insurance work from 8 to 5, less time out for lunch?

Mr. BOSWELL. Yes, sir. That is just the first 3 days in the week. Friday and Saturday we might only work 2 hours a day.

Mr. DAVIS. Will you explain why there is a difference between the first 3 days and the last 3 days?

Mr. BOSWELL. Well, the first 3 days mostly are collection days. We turn it in on Thursday morning and close the account.

Acting Chairman O'CONNELL. Are you required to do all of your collecting the first 3 days?

Mr. BOSWELL. No.

Acting Chairman O'CONNELL. You say you turn in your account.

Mr. BOSWELL. We try to get most of it in by Thursday.

Mr. DAVIS. Then to what do you devote the other days, insofar as your work is concerned?

Mr. BOSWELL. Canvassing and collecting.

Mr. DAVIS. How many nights a week would you average making calls?

Mr. BOSWELL. I would say 2.

Mr. DAVIS. How many hours would you say you average putting in a week on your work?

Mr. BOSWELL. Collecting?

Mr. DAVIS. No; all together on insurance work.

Mr. BOSWELL. Forty.

Acting Chairman O'CONNELL. I have no further questions.

(The witness, Mr. Boswell, was excused.)

Mr. GESELL. Mr. McCarry.

Acting Chairman O'CONNELL. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. McCARRY. I do.

TESTIMONY OF E. W. McCARRY, AGENT, VIRGINIA LIFE & CASUALTY CO., WASHINGTON, D. C.

VIRGINIA LIFE AND CASUALTY CO.

Mr. GESELL. Will you state your full name, sir?

Mr. McCARRY. Edward W. McCarry.

Mr. GESELL. With what company are you connected?

Mr. McCARRY. Virginia Life & Casualty.

Mr. GESELL. Are you an agent for that company?

Mr. McCARRY. Yes, sir.

Mr. GESELL. How long have you been with the company?

Mr. McCARRY. The 20th of this month, 2 years.

Mr. GESELL. Do you work here in Washington?

Mr. McCARRY. Yes, sir.

Mr. GESELL. Do you have a debit?

Mr. McCARRY. Yes, sir.

Mr. GESELL. Where is your debit?

Mr. McCARRY. My debit runs from Florida Avenue up Georgia Avenue to Hamilton, back over into North Capitol to New York Avenue, and out New York Avenue to Bladensburg Road and all of Woodridge.

Mr. GESELL. What is the amount of debit?

Mr. McCARRY. Do you mind if I refer to notes?

Mr. GESELL. Not at all.

Mr. McCARRY. I have the 5th of September here; my debit then was \$93.

Mr. GESELL. That is an all white debit?

Mr. McCARRY. All white. The company has only one colored debit, which is in Richmond.

Mr. GESELL. How many policyholders on the debit?

Mr. McCARRY. One hundred and ninety-five.

Mr. GESELL. How many calls do you have to make per day when you are collecting?

Mr. McCARRY. Well, I can't tell you exactly.

Mr. GESELL. Just an estimate.

Mr. McCARRY. About 40.

Mr. GESELL. Is your business all weekly business?

Mr. McCARRY. Well, I can give you exact percentage on that.

Mr. GESELL. I wish you would.

Mr. McCARRY. Of the 195 calls, weekly calls are 73, or 37 percent; the semimonthly calls are 47, or 24 percent; and my monthly calls are 75, or 39 percent.

Mr. GESELL. What do you average a week?

Mr. McCARRY. \$35 gross.

Mr. GESELL. What do you mean "gross"? Some expenses out of that?

Mr. McCARRY. Yes, sir.

Mr. GESELL. What are they?

Mr. McCARRY. We are allowed \$1.50 for gasoline expenses, those fellows like myself who have a traveling debit. My car costs \$690 a year. I figure my car costs me \$46 a month. I would say at least \$40 of that goes to cost of collecting my debit and getting new business.

Mr. GESELL. On this monthly business you refer to, does your company sell monthly industrial business?

Mr. McCARRY. No, sir; it is weekly insurance collected four or five times.

Mr. GESELL. Do you have a quota?

Mr. McCARRY. Yes, sir; 40 cents a week and \$2,000 a month ordinary.

Mr. GESELL. What happens to you if you don't make it?

Mr. McCARRY. Well, I have practically always made mine. I have found that the company is very lenient to the men that don't make it. They figure that it costs a lot of money to train a man, and as long as a man will work with them they will work with him.

Mr. GESELL. If a man fails to make that quota over a period of time, they take in his final?

Mr. McCARRY. I have never seen one final yet in my 2 years on account of nonproduction.

Mr. GESELL. Do you have meetings?

Mr. McCARRY. Practically every morning.

Mr. GESELL. Tell me about those meetings.

Mr. McCARRY. Why, they are mostly conducted by our manager, sometimes our vice president comes from Richmond, and when the manager doesn't speak, the assistants speak to us. The first thing, I think, you referred to a board call. They call it marking the board, and if production has been very low, we are given fits, so to speak.

Mr. GESELL. What do you mean, you are given fits?

Mr. McCARRY. Well, "heck," in other words.

Mr. GESELL. How does the manager give you "heck"?

Mr. McCARRY. Well——

Mr. GESELL. What he says, in other words.

Mr. McCARRY. There are some threatening notes. He says that the management of the company at Richmond is not at all satisfied with the production, and we are threatened sometimes with finals.

Mr. GESELL. If you don't produce?

Mr. McCARRY. If we don't produce.

Mr. GESELL. How long do these meetings take?

Mr. McCARRY. Anywhere from 10 to 30 minutes; but I will say this in justification to the management, that we do get a lot of good ideas from those meetings.

Mr. GESELL. From these "fits"?

Mr. McCARRY. Yes; I will say a large percentage of them are constructive and not destructive.

Mr. GESELL. But occasionally, when production is low, you are on the griddle, so to speak.

Mr. McCARRY. Yes, sir.

Mr. GESELL. Do you have contests?

Mr. McCARRY. Yes, sir.

Mr. GESELL. What kind of contests do you have?

Mr. McCARRY. Well, we have one contest a year for men who make their quota, or anywhere near their quota, and they are invited to the home office for a day's meeting and given a dinner and pep talks—the officials tell the progress of the company; but practically all of the rest of the meetings are created by the management, the local manager; but the men pay for these contests.

Mr. GESELL. You mean they are little contests organized in the office?

Mr. McCARRY. That is right; by the members.

Mr. GESELL. What kind of contests are those?

Mr. McCARRY. We have had one this year where a \$20 suit was put up; each man put in 50 cents a week.

Mr. GESELL. That isn't the suit which you are wearing, by any chance?

Mr. McCARRY. No; it is not. I didn't win it.

Mr. GESELL. The men chip in on that, do they?

Mr. McCARRY. Yes.

Mr. GESELL. How frequent are those contests?

Mr. McCARRY. About once a month, on the average.

Mr. GESELL. Coming back to your debit a moment, are there any relief people on your debit?

Mr. McCARRY. Very few. My section, as you can see by my percentage of monthly calls, are mostly Government employees.

Mr. GESELL. You do have, I take it, some relief people even on your debit.

Mr. McCARRY. That is right.

Mr. GESELL. Who are policyholders in your company.

Mr. McCARRY. That is right.

Mr. GESELL. Do you get compensated on the basis of increase?

Mr. McCARRY. We get a salary, and our base salary is \$22 a week.

Mr. GESELL. That is the collection salary.

Mr. McCARRY. The first 13 weeks we are there we get 15 times.

Mr. GESELL. Fifteen times increase.

Mr. McCARRY. Fifteen times increase. When the policies are issued we get 7½ times; 3 months from that—the other 7½ is set up as a reserve, and we get that at the end of 3 months; and then after 3 months' service we get 20 times, and it builds up to 24 times, which means 4 years' service.

Mr. GESELL. At the end of 4 years you get 24 times increase.

Mr. McCARRY. That is right.

Mr. GESELL. Do you have much excess in your book?

Mr. McCARRY. Well, I only can approximate it. I think mine will average about \$2 a month.

Mr. GESELL. About \$2 a month that you pay of your own money?

Mr. McCARRY. That is right.

Mr. GESELL. To keep policies in force?

Mr. McCARRY. That is old policies.

Mr. GESELL. Have you had to pay excess arrears in some cases?

Mr. McCARRY. Yes.

Mr. GESELL. How frequently, Mr. McCarry?

Mr. McCARRY. I would say about \$2 a month. On my debit, where there is somebody who has run out of employment or there has been sickness in the family or something like that, where there has been a condition they couldn't seem to overcome immediately, I have helped them, and I would say in 2 years I haven't lost over \$5.

Mr. GESELL. Have there been many finals in your office?

Mr. McCARRY. Yes.

Mr. GESELL. About how does it run? How many new men come in a year?

Mr. McCARRY. Well, I have been listening quite attentively to the rest of the managers here; of course, I am an agent. I will say we will have an average of 100 percent, because we only have 10 men on our staffs; we only have 2 staffs.

Mr. GESELL. You are apt to have as many as 10?

Mr. McCARRY. Ten to fifteen new men.

Mr. GESELL. In other words, more than the entire force.

Mr. McCARRY. That is right.

Mr. GESELL. I take it that means there are some men that stay through, and the new men coming in are continual replacement of men who were not satisfactory.

Mr. McCARRY. Well, we have one man who has been with us 6 years, and outside of him about three men 2 years or 3 years; I am one 2 years, and the rest less.

Mr. GESELL. What kind of training do they give?

Mr. McCARRY. Of course, to pass the District Board, or the Insurance Board, a man has to have enough information about insurance policies and writing of policies to pass that examination. I would say after that they are turned over immediately to their assistant, and in our particular company they will not promote a man to assistant unless he has 3 or 4 years' experience in the business, and they get a thorough personal training from him.

Mr. GESELL. How long is the assistant out on the debit with a new man, on the average? Have you any idea?

Mr. McCARRY. Two weeks.

Mr. GESELL. I have no further questions.

Acting Chairman O'CONNELL. Thank you very much.

(The witness, Mr. McCarry, was excused.)

Mr. GESELL. That concludes all the witnesses for today.

Acting Chairman O'CONNELL. The committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, at 4:50 p. m., the subcommittee recessed until 10:30 a. m., Wednesday, September 6, 1939.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, SEPTEMBER 6, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:40 a. m., pursuant to adjournment on Tuesday, September 5, 1939, in the Caucus Room, Senate Office Building, Mr. Joseph J. O'Connell, Jr., special assistant to General Counsel, Department of the Treasury, presiding.

Present: Mr. O'Connell, acting chairman.

Present also: Messrs. Davis and Brackett; Representative Louis Ludlow, of Indiana; Gerhard A. Gesell, special counsel; and Michael H. Cardozo, attorney, Securities and Exchange Commission.

Acting Chairman O'CONNELL. The hearing will please come to order.

Mr. GESELL. I would like to offer for the record at this time a statement furnished by the Monumental Life Insurance Co. showing the service record of the field men of that company as of August 1, 1939. This material was requested of Mr. Rock when he was on the stand.¹ It was made available to me by counsel for the company.

Acting Chairman O'CONNELL. It will be included in the report.

(The statement referred to was marked "Exhibit No. 1072" and is included in the appendix on p. 6338.)

Mr. GESELL. The first witness this morning is Mr. Ackiss.

TESTIMONY OF COLLIS L. ACKISS, MANAGER, VIRGINIA LIFE & CASUALTY CO., WASHINGTON, D. C.

Acting Chairman O'CONNELL. Will you hold up your right hand please?

Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, to the best of your knowledge and belief, so help you God?

Mr. ACKISS. I do.

Mr. GESELL. Mr. Ackiss, you are manager of the Virginia Life & Casualty Company's office here in Washington, are you not?

Mr. ACKISS. Yes, sir.

Mr. GESELL. How long have you been manager of that office?

Mr. ACKISS. Over 4 years.

Mr. GESELL. How many men do you have in the office, Mr. Ackiss?

¹ See *supra*, p. 5723.

Mr. ACKISS. Twelve men.

Mr. GESELL. How many assistant superintendents?

Mr. ACKISS. Two.

Mr. GESELL. Does your company sell both industrial and ordinary insurance?

Mr. ACKISS. Yes, sir.

Mr. GESELL. What is the weekly debit of your office?

Mr. ACKISS. A little over \$900, counted by the agents. Approximately \$80 through the mail and in office payments in person.

Mr. GESELL. How many policyholders does your office service, approximately?

Mr. ACKISS. That would be a very rough estimate—fifteen or eighteen hundred, approximately.

Mr. GESELL. Do you sell to both colored and white lives?

Mr. ACKISS. White only.

Mr. GESELL. This portion of the debit that is paid by mail, do the policyholders receive some reduction in premiums for paying by mail?

Mr. ACKISS. Yes; we pay 10 percent for remitting by mail.

Mr. GESELL. What percentage of your policyholders take advantage of that method of payment?

Mr. ACKISS. That method of payment is handled through the State of Maryland. We have some business in Maryland. We are licensed to do business in that State, and those people that are beyond the boundary, we give them 10 percent of the premium at the end of the year.

Mr. GESELL. I understand. It is not a matter of general policy in your company to give a 10 percent reduction to policyholders?

Mr. ACKISS. No; it is not.

Mr. GESELL. What is the average size of the debits?

Mr. ACKISS. About \$91.

Mr. GESELL. Do you have men who are called builders?

Mr. ACKISS. No, sir; we don't employ convassers.

Mr. GESELL. What is the average pay of the men?

Mr. ACKISS. The guaranteed salary is \$22.

Mr. GESELL. And then are they paid a commission times increase?

Mr. ACKISS. Times an increase in addition to the guaranteed salary, yes.

Mr. GESELL. The guaranty is for collection duties?

Mr. ACKISS. Servicing the debit, giving proper service to the policyholder for that time.

Mr. GESELL. They get \$22 for that?

Mr. ACKISS. For their time, servicing the policyholder and collecting the debit.

Mr. GESELL. What sort of commission do they receive?

Mr. ACKISS. Twenty times on the increase, 10 times net the first 3 months, set up 10 times, payable 20 times net.

Mr. GESELL. Can you explain that a little more?

Mr. ACKISS. A man coming in the business making \$1 a week increase gets \$10 the first 3 months; the next 3 months he gets an additional \$10 if he is still on increase.

Mr. GESELL. In that way you give some weight to the persistency of the business.

Mr. ACKISS. It is equal to 20 times.

Mr. GESELL. Do you have much of a turnover in your office?

Mr. ACKISS. For the last year, January 1938, we have had quite a heavy turnover, due to the unusual size of the territory we handle. We have a very large territory with a small number of men covering it, and a good many men become discouraged. We have two or three debits that we have had a large turnover on.

Mr. GESELL. Debits covered by automobile?

Mr. ACKISS. Debits covered by automobile; yes, sir.

Mr. GESELL. Do you pay the expense of the men?

Mr. ACKISS. We allow them \$1.50 if the debit requires the use of a car for collection.

Mr. GESELL. You said you have a rather large turnover. How many new men did you take on in '38?

Mr. ACKISS. We had a total in 1938—10 men were finaled in 1938.

Mr. GESELL. What was the number of men in your office during that time?

Mr. ACKISS. Twelve, including the two assistant managers.

Mr. GESELL. So if you exclude the two assistant managers it is—

Mr. ACKISS. Nearly 100 percent.

Mr. GESELL. Nearly 100 percent turnover.

Mr. ACKISS. But this, if I may say, if you will permit me, was on two debits.

Mr. GESELL. In other words, most of the men stayed but you had trouble with one debit.

Mr. ACKISS. No; two of the large debits, and one of those finals, one assistant manager had two finals and the other eight finals were on the other assistant manager's staff. He has a large territory.

Mr. GESELL. Were the finals all because the men were discontented or were there any for deficiencies and irregularities?

Mr. ACKISS. No; if you will permit me I will be glad to give you what I have here. One man was finaled for unpaid deficiency in his account. Another man inherited some property at Fall River, Mass., and left the organization. Another man went back to his old line of work, carpentering. Another man became discouraged and went back to his line of work with the Y. M. C. A. Another man resigned and left with an unpaid deficiency.

Another man had his car taken from him, not being able to make his payments.

Another man—reasons unknown. He was there a week. I don't recall just what he left for.

Another man left for irregular practices. He resigned.

Another man left because he had certain charges preferred against him by policyholders and he didn't stay to face them. He left without resignation. He walked off.

Another man was discharged for irregular practices, forging signatures, and such.

Mr. GESELL. Forging signatures to what?

Mr. ACKISS. On applications.

Mr. GESELL. What sort of training do you give these men?

Mr. ACKISS. They are trained by the assistant managers, and through what illustrations I may give them upon the blackboard, by describing the policies, the way of figuring the surrender value of the policies, and so on and so forth.

Mr. GESELL. You mean, when the man comes to you the assistant goes out with him on the debit?

Mr. ACKISS. They are introduced to the debit the first week. The assistant is with them the first week and he is with them 1 day each week thereafter until they leave the company.

Mr. GESELL. There is a week of very close supervision, and after that the man is with them a day a week?

Mr. ACKISS. The first 3 months you may say there is very close supervision. There is a lot of detailed work.

Mr. GESELL. Do the men have a quota?

Mr. ACKISS. The home office has set a quota of 40 cents a week industrial increase. We don't have it in this district.

Mr. GESELL. Do you mean the men don't make the quota?

Mr. ACKISS. We don't have it.

Mr. GESELL. You say the home office has set it but you don't have it. Do you mean you don't pay any attention to it?

Mr. ACKISS. I do the best I can. If we can't get it, we can't get it.

Mr. GESELL. And you haven't been able to make the quota?

Mr. ACKISS. No.

Mr. GESELL. Do you fire men on occasion for nonproduction?

Mr. ACKISS. No, sir.

Mr. GESELL. What is the point of the quota if you don't maintain it?

Mr. ACKISS. It is to give a man a better income whereby he can support himself.

Mr. GESELL. The setting of the quota doesn't make it, does it?

Mr. ACKISS. But if he can see the incentive he can make a little more money.

Mr. GESELL. It is sort of putting a mark up to shoot at, is that it?

Mr. ACKISS. That's it.

Mr. GESELL. Do you call attention to the failure of the men to make their quota from time to time in these meetings that you have with them in the morning?

Mr. ACKISS. No. I mention at times in talking to a man privately that I think he can do better work if he will just exert a little more energy.

Mr. GESELL. We understood from one of your agents who was on the stand here yesterday that the impression is made fairly clear in some of these meetings that unless he makes his quota he will be fined.

Mr. ACKISS. But we have never fined a man for nonproduction. Men work through love for the family, to support them, or by fear of holding their position, and through one or the other we try to get an incentive to make them produce.

Mr. GESELL. In other words, you do hold up to them the possibility that they may be dismissed if they don't produce more, though you have never dismissed one?

Mr. ACKISS. There is that possibility. We don't resort to that. That has been mentioned only on one or two occasions in the last 2 years, I may say.

Mr. GESELL. Does this quota include some ordinary requirements too?

Mr. ACKISS. Yes; the quota is \$2,000 a month placed ordinary.

Mr. GESELL. Do many of your policyholders pay by the month?

Mr. ACKISS. Yes; there are a few that pay by the month. The majority of the industrial business, I find, are people that you have to go out and get the money from when they have it in their possession.

Mr. GESELL. Do you find that you have policyholders who pay by the month?

Mr. ACKISS. Yes; there are policyholders that pay by the month.

Mr. GESELL. Do you sell monthly industrial?

Mr. ACKISS. No; we do not.

Mr. GESELL. You don't sell any monthly debit ordinary or monthly industrial?

Mr. ACKISS. No, sir.

Mr. GESELL. Do you have contests, Mr. Ackiss?

Mr. ACKISS. Occasionally there is a contest put on between the two staffs. Men may contest the others for a luncheon for a week's production or a month's showing.

Mr. GESELL. Those are contests within your own office?

Mr. ACKISS. That's right.

Mr. GESELL. Does the company have company sponsored contests?

Mr. ACKISS. They have had a company sponsored contest on one or two occasions in the last 2 years.

Mr. GESELL. Do those contests give men bonuses for production?

Mr. ACKISS. Yes. In one particular case they offered a small bonus for production.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman O'CONNELL. I have none. Thank you very much, Mr. Ackiss.

(The witness, Mr. Ackiss, was excused.)

Mr. GESELL. Mr. Ward, please.

Acting Chairman O'CONNELL. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WARD. I do.

TESTIMONY OF GEORGE L. WARD, SUPERVISOR OF AGENCIES, HOME FRIENDLY INSURANCE CO., BALTIMORE, MD.

HOME FRIENDLY INSURANCE CO.

Mr. GESELL. Will you state your full name, please, sir?

Mr. WARD. George L. Ward.

Mr. GESELL. With what company are you connected?

Mr. WARD. Home Friendly Insurance Co., of Maryland.

Mr. GESELL. That company has its main offices in Baltimore?

Mr. WARD. Yes, sir.

Mr. GESELL. What is your official connection with the company?

Mr. WARD. Supervisor of agencies.

Mr. GESELL. What are your duties as supervisor of agencies?

Mr. WARD. Supervising the field force.

Mr. GESELL. You are the home office official of the company who has direct charge of the activities of the field force, is that correct?

Mr. WARD. Of the branch districts.

Mr. GESELL. How many States does your company operate in?

Mr. WARD. Maryland, Pennsylvania, Delaware, and the District of Columbia.

Mr. GESELL. How many agents does the company have?

Mr. WARD. Two hundred fifty-seven.

Mr. GESELL. Do you sell Industrial insurance?

Mr. WARD. Yes, sir.

Mr. GESELL. Entirely or some ordinary?

Mr. WARD. No; we sell some ordinary.

Mr. GESELL. Can you tell us how much industrial and how much ordinary your company has in force at the present time, approximately?

Mr. WARD. We have—just a moment; I have it here—\$26,737,516 industrial. The ordinary division was inaugurated the 29th of May of this year, and we have approximately \$35,000 increase thus far.

Mr. GESELL. So your company is almost entirely as of the present time an industrial company?

Mr. WARD. That is right.

Mr. GESELL. Is it a mutual company or a stock company?

Mr. WARD. A mutual company.

Mr. GESELL. Is the industrial insurance which your company sells participating or nonparticipating?

Mr. WARD. Participating.

Mr. GESELL. The policyholders have the right to elect the board of directors, do they not?

Mr. WARD. Yes; by proxy.

Mr. GESELL. Does each policyholder have one vote?

Mr. WARD. Yes.

Mr. GESELL. How are those proxies solicited—through the agency force, are they not?

Mr. WARD. Through the agency force.

Mr. GESELL. Can you tell us a little about how that is done?

Mr. WARD. Well, the proxies are made up in the home office. They are forwarded to each district manager who in turn gives them to the agents to obtain the signatures and to witness same.

Mr. GESELL. And then, when these proxies come back in, what happens?

Mr. WARD. They are returned to the home office.

Mr. GESELL. When they come into the home office is some signature comparison made?

Mr. WARD. Not to my knowledge.

Mr. GESELL. These proxies are what might be called perpetual proxies, are they not?

Mr. WARD. Yes; at present. But subject to a clause in the Maryland law which permits revocation.

Mr. GESELL. In other words, when a policyholder comes into the company he signs one of these proxies which is effective for the entire time that he is a policyholder with the company?

Mr. WARD. That is the way I understand it.

Mr. GESELL. Do you recognize this as the form of proxy which is used by your company at the present time?

Mr. WARD. I think that is it.

Mr. GESELL. The proxy reads [reading from "Exhibit No. 1073"]:

Know All Men By These Presents, That the undersigned member and policyholder of the Home Friendly Insurance Company of Maryland, hereby constitutes and appoints, for such period as I shall remain a member of the company—and then there is a designated number of proxies—

or the survivors of them, with full power of substitution, and with full power for a majority of them to appoint a successor to any proxy who shall die or resign * * *

I won't read the rest of this. I would like to offer it for the record.

Acting Chairman O'CONNELL. That may be inserted in the record.

(The proxy referred to was marked "Exhibit No. 1073" and is included in the appendix on p. 6338.)

Acting Chairman O'CONNELL. At what time is the proxy signed by the policyholder?

Mr. WARD. Usually at the end of the year. The applications are written, of course, any time during the year. At the end of the year the proxies are turned over to the agents to obtain the signatures for the business written that year and in force.

Mr. GESELL. Let me ask you a few questions about the agency turn-over in your company, Mr. Ward. You said you had how many agents at the present time?

Mr. WARD. Two hundred and fifty-seven. And may I say here, I forwarded a list and there has to be an adjustment made that was discovered this morning, and it will be forwarded—an authentic copy.¹

Mr. GESELL. You have both agents and canvassers, do you?

Mr. WARD. Yes, sir.

Mr. GESELL. What are the canvassers?

Mr. WARD. Well, they just canvass for new business.

Mr. GESELL. They don't have a debit?

Mr. WARD. No; they do not.

Mr. GESELL. All they do is write new business?

Mr. WARD. That is it. They canvass under a canvassing staff manager.

Mr. GESELL. How many canvassers are there per office, approximately?

Mr. WARD. In some offices they do not have any canvassers. In others they do.

Mr. GESELL. Do you use the canvassers where you are opening up new territories? What makes you put canvassers in one office and not another?

Mr. WARD. Where we think we have a better opportunity we place a canvasser. Where we think the manager is capable of handling the agency staff, developing the agency staff, and successfully handling same.

Mr. GESELL. That is for the purpose of building up new debits, isn't it?

Mr. WARD. Yes, sir.

Mr. GESELL. How many canvassers do you have at the present time?

¹ Mr. Ward subsequently submitted a corrected schedule of agency turn-over, which was entered in the record on September 22, 1939, as "Exhibit No. 1131," and appears in the appendix to this Part on p. 6360.

Mr. WARD. I would say 75. I am not positive of that.

Mr. GESELL. Do you recognize this schedule which I show you as a schedule furnished by your company showing the number of canvassers and agents and the turn-over of canvassers and agents?

Mr. WARD. Yes, sir.

Mr. GESELL. Is that the schedule which you said had to be adjusted in some manner.

Mr. WARD. That is right.

Mr. GESELL. Can you make those adjustments on that schedule for us?

Mr. WARD. I couldn't do that.

Mr. GESELL. Wherein is the schedule incorrect, Mr. Ward?

Mr. WARD. In the difference between the number of agents employed and terminated. I may say that on a large number, the turn-over is exceptionally heavy, but that is due, primarily, to having quite a few small debits. Some of our men remain on our debits for years; in fact some of them as long as 30 years. In some debits there are probably three or four turn-overs in a year.

Mr. GESELL. Well, do I understand that the information contained on this schedule showing the number of agents employed and the terminations and the lengths of service of both the agents and the canvassers will be supplied to us in correct form later on.¹

Mr. WARD. It will.

Mr. GESELL. Then I won't introduce this in the record at this time, but will ask if you can give us some idea as to what your turn-over is. We will have the specific figures before us later on. Is this high, would you say?

Mr. WARD. It is high. I would say probably 100 percent.

Mr. GESELL. Is that for the agents or canvassers, or both?

Mr. WARD. That is for both, all the way through.

Mr. GESELL. Is the turn-over higher with the canvassers than with the agents?

Mr. WARD. Much higher.

Mr. GESELL. Are the canvassers selected in the same manner as the agents are selected?

Mr. WARD. In the same manner.

Mr. GESELL. How are the canvassers trained?

Mr. WARD. By the canvassing staff manager.

Mr. GESELL. They are taught how to sell insurance, but not how to service a debit, is that correct?

Mr. WARD. That is right. They have no debit.

Mr. GESELL. What kind of training do they get from this canvassing staff manager?

Mr. WARD. He trains them in the office by explaining policies, rates, etc., to them, and working with them in the field.

Mr. GESELL. How long does that take?

Mr. WARD. A canvassing staff manager has from five to six canvassers, and he is constantly working with one or the other. He works with each canvasser sometime during each week.

Mr. GESELL. Supposing I am a canvasser and come on with your company. How long before I am out selling insurance on my own?

¹ See footnote on p. 6095.

Mr. WARD. Well, he will try it probably the latter part of the week, accompanied by a canvassing sales manager.

Mr. GESELL. I asked how soon I would be on my own.

Mr. WARD. Sometime during the next week.

Mr. GESELL. So within a week I would be out on my own, selling?

Mr. WARD. That is right.

Mr. GESELL. The majority of your agents who are with you at the present time, I take it, then, have been with the company less than a year.

Mr. WARD. No; I wouldn't say that. I have a list here. We have 15 who have been with us more than 20 years, 5 more than 15 years, 18 more than 10, 30 more than 5, 13 more than 3 years.

Mr. GESELL. That leaves still the great majority less than 3 years, doesn't it?

Mr. WARD. Yes, sir.

Mr. GESELL. How do you pay your agents?

Mr. WARD. A debit man is paid a salary and commissions.

Mr. GESELL. What is the salary?

Mr. WARD. A minimum salary.

Mr. GESELL. Of how much?

Mr. WARD. \$20.

Mr. GESELL. What commissions?

Mr. WARD. It is \$20. That is the minimum salary in Maryland, Delaware, and the District of Columbia, \$15 in Pennsylvania. I may say the reason for the differentiation there is due to the fact that in Maryland, the District of Columbia, and Delaware, they have health and accident business to service that they do not have in Pennsylvania.

Mr. GESELL. Well, now, what do they get for selling new business?

Mr. WARD. Fifteen times for colored business, twenty times for white business.

Mr. GESELL. Twenty times increase?

Mr. WARD. Twenty times increase.

Mr. GESELL. Do you have contests?

Mr. WARD. We do.

Mr. GESELL. Can you give us some idea of what those contests are like? How many of them, what the awards to the agents and managers are?

Mr. WARD. We usually hold two contests a year. We award prizes for the highest number of applications; we pay a bonus for increase.

Mr. GESELL. You say you have those contests twice a year?

Mr. WARD. Twice a year.

Mr. GESELL. What sort of bonuses do you give for increase?

Mr. WARD. It runs up to 10 times. The increase must be maintained for a period of 3 months. I think that is 3 months on there.

Mr. GESELL. Do you also pay prizes for the greatest number of applications written?

Mr. WARD. The greatest number of applications issued during the period.

Mr. GESELL. Is the general nature of the contest the same from year to year?

Mr. WARD. Not necessarily.

Mr. GESELL. Do you recognize this document which I show you now as the announcement of the bonus and prizes for the fifty-fifth anniversary contest held in May this year?

Mr. WARD. Yes.

Mr. GESELL. I wish to offer this document for the record.

Acting Chairman O'CONNELL. It may be inserted in the record.

(The document referred to was marked "Exhibit No. 1074" and is included in the appendix on p. 6339.)

Mr. GESELL. Do you have a quota system?

Mr. WARD. We do not.

Mr. GESELL. You don't insist on the men making any production at all?

Mr. WARD. Naturally we expect an increase, but we do not have any quotas.

Mr. GESELL. Are men dismissed if they don't have an increase?

Mr. WARD. Yes.

Mr. GESELL. What percentage of your men would you say are dismissed for lack of increase or failure to produce?

Mr. WARD. Probably 30 percent.

Mr. GESELL. About 30 percent?

Mr. WARD. Probably that.

Mr. GESELL. Mr. Ward, would you recognize this document as a letter which you wrote to Mr. C. C. Cole, one of your managers, a copy of such a letter?

Mr. WARD. Yes.

Mr. GESELL. The letter dated November 4, 1937, reads [reading "Exhibit No. 1075"]:

An analysis of the new business reports for the week of October 25th—the second week for writings for the Semi-Annual Contest, reveal some of the districts increased their writings over the preceding week while others showed a decrease; however, the total writings were practically the same.

Thus far it is evident the field men of most districts are well organized, and are taking advantage of the exceptional opportunity to attract favorable attention by cooperation, and to reap the rewards offered by way of prizes and bonuses.

Beginning this week and continuing throughout the contest period, the collection percentage is of vital importance; therefore, resort to every ethical method to obtain an abnormal percentage.

I note from your report of field operations for the week of October 25th, you wrote nine applications for \$1.75 while collecting open debit No. 331, and your district consisting of six agents only submitted \$5.95, which is less than one dollar per man. Frankly, I am disappointed that you have not formulated plans that would be the means of securing satisfactory results. The writings of your district during the contest have been one of the poorest of any of the branches.

Next week (November 8th) will be the last week for the contest writing. Mr. Ziegler and I are very desirous that the writings for the last week exceed those of the previous contest weeks. The objective can be accomplished; however, it will be necessary that a well-formulated program be put into effect.

I think it advisable to allot yourself writings of not less than three dollars, and each agent writings of not less than two dollars for the week.

Trusting the results of your district will be evidence of wholehearted cooperation and well formulated plans, I am.

That would indicate you do have an allotment, Mr. Ward.

Mr. WARD. During the contest period we do ask them to write more business than we do at other times.

Mr. GESELL. You say you do ask them to write more business during contest times?

Mr. WARD. It is only natural. We are putting on a contest. We want to get exceptional results. We do everything we can to inspire the agency force, and we ask the manager to do likewise.

Mr. GESELL. And you do set allotments during contest periods?

Mr. WARD. We merely ask them to set an allotment, and if they get it, they get it, and if not, of course they don't.

Mr. GESELL. That is another question. I asked whether or not your company had allotments. This says: "I think it advisable to allot yourself writings of not less than three dollars, and each agent writings of not less than two dollars for the week." So I gather you do have allotments.

Mr. WARD. That is an allotment for writing.

Mr. GESELL. What kind of allotment did you think I meant?

Mr. WARD. I thought you meant increase allotment.

Mr. GESELL. You do have allotments for business writings?

Mr. WARD. During contest periods we will ask them to write a certain amount of business.

Mr. GESELL. But that is quite without regard to the increase that results from the writing of that business?

Mr. WARD. Yes.

Mr. GESELL. I will offer that for the record.

Acting Chairman O'CONNELL. It may be printed.

(The letter referred to was marked "Exhibit No. 1075" and appears in full in the text on p. 6098.)

Mr. GESELL. Now do you recognize this letter dated July 20, 1937, as another letter which you wrote to Mr. C. C. Cole?

Mr. WARD. I do.

Mr. GESELL. This letter reads [reading "Exhibit No. 1076"]:

DEAR MR. COLE—

He is one of your district managers, is he not?

Mr. WARD. He was.

Mr. GESELL [continuing to read "Exhibit No. 1076"]:

I note from your new business report for the week of July 12 your district, consisting of six agents, only submitted \$2.70. This is indeed very unsatisfactory. I note from your report you only had one agent to submit \$1 of business.

Please impress upon your entire organization that they must submit adequate writings and obtain a good percentage for collections if they expect to be retained. Your district should submit at least \$9 per week, which would be equivalent to \$1.50 per man. The writings of your district on a per-man basis do not compare favorably with other districts. At your meeting Thursday, advise your agency force that you are going to expect each man to produce in a satisfactory manner.

I have been hoping that your district would make an outstanding record for the present quarter; however, to do so, it will be necessary to secure large volumes of well-selected business.

Again you are talking about writings rather than increase?

Mr. WARD. Yes, sir.

Mr. GESELL. I offer this in evidence.

Acting Chairman O'CONNELL. It may be filed.

(The letter referred to was marked "Exhibit No. 1076" and appears in full above.)

Mr. GESELL. Do you occasionally have smaller contests in addition to these two principal contests we have been talking about?

Mr. WARD. We have company-wide contests. Other contests are staged mostly by the districts. Occasionally we will ask the manager to stage an intradistrict contest.

Mr. GESELL. Don't you sometimes indicate to the men that there will be special prizes for premium increase?

Mr. WARD. We have on one or two occasions given prizes for increase over a period of time.

Mr. GESELL. Also once in a while you do the same thing by giving prizes for collections, is that not true?

Mr. WARD. I think we have.

Mr. GESELL. Do you recognize these letters as letters which have announced such prizes?

Mr. WARD. Yes.

Mr. GESELL. I should like to offer these letters for the record.

Acting Chairman O'CONNELL. They may be admitted.

(The letters referred to were marked "Exhibits Nos. 1077 and 1078" and are included in the appendix on pp. 6341 and 6342.)

Mr. GESELL. You say you encourage the branch offices sometimes to have little contests on their own?

Mr. WARD. That is right.

Mr. GESELL. Tell us a little more about that, Mr. Ward. Why and how is that done?

Mr. WARD. When I notice that a district isn't producing satisfactorily I will suggest to the manager that he stage a contest between the agents of his organization for the largest writing and collection percentage. In some instances they just may contribute to that personally, probably 25¢ a week, and the high man of course is given the prize that is collected.

And may I say that this is not compulsory. Some agents participate, others do not.

Mr. GESELL. On some occasions when you find a district is behind in one of these company-wide contests do you encourage that district to undertake at the same time the company-wide contest is under way a little local contest to boost up their production?

Mr. WARD. Yes, sir.

Mr. GESELL. What about this contest business that you write, do you find it persists as well as business written under ordinary circumstances?

Mr. WARD. We do not check that, but we find that the writings are larger and we assume that the increase is larger also.

Mr. GESELL. Yes, but I asked you what about the quality of the business.

Mr. WARD. The quality is just as good.

Mr. GESELL. How do you know?

Mr. WARD. Most of our business is inspected. For instance, an agent writes an application, that is inspected by the staff manager, that is for all agents who have been in the service less than 6 months, except country districts. After 6 months it is inspected by a company inspector, and a great many of the applications, according to the amount of insurance on each of the applicants, are medically examined.

Mr. GESELL. We have had quite a good deal of testimony here to the effect that contest business isn't of as good a quality as other types of business, and I wonder what you based your statement on in saying

that it was the same. Is it perhaps fair to say that there are very few periods in your company when there isn't some kind of a contest going on?

Mr. WARD. There are more times where there are not any going on.

Mr. GESELL. Have you made some comparisons of the business written when a contest is on with business written when no contest is on?

Mr. WARD. No; only writings.

Mr. GESELL. How are you able to say that the business is of the same caliber?

Mr. WARD. Well, the business is the same. It is good quality.

Mr. GESELL. It could be poor quality.

Mr. WARD. Well, if it was poor quality it wouldn't be issued.

Mr. GESELL. What kind of a lapse rate do you have with your company?

Mr. WARD. For the year 1938, 44.4 percent.

Mr. GESELL. You mean by that that 44.4 percent of the business you wrote during 1938 lapsed during 1939?

Mr. WARD. That is right.

Mr. GESELL. That is a pretty high lapse rate, isn't it?

Mr. WARD. Yes; I think it is.

Mr. GESELL. Do you attribute that at all to the writing of business which men write under the pressure of the contest?

Mr. WARD. No; I do not.

Mr. GESELL. Has your lapse rate been higher or lower in previous years?

Mr. WARD. The preceding year it was higher.

Mr. GESELL. What was it?

Mr. WARD. 46.5.

Mr. GESELL. Have you figures for the year before that?

Mr. WARD. No; I do not have them.

Mr. GESELL. Can you tell me a little, Mr. Ward, about the policy of your company in settling claims?

Mr. WARD. I am not so familiar with that end of it. That comes under the superintendent of claims.

Mr. GESELL. You have nothing to do with disability claims?

Mr. WARD. No, sir.

Mr. GESELL. Do you recognize this letter as a letter which you received from Mr. T. J. Kelley, one of your managers?

Mr. WARD. Yes; I do.

Mr. GESELL. This letter, dated August 8, 1939, states [reading "Exhibit No. 1079"]:

Your letter of August 7th received. If I have not adhered to instructions regarding disability claims at all times I do not know what the trouble is. I always try to carry out his orders regarding same the very best I can. If they are not properly executed Mr. MacCubbin could at least say what has been omitted.

It is quite a problem lately to try and settle some of the death claims as he wishes, and I consider some of his decisions are really not fair. He has ordered me to lift several policies which I do not feel should have been. I am working for the company, but I believe in being fair both to the company and the insured.

That would indicate that you do have some familiarity with the problem of disability claims.

Mr. WARD. Yes; to this extent. I was advised by the superintendent of claims that Manager Kelley had not been filling out disability claims as instructed, and he asked me if I would contact him. I did. I asked him to read his instructions thoroughly and if he did not understand them to contact Mr. MacCubbin.

Mr. GESELL. What does he mean by this phrase "lifting policies"? "He has ordered me to lift several policies which I do not feel should have been."

Mr. WARD. People who were insured and whom we later found had impairments at time of the writing of the application, and to whom we instructed the manager to return the premiums and lift the policy.

Mr. GESELL. In other words, where after a policy is written it is found that some impairment of health of the policyholder exists, the practice of the company is to return the premiums and take the policy back?

Mr. WARD. Yes, sir.

Mr. GESELL. How could that concern Mr. Kelley? Is there provision for that in your policy?

Mr. WARD. Mr. Kelley did not know the results, I am assuming, of investigations that were made in the home office. I may say that Mr. MacCubbin, Jr., the assistant manager of the claims department, may be able to enlighten you more than I can along that direction.

Mr. GESELL. Can you answer the very simple question I asked you, which is whether or not the policies of your company contain provisions for lifting policies, in other words, take the policy back when an impairment is discovered and return the premium? Is there any provision for that in your policies?

Mr. WARD. I think there is.

Mr. GESELL. Do you know whether or not there is?

Mr. WARD. I would say yes.

Mr. GESELL. Are these cases that are disclosed by the inspectors after the policy has been written?

Mr. WARD. Such cases as those being lifted I would say.

Mr. GESELL. I would like to have this letter filed with the committee.

Acting Chairman O'CONNELL. It may be received.

(The letter referred to was marked "Exhibit No. 1079" and appears in full in the text on p. 6101.)

Mr. GESELL. Perhaps we might ask Mr. MacCubbin if he can tell us a little more about this if Mr. Ward will step down a moment.

Acting Chairman O'CONNELL. Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MACCUBBIN. I do.

**TESTIMONY OF EMMETT C. MACCUBBIN, ASSISTANT MANAGER,
CLAIM DEPARTMENT, HOME FRIENDLY INSURANCE CO. OF
MARYLAND, BALTIMORE, MD.**

Mr. GESELL. What is your full name?

Mr. MACCUBBIN. Emmett C. MacCubbin.

Mr. GESELL. You are connected with the claim department of the Home Friendly Insurance Co. of Baltimore?

Mr. MACCUBBIN. Yes; I am assistant manager of the claim department.

Mr. GESELL. You heard the testimony of the last witness, I presume.

Mr. MACCUBBIN. Yes.

Mr. GESELL. Can you give us a little more information about what this Manager Kelley is talking about in his letter to Mr. Ward¹ when he says he has been ordered to lift several policies which he does not feel should have been lifted?

Mr. MACCUBBIN. I don't know. I didn't have that called to our attention. There could possibly be two things, one thing that Mr. Ward mentioned about policies still within the contestable period, the theory being that the company has 2 years in which to determine the policyholder's right should death occur within 2 years, and it isn't fair to a third party who is a beneficiary to act on that and contract funeral expenses and have the premiums returned after death when it could possibly be done when the policyholder is still alive.

Mr. GESELL. Let's see if I understand that. Your policies contain a 2-year contestable clause.

Mr. MACCUBBIN. Yes.

Mr. GESELL. The company can contest the payment of the claim if death occurs within that 2-year period. Is that the effect of the provision?

Mr. MACCUBBIN. Well, it can also contest it on any other ground. There is permanent and total disability, there are accidental features in the policy.

Mr. GESELL. It can contest the payment of any benefits under the policy.

Mr. MACCUBBIN. Or can protest the acceptance of premiums on the basis of the contestable clause. One part is the reverse of the other, but the contestable clause is all-inclusive, I should say.

Mr. GESELL. Well, I would want an explanation of what you thought as to what the policy provided. Does the policy provide that the company can protest the payment of premiums?

Mr. MACCUBBIN. They can notify the policyholder that there was a condition which was misrepresented to the company at the time of the application for the insurance, and they notify the policyholder that that condition existed and that the policy should not have been written and therefore they should be entitled to the full amount of premiums they have paid on it.

Mr. GESELL. And if that occurs the policy is lifted, so to speak, the company advises the policyholder that there was some ground for contest, and they take the policy back and reimburse the policyholder for the premiums.

Mr. MACCUBBIN. Yes.

Mr. GESELL. You said there might be another situation involved. What would that be?

Mr. MACCUBBIN. I imagine that is what it referred to, the accident and health policy, which provides for a lump-sum payment of the face of the policy which is stated as death benefit in the event of permanent and total disability. I think that is probably what he

¹ See "Exhibit No. 1079," supra, p. 6101.

refers to. Oftentimes there is some question about whether a person is permanently and totally disabled, and the policy says if there is question there are supposed to be three physicians to examine the policyholder and the majority rules. Oftentimes a person may not look to be disabled but still have heart trouble or something like that.

Mr. GESELL. Do you lift policies in those cases?

Mr. MACCUBBIN. No; you don't lift them. The contract calls for the termination of the policy by the payment of the lump sum after the first year of the disability.

Mr. GESELL. This letter said—

If I have not adhered to instructions regarding disability claims at all times I do not know what the trouble is. I always try to carry out his orders regarding the same the very best I can. If they are not properly executed Mr. MacCubbin could at least say what has been omitted. It is quite a problem lately to try and settle some of the death claims as he wishes, and I consider some of his decisions really not fair—

talking about death?

Mr. MACCUBBIN. Yes.

Mr. GESELL [reading]:

He has ordered me to lift several policies which I do not feel should have been.

I don't think your answer so far is directed to the particular problem presented by this letter which we have before us.

Mr. MACCUBBIN. Well, the first part I would say, in fact judging from the date of the letter and the conversation we had with Mr. Ward, was from an auditing standpoint in paying small amounts of money; we have to confirm or rather we make it a policy to write the policyholder who has paid money and told how much would be paid and asked if there was any complaint to notify the auditor. In so doing there is an adjuster's report and in that report it indicates that the policyholder must sign for the money received; in other words, he can't leave it with the mother, and that was the thing referred to here in this letter. Apparently it appears that Mr. Kelley takes exception to the way the claim is filled in.

Mr. GESELL. Do you think it is settling death claims?

Mr. MACCUBBIN. That is the first part.

Mr. GESELL. Let's get to the second part.

Mr. MACCUBBIN. The second part I have no basis for conclusions, but I would assume there must have been a resisted death claim in his district that he did not believe should have been resisted.

Mr. GESELL. When you resist a death claim do you lift the policy?

Mr. MACCUBBIN. No.

Mr. GESELL. What does he mean by that?

Mr. MACCUBBIN. There again he is talking about a third item, he is covering the whole field here. He is talking first about the settlement of a death claim and then he is talking about the question of the lifted policy, which might have been either one of the two things mentioned.

Mr. GESELL. What ground would he have in resisting a death claim?

Mr. MACCUBBIN. On the ground that the policy is issued with the provision that if the policyholder does not mention and does not tell the company of hospitalization or treatment for serious disease within 2 years prior to the issue of the policy and if death subsequently

occurs within 2 years after the issue of the policy, then if it was for a certain disease the company is obliged to deny the liability and return the full amount of premiums.

Mr. GESELL. The company can deny liability, it isn't obliged to.

Mr. GESELL. That is right.

Mr. GESELL. Are the applications of these policyholders that you review all filled out in the agent's handwriting?

Mr. MACCUBBIN. I would say most of them were, yes.

Mr. GESELL. Do most of them contain the statement that the policyholder has never been sick?

Mr. MACCUBBIN. Most of them do.

Mr. GESELL. And in spite of that you do contest claims on occasions where you find they have been sick?

Mr. MACCUBBIN. Yes.

Mr. GESELL. I have no further questions.

(Mr. Ewin L. Davis took the chair.)

Acting Chairman DAVIS. You are excused.

(The witness, Mr. MacCubbin, was excused.)

TESTIMONY OF GEORGE L. WARD, SUPERVISOR OF AGENCIES, HOME FRIENDLY INSURANCE CO., BALTIMORE, MD.—Resumed

Mr. GESELL. Mr. Ward, if you will return to the stand there are two things I will cover with you that we won't have to trouble Mr. Haynie with. Who is Mr. Zeigler? Is he the senior vice president of the company?

Mr. WARD. Yes, sir.

Mr. GESELL. Are you familiar with his signature?

Mr. WARD. Yes, sir.

Mr. GESELL. Can you identify this as a letter which Mr. Zeigler wrote to Mr. Haynie with respect to this matter of proxies solicited?

Mr. WARD. Yes, sir.

Mr. GESELL. I should like to offer this for the record.

Acting Chairman DAVIS. It may be received.

(The letter referred to was marked "Exhibit No. 1080" and is included in the appendix on p. 6343.)

Mr. GESELL. On this question of the agents' signing the applications, Mr. Ward, am I correct that they fill out the application in their own handwriting and then ask the policyholder to sign?

Mr. WARD. Yes, sir.

Mr. GESELL. Is the application attached to the policy?

Mr. WARD. They were, but they are not being attached any more.

Mr. GESELL. If there is a misstatement in that application can you still under your contract contest the claim?

Mr. WARD. I think so. Mr. MacCubbin would have to qualify that.

Mr. GESELL. On occasions have you found that agents have signed the names of policyholders to applications as well as filling out the information on the application?

Mr. WARD. I have.

Mr. GESELL. How frequently does that occur?

Mr. WARD. Not very often. They all are instructed that it means immediate dismissal and we don't have much of that.

Mr. GESELL. How are those cases discovered?

Mr. WARD. In some instances by the inspector, in others by the staff manager and occasionally by the manager.

Mr. GESELL. How frequent do you believe it is?

Mr. WARD. Not often; I don't recall having any this year.

Mr. GESELL. It would be possible that there would be some sign in that manner which were not ever discovered?

Mr. WARD. That could be.

Mr. GESELL. I have here a letter of Mr. Haynie to Mr. Zeigler in which he stated:

I have taken up with the agents about handing applications to each other to have them signed. I don't think that is a wise thing for them to be doing. I told them in the future never to give an application form from one agent to another to be signed. That is an order from me.

That would indicate that that was rather a practice, at least in Mr. Haynie's office it had been rather prevalent.

Mr. WARD. Mr. Zeigler means by that, for instance one agent would write an application on a man, the wife would make application for her husband, and he would turn that application over to another agent to obtain the signature. Mr. Zeigler has forbidden that.

Acting Chairman DAVIS. Why do they do that instead of having the applicant sign the application?

Mr. WARD. The applicant for insurance must sign the application.

Acting Chairman DAVIS. What signing are you talking about?

Mr. WARD. For instance, a woman, we will say, would like to have a policy on her husband, and the agent would write the application on the husband, obtaining information from the wife, and then turn that application over to another agent to obtain the signature.

Acting Chairman DAVIS. Of the husband?

Mr. WARD. Of the husband, yes, sir; and that has been forbidden.

Acting Chairman DAVIS. Would that be in an instance where the wife didn't want the husband to know that she was taking out insurance on his life?

Mr. WARD. Well, I wouldn't say that it would be.

Acting Chairman DAVIS. Why couldn't she sign the application? She has an insurable interest in her husband.

Mr. WARD. The rule of our company is that the applicant must sign the application.

Acting Chairman DAVIS. She would be the applicant.

Mr. WARD. But the one whom the policy is issued on must sign the application if they are 15 years of age or over. Her signature would not be accepted for a policy on the husband.

Mr. GESELL. There is just one other letter I would like to identify. Will you identify that letter that you received from C. C. Cole?

Mr. WARD. Yes, sir.

Mr. GESELL. This letter is dated July 24, 1937, and states [reading "Exhibit No. 1081"]:

DEAR MR. WARD: At our meeting this week I stressed the importance of more volume of new business.

Several of the men turned in lapses that were larger than their writings and I informed them they could not make money this way, and the company was not making any increase in debit. I am expecting each and every man to increase his writings in the future.

Our writings for this week were better than the past 2 weeks, and we look forward to better results.

(The letter referred to was marked "Exhibit No. 1081" and appears in full in the text on p. 6106.)

Mr. GESELL. I have no further questions.

Acting Chairman DAVIS. The witness may be excused.

(The witness, Mr. Ward, was excused.)

Mr. GESELL. Mr. McHale.

Acting Chairman DAVIS. Do you solemnly swear that the testimony you are about to give in this proceeding will, to the best of your knowledge and belief, be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. McHALE. I do.

**TESTIMONY OF JAMES FRANCIS M'HALE, SUPERINTENDENT,
AMERICAN NATIONAL INSURANCE CO., WASHINGTON, D. C.**

AMERICAN NATIONAL INSURANCE CO.

Mr. GESELL. What is your full name?

Mr. McHALE. James Francis McHale.

Mr. GESELL. Are you connected with the American National Insurance Co.?

Mr. McHALE. I am.

Mr. GESELL. Are you manager of that company?

Mr. McHALE. My title is superintendent.

Mr. GESELL. Are you in charge of the office here?

Mr. McHALE. Yes, sir.

Mr. GESELL. How long have you been in charge of the office?

Mr. McHALE. Since December 26, 1938.

Mr. GESELL. How many men in the office?

Mr. McHALE. Eleven agents and two assistant superintendents.

Mr. GESELL. What is the total debit?

Mr. McHALE. Approximately \$570.

Mr. GESELL. What is the average size of each agent's individual debit?

Mr. McHALE. It runs approximately from \$40 to \$60.

Mr. GESELL. Are those debits mostly white debits or colored debits?

Mr. McHALE. Entirely white debits.

Mr. GESELL. I gather they must cover considerable territory.

Mr. McHALE. Well, they can be collected approximately in a day.

Mr. GESELL. How are your men paid?

Mr. McHALE. They are paid 15 percent for collecting those debits and 25 times on their increase with an extra 15 times bonus at the end of the first quarter.

Mr. GESELL. Let's see, they get 25 times plus 15 times?

Mr. McHALE. That's right, but the 15 times is paid as a bonus. In other words, the increase that is made for the first quarter is added up and that increase is multiplied by 15 times and that is paid in a weekly bonus for the next quarter, and for each quarter thereafter the increase that they make the previous quarter is paid in a quarterly bonus.

Mr. GESELL. What is the average earning of the agents on your staff?

Mr. McHALE. Well, that would be rather hard to say. It depends upon the man's results. Some men are better producers than the

others but an average man should make for the first quarter between \$25 and \$30 a week.

Mr. GESELL. Can you tell us what your highest and lowest man is making?

Mr. McHALE. Well, we have men making, it just depends, you know, those men make a good increase one week and another week they don't. There have been men making as high as \$45 and \$47 a week.

Mr. GESELL. On the other end of the scale?

Mr. McHALE. Some of them make, oh, \$15, \$18, something like that.

Mr. GESELL. Does your company sell only industrial insurance?

Mr. McHALE. Ordinary and industrial.

Mr. GESELL. Your agents then sell both ordinary and industrial?

Mr. McHALE. Yes, sir.

Mr. GESELL. Is all your business weekly premium business in the industrial department?

Mr. McHALE. Well, it is based on a weekly premium with the privilege of the policyholder paying the contracts which are now paid semimonthly; some pay monthly, some pay 6 months, some pay a year.

Mr. GESELL. But your premiums are computed on the weekly basis?

Mr. McHALE. Yes, sir.

Mr. GESELL. Do you have any provisions for payments at the home office at a reduced premium, or the branch office?

Mr. McHALE. No, sir.

Mr. GESELL. Do you have any quota in your office?

Mr. McHALE. Well, of course, we set a quota for our agency that is \$1.50 a week.

Mr. GESELL. Is that a \$1.50 increase or \$1.50 writing?

Mr. McHALE. \$1.50 writing.

Mr. GESELL. That is for the agent?

Mr. McHALE. Yes.

Mr. GESELL. You say you set it. Do you make the men live up to it?

Mr. McHALE. Well, that is just a goal to shoot for; in other words a man that produces less than that can still make a nice amount of money.

Mr. GESELL. Have you dismissed men who failed to produce?

Mr. McHALE. No; they usually leave of their own accord. If they can't produce they are not making money and it doesn't pay them to stay there.

Mr. GESELL. Is their compensation really based primarily on their ability to produce new business?

Mr. McHALE. Yes, sir.

Mr. GESELL. Do you have any sales contests?

Mr. McHALE. Well, we have sales contests sponsored by our home office and we have sales contests in our office where a small amount is put in one large pot and each man that has a debit increase has a chance to win the pot.

Mr. GESELL. First of all, tell us about the company contests. How many of them are there a year?

Mr. McHALE. We have just finished one during the summer months. The company usually has about two contests a year, one in the summer and one in the fall.

Mr. GESELL. What kind of contests are those?

Mr. McHALE. The company sets a certain amount of production over a certain number of weeks, usually it figures in the neighborhood of around \$2 a week.

Mr. GESELL. And if the men make that production schedule, so to speak, do they get a bonus?

Mr. McHALE. Well, they get their bonus anyway; there is an extra prize that is offered by the home office, like a brief case or something of that nature.

Mr. GESELL. You say you have little local contests in your office. How frequent are those?

Mr. McHALE. We have those weekly.

Mr. GESELL. So there is a contest going on all the time in the office?

Mr. McHALE. Yes, sir.

Mr. GESELL. What are the bases of these weekly contests?

Mr. McHALE. What are the bases?

Mr. GESELL. Yes.

Mr. McHALE. Well, if a man has a debit increase he is entitled to a chance at this drawing. In other words, we don't have them where just one man has an opportunity of winning the prize. Every man who has a debit increase has a chance for winning. It depends upon his name being drawn.

Mr. GESELL. I see; you set up a kitty, so to speak, and anybody who is on increase has a chance to draw.

Mr. McHALE. That is right. That gives everybody a chance.

Mr. GESELL. What increase does the man have to be on?

Mr. McHALE. Any increase.

Mr. GESELL. Any increase at all?

Mr. McHALE. Any increase at all; yes.

Mr. GESELL. No particular amount?

Mr. McHALE. No, sir.

Mr. GESELL. The agents contribute to this kitty themselves?

Mr. McHALE. The whole personnel, myself, the assistants, and the agents, entirely voluntarily.

Mr. GESELL. How are the assistants in your office compensated, salary plus times increases?

Mr. McHALE. That is right.

Mr. GESELL. What is the times increase?

Mr. McHALE. They have three times. It is in the form of a quarterly check from the home office; three times on the increase made the first quarter; for the second quarter they get a weekly check that is included with their salary.

Mr. GESELL. In your case do you have salary plus times increase?

Mr. McHALE. On myself?

Mr. GESELL. Yes.

Mr. McHALE. Yes.

Mr. GESELL. What do you get times increase?

Mr. McHALE. One time.

Mr. GESELL. Do you have meetings?

Mr. McHALE. Yes, sir.

Mr. GESELL. How often do you have these meetings?

Mr. McHALE. We have them every morning with the exception of Monday.

Mr. GESELL. What do you do, start off by calling the board?

Mr. McHALE. Yes, sir.

Mr. GESELL. How do you do that?

Mr. McHALE. We usually have one of the agents and the assistants call the board and mark the amount of business that was written the previous day. They are short meetings. They usually run 15 or 20 minutes and then the men are dismissed to go out in the field.

Mr. GESELL. What is said at these meetings?

Mr. McHALE. What is said?

Mr. GESELL. Let's see you hold one here now.

Mr. McHALE. Well, it just depends; there are different things that are said.

Mr. GESELL. Can you give us some idea of what is said? Suppose you have two or three men who haven't been on increase for a couple of weeks and two or three who just brought in a dollar or two business for the previous day, and see if we can't hold a meeting.

Mr. McHALE. Well, in the industrial business the success of an industrial man depends on his mental attitude. We try to set that mental attitude right each and every morning before going out into the field to work and we try to say encouraging things that will keep him enthused in the business.

Mr. GESELL. What time of the morning is this held?

Mr. McHALE. About 8 o'clock.

Mr. GESELL. Now, suppose it is 8 o'clock in the morning and you want to get me in the proper mental attitude to sell. Tell me what you say.

Mr. McHALE. Well, I would remind you, of course, of the opportunity that you have of winning this prize, of the amount of money that you would make if you made a certain amount of increase. Well, I would just get you right to go out to have a big day, or I would get a pledge. We usually get daily pledges.

Mr. GESELL. Tell me a little about that.

Mr. McHALE. We ask a man usually to tell us at our meetings how much business he is able to write for the day.

Mr. GESELL. How does he know at 8 o'clock in the morning?

Mr. McHALE. That is just a goal that we set to go by. Usually it amounts to around 50 cents' worth of business.

Mr. GESELL. Do you put that up on the board then, as to what he pledges?

Mr. McHALE. Yes.

Mr. GESELL. The next day, if he hasn't made that, what do you do?

Mr. McHALE. Erase that pledge and put in the amount of business he has written.

Mr. GESELL. Do you point out the men who are good producers and the ones who are poor producers and make comparisons?

Mr. McHALE. Not necessarily; the figures speak for themselves, or the lack of them.

Mr. GESELL. Do you sometimes make comparisons between the individual production of different men?

Mr. McHALE. We try not to embarrass anybody in our meetings. If we want to have a heart-to-heart talk with a man we do that in private.

Mr. GESELL. What kind of heart-to-heart talk do you have with the men in private?

Mr. McHALE. We usually try to get him straightened out in the business, show him the possibilities of going further up in the company if he makes a success on the debit. In our company the better positions are filled from men in the field ranks. In fact, the manager of our industrial department at the present time in Galveston, Tex., at one time carried a debit with the company.

Mr. GESELL. It is mostly a proposition, though, of stepping up production, isn't it?

Mr. McHALE. Yes.

Mr. GESELL. Do you have much of a turnover?

Mr. McHALE. Well, not any more than the average industrial insurance company.

Mr. GESELL. How long have you been with it now?

Mr. McHALE. Just since December 26.

Mr. GESELL. You have had about a half-year's experience?

Mr. McHALE. Yes.

Mr. GESELL. With this particular office?

Mr. McHALE. That is right.

Mr. GESELL. How many new men have you had to take on in that period?

Mr. McHALE. I just don't have records right offhand. I would say we have had an expansion of anywhere from three to eight additional new debits since I have been here and I would say we have taken on six or eight.

Mr. GESELL. Six of those you would say would be replacements?

Mr. McHALE. Yes.

Mr. GESELL. Out of a total force of how many?

Mr. McHALE. Twelve.

Mr. GESELL. I have no further questions.

(The witness, Mr. McHale, was excused.)

Mr. GESELL. Mr. Burns.

**TESTIMONY OF ALBERT BURNS, VICE PRESIDENT IN CHARGE
OF AGENCIES, THE BALTIMORE LIFE INSURANCE COMPANY,
BALTIMORE, MD.**

BALTIMORE LIFE INSURANCE CO.

Acting Chairman DAVIS. Will you hold up your right hand.

Do you solemnly swear that the testimony that you are about to give shall be the truth, the whole truth, and nothing but the truth, to your best knowledge and belief, so help you God?

Mr. BURNS. I do.

Mr. GESELL. Will you state your name for the reporter, please, sir.

Mr. BURNS. Albert Burns.

Mr. GESELL. What company are you connected with, Mr. Burns?

Mr. BURNS. The Baltimore Life Insurance Company of Baltimore City.

Mr. GESELL. What is your official connection with that company?

Mr. BURNS. Vice president in charge of agencies.

Mr. GESELL. How long have you been with the company, Mr. Burns?

Mr. BURNS. Thirty-seven years.

Mr. GESELL. How long have you been in your present job?

Mr. BURNS. Since November 1 of 1938.

Mr. GESELL. Your company writes industrial insurance?

Mr. BURNS. It does.

Mr. GESELL. Does it also write ordinary?

Mr. BURNS. It does.

Mr. GESELL. Can you tell us how much industrial and ordinary it has in force at the present time?

Mr. BURNS. About twenty-six million ordinary and about seventy-six million industrial, approximately.

Mr. GESELL. In how many States do you operate?

Mr. BURNS. Six.

Mr. GESELL. What are they?

Mr. BURNS. Maryland, Delaware, Virginia, Pennsylvania, New Jersey, and the District of Columbia, counting the District of Columbia a State.

Mr. GESELL. I think that is correct. How many agents have you got?

Mr. BURNS. Six hundred and nineteen.

Mr. GESELL. Do you have any canvassers or are all of these men straight debit agents?

Mr. BURNS. We have both.

Mr. GESELL. Are you including the canvassers in that figure?

Mr. BURNS. I am.

Mr. GESELL. Can you break that up and tell us how many debit agents you have and how many canvassing agents?

Mr. BURNS. I can. The average number of debit agents at the present time is 521; the average number of canvassing agents is 98.

Mr. GESELL. Do you have much of an agency turnover?

Mr. BURNS. The turn-over for the last 6 months in the debit agents is 61 percent.

Mr. GESELL. You mean that the number of agents who left the company in the last 6 months were 60 percent of the total number of agents?

Mr. BURNS. Correct.

Mr. GESELL. How does it run with the canvassing agents?

Mr. BURNS. One hundred and seventy-nine percent.

Mr. GESELL. You have had a real turn-over of canvassing agents.

Mr. BURNS. Very definitely.

Mr. GESELL. Have you the figures for the turn-over in 1937 and 1938 of the debit agents and the canvassing agents?

Mr. BURNS. I have. In 1937 the turn-over among the debit agents was 73 percent and among the canvassing agents 170 percent. In 1938 the turn-over among the debit agents was 69 percent and among the canvassing agents 153 percent.

Mr. GESELL. Am I correct in saying that that and similar information is contained on the schedule which I now show you?

Mr. BURNS. It is.

Mr. GESELL. Is that a correct schedule prepared from the records of your company?

Mr. BURNS. It is.

Mr. GESELL. I should like to offer this schedule for the record. Acting Chairman DAVIS. Let this be printed in the record.

(The schedule referred to was marked "Exhibit No. 1082" and is included in the appendix on p. 6344.)

Mr. GESELL. What are the causes for this high agency turn-over?

Mr. BURNS. Numerous.

Mr. GESELL. Can you give us some idea of the nature of the causes?

Mr. BURNS. Yes; I can give you the experience, for instance, of the first 6 months of 1939.

Mr. GESELL. You feel that is fairly representative?

Mr. BURNS. I feel that is fairly typical.

Mr. GESELL. Would you do that please, sir.

Mr. BURNS. I have these in figures and not percentages. I didn't know I was going to be asked for this and it is not worked out in percentages. Ninety-four of the agents resigned, 33 dismissed, 22 created deficiencies, 58 of them were not adapted to the business or not successful, 5 of them the surety company declined to go on the bond, 6 of them failed to pass State boards, 2 of them were submitting fictitious business.

Mr. GESELL. Those tombstones and lamp posts we heard about yesterday?

Mr. BURNS. Exactly. One for submitting bad risks knowingly, two for ill health, one death.

Mr. GESELL. These resignations, Mr. Burns, that you spoke about, are those all voluntary resignations?

Mr. BURNS. The resignations are voluntary.

Mr. GESELL. You say there were a certain number that were not successful. You mean by that they failed to produce business?

Mr. BURNS. That is correct.

Mr. GESELL. Does your company have a quota?

Mr. BURNS. The district has a quota. The superintendent is given a quota and the assistant superintendents are given a quota, and I think they break their quota down and distribute it to their agents.

Mr. GESELL. Who gives the superintendents and the assistant superintendents the quota?

Mr. BURNS. The company does.

Mr. GESELL. Is that done on a regular form?

Mr. BURNS. It is.

Mr. GESELL. Is this paper which I show you now a copy of such a form?

Mr. BURNS. It is.

Mr. GESELL. That shows what percentage of collections was industrial increase of debits and what new ordinary business issued and paid for is allotted?

Mr. BURNS. Is allotted or asked for from the district.

Mr. GESELL. Are those allotted on a yearly basis?

Mr. BURNS. Correct.

Mr. GESELL. I should like to offer this for the record.

Acting Chairman DAVIS. Let this be inserted in the printed record. (The form referred to was marked "Exhibit No. 1083" and is included in the appendix on p. 6344.)

Mr. GESELL. You say that allotment is made to the managers and assistant managers?

Mr. BURNS. Correct.

Mr. GESELL. And you believe they in turn break it up among the agents?

Mr. BURNS. Quite frequently.

Mr. GESELL. Are the men held strictly accountable to this allotments?

Mr. BURNS. They are not.

Mr. GESELL. What is the purpose in setting them, Mr. Burns?

Mr. BURNS. As an incentive and an indication of what we hope for.

Mr. GESELL. You mean this is again just a proposition of giving someone a goal to shoot at?

Mr. BURNS. And it gives them an idea of what their company might expect of them, or does expect of them.

Mr. GESELL. What do you do to arrive at these figures?

Mr. BURNS. We base it on the situation of the district and the geographical location, the industrial possibilities of the district, the number of men involved, and the ability of the superintendent. All of those are elements that enter into it.

Mr. GESELL. It is a rather careful allotment, is it not, and not just a figure pulled out of the air?

Mr. BURNS. It is not just stabbed at.

Mr. GESELL. Then you must expect the men to meet it.

Mr. BURNS. We hope they will. Some do and some don't.

Mr. GESELL. What happens in cases where they don't?

Mr. BURNS. We send them our regrets for not having made it.

Mr. GESELL. You send a man regrets?

Mr. BURNS. We tell him we regret he failed to make his allotment for the fiscal year.

Mr. GESELL. That is an individual letter to him?

Mr. BURNS. It is.

Mr. GESELL. And a sort of veiled warning he had better make it next year?

Mr. BURNS. Not necessarily so.

Mr. GESELL. Have you such a regret letter here with you?

Mr. BURNS. No; I do not.

Mr. GESELL. Can you tell us in a general way what it says?

Mr. BURNS. In a general way to this effect: We submit to each superintendent at the end of the fiscal year a statement of his record. We comment on the record that he made during the year just ended, including the industrial increase, his industrial percentage of collections, and his ordinary production. We hope he will do better next year.

Mr. GESELL. That is all there is to it?

Mr. BURNS. That is about the substance of it; yes. Dismissal is not threatened or anything of that kind.

Mr. GESELL. How are your superintendents paid—salary plus times increase?

Mr. BURNS. They are paid a salary plus times increase and their ordinary commission.

Mr. GESELL. What do they get on their industrial business for increase?

Mr. BURNS. The average superintendent gets two times weekly on his net industrial increase.

Mr. GESELL. You mean you have a variation as between different managers?

Mr. BURNS. Very slight and very rare. We may have, for instance—I don't know of any that I can think of just now but there may possibly be 1 or 2 superintendents that are working under a contract that is not typical. But I certainly don't know of any just now. You asked about their reward for production. We not only give them 2 times weekly on the increase but at the end of the year the increase for the year is divided by 52 and one-fifty-second part added to their salary for the ensuing year.

Mr. GESELL. That means that they get in addition to their salary the average weekly increase for the previous year?

Mr. BURNS. That is right.

Mr. GESELL. How are the assistant superintendents compensated?

Mr. BURNS. Practically the same basis, a regular salary, a weekly times on their weekly increase, and their regular salary at the end of the fiscal year is increased by one-fifty-second part of the year's increase.

Mr. GESELL. What is the times in the case of the assistants?

Mr. BURNS. Two times weekly and 1 time divided by 52 at the end of the year.

Mr. GESELL. Does your company have contests?

Mr. BURNS. We do not.

Mr. GESELL. Do you permit contests in local offices?

Mr. BURNS. We would not prohibit it. I know that such contests are held, but they are not sponsored by the company.

Mr. GESELL. As a matter of company policy you are against contests?

Mr. BURNS. We are—yes; I think it is safe to say we are against contests.

Mr. GESELL. Why is that?

Mr. BURNS. Well, there is some question as to the persistency of business written under those conditions.

Mr. GESELL. Tell us a little more about that, if you would, why the company feels that way about it.

Mr. BURNS. I am just giving my opinion, and that is that the business written in an effort to earn a reward of some kind encourages the agent, to be less careful in selecting his risk. I would say that is the whole answer.

Mr. GESELL. You mean that if the men, as one of the letters said yesterday, are worked into a frenzy about getting new business, they are likely to select a poor grade of risk?

Mr. BURNS. That is correct.

Mr. GESELL. Have you made any studies, or have you any figures which will support that opinion of yours?

Mr. BURNS. No; because we have had no contests.

Mr. GESELL. That is just based on your knowledge of the way the industrial agent operates?

Mr. BURNS. Yes; and my opinion; and also, it is applicable to the ordinary.

Mr. GESELL. Yes; I should think it would be applicable to one department as to the other.

Mr. BURNS. It is applicable to the ordinary.

Mr. GESELL. What about the lapse rate of your company? Not having these contests, do you have, do you believe, a lower lapse rate than the average company of your size?

Mr. BURNS. I don't know that our lapse rate is lower than the average of other companies, but I believe it is lower because of the absence of the contests.

Mr. GESELL. Lower than it would be if you had them?

(The witness nodded in assent.)

Mr. GESELL. I don't think the reporter gets the nod of your head, Mr. BURNS.

Mr. BURNS. The answer is "Yes."

Mr. GESELL. Do you have any figures which will give us some idea of what the lapse rate of your company is? Let's take 1938: How many industrial policies did you issue in that year?

Mr. BURNS. In 1938 we issued 103,482 policies.

Mr. GESELL. By the end of the year what percentage of those policies had terminated?

Mr. BURNS. The lapse ratio was 45.47 percent.

Mr. GESELL. When you say "lapse ratio" does that include terminations of all kinds?

Mr. BURNS. It does.

Mr. GESELL. Death as well as failure to pay premiums?

Mr. BURNS. It does.

Mr. GESELL. Have you any figures that will show what percentage of that 45 percent are attributable to lapses?

Mr. BURNS. Do you mean lapses for nonpayment of premium?

Mr. GESELL. Yes.

Mr. BURNS. I haven't segregated it.

Mr. GESELL. Have you any idea as to how much it would be? I should think it would be pretty much the majority.

Mr. BURNS. The majority were lapsed for nonpayment of premium. I hesitate to give the percentage.

Mr. GESELL. It is pretty much your experience, isn't it, that so far as deaths are concerned, they are rather small in the first year of issuance?

Mr. BURNS. Well, relatively small—not small in volume.

Mr. GESELL. Relatively very small?

Mr. BURNS. Relatively small.

Mr. GESELL. And you don't have any surrender values in the first year.

Mr. BURNS. Not in the first year.

Mr. GESELL. Nor are any maturities possible?

Mr. BURNS. Not in the first year.

Mr. GESELL. So your terminations would be either by death or by failure to pay premiums?

Mr. BURNS. That is correct.

Mr. GESELL. Measured in terms of the amount of insurance, could you arrive at a similar percentage?

Mr. BURNS. Very similar—comparable. For instance, in 1938 the amount of insurance from policies issued was \$26,268,614; 45.79 percent of that lapsed within the year.

Mr. GESELL. Are figures of the character we have just been reviewing for the years '32 to '37 reflected on this schedule which I show you?

Mr. BURNS. They are.

Mr. GESELL. I should like to offer this schedule for the record.

Acting Chairman DAVIS. Let this be inserted in the printed report.

(The schedule referred to was marked "Exhibit No. 1084" and is included in the appendix on p. 6345.)

Mr. GESELL. Have you any idea of what the average compensation of your agents is?

Mr. BURNS. The average compensation of a man on a debit is \$22.66 weekly.

Mr. GESELL. That is including both commissions and collection compensation?

Mr. BURNS. All forms of compensation.

Mr. GESELL. Do you have any procedure by which a policyholder can pay his premiums directly to the branch office and receive a reduction in premium?

Mr. BURNS. Only where the policy contains such a provision.

Mr. GESELL. Then you do have such policies out?

Mr. BURNS. There are policies containing such provisions.

Mr. GESELL. Are those policies being issued now, or are they policies which you issued in the past?

Mr. BURNS. They are policies which we issued in the past.

Mr. GESELL. Why did you abandon that particular program?

Mr. BURNS. So few policyholders availed themselves of that privilege it was just considered a negligible provision.

Mr. GESELL. And you felt that the results from it were not worth continuing it?

Mr. BURNS. It did not justify its continuance in the policy. It did not make much difference one way or the other.

Mr. GESELL. What reduction did you give—what percent?

Mr. BURNS. I think we gave 15 percent.

Mr. GESELL. When did you give up that program?

Mr. BURNS. To the best of my knowledge I should say about 1907.

Mr. GESELL. Some while ago?

Mr. BURNS. Yes.

Mr. GESELL. Does your company write both colored and white business?

Mr. BURNS. We do.

Mr. GESELL. Do you have any underwriting rules with respect to what percentage of the family income may be taken from the family for premiums on policies of all kinds?

Mr. BURNS. We have no percentage, but we instruct our agents not to sell more insurance in a family than the income warrants or can be reasonably paid for.

Mr. GESELL. How does the agent reach his determination on that?

Mr. BURNS. That generally is indicated by the struggle the family would have in keeping up the payments on the policies that they now have.

Mr. GESELL. Of course, from these lapse figures we have just discussed, almost half of your new business does have some difficulties in that connection.

Mr. BURNS. That is the history of industrial business.

Mr. GESELL. You think that is something that is inherent in the business?

Mr. BURNS. I think so. I think it is due to the type of person you insure in your industrial department. He is generally an industrial person subject to lay-offs, lack of work, and generally suffers from adverse industrial conditions. When he is employed he has no trouble in maintaining his premium payments. When he is out of employment the lapse ratio is heavy.

Mr. GESELL. Do you have any rules with respect to selling of policies to people on relief, families on relief?

Mr. BURNS. Yes; we have rules on that subject.

Mr. GESELL. What are those rules?

Mr. BURNS. Our rules are not to sell insurance to a person who is receiving direct relief. We mean by direct relief a person who is rendering no service for the relief received.

Mr. GESELL. Somebody on W. P. A. you would write?

Mr. BURNS. We write them. We don't consider that direct relief.

Mr. GESELL. You say that many people are out of work and they lapse, and if they do have a job they keep their payments up? I gather, then, that you think this lapse rate which your company shows, which is pretty well typical of other industrial companies, is attributable to a condition which has existed over many years in this country, not a product of the depression, necessarily.

Mr. BURNS. I think that is correct.

Mr. GESELL. You believe there is just that high a turn-over in jobs and ability of policyholders?

Mr. BURNS. I wouldn't say that was the average for the country, considering all kinds of jobs, but we are considering now only industrial jobs, having in mind steel mills, coal mines, textile factories, industries of that type.

Mr. GESELL. Your company is a mutual company, is it not?

Mr. BURNS. It is.

Mr. GESELL. Is this industrial insurance which you sell participating or nonparticipating?

Mr. BURNS. It is participating.

Mr. GESELL. Do the policyholders elect the directors?

Mr. BURNS. They do.

Mr. GESELL. How are the proxies solicited in your company?

Mr. BURNS. The forms are sent to the superintendent with instructions to present the proxy to the policyholder, explain it, ask him to sign it if he cares to, witness the signature, and return it to the company.

Mr. GESELL. Are those perpetual proxies or are they taken each year?

Mr. BURNS. They are not perpetual. They are subject to revocation by the insured at any time.

Mr. GESELL. But unless he revokes, they run indefinitely.

Mr. BURNS. They are continuous until revoked.

Mr. GESELL. What percentage of your policyholders have given you such proxies? Have you any idea, Mr. Burns?

Mr. BURNS. We generally have at the annual meeting of the members somewhere between seven and eight thousand votes in person and proxies. They are divided; I don't know just the figures right

now, but they are divided. Of course, the great majority are by proxies, the minority in person.

Mr. GESELL. How many policyholders are entitled to vote in the company?

Mr. BURNS. Each policyholder is entitled to one vote, with an additional vote for each additional thousand dollars of insurance over the first thousand.

Mr. GESELL. I was just trying to get some idea of what percentage of the policyholders actually vote in your elections. Would you say it is below 10 percent?

Mr. BURNS. We have over 475,000 policies in force, but that doesn't mean we have 475,000 policyholders, because one person may hold four policies. I hold a good many myself.

Mr. GESELL. So it is a little difficult to tell the exact percentage?

Mr. BURNS. Yes; but we generally have around 7,500 or 8,000 votes.

Mr. GESELL. You say that these industrial policies are participating. Have you paid dividends on them?

Mr. BURNS. We paid mortuary dividends for a great many years—none other than mortuary—but the policies are eligible for participation when the earnings of the industrial department justify the distribution.

Mr. GESELL. When the earnings of the industrial department—

Mr. BURNS (interposing). That is correct.

Mr. GESELL. I take it, then, the earnings of the industrial department haven't?

Mr. BURNS. They have not.

Mr. GESELL. These mortuary dividends are dividends paid at the time the policyholder dies?

Mr. BURNS. That is correct.

Mr. GESELL. Reflecting his participation in the earnings of the company during the period of time he was a policyholder?

Mr. BURNS. Right.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman DAVIS. All right; you may be excused. The committee appreciates your appearance.

(The witness, Mr. Burns, was excused.)

Acting Chairman DAVIS. The committee will adjourn until 2:15 this afternoon and, as I understand it, all the witnesses who were summoned for today are excused with the exception of Mr. Corey. He will be heard after reconvening.

(Whereupon, at 12:10 p. m., a recess was taken until 2:15 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:15 p. m. upon the expiration of the recess.

Acting Chairman DAVIS. The committee will be in order.

Mr. Gesell, if you will, you may call your first witness.

Mr. GESELL. Mr. Corey, please.

Acting Chairman DAVIS. Mr. Corey, will you hold up your right hand and be sworn? Do you solemnly swear the statement you are about to make will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. COREY. I do.

TESTIMONY OF CHARLES M. COREY, MANAGER, AGENCY DEPARTMENT, JOHN HANCOCK MUTUAL LIFE INSURANCE CO., BOSTON, MASS.

JOHN HANCOCK MUTUAL LIFE INSURANCE CO.

Mr. GESELL. What is your full name, Mr. Corey?

Mr. COREY. Charles M. Corey.

Mr. GESELL. With what company are you connected?

Mr. COREY. John Hancock Mutual Life Insurance Co.

Mr. GESELL. You are in the home office at Boston, are you not?

Mr. COREY. Yes, sir.

Mr. GESELL. What is your official position?

Mr. COREY. Manager, agency department.

Mr. GESELL. What are your duties as manager of the agency department?

Mr. COREY. I handle the administrative details in the agency department—appointment of agents and so forth, personnel matters, principally.

Mr. GESELL. You are in immediate contact with the various problems of the field, is that correct?

Mr. COREY. That is correct.

Mr. GESELL. You are familiar with the selling practices of your company and the policies of the company with respect to industrial insurance sales generally?

Mr. COREY. I believe so.

Mr. GESELL. How long have you been with the company?

Mr. COREY. Twenty-eight years.

Mr. GESELL. The John Hancock writes both industrial and ordinary, doesn't it?

Mr. COREY. That's right.

Mr. GESELL. Can you tell us how much industrial insurance it has in force at the present time?

Mr. COREY. It has a billion seven hundred million dollars, approximately.

Mr. GESELL. And how much ordinary has it in force?

Mr. COREY. Approximately two billion two hundred million.

Mr. GESELL. Have you any idea of how many industrial policies there are outstanding? Is it around 6,712,000 policies?

Mr. COREY. That is right.

Mr. GESELL. In the ordinary department is it around 1,400,000 policies?

Mr. COREY. That is right.

Mr. GESELL. So that in terms of amount of insurance you have more ordinary and in terms of policies you have more industrial.

Mr. COREY. That is correct.

Mr. GESELL. How does it stack up in terms of premium income? Is your premium income greater for industrial than it is for ordinary? My figures indicate that the premium income from industrial is around \$70,000,000 and ordinary around \$62,000,000. Is that right?

Mr. COREY. I would say it is about 50-50.

Mr. GESELL. A little in favor of the industrial?

Mr. COREY. That is right.

Mr. GESELL. In how many States does the John Hancock do business?

Mr. COREY. In the industrial branch, 23 States, in the ordinary, 38.

Mr. GESELL. Those 23 States are the more urbanized States, are they?

Mr. COREY. Well, yes; the Northern States.

Mr. GESELL. How long has the company been selling industrial insurance?

Mr. COREY. Since 1879.

AGENCY SYSTEM

Mr. GESELL. Can you tell us how many agents the company has?

Mr. COREY. The company has at the present time five-thousand-nine-hundred-and-sixty-odd agents, industrial agents.

Mr. GESELL. Do these industrial agents also sell ordinary insurance?

Mr. COREY. Oh, yes.

Mr. GESELL. Then, in addition, do you have ordinary agents who sell nothing but ordinary insurance?

Mr. COREY. That is correct.

Mr. GESELL. Do these five-thousand-odd agents sell industrial and ordinary?

Mr. COREY. Industrial and ordinary.

Mr. GESELL. Are they all on debits?

Mr. COREY. They are all on debits.

Mr. GESELL. You have no builders or canvassers?

Mr. COREY. We have no canvassers.

Mr. GESELL. Has the number of your industrial debits increased or decreased in recent years?

Mr. COREY. In the last 2 years it has decreased. We have built up our debits.

Mr. GESELL. You mean the size of your debits has increased and the number of debits has decreased?

Mr. COREY. Yes.

Mr. GESELL. What is the average size of your debit at the present time?

Mr. COREY. \$220 industrial.

Mr. GESELL. Have you any idea what the highest and the lowest debit is?

Mr. GOREY. I believe it runs from about \$450 down to perhaps \$100

Mr. GESELL. You would say \$100 was about the minimum?

Mr. COREY. About the smallest.

Mr. GESELL. What is the reason for the decrease in the number of debits and the increase in the size of the debits?

Mr. GOREY. Well, the company has tried to build up the earnings of the men, and then we have had some debits transferred to our office debit where we allow our policyholders a discount for paying in the office.

Mr. GESELL. You recently inaugurated a system of giving the policyholders a discount if they pay direct to the office, did you not?

Mr. COREY. That is right.

Mr. GESELL. When was that inaugurated?

Mr. COREY. The first of the year.

Mr. GESELL. Have you found some success in building up what we might call an office debit?

Mr. COREY. Well, yes, it is increasing normally.

Mr. GESELL. About what percentage of your income comes in that way, industrial income?

Mr. COREY. At the present time only about 5 percent.

Mr. GESELL. That is pretty good, it seems to me, in the short time you have had it.

Mr. COREY. It seems to me it is.

Mr. GESELL. What sort of encouragement do you give the policyholders to pay in that manner?

Mr. COREY. The notification is in our policy contract and we handed around notices to that effect to the policyholders.

Mr. GESELL. You instructed the agents to advise the policyholders fairly specifically with respect to that?

Mr. COREY. We have.

Mr. GESELL. Let me see, do you sell all weekly industrial business, weekly premium business?

Mr. COREY. That is right.

Mr. GESELL. You have no monthly premium industrial?

Mr. COREY. We have no monthly industrial; we have monthly ordinary.

Mr. GESELL. You have what they call monthly debit ordinary?

Mr. COREY. That is right.

Mr. GESELL. That is classified in your ordinary department?

Mr. COREY. That is right.

Mr. GESELL. Can you tell us how much of the ordinary in force in your company is this monthly debit ordinary.¹

Mr. COREY. I would have to refer to my figures on that. I know what the debit is, but the amount of insurance of course, I can't tell you.

Mr. GESELL. If you would, I would like to have that figure.

Mr. COREY. I believe I left that statement at the hotel.

Mr. GESELL. How do you measure it? You said you know the size of the debit.

Mr. COREY. The debit is \$340,000 a month at the present time.

Mr. GESELL. And would you be able to give us some rough percentage figure as to how much business is on the monthly debit, ordinary plan, of your company?

Mr. COREY. The amount of insurance?

Mr. GESELL. Yes.

Mr. COREY. I think I could figure that.

Mr. GESELL. What would you say, about what percent?

Mr. COREY. I figure that we have about 7 or 8 percent, but I would like to check that.

Mr. GESELL. That will be good enough for now.

Could you write the committee a letter giving us the exact figures?

Mr. COREY. Surely.

Mr. GESELL. How long have you been selling a monthly debit ordinary?

Mr. COREY. Since October 1936.

¹ Mr. Corey later submitted these figures which were entered in the record on September 13, 1913, as "Exhibit No. 1119" and appear in the appendix to this Part on p. 6356.

Mr. GESELL. How many industrial policyholders do you have? I suppose it is an estimate at best.

Mr. COREY. I would say about 5,000,000, but that is an estimate.

Mr. GESELL. Can you tell us how your agents are compensated?

Mr. COREY. They are paid a 12-percent collection commission, commission for collections, 25 percent of the first year issued—that is, their own writings less their own lapses—and then they are paid a bonus based on the way they conserve the business.

Mr. GESELL. A so-called conservation commission?

Mr. COREY. That is right.

Mr. GESELL. Or conservation bonus?

Mr. COREY. That is right.

Mr. GESELL. Is this agreement which I show you now the agreement on which new agents coming into the company are signed?

Mr. COREY. Yes, sir.

Mr. GESELL. I should like to offer this for the record.

Acting Chairman DAVIS. It may be received.

(The agreement referred to was marked "Exhibit No. 1085" and is included in the appendix on p. 6345.)

Mr. GESELL. Now, Mr. Corey, how many managers do you have?

Mr. COREY. One hundred and eighty-two.

Mr. GESELL. One hundred and eighty-two?

Mr. COREY. Yes.

Mr. GESELL. Are those all managers on industrial business?

Mr. COREY. That is right.

Mr. GESELL. How many assistant managers or superintendents do you have who are engaged in whole or in part in industrial business?

Mr. COREY. Eight hundred and eighty.

Mr. GESELL. There are about six or seven agents to an assistant; is that the way it figures out?

Mr. COREY. That is pretty close to it.

Mr. GESELL. About how many assistants to a manager?

Mr. COREY. Five.

Mr. GESELL. Can you tell us how the managers are compensated?

Mr. COREY. The manager receives a flat salary, plus ordinary commissions, and plus a small bonus on the industrial business.

Mr. GESELL. That would be on the increase?

Mr. COREY. On the increase; yes.

Mr. GESELL. And is the same true of the assistant manager?

Mr. COREY. No.

Mr. GESELL. How is he paid?

Mr. COREY. He receives a salary, plus a payment on his new business, his new issues, not increase, and also a conservation bonus based on the amount in which the staff conserves the business.

Mr. GESELL. He is paid on the basis of the industrial business written and its persistency?

Mr. COREY. That's right.

Mr. GESELL. And the manager is paid on the basis of increase and conservation?

Mr. COREY. I might say the payment on increase is a very small percentage of his compensation.

Mr. GESELL. That goes only to men who have an exceptional production record, does it?

Mr. COREY. Absolutely.

Mr. GESELL. Have you any idea how much that bonus has amounted to on your pay roll?

Mr. COREY. No; I don't believe it would average more than four or five dollars a week to a manager.

Mr. GESELL. What about agency turn-over? Do you have much of a turn-over in your company?

Mr. COREY. Well, we have 15 percent this year. We had 22 percent last year.

Mr. GESELL. That means that——

Mr. COREY (interposing). On an annual basis.

Mr. GESELL. That means you have taken on this year, figured on an annual basis, a number of agents equal to 15 percent of your total agency force?

Mr. COREY. That's right.

Mr. GESELL. Has the turn-over been decreasing?

Mr. COREY. Steadily.

Mr. GESELL. What do you do to decrease turn-over, Mr. Corey? How is it done?

Mr. COREY. I believe it is done in the first place due to better selection of men, and of course better training when we get them, and an effort to build up their earnings so they value the job.

Mr. GESELL. You mean if you can work out a system which will pay them more and you are more careful in your selection, and you give a man fairly thorough training in the business, you think this turn-over is reduced?

Mr. COREY. There is no doubt about it.

Mr. GESELL. Do you think it is desirable to reduce turn-over?

Mr. COREY. Very much so.

Mr. GESELL. Is it expensive to a company, and therefore to the policyholders, to have a high rate of turn-over?

Mr. COREY. I believe it is.

Mr. GESELL. What does it cost you to take on a new man and train him for the first year?

Mr. COREY. Well, my estimate would be around \$400.

Mr. GESELL. That would be the cost of the replacement and the training of the man for the year?

Mr. COREY. I believe so.

Mr. GESELL. What are the reasons for the dismissals of the men involved in this turn-over, or the resignations of those men?

Mr. COREY. I believe the main reason would be that the agent had not found himself fitted for the business. That seems to be the great problem, to find a man who is adapted to the business.

Mr. GESELL. You mean they think they are going to like it and then they find they can't produce?

Mr. COREY. Well, they can't do the general work. I wouldn't say just production, but the work in general.

Mr. GESELL. They dislike the routine, the bookkeeping involved, and all that?

Mr. COREY. That's right.

Mr. GESELL. Do you have many fired for deficiencies and irregularities?

Mr. COREY. I would say around 300 a year.

Mr. GESELL. Out of a total of how many finaled?

Mr. COREY. Out of a total, well, we will take this year's experience; it would be about 1,000, but we won't have 300 this year, I don't believe.

Mr. GESELL. What kind of training do you give the men now?

Mr. COREY. Well, we take on new men as apprentices. In other words, for the first 6 months they are junior agents, and they come in with the idea of getting what training we can give them. We give them a study course and they are examined from the home office on that study course. If at the end of the 6 months they show that they are qualified and want to remain in the business, we give them a contract.

Mr. GESELL. During that 6 months do they sell?

Mr. COREY. They sell; they try selling as well as learn the fundamentals of the contract.

Mr. GESELL. Do they have some minimum guaranty of pay during that time?

Mr. COREY. They are paid right along.

Mr. GESELL. Is that based upon what they sell?

Mr. COREY. On the regular contract. They give them the regular compensation but there is no contract until they qualify.

Mr. GESELL. And if after 6 months they have shown that they are made of the right stuff, then they are given an actual contract?

Mr. COREY. If they like us and we like them, we give them a contract.

Mr. GESELL. Is that training mostly practical training on the debit with the assistant superintendent?

Mr. COREY. That is a substantial part of it. We have also a study course which is sent to them from the home office, and the examination is from the home office.

Mr. GESELL. How long does the assistant superintendent stay on the debit with a man?

Mr. COREY. He is supposed to stay with him until he feels he knows how to find his own way around—2 or 3 weeks, probably.

Mr. GESELL. In figuring the cost of turn-over, which you estimated at around \$400, I think, do you include this training as one of the items?

Mr. COREY. Oh, yes; I am figuring every possible expense into it.

Mr. GESELL. Do you find that when a man leaves the business you are apt to suffer some lapses on his debit?

Mr. COREY. To some extent; not in any substantial amount.

Mr. GESELL. It is one of the factors, isn't it, that if a man has been on a debit for a while then he leaves you are apt to find certain policyholders won't go along with the new man?

Mr. COREY. That is so. Each man has his own personal following.

Mr. GESELL. In that way, then, it is also expensive, is it not, for turn-over?

Mr. COREY. That's right.

Mr. GESELL. Do you have any quotas for the men?

Mr. COREY. We have quotas for the office, not for the man individually.

Mr. GESELL. Will you tell us how that works?

Mr. COREY. Well, each manager is given a figure of production which it is hoped he will reach for the year.

Mr. GESELL. And then that manager, I suppose, parcels that out among the assistants and the agents, so that they each have what they have to contribute?

Mr. COREY. Some managers may, others may not.

Mr. GESELL. How do you arrive at this quota? How do you compute it?

Mr. COREY. We take what we feel a man should produce to be successful in the business and make a reasonable amount of earnings, and also to give him something to judge his own efforts by.

Mr. GESELL. That is a little general, Mr. Corey. Tell us specifically how you fix the quota. You have an office in Baltimore, haven't you?

Mr. COREY. Yes.

Mr. GESELL. For instance, how would you figure out the quota for the Baltimore office?

Mr. COREY. We would take what the Baltimore office has done in the last 10 years, take into consideration the business conditions, and simply arrive at a rule-of-thumb figure which we believe would be reasonable for the Baltimore office.

Mr. GESELL. You usually take what they have done, take a look at the business situation generally, and see how much to step it up for the next year?

Mr. COREY. Not always to step it up; sometimes down.

Mr. GESELL. By and large it is a step-up, isn't it?

Mr. COREY. No.

Mr. GESELL. It is not?

Mr. COREY. No.

Mr. GESELL. Is it about even with the production of the previous year?

Mr. COREY. We try to keep it that way.

Mr. GESELL. Do you hold the men to these quotas?

Mr. COREY. Not closely.

Mr. GESELL. Do you consider it an obligation and consider that they are expected to turn in the business as set by the quota?

Mr. COREY. No.

Mr. GESELL. I notice a copy of a letter sent by Mr. Brock, of your Agency Department, under date of January 4, 1935, to all districts. The first paragraph reads:

In announcing to you the ordinary quota of your district for the year 1935 as determined by the department we supplement it with our thought of the great need that all of the men shall be more thoroughly impressed than ever before that the quota is a positive expectation of management from them.

That would indicate to me that the quota is put up to them as something that they are expected to obtain. For instance, another paragraph of the letter states:

Our appraisal of the ordinary potentialities of your district for the current year is at least ———. This then becomes your quota, and it is expected that its full attainment will be accepted as an obligation by the district staff.

Mr. COREY. Yes?

Mr. GESELL. That would indicate it is a pretty positive thing.

Mr. COREY. He didn't mean by that that if the manager didn't come through he would be dismissed.

Mr. GESELL. I didn't ask you that. I asked you whether you held the men to the quota fairly rigidly.

Mr. COREY. In the sense that a bulletin like that would go out occasionally; yes. We keep their minds on that figure and they try to produce it if possible.

Mr. GESELL. Do you recognize this as the nature of the bulletins which are sent out from time to time to the men?

Mr. COREY. I do.

Mr. GESELL. That one was sent out on June 28, 1939, was it not?

Mr. COREY. That is right.

Mr. GESELL. It sets up the quotas for the various divisions and calls the attention of the managers to the necessity of turning in the business, does it not?

Mr. COREY. I haven't read that one.

Mr. GESELL. That is what it does, isn't it?

Mr. COREY. That is right.

Mr. GESELL. I would like to offer this for the record.

Acting Chairman DAVIS. Let that be printed in the record.

(The bulletin referred to was marked "Exhibit No. 1086" and is included in the appendix on p. 6351.)

Mr. GESELL. I believe you said these quotas are only for the managers.

Mr. COREY. As far as the home office is concerned, each manager is given his quota and held responsible for it to the extent that he can get it. We don't take each assistant manager and agent and say, "You must get this or that."

Mr. GESELL. But they are a quota entirely to the managers, I understood you to say.

Mr. COREY. To the district.

Mr. GESELL. Are they computed per man production or computed per agency or district production, or how are they computed? You see the distinction I have in mind.

Mr. COREY. Yes; I do.

Mr. GESELL. I have a letter here from Mr. Brock, dated January 30, 1939, which was evidently sent to all of the offices with respect to quotas. It says:

The Quotas—which are the Department's expectations or objectives of the least amounts that may properly be considered acceptable as production of new business at each District throughout the current year—have received a great deal of study and thought.

Determination of a Quota for Industrial business at this time, in view of the many changes that have recently occurred in the Industrial business, has presented some complexities which have prompted us to adopt for the time being a Quota based on minimum Industrial issue per week per Agent. Purposely, we quote a modest figure, namely: 70¢ per week per man, in the thought that this amount is the least we can contemplate as indicative of effort or capability. There should be no Agent anywhere unable to meet this figure. In fact, an Agent, in our thought, should be able to secure four applications each week, which undoubtedly would give him an amount in excess of Quota. This Industrial Quota for your District means a total average issue per week of blank dollars.

That would indicate to me it is put up to the men in terms of what each of them should produce.

Mr. COREY. In the industrial branch, in figuring that quota a flat figure was taken. Naturally when he referred to the unit, he wouldn't refer to 70 cents.

Mr. GESELL. That is so the manager can put the quota up directly to his men?

Mr. COREY. If he wants to; yes.

Mr. GESELL. What about programming? Do you teach your men much about programming?

Mr. COREY. We try to.

Mr. GESELL. What do you understand by the word "programming"?

Mr. COREY. By that I understand—referring to industrial?

Mr. GESELL. Yes; I am talking about industrial right along.

Mr. COREY. We generally use the word "programming" more in conjunction with ordinary, but our managers are supposed to make certain that the families are not overloaded with insurance; that a reasonable amount is written on individual lives.

Mr. GESELL. Do you write both white and colored lives?

Mr. COREY. We write almost entirely on white lives.

Mr. GESELL. Colored lives can obtain insurance from you, I take it?

Mr. COREY. If they apply.

Mr. GESELL. But you don't solicit them?

Mr. COREY. That is right.

Mr. GESELL. Do you write people on relief?

Mr. COREY. No.

Mr. GESELL. Are you strict with respect to that?

Mr. COREY. That is right, sir.

Mr. GESELL. Have you set any percentage of income from the family which can go to industrial-insurance premiums?

Mr. COREY. No; we have not.

Mr. GESELL. You have no check on that in any way?

Mr. COREY. Except that our managers have been instructed for years back to be conservative in the amount of insurance written on individual lives, and to go after small policies on new lives rather than overloading existing policyholders. That has always been our method.

Mr. GESELL. There is no specific percentage of family income that you set as the maximum which a policyholder's family may pay to your company or any other company?

Mr. COREY. No, sir.

Mr. GESELL. I was somewhat interested in the remarks in this bulletin:

We hear a lot about programming life insurance for clients. Ninety-five out of every one hundred of your prospects, of your clientele, don't need programming. They need just old-fashioned common life-insurance sales presentation.

That wouldn't indicate to me that there is considerable emphasis on programming.

Mr. COREY. Not in the industrial branch.

Mr. GESELL. That went out on one of your bulletins?

Mr. COREY. Yes; that is right.

Mr. GESELL. You don't emphasize it in the industrial department?

Mr. COREY. Not in the sense of programming industrial; we do not emphasize it.

Mr. GESELL. You don't give the men instructions as to whether they should sell endowment or 20-payment life or whole life on the father and the type of policies they should sell to the children and what the variations of coverage should be as between the breadwinner and the younger members of the family?

Mr. COREY. Oh, we do; we instruct our agents to try to sell whole life to the head of the family in preference to overloading on the

lives of the children, and in fact the head of the family must be covered if possible with whole-life insurance.

Mr. GESELL. It is more a statement of the general principles than setting up any specific information or training for the agents with respect to that, isn't it?

Mr. COREY. Well, it has been a tradition, I will put it that way, for years.

Mr. GESELL. What is the attitude of your company about industrial endowment insurance? Do you sell it now?

Mr. COREY. We do not sell it now.

Mr. GESELL. When did you discontinue selling it?

Mr. COREY. At the end of 1938.

Mr. GESELL. Was that at the time the New York law went into effect?

Mr. COREY. That is right.

Mr. GESELL. Your company does business in New York?

Mr. COREY. That is right.

Mr. GESELL. You discontinued it in New York at that time?

Mr. COREY. All over the country.

Mr. GESELL. Why did you discontinue it all over the country?

Mr. COREY. We were willing to see how it worked out. We have never featured endowment insurance.

Mr. GESELL. How has it worked out since the law went into effect? What have been the results?

Mr. COREY. Well, I am not in a position to say. I am not positive about it. I would rather not mention any opinion.

Mr. GESELL. As you have seen it from the point of view of the agents, I don't mean actuarially speaking, or anything else, but as you have seen it from the point of view of the agents, have they still been able to make just as much money and sell just as much insurance?

Mr. COREY. They haven't been able to sell as much industrial insurance.

Mr. GESELL. Has your monthly debit ordinary increased though?

Mr. COREY. Yes; it has.

Mr. GESELL. Do you think it is possible that the result has been merely a transfer of certain business from the industrial department to the monthly debit ordinary department?

Mr. COREY. Well, that may be partly responsible.

Mr. GESELL. It seems kind of logical to me.

Mr. COREY. It seems reasonable to assume that would be so.

Mr. GESELL. Do you think that is what has happened in your company?

Mr. COREY. I know that our monthly debit had been increasing constantly prior to December 1938, so I don't think it is entirely so.

Mr. GESELL. The increase has continued on the same basis as before?

Mr. COREY. It accelerated some.

Mr. GESELL. What is the attitude or the policy of your company with respect to sales contests?

Mr. COREY. As far as our managers are concerned we allow them to use initiative along that line, provided it is a controlled contest.

Mr. GESELL. What do you mean, a controlled contest?

Mr. COREY. Well, they pay as much attention as possible to getting new lives and small premiums.

Mr. GESELL. Does the company have any company-sponsored contests?

Mr. COREY. No, sir.

Mr. GESELL. Then, I take it, as a matter of company policy you are against contests?

Mr. COREY. Well, against contests that are not run on a business-like basis; yes.

Mr. GESELL. Well, isn't the tendency of almost any contest to get you off of a businesslike basis?

Mr. COREY. I don't believe so.

Mr. GESELL. You don't think it results in the writing of a poor grade of business?

Mr. COREY. Not if it is controlled properly.

Mr. GESELL. I should think if your company felt that, it would have more contests than it does. Contests bring in the business, don't they?

Mr. COREY. They do.

Mr. GESELL. Then why don't you have more of them? Isn't it because you feel that they definitely bring in a poorer grade of business?

Mr. COREY. No; we believe they are all right to a certain extent if they are not carried out of bounds.

Mr. GESELL. Well, as a matter of company policy, do you know why the company doesn't have contests of its own, company-sponsored contests?

Mr. COREY. Well, we believe under those conditions the men might feel that perhaps we didn't use the same control over their efforts if it was a company-wide matter, and they would become too enthusiastic.

Mr. GESELL. What would result, in your opinion, if that happened, an undesirable grade of business?

Mr. COREY. It is possible.

Mr. GESELL. I am trying to find out why you don't have contests. I am not trying to make anything more out of it than that.

Mr. COREY. I understand. We believe in contests to a certain extent also for the reason that it gives our men contact with new prospects.

Mr. GESELL. You think they should be kept at a minimum, I take it.

Mr. COREY. I do.

NURSING SERVICE

Mr. GESELL. Your company has a visiting nurse service, has it not?

Mr. COREY. That is right.

Mr. GESELL. Will you tell us a little about that service and how it works?

Mr. COREY. That is granted to industrial policyholders whose insurance has been in force for a year, and the nurse is available for sick help, bedside service, prenatal care. I believe it may run for 7 or 8 months prior to the birth of a child, with a visit of once a month, perhaps twice a month, just immediately preceding.

Mr. GESELL. Is it available to all policyholders, industrial policyholders, or must they have been with the company a year?

Mr. COREY. They must have been with the company a year.

Mr. GESELL. Is there any provision in the policy which advises the policyholder of his right to receive this nursing service? I couldn't find any.

Mr. COREY. I don't believe so; no.

Mr. GESELL. Is this service available to your industrial policyholders everywhere, or are there certain localities where the nursing service doesn't reach?

Mr. COREY. I believe there are a few localities that haven't been able to get that service.

Mr. GESELL. Do you know how much it costs you a year?

Mr. COREY. I wouldn't have that figure.

Mr. GESELL. By you, I mean the policyholder; how much it costs a year.

Mr. COREY. I could get that figure.

Mr. GESELL. Would you furnish that along with the other figure we requested on monthly debit ordinary?¹

Mr. COREY. Yes.

Acting Chairman DAVIS. Are they graduate nurses?

Mr. COREY. They are; yes, sir.

Mr. GESELL. You have a contract, do you, with nursing services, or are they your own nurses?

Mr. COREY. We have a contract with nursing services.

Mr. GESELL. You also issue health bulletins and booklets and things of that sort?

Mr. COREY. Oh, yes; we do.

Mr. GESELL. That is part of your welfare service?

Mr. COREY. That is right.

Mr. GESELL. In giving us that figure as to the cost of the service, would you include not only the nursing service but the other welfare expenses?

Mr. COREY. Yes, sir.

Mr. GESELL. What has been the lapse rate of your company in recent years. Is it high or low?

Mr. COREY. I have no way of comparing it.

Mr. GESELL. Have you any idea as to how many of the policies written during any one year are lapsed for failure to pay premiums by the end of that year?

Mr. COREY. I would say about 37 or 38 percent possibly.

Mr. GESELL. Is it a fact that your company has been able to increase its policies in force from year to year to a larger amount than the Prudential and the Metropolitan though your company has written a smaller amount of business during the year?

Mr. COREY. Well, I only know that my own company has made that increase. I haven't checked it.

Mr. GESELL. You have not compared it with the other companies?

Mr. COREY. I have not.

Acting Chairman DAVIS. How do your lapses during the first year of the life of the policy compare in volume or in percentage with the lapses in subsequent years, the second and third?

Mr. COREY. Well, the larger percentage would be in the first year. I haven't the figures for the second year.

¹ Both figures were submitted later and entered in the record on September 13, 1939, as "Exhibit No. 119," which appears in the appendix to this Part on p. 6356.

Mr. GESELL. You find that if a policy lasts a year it usually stays in force with much greater persistency thereafter.

Mr. COREY. I believe so.

Acting Chairman DAVIS. How do you account for the large percentage of lapses in the third year?

Mr. COREY. In the first year?

Acting Chairman DAVIS. I thought you said the third.

Mr. COREY. No, sir; I said the first year.

Acting Chairman DAVIS. Then they reduce from then on?

Mr. COREY. Yes, sir.

Mr. GESELL. You said it was about 37 percent of the business lapsed in the first year?

Mr. COREY. Of the new business.

Mr. GESELL. In asking you about new issues I noted, for instance, in the year 1937 that your company wrote 1,200,000-odd policies and increased some 410,000 policies, whereas both Metropolitan and Prudential wrote over 3,000,000 policies and increased only somewhere in the two hundred thousands. Have you any explanation as to why with a fewer number of issues your company is able to make a greater increase in policies in force?

Mr. COREY. I don't believe I have. I don't think I could explain that.

Acting Chairman DAVIS. Well, how did your percentage of persistencies compare with theirs, if you know?

Mr. COREY. I don't know, sir.

Mr. GESELL. Is it a fact that your company sometimes conducts an investigation where it finds that an agent has been producing a considerable amount of industrial business?

Mr. COREY. We do.

Mr. GESELL. Will you explain that—how you do it, and why?

Mr. COREY. Well, if we find that an agent had gone beyond a normal production we would check his business to find out if it was the right type, if he had sold it properly.

Mr. GESELL. Is that a special check which is made quite apart from the ordinary inspection service?

Mr. COREY. That is right. It would be directed from the home office.

Mr. GESELL. Of course, if you do that it is kind of difficult to have contests, too, isn't it?

Mr. COREY. That would be right.

Mr. GESELL. Then to come back to this contest thing, I have got the impression that your company's emphasis is entirely against too great production rather than encouraging the men to bring about an abnormal amount of production. It seems to me you should be able to give us some reasons as to why your company's policy is in that direction, a little more specifically than you have so far.

Mr. COREY. Well, I believe the company is always trying to feature a conservative amount of new business every year with as small a lapse ratio as possible.

Mr. GESELL. I take it that would mean your company feels that contests are not apt to produce that type of conservative underwriting.

Mr. COREY. Well, I believe if the contest is controlled it will produce a good quality of business and bring in new prospects.

Mr. GESELL. What is the average earning of your agents now?

Mr. COREY. Forty-two dollars.

Mr. GESELL. Has it gone up in recent years?

Mr. COREY. It has gone up.

Mr. GESELL. What has been principally responsible for that increase?

Mr. COREY. A larger debit, a better industrial production, a better ordinary production.

Mr. GESELL. It has been mostly the man rather than the policy of the company, then, that brought about the increase?

Mr. COREY. I rather think they are both tied in together.

Mr. GESELL. Do you attribute the better production to the management of the company?

Mr. COREY. I don't quite get your question.

Mr. GESELL. I believe you said the increase in average earnings had come about from a larger debit.

Mr. COREY. That is right.

Mr. GESELL. And from the fact that the men had increased their production in both the ordinary and industrial departments. I say, how has your company brought about that increase in production on the part of the agents?

Mr. COREY. My belief is that the type of man is improving and men are becoming better trained.

Mr. GESELL. Staying with the company longer?

Mr. COREY. Staying with the company longer.

Mr. GESELL. Do you find if they are with the company longer their earnings are apt to improve?

Mr. COREY. Oh, yes.

Mr. GESELL. They get over their first stage, where the turn-over is heavy?

Mr. COREY. That is right.

Mr. GESELL. You have savings-bank life insurance right up at your front door, haven't you?

Mr. COREY. We have.

Mr. GESELL. What is the attitude of your company toward savings-bank life insurance, if you are in position to state it?

Mr. COREY. Well, I have never had anything to do with the policy of the company on that. I haven't had contact enough with the subject to be able to give an opinion.

Mr. GESELL. I have no further questions.

Mr. O'CONNELL. Do any of the States in which you operate require licenses for agents?

Mr. COREY. All of them.

Mr. O'CONNELL. What mechanics would you have to go through in some States to get a license?

Mr. COREY. In some States the men have to take a written or an oral examination; in other States they simply apply.

Mr. O'CONNELL. What are some of the States that require a written examination?

Mr. COREY. Massachusetts, Indiana; in Ohio it is a verbal examination; Pennsylvania has a written examination.

Acting Chairman DAVIS. What is the nature of those examinations, just testing a man's educational qualifications?

Mr. COREY. Yes, sir; partly; and testing his knowledge of the insurance law and the fundamentals of a policy contract. They are given material to study beforehand.

Acting Chairman DAVIS. Are there any moral tests applied?

Mr. COREY. By the company there is.

Acting Chairman DAVIS. Is that general in terms or do you have certain rules or criteria that you go by?

Mr. COREY. Oh, yes.

Acting Chairman DAVIS. For instance, you wouldn't take a man who had been convicted of an infamous offense?

Mr. COREY. No, sir; we check his past very thoroughly, make an investigation.

Mr. O'CONNELL. In States where no written examination is required and you say they merely apply, what is the purpose of the State's intervention in the situation?

Acting Chairman DAVIS. Simply to collect a license fee, isn't it, to add to their revenue?

Mr. COREY. I believe there is usually a State law that requires a man must be licensed by the State and the State may look them up, I am not sure.

Mr. O'CONNELL. In the States where you indicate there is a State law but you merely apply for the license, I fail to see the purpose of the law.

Mr. COREY. The applicant has to fill out an application and give certain facts, as well as business history, to the State.

Mr. O'CONNELL. Do they ever refuse anyone a license in those States?

Mr. COREY. Yes; they have.

Mr. O'CONNELL. On what basis would they refuse a license?

Mr. COREY. I can't recall any specific example just now, but I remember there have been a few cases where men have been refused a license.

Mr. O'CONNELL. I should think if the legislation had any purpose there would be some standards applied by the insurance department in granting a license. In most of these cases they just apply for a license and it is granted.

Mr. COREY. Well, I believe they have a standard which the commission enforces, but I am not familiar with what it would be.

Mr. O'CONNELL. Is there a substantial license fee to be paid by the agent?

Mr. COREY. From two to five dollars.

Mr. O'CONNELL. An applicant for a position would have to have a license from the State in which he is operating before you could employ him?

Mr. COREY. That is right.

Mr. O'CONNELL. Do you pay his license fee?

Mr. COREY. We do not, he pays his own license fee. I imagine that the companies look up the man so thoroughly, at least my company does, that the State wouldn't be inclined to question the applicant.

Mr. O'CONNELL. You think they would rely on the company?

Mr. COREY. I think they would rely on that.

Acting Chairman DAVIS. At the same time you might want to employ a man who has not been previously engaged in the insurance

business, in which event, of course, he would have to apply for and secure a license.

Mr. COREY. That is right.

Acting Chairman DAVIS. Because they always have to start sometime, you know.

Is it the practice of your company, generally speaking, to employ men who have already had previous experience in the insurance business, or do they pick up quite a good many of them without regard to previous experience?

Mr. COREY. It depends on the man. We rather consider each man from an individual standpoint and disregard his previous insurance experience. We don't as a rule hire many men who have been in the insurance business.

Acting Chairman DAVIS. Is there much shifting about, much transferring of insurance agents from one company to another?

Mr. COREY. Not in the industrial branch, that is, to my company anyway.

Acting Chairman DAVIS. For instance, you say that your agents earn an average of about \$42 a week. It has been stated by representatives of other companies that their agents average an amount which is less than that, at least in some cases. Naturally, the disposition of every agent is to do as well as he can, and I just wondered whether or not there was much shifting or effort to get from, we will say, smaller companies to your larger company.

Mr. COREY. I believe about 10 percent of our men have worked for other companies, that is of our new applicants. That is our present experience, as I recall it.

Acting Chairman DAVIS. And generally speaking, naturally you undertake to get the cream of those available.

Mr. COREY. We try to; yes, sir.

Mr. GESELL. I have some figures here from the John Hancock that may be of interest to you, Judge Davis, in connection with one question you asked the witness, figures showing that some 60 percent of the agents were formerly in some sales position other than life insurance, about 16 percent in life insurance, about 11 percent office clerks, about 5½ percent laborers, 4.9 percent tradesmen, 1.3 percent professional men. And in terms of education, about 69 percent of the men have had high-school education, 24.5 have had a college education, and 6.5 grammar school only. That was for 1937.

Mr. COREY. Yes.

Mr. GESELL. Mr. Corey, what happens to these men whom you dismiss for deficiencies and irregularities? I think you said there were about 300 last year. Do you prosecute those men?

Mr. COREY. It will be a very exceptional case that the company will prosecute.

Mr. GESELL. Do you blacklist them in some way so they can't get with another company?

Mr. COREY. Why, no.

Mr. GESELL. Well, then, do you report to the State department the fact that the men are fired for deficiencies?

Mr. COREY. If the State law requires that the reason for termination of a man's service must be made known to the State, we are necessarily obliged to comply with the law.

Mr. GESELL. Otherwise you don't?

Mr. COREY. Otherwise we don't.

Mr. GESELL. So that in a lot of these States it would be possible for an industrial agent who had a deficiency with your company to be licensed with another company which might not know of that deficiency, and which couldn't learn of the deficiency through the records of the State licensing bureau. Is that correct?

Mr. COREY. I don't know whether that could happen. It is possible.

Mr. GESELL. I should think it would be a very likely possibility.

Mr. COREY. I think the other insurance company would write and find out and investigate. I don't believe they would accept a man without checking up on his past.

Mr. GESELL. You mean the practice is for the company about to employ a man to write to the last employer?

Mr. COREY. As all employers do.

Mr. GESELL. And in that way information goes back and forth throughout the business as to those men who were fired for deficiencies in their accounts?

Mr. COREY. That's right.

Acting Chairman DAVIS. Do you require a bond of your agents?

Mr. COREY. Yes, sir.

Acting Chairman DAVIS. For the industrial agents as well as the ordinary?

Mr. COREY. Yes, sir.

Acting Chairman DAVIS. Is that bond approximately twice the volume—the yearly volume—they are supposed to collect?

Mr. COREY. No, sir.

Acting Chairman DAVIS. How do you determine the amount of the bond?

Mr. COREY. We have set our company limit at \$300. We allow a manager, if he wants personally to raise that another \$100, to do so. In other words, he may require an extra hundred dollars as a bond. The company's figure is \$300.

Acting Chairman DAVIS. In the case of deficiencies or defalcations you are, generally speaking, protected by the bond, are you not?

Mr. COREY. Practically all the time; yes, sir.

Acting Chairman DAVIS. Did I understand that last year you had 300 separations for deficiencies in accounts?

Mr. COREY. I believe that's right.

Acting Chairman DAVIS. Out of a total of, did you say, something over 8,000 agents?

Mr. COREY. Six thousand.

Acting Chairman DAVIS. And is that about an average?

Mr. COREY. Yes, sir.

Mr. GESELL. A little lower than it has been, is it not?

Mr. COREY. It is going down this year. We find it coming down every year; particularly this year.

Mr. O'CONNELL. And all of these 300 persons were licensed by the State in which they operated?

Mr. COREY. Yes, sir.

Mr. O'CONNELL. And you did nothing except to separate them from their employment, in the way of notifying the State authorities?

Mr. COREY. We notified the State authorities wherever the law required it.

Mr. O'CONNELL. Do you know in what States the law would so require?

Mr. COREY. I can't recall offhand. I know it does in some instances.

Mr. O'CONNELL. But, where the law did not require it, you would make no effort to make known to the licensing authorities the fact that this licensed agent had been separated for deficiencies in his accounts?

Mr. COREY. That's right. In the first place the deficiency may not have been a serious amount.

Mr. O'CONNELL. A serious amount? What would a deficiency not in a serious amount mean to you?

Mr. COREY. Well, a man may have a small deficiency in his accounts that would indicate that he simply wasn't adapted to the business, therefore we would sever his connection. In that 300 we have all sizes of deficiencies.

Mr. O'CONNELL. I take it that any of your agents who would have deficiencies in their accounts would probably not be adapted to the business. I thought, generally speaking, a deficiency in account would mean that he had appropriated some of his clients' money.

Mr. COREY. That's right.

Mr. O'CONNELL. That is what it amounts to?

Mr. COREY. That's right.

Acting Chairman DAVIS. Do you know of any instances in which licenses have been revoked by the State authorities where your company reported that they had been dismissed for deficiencies?

Mr. COREY. I can't recall, sir.

Acting Chairman DAVIS. You didn't undertake to keep tab on that?

Mr. COREY. No, sir.

Acting Chairman DAVIS. That is all.

Mr. GESELL. That is all.

Acting Chairman DAVIS. Thank you for your appearance. You are excused, Mr. Corey.

(The witness, Mr. Corey, was excused.)

Mr. GESELL. We have no further witnesses today.

Acting Chairman DAVIS. That's good.

Mr. GESELL. I believe we can complete in a very short session tomorrow morning.

Acting Chairman DAVIS. The committee will stand in adjournment until 10:30 a. m. tomorrow morning.

(Whereupon, at 3:15 p. m., a recess was taken until 10:30 a. m. of the following day, Thursday, September 7, 1939.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, SEPTEMBER 7, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY NATIONAL
ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:40 a. m., pursuant to adjournment on Wednesday, September 6, 1939, in the Caucus Room, Senate Office Building, Ewin L. Davis, Commissioner, Federal Trade Commission, presiding.

Present: Commissioner Davis, acting chairman, and Mr. O'Connell.

Present also: Mr. Brackett; Gerhard A. Gesell, special counsel; and Michael H. Cardozo, attorney, Securities and Exchange Commission.

Acting Chairman DAVIS. Mr. Gesell, are you ready to proceed?

Mr. GESELL. Yes; I am.

Acting Chairman DAVIS. You will call your first witness, please.

Mr. GESELL. Mr. Haynie, please.

Acting Chairman DAVIS. Mr. Haynie, will you hold up your right hand and be sworn? Do you solemnly swear the statement you make in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HAYNIE. I do.

TESTIMONY OF LLOYD GRAHAM HAYNIE, MANAGER, HOME FRIENDLY INSURANCE CO., WASHINGTON, D. C.

HOME FRIENDLY INSURANCE CO.

Mr. GESELL. Will you state your full name, please, sir?

Mr. HAYNIE. Lloyd Graham Haynie.

Mr. GESELL. You are connected with the Home Friendly Insurance Co., are you not?

Mr. HAYNIE. That is correct.

Mr. GESELL. You are manager of their office here?

Mr. HAYNIE. Yes, sir.

Mr. GESELL. How many agents have you in the office?

Mr. HAYNIE. Ten.

Mr. GESELL. How many assistants?

Mr. HAYNIE. Two.

Mr. GESELL. Do you sell both industrial and ordinary?

Mr. HAYNIE. Yes. Ordinary has recently been installed.

Mr. GESELL. What is the average size of the debit, Mr. Haynie?

Mr. HAYNIE. The average size is \$100.

Mr. GESELL. And what is the total debit of your office?

Mr. HAYNIE. The total debit of my office, not to the exact penny, is about \$1,200; I beg your pardon, \$1,100.

Mr. GESELL. Does your company sell accident and health insurance?

Mr. HAYNIE. Not now. Prior to 1936 they did.

Mr. GESELL. Yesterday Mr. Ward, of your company, was on the stand, Mr. Haynie, and he gave us some information with respect to the procedure adopted by your company in soliciting proxies at the elections.¹ Do I understand that the company sends to your office a group of proxies² to be distributed by the agents to the policyholder for signature?

Mr. HAYNIE. Not distributed to them. They are taken to them and signatures are secured by the agent from the policyholder.

Mr. GESELL. How often is that done?

Mr. HAYNIE. Usually once a year.

Mr. GESELL. How many do you get signed on the average a year?

Mr. HAYNIE. I would say about 100 per agent.

Mr. GESELL. Do you give the men a time limit within which to get those signed?

Mr. HAYNIE. Usually, yes.

Mr. GESELL. Will you tell us the procedure from the time you receive them from the home office until you send them back?

Mr. HAYNIE. They are usually distributed amongst the agents as I get them from the home office, with the instructions I have received from the home office, and those proxies are taken out by the agents and the signatures are secured by the agents and returned to me. I check them by policy number and name and return them to the home office, all proxies that have been signed. Those that have not been signed are retained in my office until I know that the signature cannot be secured, and then I return all unsigned proxies to the home office.

Mr. GESELL. About what period of time does the agent have to get them signed?

Mr. HAYNIE. About 2 to 3 weeks.

Mr. GESELL. Is he paid anything especially for getting them signed?

Mr. HAYNIE. No.

Mr. GESELL. Do you make any comparison of the signatures in your office?

Mr. HAYNIE. No; I have no means of comparison.

Mr. GESELL. That is done in the home office?

Mr. HAYNIE. It is done in the home office, yes; that is my impression.

Mr. GESELL. Occasionally are proxies sent back to you from the home office with instructions to check the validity of signatures?

Mr. HAYNIE. On a number of occasions I have gone and had it re-signed myself and mailed back to the home office.

Mr. GESELL. How many come back to you from the home office?

Mr. HAYNIE. Oh, I would say possibly 25.

Mr. GESELL. Are those cases where the home office believes the signature doesn't correspond with that of the policyholder?

¹ Supra, p. 6105 et seq.

² Copy of a proxy of Home Friendly Insurance Co. was entered as "Exhibit No. 1073," see appendix, p. 6338.

Mr. HAYNIE. That is correct, yes.

Mr. GESELL. And in those cases you check back and get the correct signature?

Mr. HAYNIE. Well, that is as far as I would know. I would go to the policyholder by the policy number and name appearing on the proxy and I would get that person to sign his name.

Mr. GESELL. You would do that personally?

Mr. HAYNIE. Yes; I would do that personally. I have given some to my staff managers, but very few. I usually do that myself.

Mr. GESELL. In most of those cases do you believe it is correct to say that the signatures were either made by the agent in the first place, or obtained from the wrong person?

Mr. HAYNIE. Well, I would be unable to state. I wouldn't be able to state that positively.

Mr. GESELL. What is your belief as to the reason why these 20 cases or so crop up each year?

Mr. HAYNIE. Well, frankly I don't know that I could give you a definition. I would say possibly that a person's handwriting would change if they are writing standing up, or something like that.

Mr. GESELL. Do you check with the agent who obtained the original signature to determine the circumstances under which he obtained that signature when it is sent back?

Mr. HAYNIE. No; I have no way of doing that.

Mr. GESELL. The agents don't witness proxies?

Mr. HAYNIE. Oh, yes; they do; they witness each proxy.

Mr. GESELL. Then you would have a way?

Mr. HAYNIE. I would have a way, only through that means.

Mr. GESELL. But you don't do it.

Mr. HAYNIE. Well, naturally, they have to be all witnessed before they are mailed to the home office. I see that they are in order before they are mailed.

Mr. GESELL. I say you don't check back with the agent who witnessed the original proxy.

Mr. HAYNIE. No.

Mr. O'CONNELL. When you take the proxy to the policyholder for signature would you then ascertain whether or not the policyholder had signed the proxy originally?

Mr. HAYNIE. I would naturally ask them if they had, and they would state that they did sign that, and, of course, I would get them to re-sign it again.

Mr. O'CONNELL. That is your general experience that these policyholders would say they had signed it before?

Mr. HAYNIE. That is correct, yes; I would ask them. Of course, the proxy is usually read to the policyholder before he signs. Of course, occasionally they decline to sign. Well, we have no way of compelling them to. We just return it to the home office unsigned, stating on the back of the proxy—

Mr. O'CONNELL (interposing). I am confining myself to the cases that have been signed but you have brought them back to be re-signed?

Mr. HAYNIE. That is right, I usually do; yes.

Mr. GESELL. Mr. Haynie, can you tell us a little about the procedure of your office with respect to the handling of cases where you find that you have written an impaired risk or a risk which was not up

to the standard of the company. Do you adopt any special procedure for getting that policyholder off your books?

Mr. HAYNIE. I would like for you to make that a little clearer.

Mr. GESELL. Very well. Do you recognize that letter which I show you as a copy of a letter which you wrote to Mr. MacCubbin?

Mr. HAYNIE. Yes; I recognize that.

Mr. GESELL. This letter, dated April 11, 1938, directed to Mr. F. Chase MacCubbin, vice president of your company. It states [reading "Exhibit No. 1087"]:

In reply to your letter of April 8, regarding policy #1968770—Maggie Upshur. I paid this claim personally. I would not trust it to one of the agents to obtain the information that you have requested. This party, I have had trouble with before. She would not give me any information as to her age nor would she give me any information concerning her Baltimore Life policy. As you can see on her disability blank, from previous blanks that she is suffering from hypertension.

I have every reason to believe that the act she was playing on Saturday was a fake. She pretended she was going off in a spell and her husband was calling the doctor and giving her medicine all at the same time. I was trying to obtain the information that you required. I am confident that there is at least ten years difference in her age. The only thing I can do is to try and get her in a lapsed condition and cancel her policy.

I have paid number one blank and issued a second. If I am not right, kindly advise.

The portion I have in mind specifically is the sentence: "The only thing I can do is to try and get her in a lapsed condition and cancel her policy." Does that give you some idea of what I have in mind?

Mr. HAYNIE. Yes; I meant by that if she did not pay premiums, then she would be 4 weeks in arrears, that is 28 days, then the company has a right to cancel her policy. I had no way of getting her that way other than had she actually not paid the premiums herself. We had no way of denying her paying the premiums. We cannot deny anyone paying their premiums. When the collector calls there for it or if they come in our office we cannot turn anybody down; we have to accept their premiums.

Mr. GESELL. But you have no obligation to call and get the premiums?

Mr. HAYNIE. Oh, yes; we have an obligation.

Mr. GESELL. Where is that obligation stated?

Mr. HAYNIE. That obligation—we are to collect each premium.

Mr. GESELL. Is there any obligation upon you to make those calls in the policy?

Mr. HAYNIE. Yes; that is in the contract. We have to call. We agree to come there and collect the premiums each week.

Mr. GESELL. That is written in the policy?

Mr. HAYNIE. Well, no; it is not written in the policy.

Mr. GESELL. It is not written anywhere, is it?

Mr. HAYNIE. I don't know of its being written anywhere but it is a general agreement amongst the most of the insurance companies that we are to call and collect their premiums.

Acting Chairman DAVIS. It is a matter of general practice and known in the insurance field.

Mr. HAYNIE. That is correct; yes. That is the agreement between the policyholder and the insurance company.

Mr. GESELL. The company makes no specific agreement to call and collect the premium?

Mr. HAYNIE. That is correct.

Mr. GESELL. When you say "the only thing I can do is to try and get her in a lapsed condition" that indicates to me that you might do something affirmatively yourself.

Mr. HAYNIE. Not necessarily so; it is just a word that I may use there that we do in correspondence back and forth between ourselves. We wouldn't naturally turn down any money from the lady if she paid on her insurance. We could not do that. If she did become 4 weeks in arrears we would have to cancel her policy.

Mr. GESELL. I imagine, though, you would not adopt as strenuous methods as you might in the case of some other policyholder to keep the policy from getting in arrears.

Mr. HAYNIE. No.

Mr. GESELL. In other words, in a case like this you would live up only to what you felt your minimum obligations were under the practice of the company as adopted in your collections.

Mr. HAYNIE. Yes.

Mr. GESELL. And the agent wouldn't call back repeatedly as he might in some other case to keep the policy from lapsing.

Mr. HAYNIE. Well, I would say yes; that he would be obligated because he had made this call, probably, and if he had he had performed a duty that had been bestowed upon him.

Mr. GESELL. And you would tell the agent in this particular case not to become too energetic in trying to collect the premiums if she became in arrears.

Mr. HAYNIE. I doubt very much whether I would go to him direct and say that. I would insist on him going back each week repeatedly, day by day; after he had made his regular call there he would simply make his call the next week, and if the policyholder did not pay that would be up to the policyholder, I should think.

Mr. GESELL. Well, I just wanted to find out not so much what you thought as what was the practice. Have you had many cases of this kind in your office?

Mr. HAYNIE. Not a great deal. There are some.

Mr. GESELL. How many would you say a year?

Mr. HAYNIE. Oh, I would say a half dozen a year.

Mr. GESELL. I should like to file the letter referred to.

Acting Chairman DAVIS. It may be received.

(The letter referred to was marked "Exhibit No. 1087" and appears in full in the text on p. 6142.)

Mr. GESELL. Your practice in this connection is known at the home office, I take it.

Mr. HAYNIE. Oh, yes.

Mr. GESELL. I have no further questions.

Mr. O'CONNELL. Mr. Haynie, what did you mean when you said that you would try to do what you could to get the policy in a lapsed condition? You didn't make that very clear to me.

Mr. HAYNIE. Well, as I stated just now, it is more or less of just a saying in corresponding between the home office and myself.

Mr. O'CONNELL. You mean that you didn't mean that you would try?

Mr. HAYNIE. I didn't make any effort to get her in a lapsed condition or anything like that. I didn't take it upon myself personally.

Mr. O'CONNELL. Again, what did you mean by saying that you would try? Do you mean that you did not try?

Mr. HAYNIE. I did not; no. I did state in the letter, but I did not try; I didn't make a call on the policyholder.

Mr. O'CONNELL. You mean that you did not mean what you said in the letter?

Mr. HAYNIE. Frankly, I did not; no. I will put it in those words. It is simply a saying between ourselves—that is about the only way that I could explain it—corresponding backward and forth.

Mr. GESELL. It simply means, doesn't it, Mr. Haynie, that in other cases where the agent might call many times to keep a policy from lapsing, here you would only call once, kind of hoping in your own heart that she will lapse?

Mr. HAYNIE. Well, after all, I have no personal grievance or anything like that against the policyholder. Of course, naturally I feel toward one the same as I do to all.

Mr. GESELL. Now, will you answer my question? In this case it means that you will only call a minimum number of times?

Mr. HAYNIE. That is correct; just once a week.

Mr. GESELL. And not vigorously attempt to keep the policyholder from lapsing, as you would in the case of other policyholders in good health?

Mr. HAYNIE. That is correct.

Mr. GESELL. No further questions.

Acting Chairman DAVIS. You are excused, Mr. Haynie. The committee thanks you for your appearance.

Mr. HAYNIE. Thank you.

(The witness, Mr. Haynie, was excused.)

Mr. GESELL. Mr. Leith.

Acting Chairman DAVIS. Will you hold up your right hand? Do you solemnly swear that the statements you make in this inquiry shall be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. LEITH. I do.

TESTIMONY OF FENTON F. LEITH, VICE PRESIDENT, PEOPLES LIFE INSURANCE CO., WASHINGTON, D. C.

PEOPLES LIFE INSURANCE CO.

Mr. GESELL. Will you state your full name, please?

Mr. LEITH. Fenton F. Leith.

Mr. GESELL. You are connected with the Peoples Life Insurance Co.?

Mr. LEITH. I am.

Mr. GESELL. In what capacity are you connected with that company?

Mr. LEITH. I am vice president of the company.

Mr. GESELL. What are your particular duties? Are you in charge of the agents?

Mr. LEITH. Most of my duties are with the agents—field work; yes.

Mr. GESELL. Your company sells industrial insurance, does it not, Mr. Leith?

Mr. LEITH. Industrial and ordinary.

Mr. GESELL. Can you tell us how much industrial it has in force?

Mr. LEITH. We have a little over 100 million in force.

Mr. GESELL. That is all weekly-premium business, is it?

Mr. LEITH. Weekly premiums; yes, sir.

Mr. GESELL. How much ordinary have you in force?

Mr. LEITH. Twenty-two or -three million.

Mr. GESELL. Your company is a stock company or a mutual company?

Mr. LEITH. Stock company.

Mr. GESELL. In how many States does it operate at the present time?

Mr. LEITH. We operate in Virginia, West Virginia, Maryland, Delaware, and the District of Columbia.

Mr. GESELL. Do you sell industrial in all those States?

Mr. LEITH. We do; yes.

Acting Chairman DAVIS. Is that a Virginia corporation?

Mr. LEITH. District of Columbia.

Acting Chairman DAVIS. Where is your home office?

Mr. LEITH. Washington.

Mr. GESELL. How many agents does the company have at the present time?

Mr. LEITH. I can't give you the exact number. We have approximately 800 men in the field.

Mr. GESELL. Does that include both agents and builders, or canvassers?

Mr. LEITH. Yes.

Mr. GESELL. How many debit agents have you got?

Mr. LEITH. Well, I can't tell you exactly, but we have, I would say, 650.

Mr. GESELL. And the rest, or about 150, are——

Mr. LEITH (interposing). We have a good many superintendents, assistant superintendents, inspectors, and things of that kind.

Mr. GESELL. Do you have builders and canvassers?

Mr. LEITH. Yes; we do.

Mr. GESELL. How many of them do you have?

Mr. LEITH. I can't tell you.

Mr. GESELL. Can you give me some approximation?

Mr. LEITH. Well, we probably have 100, I would say.

Mr. GESELL. How are your agents paid?

Mr. LEITH. They are paid, most of them, commissions.

Mr. GESELL. Do they receive a salary for collecting their debit?

Mr. LEITH. In some cases they do, and in some cases we pay salaries, in some commissions. Most of our men receive a percent for collecting. In Washington we pay salaries on the debits for collecting, and commissions for business.

Mr. GESELL. And in all cases the men get commissions for business, do they not?

Mr. LEITH. Yes.

Mr. GESELL. What is the commission for business they receive?

Mr. LEITH. Industrial?

Mr. GESELL. Yes.

Mr. LEITH. We pay the men on the increase they make, the business they write over and above their lapses, 25 times.

Mr. GESELL. Times the net increase?

Mr. LEITH. Yes.

Mr. GESELL. Twenty-five times the net increase?

Mr. LEITH. Yes.

Mr. GESELL. How do you pay your managers?

Mr. LEITH. Salaries.

Mr. GESELL. Any commissions at all?

Mr. LEITH. They get commission on ordinary.

Mr. GESELL. Any commission on industrial?

Mr. LEITH. No commission on industrial.

Mr. GESELL. What about your assistants?

Mr. LEITH. They get commission on the increase that their staff makes.

Mr. GESELL. Times increase again?

Mr. LEITH. Yes.

Mr. GESELL. How many times?

Mr. LEITH. Three times.

Mr. GESELL. Plus a salary?

Mr. LEITH. Plus a salary; yes, sir.

Mr. GESELL. Does your company have any quotas for its men?

Mr. LEITH. Yes.

Mr. GESELL. What are the quotas in the industrial department?

Mr. LEITH. We set up 35 cents a week. We have that to aim at. Of course, we don't make that.

Mr. GESELL. Is that 35 cents a week increase or writing?

Mr. LEITH. Increase.

Mr. GESELL. What is the quota in the ordinary department—\$2,000 a month?

Mr. LEITH. Yes; \$2,000 a month.

Mr. GESELL. How do you set these quotas?

Mr. LEITH. Well, we just ask that of the men.

Mr. GESELL. Are they made to live up to that quota?

Mr. LEITH. No; well, that is, we don't discharge a man if he doesn't make that. They aim to make that. If they don't make it they are not let out.

Mr. GESELL. Supposing a man fails to make it for a period of several weeks.

Mr. LEITH. That wouldn't affect his position at all.

Mr. GESELL. Have you ever dismissed people for failure to meet that quota?

Mr. LEITH. Not for failure to meet that quota. We might dismiss him for failure to make anything at all during a period of time.

Mr. GESELL. And in considering whether or not he would be dismissed, you would put his record up against the quota to see how he came out?

Mr. LEITH. Well, we would consider that; yes.

Mr. GESELL. Do your managers hold sales meetings?

Mr. LEITH. Managers do; yes.

Mr. GESELL. How frequent are those sales meetings?

Mr. LEITH. Well, I can't tell you definitely, but I think most districts hold a meeting once a week, a short meeting.

Mr. GESELL. Those are what we have been hearing called "pep" meetings?

Mr. LEITH. More or less that. They have reports and hear from the men.

Mr. GESELL. Does your company have contests?

Mr. LEITH. Yes; some.

Mr. GESELL. How frequent are the company-sponsored contests?

Mr. LEITH. Well, we have about two general contests during the year. I would say that some of the districts may have contests between that time.

Mr. GESELL. What kind of contests does your company have, these two a year?

Mr. LEITH. We don't have any set rule for that. For example, this year we had a contest giving the men a trip to New York. Sometimes we divide a certain sum of money among them.

Mr. GESELL. Sometimes they get a bonus?

Mr. LEITH. Yes.

Mr. GESELL. If they write a sufficient amount of business?

Mr. LEITH. Yes.

Mr. GESELL. That is applicable to industrial writings and ordinary writings?

Mr. LEITH. Yes.

Mr. GESELL. What kind of bonuses have the men got in the past in those contests?

Mr. LEITH. You mean the amount?

Mr. GESELL. Yes; how much of a bonus has it amounted to in cash?

Mr. LEITH. Well, I don't think I can tell you that without looking at the records. We might take a month and divide something like \$2,000 in prizes. I can't tell you without referring to the records exactly what a man would get.

Mr. GESELL. Would it mean that a man might get a bonus as high as \$50 or \$100?

Mr. LEITH. Yes.

Mr. GESELL. Higher than that?

Mr. LEITH. I would say not.

Mr. GESELL. In that neighborhood?

Mr. LEITH. Yes.

Mr. GESELL. What about agency turn-over? Do you have much turn-over in your company?

Mr. LEITH. Well, we have too much.

Mr. GESELL. Is this schedule which I show you now a record of turn-over in your company prepared from the records of your company?

Mr. LEITH. Yes; I recognize that. We prepared that. I think that that includes debit men.

Mr. GESELL. Debit men only?

Mr. LEITH. I think so; yes.

Mr. GESELL. I notice the bottom says, "The above does not include builders, canvassers, or loose men."

This schedule, as of August 15, 1939, shows that in January 1938 you had 605 debit men, and that during 1938 you employed a total of 494 men; that during 1938 you finalized 427 men. I should like to offer this schedule for the record.

Acting Chairman DAVIS. It may be inserted in the record.

(The schedule referred to was marked "Exhibit No. 1088" and is included in the appendix on p. 6352.)

Mr. GESELL. That brings your percentage of finals for debit men in excess of 65 percent, does it not?

Mr. LEITH. Yes.

Mr. GESELL. What are the causes of finals, Mr. Leith?

Mr. LEITH. I think it is in that record. While I haven't checked that, I think a great many of those finals are men who go into the business and don't like it, and stay in it a very short time. Our finals on men who have been with the company a year or more are very small.

Mr. GESELL. You find if a man stays a year, he is apt to be a good agent and stay a good while?

Mr. LEITH. Yes. We employ a good many men who have had no previous experience and we find those men sometimes stay a week, 2 weeks, or a month, and don't like the business and get out, and that brings up the percentage of finals very greatly.

Mr. GESELL. I understand you might, for instance, replace one man several times in the course of the year.

Mr. LEITH. That is right.

Mr. GESELL. These finals are expensive to your business, aren't they?

Mr. LEITH. Very.

Mr. GESELL. They raise the cost of insurance?

Mr. LEITH. Yes; they do.

Acting Chairman DAVIS. Referring to your 1938 figures, can you tell how many who were in your employ on January 1 of that year were still in your employ December 31?

Mr. LEITH. I am afraid I couldn't answer that now.

Acting Chairman DAVIS. As you indicated, those 494 new men who were employed during the course of that year covered a good many duplications of the same job, did they not?

Mr. LEITH. Yes.

Acting Chairman DAVIS. The only way you could get a net result, it seems to me, would be to see how many of the men employed at the beginning of the year were still in your employ at the end of the year.

Mr. LEITH. That is right.

Mr. GESELL. What is the average period of service of an agent in your company; about a year and a half or 2 years?

Mr. LEITH. Well, after a year it is much longer than that.

Mr. GESELL. That wasn't what I asked you. I asked you what the average period of service of your agents was.

Mr. LEITH. Well, I don't know how that would figure, but the majority of our men have been there for a number of years; debit men.

Mr. GESELL. Taking all of the agents who come into your company over a period of time, what would you believe would be a good estimate of the average period of service, service of all of those; not just those that lasted over a year, but all of them?

Mr. LEITH. The average length of service for the men? It would be only a guess. I think it would be 5 years anyway.

Mr. GESELL. You think it would be that high?

Mr. LEITH. Yes; I do.

Mr. GESELL. In spite of the fact that you have over half of the agents going out within the first year?

Mr. LEITH. It is my impression that that report includes canvassers, that 400 let out. It doesn't say so on the bottom. I didn't prepare that, but it sounds rather high. We have a number of men that have been with us 18, 20, 25 years. That would run it up.

Mr. GESELL. That schedule was submitted to us by your company and says it does not include canvassers. If there is anything wrong

with that schedule, we would like to know it, and I would appreciate your advising us after you leave the stand of any change.

Mr. LEITH. I would be glad to. I couldn't do that without referring to the records. I would like to check on it with your permission.

Mr. GESELL. In that check would it be possible for you to take some recent date and tell us the number of agents in your company who had been with the company less than a year, those who had been with the company less than 2 years, those who had been with the company less than 5 years, so we would have some idea? ¹

Mr. LEITH. I could give you that information; yes.

Mr. GESELL. I would appreciate your doing that.

Now, we were discussing the expense of this turn-over. It is an expensive proposition.

Mr. LEITH. Yes.

Mr. GESELL. How much does it cost you to train a man?

Mr. LEITH. Well, I don't know that I could give you the actual cost of that, but it is expensive because we have to have a man with him. To train a man properly it takes a month, 2 months—if he is properly trained—4 to 6 weeks, anyway.

Mr. GESELL. Do you find that when a man leaves a debit it is apt to increase the lapse rate?

Mr. LEITH. It very often does. Not necessarily, but it does in very many cases.

Mr. GESELL. If an agent has been on a debit some period of time, I imagine some of the policyholders stay with him because of his personality and their confidence in him, and if he leaves I should think it would be quite apt to occur that you would have an increase of the lapse rate on that debit for a while.

Mr. LEITH. Well, I don't believe we have very much lapse due to that.

Mr. GESELL. There is some?

Mr. LEITH. Yes, some.

Mr. GESELL. Can you give us any estimate of what it costs to replace a man, taking into account the training period and all the other factors involved?

Mr. LEITH. No, I couldn't.

Mr. GESELL. Would you say it would be over \$300?

Mr. LEITH. It wouldn't be over that, no; I don't think it would be that much.

Mr. GESELL. Can you give us what you think the figure would be, about? I realize it is an estimate.

Mr. LEITH. It would probably be one hundred fifty, two hundred dollars. That is a guess.

Mr. GESELL. Does your company have any arrangement whereby the policyholder can pay at the local office and receive a reduction in premiums?

Mr. LEITH. No, we haven't.

Mr. GESELL. Have you ever had that in the past?

Mr. LEITH. We have never had that.

Mr. GESELL. Can you tell us why you don't?

Mr. LEITH. Well, we have agents to collect that. It would probably be right expensive. We wouldn't have the room for them, in the first

¹ Subsequently submitted and entered in the record on September 11, 1939, as "Exhibit No. 1132," which appears in the appendix on p. 6361.

place, we would have to have a separate office for that. Our men in the field collect anyway. Of course, we have had a good deal of office paying—they come in of their own accord and we have about as much as we can take care of.

MR. GESELL. Do you give these people who come in of their own accord any reduction in premium?

MR. LEITH. No. Most of those people come in for the reason that they have missed the collector, they were not at home when he called, or they are working places where they couldn't be seen.

MR. GESELL. You have quite a bunch of them coming in every week?

MR. LEITH. Yes; in some places. We do in Washington. In some cities we have very little.

MR. GESELL. I was interested to know why you don't give some reduction to people who pay in that manner consistently over a period of time.

MR. LEITH. Those people who come in don't come regularly. They may come in a couple of times a year. As a whole, it makes a large office pay but the same people don't come in continuously.

MR. GESELL. Do you still give the agent his commission on that collection?

MR. LEITH. Yes.

MR. GESELL. Do you sell to both white and colored lives?

MR. LEITH. In some States.

MR. GESELL. Some States you do and some you don't?

MR. LEITH. Yes.

MR. GESELL. What about here in the District?

MR. LEITH. We sell to both here, industrial.

MR. GESELL. Do you have any rules with respect to industrial insurance to people on relief?

MR. LEITH. People on relief?

MR. GESELL. Yes.

MR. LEITH. No; I don't think so.

MR. GESELL. Do you have any rules with respect to the percentage of family income you will be allowed to collect out of any one family for insurance premiums?

MR. LEITH. No; I don't think we go into that.

MR. GESELL. What percent do the agents receive in commission for collections?

MR. LEITH. Twenty percent.

MR. GESELL. And you said in some places you give them a salary.

MR. LEITH. We pay a salary in the District of Columbia.

MR. GESELL. How does that salary run, Mr. Leith?

MR. LEITH. That is based on 20 percent. It may vary, but in cities like Washington where the business is consolidated, a man can get over a larger territory and we have always paid salaries here.

MR. GESELL. Do you have any monthly industrial business?

MR. LEITH. No. We don't have any monthly business. Of course, a good deal of that is paid by the month.

MR. GESELL. That is the point I was getting at.

MR. LEITH. Some of that is paid by the month but it is debited on a weekly basis.

MR. GESELL. The premium is computed on the basis of weekly premiums but some of those people pay by the month.

MR. LEITH. Yes; they pay by the month.

Mr. GESELL. You find the people who receive monthly pay are apt to pay by the month.

Mr. LEITH. They are apt to pay by the month.

Mr. GESELL. I have no further questions.

Acting Chairman DAVIS. You are excused, and the committee appreciates your appearance and testimony.

Mr. LEITH. Would you like that report of agents to be prepared?

Mr. GESELL. Yes; if you can furnish that material to us, we will insert it in the record. I will have someone get in touch with you about it, Mr. Leith.

(The witness, Mr. Leith, was excused.)

Mr. GESELL. Mr. Owens.

Acting Chairman DAVIS. Do you solemnly swear the statements you make in this inquiry shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. OWENS. I do.

TESTIMONY OF LEROY ERNEST OWENS, AGENT, PEOPLE'S LIFE INSURANCE CO., WASHINGTON, D. C.

Mr. GESELL. Will you state your full name please, sir?

Mr. OWENS. Leroy Ernest Owens.

Mr. GESELL. Are you an agent for the People's Life Insurance Co.?

Mr. OWENS. Yes, sir.

Mr. GESELL. How long have you been an agent for that company?

Mr. OWENS. Well, I have been in about 10 or 11 years.

Mr. GESELL. Are you a so-called debit man? Do you have a debit?

Mr. OWENS. Yes, sir.

Mr. GESELL. Where is your debit?

Mr. OWENS. It runs from North Capitol to Seventh Street NW. and from D NW. to M NW.

Mr. GESELL. What is the size of the debit in terms of collections?

Mr. OWENS. About \$210, \$212. It varies, you know.

Mr. GESELL. How many policyholders are there on the debit?

Mr. OWENS. I couldn't tell you exactly.

Mr. GESELL. Approximately.

Mr. OWENS. I think it is around 800.

Mr. GESELL. Around a hundred?

Mr. OWENS. No; 700 or 800. I don't count them up.

Mr. GESELL. What is your average pay a week?

Mr. OWENS. Well, it depends on my increase. I average over \$50 a week. Sometimes I get more.

Mr. GESELL. Do you work Mondays through Saturdays?

Mr. OWENS. I don't work Saturdays.

Mr. GESELL. Mondays through Fridays?

Mr. OWENS. Five days a week.

Mr. GESELL. What are your hours a day?

Mr. OWENS. I don't have any particular hours.

Mr. GESELL. How does it run? You must be able to give us some idea of how long you work.

Mr. OWENS. Well, I don't average over 8 hours at the longest.

Mr. GESELL. Eight at the lowest?

Mr. OWENS. Not over 8 hours a day.

Mr. GESELL. You would report at 8 in the morning?

Mr. OWENS. Eight o'clock.

Mr. GESELL. And you are done, then, on the average, by 6 o'clock at night?

Mr. OWENS. No; I don't work that late. I am done sometimes about 4, around 3 and 4 o'clock.

Mr. GESELL. Do you have meetings in the morning?

Mr. OWENS. Only once in awhile, occasionally.

Mr. GESELL. How often—Monday, Wednesday, and Friday mornings?

Mr. OWENS. Well, sometimes; sometimes we don't.

Mr. GESELL. Well, I realize that in all of these things there may be some variation, but generally do you have three meetings a week, Monday and Wednesday and Friday?

Mr. OWENS. We have cases come up, they don't know whose debit they are in, they have moved; they have to call those things up in the morning and see who the case belongs to, what debit the case is in.

Mr. GESELL. Do you know what I mean by a pep talk?

Mr. OWENS. Yes.

Mr. GESELL. How often do you have them?

Mr. OWENS. About once a month.

Mr. GESELL. What happens at these pep talks?

Mr. OWENS. What do you mean—what happens?

Mr. GESELL. Who presides, the manager?

Mr. OWENS. The superintendent.

Mr. GESELL. What does he say?

Mr. OWENS. Well, he asks us what we are going to write for the week, how much we can make for the week, how much new business we think we can get, how much ordinary, how much industrial.

Mr. GESELL. You mean he just asks you how much business you think you can turn in?

Mr. OWENS. Yes.

Mr. GESELL. That doesn't pep me up very much to hear you say that.

Mr. OWENS. He doesn't demand very much. He says to try to get so much a week, a couple of dollars, or something like that.

Mr. GESELL. Do you put that up on the board?

Mr. OWENS. No, sir.

Mr. GESELL. Does he call the board in the morning?

Mr. OWENS. No, sir; only when we have an ordinary drive or contest on, once a month or something like that.

Mr. GESELL. Does he discuss the individual records of the men in these pep meetings?

Mr. OWENS. Once in awhile; very seldom.

Mr. GESELL. When he does, what does he say?

Mr. OWENS. He just calls for the business that has been written—each morning he calls for the business each man has written—and at the end of the week he sees who is the winner for the week, or something like that.

Mr. GESELL. How long do these meetings take?

Mr. OWENS. From 15 minutes to a half hour.

Mr. GESELL. Then he must say an awful lot more than you have told us he says. Can't you give us some better idea of what takes place in the meeting?

Mr. OWENS. Well, all I can tell you is we just have these contests once in awhile, and he asks each one how much he thinks he can write for a month or 2 months or a quarter, and we just tell him. Sometimes one staff takes on another staff and one staff bets the other staff they will make more increases than the other staff. That is among the agents—see? That is among ourselves.

Mr. GESELL. Does he point out those who are doing badly and ask them why they haven't got more increase?

Mr. OWENS. Oh, once in awhile he praises them.

Mr. GESELL. You say he praises those that make their allotment, and does the opposite for those that don't?

Mr. OWENS. He gives them praise for what they do.

Mr. GESELL. Does he give them discredit for what they don't do?

Mr. OWENS. No, sir; he doesn't.

Mr. GESELL. Do you ever hear a man warned he will lose his job if he doesn't make a better increase?

Mr. OWENS. No.

Mr. GESELL. You never heard that at all?

Mr. OWENS. No, sir.

Mr. GESELL. Coming back to your debit, is it a colored debit?

Mr. OWENS. Yes.

Mr. GESELL. What percentage of the people are colored on your debit?

Mr. OWENS. Practically all of mine are colored.

Mr. GESELL. Are many of the people on your debit on relief?

Mr. OWENS. Quite a few of them.

Mr. GESELL. What percentage would you say are on relief in your debit?

Mr. OWENS. Oh, I guess two-thirds.

Mr. GESELL. About two-thirds of them on relief?

Mr. OWENS. Yes.

Mr. GESELL. Do many of them pay you with relief checks—pay their premiums with relief checks?

Mr. OWENS. Very few.

Mr. GESELL. Some of them do.

Mr. OWENS. Some of them, but very few.

Mr. GESELL. Do you have a pretty high lapse rate in your debit?

Mr. OWENS. I have. I guess I have around \$1.50, \$1.75 a week.

Mr. GESELL. So to make a 25-cent increase you may have to write \$2 of business.

Mr. OWENS. Yes; to make 25 cents worth of increase I have to write \$2 worth of business.

Mr. GESELL. Some of these families are pretty hard up, are they not, on your debit?

Mr. OWENS. Quite a few of them.

Mr. GESELL. Would you say in some of these families on your debit a rather substantial portion of their income is going to premiums?

Mr. OWENS. I don't know; I couldn't answer that.

Mr. GESELL. You have some idea of what their relief checks are, haven't you? What the income of the family is?

Mr. OWENS. Relief checks are different; people draw different salaries; it depends on where they are working and how many hours they are working.

Mr. GESELL. Are there other companies selling in the same debit—other companies selling to your policyholders?

Mr. OWENS. Oh yes; quite a few.

Mr. GESELL. Quite a few?

Mr. OWENS. Yes.

Mr. GESELL. Do you find that in the families where you sell they may have policies in other companies as well?

Mr. OWENS. Yes.

Mr. GESELL. Does it sometimes get to be quite a question which collector or which man is going to get there first to get the premium?

Mr. OWENS. Well, I don't know; I always aim to be the first man there; that's all I can say.

Mr. GESELL. That is just what I was getting at; it is quite a scramble sometimes, isn't it?

Mr. OWENS. It is quite hard to get the money out of them sometimes. I don't have any trouble getting mine.

Mr. GESELL. What kind of contests do you have, Mr. Owens?

Mr. OWENS. Well, once in 2 or 3 months the agents get together and put on a little contest; one staff takes on the other staff, you know. We put up a little prize, dinners or something. The losing staff takes the other staff to dinner at the hotel or somewhere else.

Mr. GESELL. You may chip into a kitty and have a cash prize or something like that?

Mr. OWENS. Well, mostly dinners and things like that. That is among ourselves individually, among the agents, to create enthusiasm amongst the boys.

Mr. GESELL. I have no further questions.

Acting Chairman DAVIS. You are excused. We appreciate your appearance.

(The witness, Mr. Owens, was excused.)

Mr. GESELL. Mr. Sheehan, please.

Acting Chairman DAVIS. Do you solemnly swear that the statement you shall make in this inquiry will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SHEEHAN. I do.

TESTIMONY OF EDWARD J. SHEEHAN, ASSISTANT SUPERINTENDENT, AMERICAN NATIONAL INSURANCE CO., WASH., D. C.

AMERICAN NATIONAL INSURANCE CO.

Mr. GESELL. Will you state your full name?

Mr. SHEEHAN. Edward J. Sheehan.

Mr. GESELL. Are you an agent with the American National Insurance Co.?

Mr. SHEEHAN. Not now; I have just been promoted to assistant superintendent.

Mr. GESELL. Fine. How long were you agent?

Mr. SHEEHAN. About 9 months?

Mr. GESELL. About 9 months?

Mr. SHEEHAN. Yes.

Mr. GESELL. You are now assistant superintendent here in Washington?

Mr. SHEEHAN. That is right.

Mr. GESELL. How many agents do you have under you now?

Mr. SHEEHAN. Oh, I have about six under me.

Mr. GESELL. You are mostly busy with industrial business, are you?

Mr. SHEEHAN. Oh, yes.

Mr. GESELL. While you were an agent, can you tell us a little about your debit? How large was it?

Mr. SHEEHAN. It was approximately \$45.

Mr. GESELL. Where was it?

Mr. SHEEHAN. In the northeast section.

Mr. GESELL. Was that white business or colored business?

Mr. SHEEHAN. All white.

Mr. GESELL. Do those policyholders pay by the week or by the month, semimonthly, or how does it go?

Mr. SHEEHAN. That varied as they got paid, as usual; some monthly, some weekly.

Mr. GESELL. What percent would you say weekly?

Mr. SHEEHAN. Oh, I would say about 60 percent.

Mr. GESELL. About what percent a month?

Mr. SHEEHAN. About 40 percent a month.

Mr. GESELL. Do you have a quota at the American National?

Mr. SHEEHAN. No; there is no sweat—no set quota on writing business.

Mr. GESELL. No "sweat" quota?

Mr. SHEEHAN. No set quota; excuse me.

Mr. GESELL. You mean by that you are not held to a quota.

Mr. SHEEHAN. Yes.

Mr. GESELL. But you do have a quota.

Mr. SHEEHAN. Yes.

Mr. GESELL. What is the quota?

Mr. SHEEHAN. In other words, it is a pledge we have each day, and the man tries to hold to his pledge; we have a meeting, you know.

Mr. GESELL. You mean when you call the board in the morning each fellow says how much he is going to write that day?

Mr. SHEEHAN. That is right.

Mr. GESELL. What is the pledge usually that the men make a day?

Mr. SHEEHAN. Well, it all varies; it depends on the ability of the man; usually some men pledge a dollar and some a half dollar, and it all depends on what they feel they can write.

Mr. GESELL. What did you usually pledge?

Mr. SHEEHAN. My usual pledge was conservative—50 cents.

Mr. GESELL. How much business do you have to write to make that increase?

Mr. SHEEHAN. Well, I would say about \$1 or \$1.50; very small.

Mr. GESELL. Small by comparison.

Mr. SHEEHAN. That is right.

Mr. GESELL. What was your weekly salary?

Mr. SHEEHAN. Well, it varied at times. I would make sometimes \$20, sometimes \$25, sometimes more than that.

Mr. GESELL. Sometimes it might be as low as \$10 or \$12?

Mr. SHEEHAN. That's right.

Mr. GESELL. How are the agents paid—times increase plus a commission for collection?

Mr. SHEEHAN. That's right.

Mr. GESELL. How much times increase do you pay?

Mr. SHEEHAN. Twenty times—25 times for the first 15 weeks.

Mr. GESELL. Tell us a little more about these meetings in the morning. After the manager has called the board and you have made your pledges, what happens then?

Mr. SHEEHAN. Well, the chief objective is to pep up the men and stimulate production.

Mr. GESELL. Tell us what he says.

Mr. SHEEHAN. Well, he usually instructs the men how to make a call and sell a policy, you understand.

Mr. GESELL. What time of the morning is this?

Mr. SHEEHAN. We usually report at the office at 7:45.

Mr. GESELL. And the purpose of the meeting is to pep the men up.

Mr. SHEEHAN. That is right.

Mr. GESELL. So he tells them how to make a sale.

Mr. SHEEHAN. That is right.

Mr. GESELL. They have been making sales pretty steadily over some period of time, haven't they?

Mr. SHEEHAN. That is true, but maybe they are not successful, so you try a different line—there are always new lines you can use.

Mr. GESELL. You mean a door opener.

Mr. SHEEHAN. That's right.

Mr. GESELL. Tell us some of these door openers he gives you.

Mr. SHEEHAN. Well, for instance, you might be calling on a regular old policyholder and collecting, and you would ask the lady's name next door and in that way that is a very fine opener; you can get in that way by saying that "Mrs. So and So recommended you to me," and you get in the door that way; that is one of the best ones I used to sell.

Mr. GESELL. Give me some more.

Mr. SHEEHAN. Well, another one is making a little survey in the neighborhood. You really are making a survey; you are finding out what the program of their insurance is and whether they could stand any more or not without overloading them, and you would like to ask them a few questions, tell them who you are, and what company you operate from.

Mr. GESELL. You mean you go in and say, "Mrs. Jones, I am not here to sell you insurance. I am here to conduct a survey."

Mr. SHEEHAN. That is right.

Mr. GESELL. What other way do you get in the door?

Mr. SHEEHAN. Well, I don't use any other ways myself. I don't know just what the other agents do.

Mr. GESELL. You said, I thought, that the manager gives you some of these door openers at the meetings. You have heard him suggest other means, haven't you?

Mr. SHEEHAN. That is true, too, but I just can't think of any more offhand; I really don't.

Mr. GESELL. Do you have little cards and leaflets that you hand around and things like that?

Mr. SHEEHAN. Yes.

Mr. GESELL. That doesn't pep me up a great deal. Does he say anything else?

Mr. SHEEHAN. Well, not exactly. I really can't think of anything.

Mr. GESELL. Does he tell you that when the people say "no" they don't mean "no"?

Mr. SHEEHAN. That's right; that's right.

Mr. GESELL. That if you knock on enough doors you are going to hit?

Mr. SHEEHAN. That's right.

Mr. GESELL. Things of that sort.

Mr. SHEEHAN. Yes.

Mr. GESELL. Are there any people on relief on this debit you had?

Mr. SHEEHAN. Very few.

Mr. GESELL. There were some?

Mr. SHEEHAN. There were some.

Mr. GESELL. Your company has no rules with respect to selling policies to people on relief?

Mr. SHEEHAN. Oh, yes. We don't like to sell a policy to a person on relief with a high premium because eventually it will be a lapse.

Mr. GESELL. So your company's rules are to sell to people on relief policies of low premium?

Mr. SHEEHAN. That is right.

Mr. GESELL. You stay out of the endowment and 20-pay life and write some whole life policies?

Mr. SHEEHAN. No; I always sell a policy to suit the need of the people. A person in old age, of course, naturally, I would write whole life, but a baby and young people, I would write 20-pay or endowment on them.

Mr. GESELL. How do you know the baby needs an endowment policy?

Mr. SHEEHAN. Well, we don't really know until the policy matures.

Mr. GESELL. You get paid more for placing an endowment policy, don't you?

Mr. SHEEHAN. No, no; we get paid all the same.

Mr. GESELL. Let me see about that. Suppose you sold a baby a \$250 whole life policy or you sold a baby a \$250 20-year endowment policy. Would you get paid more for selling the endowment policy?

Mr. SHEEHAN. No, sir.

Mr. GESELL. Aren't you paid times premium increase?

Mr. SHEEHAN. That is right. It all depends on the amount of the premium we write.

Mr. GESELL. If those two policies were issued, \$250, wouldn't you get more for selling the endowment policy if the premium would be higher?

Mr. SHEEHAN. That is if the premium would be higher.

Mr. GESELL. It would be, wouldn't it?

Mr. SHEEHAN. That all depends on the age.

Mr. GESELL. Is there any age where the endowment policy is less expensive than a whole life for the same protection?

Mr. SHEEHAN. May I have that question again?

Mr. GESELL. Let's take a \$250 coverage. Is there any age when it is cheaper for a person to buy a 20-year endowment than it is to buy a whole life policy?

Mr. SHEEHAN. Oh, yes.

Mr. GESELL. What age would that be?

Mr. SHEEHAN. Well, if a person is younger, naturally they are going to receive more insurance for the premiums they pay.

Mr. GESELL. That is not the question I asked you. Premiums compute higher, don't they, for endowment policies, always?

Mr. SHEEHAN. Oh, yes; definitely.

Mr. GESELL. So it is to your advantage to sell endowment insurance in terms of your pay check?

Mr. SHEEHAN. Well, yes; when you look at it that way.

Mr. GESELL. Well, that is the way I look at it.

Mr. SHEEHAN. Yes; sure.

Mr. GESELL. What kind of contests do you have over in your office?

Mr. SHEEHAN. Well, recently we haven't been having any contests at all, but we have had some cash prizes which are given out weekly on Saturday mornings.

Mr. GESELL. How big do these cash prizes run?

Mr. SHEEHAN. They average from five to ten dollars.

Mr. GESELL. Where does the money come from?

Mr. SHEEHAN. It is put in by the agents.

Mr. GESELL. They chip in?

Mr. SHEEHAN. Yes; and by the superintendent and assistants.

Mr. GESELL. They chip in and put their money in a kitty?

Mr. SHEEHAN. Yes.

Mr. GESELL. Now, when you were out on the debit, Mr. Sheehan, were other companies soliciting in that same area?

Mr. SHEEHAN. Oh, yes.

Mr. GESELL. Quite a lot of competition to get there first?

Mr. SHEEHAN. Well, I don't know. I usually got mine; they usually got their's, too, I guess.

Mr. GESELL. Have you found cases where agents of competing companies collected in advance from a policyholder so you were not able to keep the payments up on policies?

Mr. SHEEHAN. Yes; that has happened.

Mr. GESELL. In other words, one agent may get there and take the money on an advance so the policyholder isn't able to meet the current payments on the policies in your company.

Mr. SHEEHAN. That is right.

Mr. GESELL. Your company sells 15-year endowments, doesn't it?

Mr. SHEEHAN. Yes.

Mr. GESELL. Did you sell many of those?

Mr. SHEEHAN. No; I don't believe I ever sold one of those.

Mr. GESELL. What kind of endowments did you sell mostly?

Mr. SHEEHAN. Twenty-year endowment.

Mr. GESELL. I have no further questions.

Acting Chairman DAVIS. Thank you. You are excused, Mr. Sheehan.

(The witness, Mr. Sheehan, was excused.)

Mr. GESELL. Mr. Gimbel.

Acting Chairman DAVIS. Do you solemnly swear that the statement you make in this inquiry shall be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. GIMBEL. I do.

TESTIMONY OF SAMUEL GIMBEL, AGENT, BALTIMORE LIFE
INSURANCE CO., WASHINGTON, D. C.

BALTIMORE LIFE INSURANCE CO.

Mr. GESELL. What is your full name, sir?

Mr. GIMBEL. Samuel Gimbel.

Mr. GESELL. With what company are you connected?

Mr. GIMBEL. Baltimore Life.

Mr. GESELL. Are you an industrial agent here in Washington?

Mr. GIMBEL. Yes, sir.

Mr. GESELL. Where is your debit?

Mr. GIMBEL. Well, it is one of these scattered debits. I have to use a car to cover it. It runs from Logan Circle up to Petworth, Brightwood, Connecticut Avenue, and out there.

Mr. GESELL. What is the size of the debit?

Mr. GIMBEL. Seventy-five.

Mr. GESELL. \$75?

Mr. GIMBEL. Yes.

Mr. GESELL. How many policyholders?

Mr. GIMBEL. I guess about 200.

Mr. GESELL. What do you average a week?

Mr. GIMBEL. We have a minimum wage of \$23.75. That includes the car. Twenty dollars and \$3.75 for the car. It all depends on how much gas we use. I figure on \$25.

Mr. GESELL. You are sure to get the \$23.75?

Mr. GIMBEL. Yes, sir.

Mr. GESELL. Do you have a quota you have to meet?

Mr. GIMBEL. Well, they always want us to be on increase. They don't tell us exactly how much, but they always want us to be on increase instead of decrease.

Mr. GESELL. Do you make a pledge when they call the board in the morning?

Mr. GIMBEL. Once in a while they ask you, "Do you think you will write \$1 or \$1.50 this week?" And you say, "Yes." If you don't do it, they forget about it.

Mr. GESELL. How much business do you have to write on your debit to make a 25-cent increase?

Mr. GIMBEL. About a dollar a week.

Mr. GESELL. How are you paid on your commissions for increase? What times?

Mr. GIMBEL. Twenty-five times. They pay 15 after the policy is issued and they hold 10 in reserve for 13 weeks. At the end of 13 weeks if you have a 95-percent collection you get the extra 10. That is divided up into 13 weeks, too. They increase your salary.

Mr. GESELL. Is your debit a white or colored debit?

Mr. GIMBEL. All white.

Mr. GESELL. Are there many people on relief in your debit?

Mr. GIMBEL. Very few. I don't think there is any that I have come across. It is in a better section of the city.

Mr. GESELL. No Negroes on your debit at all?

Mr. GIMBEL. We have a separate staff for the whites and I am on the white staff.

Mr. GESELL. Does your company sell the same kind of insurance to the colored as it does to the white lives?

Mr. GIMBEL. I don't think so. I have never sold colored, but I think there is a little difference there.

Mr. GESELL. What do you understand the difference to be?

Mr. GIMBEL. Some of them take straight life at 85, endowment at 85, and they only sell them an endowment for \$500 at the highest, unless probably if it is a professional man, a doctor, or a lawyer.

Mr. GESELL. And some of the straight-life policies, they don't sell them?

Mr. GIMBEL. Ordinary? No; not at all. Just industrial.

Mr. GESELL. Is there a pretty big turn-over in your office?

Mr. GIMBEL. Well, we have around 19 or 20 agents and the colored debits are the large debits. The whites are the small debits. Most of the colored debits run from \$85 to \$100 and up.

Mr. GESELL. How many agents are there in the office?

Mr. GIMBEL. Nineteen or twenty. We have a couple of canvassers.

Mr. GESELL. Are many new men coming in there each year?

Mr. GIMBEL. I have only been with them the tenth month. Most of the fellows change around.

Mr. GESELL. How many men have come in, would you say, in the last 8 months?

Mr. GIMBEL. About 8 or 10, I imagine.

Mr. GESELL. What sort of training did they give you when you came on?

Mr. GIMBEL. Well, the assistant went out with me. I had previous experience with another company. He went out one week and introduced me to the people. They don't really give you any training at all. They introduce you to people and explain the policies to you.

Mr. GESELL. What do they say when they introduce you on the debit?

Mr. GIMBEL. "This is your new collector. The other man got a better job and resigned," or something. He will look at the book and check his premium book with your book that you carry, to see if it is O. K.

Mr. GESELL. There is no special training of any sort given to you?

Mr. GIMBEL. No.

Mr. GESELL. Was that just because you were an experienced man, or does that apply to all men?

Mr. GIMBEL. So far as I have been there I don't think they have gone out more than 2 weeks with any man at any time. They will come back maybe a month later and go out again to sort of check up on his books.

Mr. GESELL. To see how he is coming along?

Mr. GIMBEL. Yes.

Mr. GESELL. Where were you before you were with the Baltimore Life?

Mr. GIMBEL. With the Equitable Life here in Washington.

Mr. GESELL. What sort of debit did you have there?

Mr. GIMBEL. There I had a downtown debit, where I called on Government buildings and department stores, from Fourteenth and F to Seventh and F.

Mr. GESELL. Did you go right from one company to the other?

Mr. GIMBEL. No; I went into a different line of business for a while.

Mr. GESELL. Were conditions just about the same in the Equitable as in the Baltimore?

Mr. GIMBEL. They have a little different contract there, I think.

Mr. GESELL. I mean as far as——

Mr. GIMBEL (interposing). Yes; it is about the same.

Mr. GESELL. Did your manager have pep meetings?

Mr. GIMBEL. Well, he calls the board every morning.

Mr. GESELL. Tell me how he calls the board.

Mr. GIMBEL. He comes out and calls off "Has anybody written any business?" If you are blank, once in a while he might give you a dirty look. He don't mind you having a blank, but not consistently. He wants business every day, even if it is only a nickel he wants some every day.

Mr. GESELL. So you find you just have to come in every day with something?

Mr. GIMBEL. If you can.

Mr. GESELL. Have you ever written any "tombstones"?

Mr. GIMBEL. We have a surveying company that checks up on all policyholders. I understand one fellow wrote a "tombstone" and they caught up with him.

Mr. GESELL. So you are a little afraid to write "tombstones" now?

Mr. GIMBEL. I don't do it. It doesn't pay.

Mr. GESELL. How do these dirty looks that he gives some of the fellows who don't produce pep you up? I don't quite understand that.

Mr. GIMBEL. He doesn't always talk about business. Collections is one of the main things, of course. The whole business is collections, and he always comes out and wants us to get a better percentage. If they don't hit 95 percent they lose the extra 10 times, and on the colored staff it is pretty hard to hit 95 percent. We are in the union now.

Mr. GESELL. All the agents in your office?

Mr. GIMBEL. Not all. The agreement will be up next month. I don't know what will happen.

Mr. GESELL. You say the manager loses if there isn't a certain amount of business?

Mr. GIMBEL. Not the manager. The agent doesn't get his reserve if he doesn't have a 95-percent collection.

Mr. GESELL. So they often talk not about increase, but about collections.

Mr. GIMBEL. Collections, and, of course, he wants increase.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman DAVIS. You are excused. Thank you.

(The witness, Mr. Gimbel, was excused.)

Mr. GESELL. Mr. King.

Acting Chairman DAVIS. Do you solemnly swear that the statements you make in this inquiry shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KING. Yes, sir.

TESTIMONY OF WILLIAM B. KING, WILMINGTON, DEL.

Mr. GESELL. Will you state your full name, please?

Mr. KING. William B. King.

Mr. GESELL. Mr. King, were you connected with the Mutual Life Insurance Co. of Baltimore, now known as the Monumental Insurance Co., at the time that company changed from the mutual to the stock form?¹

Mr. KING. I was.

¹ In this connection see also testimony, supra, p. 5650 et seq.

Mr. GESELL. In what capacity were you connected with that company?

Mr. KING. As an agent.

Mr. GESELL. Where were you working?

Mr. KING. In Wilmington.

Mr. GESELL. Were you asked at that time to solicit proxies or consents from the policyholders for the conversion?

Mr. KING. Well, at that time I was very inexperienced so far as the business is concerned, and I understood that it was to change the name. These cards were to be signed to change the name of the company, which later was done as you stated.

Mr. GESELL. When was this?

Mr. KING. It was in 19—I think about—26. It has been quite a while ago. I never expected to hear anything about it. It has passed out of my mind to a certain extent, but I think it was about 1926 or '27.

Mr. GESELL. How many cards were you given?

Mr. KING. Well, there wasn't any agent given a stipulated amount. I would say maybe a stack of them 6 or 8 inches high, what would probably require the signatures of the policyholders on the debit.

Mr. GESELL. Were you compensated for getting the signatures?

Mr. KING. Yes. If I remember rightly, we received \$10 a thousand. I think that is what we were paid.

Mr. GESELL. \$10 a thousand?

Mr. KING. Yes.

Mr. GESELL. And you were to take these and get the signatures of the policyholders?

Mr. KING. Correct.

Mr. GESELL. And you understood that the signatures were agreements by the policyholders to change the name of the company?

Mr. KING. Yes. If I remember right, that is why we were to get them signed.

Mr. GESELL. Who told you that?

Mr. KING. Well, I guess it was told to us by the manager, the that-time manager of the office.

He would be the man who was to tell us.

Mr. GESELL. Do you remember him telling you that?

Mr. KING. I was told that, and I just can't state, you know, the time or moment he did tell us, but that was my understanding of it, and he would have been the logical man to tell us, and naturally he must have told us. I can't definitely say I remember him telling us that.

Mr. GESELL. Did you know that the cards had anything to do with changing the company from one type of company to another type; from a mutual to a stock type?

Mr. KING. I can't say I do.

Mr. GESELL. How many cards did you have, Mr. King?

Mr. KING. I don't know exactly how many I got signed. I got quite a few signed that other agents had neglected. I was the aggressive type to a certain extent, and I saw a chance to make some extra money, and I spent the time getting the cards signed. It gave me entries into homes. My debit was small at the time; I had lots of spare time, and I utilized it in that capacity.

Mr. GESELL. How many would you say you turned in?

Mr. KING. That would be kind of hard to say; really, it would. Maybe 3,000. I would say from two to four thousand. That would probably take in what I did cover.

Mr. GESELL. How many of those were actually signed by the policyholders?

Mr. KING. Well, all the cards were signed. Of course, some of those policies, you see, might have been on children. Naturally the children didn't sign them. There was one signed for each policyholder, whether it was a baby or a small child I got the card signed. The mother or father of the home, probably if there were eight policies in the house, probably signed eight policies. The mother did or father did.

Mr. GESELL. Did you sign any of them yourself?

Mr. KING. No, sir; I did not.

Mr. GESELL. You didn't sign any of those yourself?

Mr. KING. No, sir.

Mr. GESELL. Did you see any other agents sign them yourself?

Mr. KING. I can't say I did.

Mr. GESELL. And you are definitely clear that all of those that were turned in were signed by the policyholders?

Mr. KING. Only what I took care of myself.

Mr. GESELL. That is what I mean. All you had yourself?

Mr. KING. Yes.

Mr. GESELL. Do you remember making any statements to the contrary recently?

Mr. KING. No, sir.

Mr. GESELL. Do you remember being interviewed by a Mr. Helmer Johnson, of our staff?

Mr. KING. Yes.

Mr. GESELL. When was that?

Mr. KING. I would say about 4 weeks ago, maybe 5 weeks ago.

Mr. GESELL. Whom have you seen since that time connected with the Monumental?

Mr. KING. Only the gentleman here, I spoke to as I came in.

Mr. GESELL. Did you talk to anybody else about your testimony?

Mr. KING. Nobody else.

Mr. GESELL. I haven't any further questions of this witness.

Acting Chairman DAVIS. All right; you are excused.

(The witness, Mr. King, was excused.)

Mr. GESELL. I have no further witnesses to call today.

Acting Chairman DAVIS. Do you want to adjourn for a day certain, or subject to call?

Mr. GESELL. If we could adjourn until 10:30 Monday morning, witnesses are scheduled to appear at that time.

Acting Chairman DAVIS. The subcommittee will stand adjourned until 10:30 a. m. Monday morning, for further resumption of the hearings.

(Whereupon, at 11:50 a. m., the hearing was adjourned to reconvene at 10:30 a. m. Monday, September 11, 1939.)

APPENDIX

EXHIBIT No. 945

[Prepared by Securities and Exchange Commission Insurance Study Staff]

[Chart based on following statistical data appears in text on p. 5600]

Industrial life insurance in the United States 1900-1937—amount of insurance and number of policies in force compared with population (amounts and relatives)

AMOUNTS

Year	Industrial Insurance in Force on Dec. 31		Population of Continental United States		Average Amount of Industrial Insurance	
	(1)	(2)	(3)	(4)	(5)	(6)
	Amounts in Millions	Number of Policies in Millions	Total in Millions	Urban in Millions	Per Policy	Per Person of Urban Population
1900.....	\$1,469	11.2	76.0	30.4	\$131	\$48
1910.....	3,179	23.0	92.0	42.2	138	75
1920.....	7,121	49.1	105.7	54.3	145	131
1930.....	18,275	89.1	122.8	69.0	205	265
1937.....	20,591	88.9	¹ 129.3	² 72.6	232	283

RELATIVES 1900=100

Year	Industrial Insurance in Force on Dec. 31		Population of Continental United States		Average Amount of Industrial Insurance	
	Amounts	Number of Policies	Total	Urban	Per Policy	Per Person of Urban Population
1900.....	100	100	100	100	100	100
1910.....	216	205	121	139	105	156
1920.....	485	438	139	179	111	273
1930.....	1,244	796	162	227	156	552
1937.....	1,402	794	¹ 170	² 239	177	590

¹ Official mid-year estimate.

² Estimated on basis of ratio of urban to total in 1930.

Sources: (1) and (2) Spectator Insurance Year Book, 1938, p. 778.

(3) and (4) Bureau of the Census, U. S. Department of Commerce.

(5) and (6) Derived.

EXHIBIT No. 946

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Relative importance of the ten largest industrial life insurance companies

AS MEASURED BY THE AMOUNTS OF INDUSTRIAL INSURANCE IN FORCE, DECEMBER 31, 1937 REPORTED BY THE SPECTATOR CO.

Company	Stock or Mutual	Industrial Insurance in Force	Percentage of Total	Cumulative Percentage of Total
		(Millions)		
1. Prudential Insurance Company of America	M	\$7,574	36.78	36.78
2. Metropolitan Life Insurance Company	M	7,512	36.48	73.26
3. John Hancock Mutual Life Insurance Company	M	1,684	8.18	81.44
4. Western and Southern Life Insurance Company	S	577	2.80	84.24
5. American National Insurance Company	S	461	2.24	86.48
6. National Life and Accident, Tennessee	S	393	1.91	88.39
7. Life Insurance Company of Virginia	S	302	1.47	89.86
8. Monumental Life Insurance Company	S	200	.97	90.83
9. Life and Casualty Insurance Company	S	164	.80	91.63
10. Industrial Life and Health Insurance Company	S	85	.41	92.04
Total of above 10 Companies		\$18,952	92.04	92.04
Total of 56 other Companies		1,639	7.96	100.00
Grand Total of 66 Companies		\$20,591	100.00	100.00

AS MEASURED BY THE AMOUNTS OF INDUSTRIAL INSURANCE IN FORCE DECEMBER 31, 1938 REPORTED IN THEIR ANNUAL STATEMENTS

Company	Stock or Mutual	Industrial Insurance in Force	Percentage of Total	Cumulative Percentage of Total
		(Millions)		
1. Prudential Insurance Company of America	M	\$7,941	39.9	39.9
2. Metropolitan Life Insurance Company	M	7,550	39.4	79.3
3. John Hancock Mutual Life Insurance Company	M	1,684	8.8	88.1
4. Western and Southern Life Insurance Company	S	578	3.0	91.1
5. American National Insurance Company	S	488	2.5	93.6
6. National Life and Accident, Tennessee	S	424	2.2	95.8
7. Life Insurance Company of Virginia	S	322	1.7	97.5
8. Monumental Life Insurance Company	S	212	1.1	98.6
9. Life and Casualty Insurance Company	S	172	.9	99.5
10. Industrial Life and Health Insurance Company	S	93	.5	100.0
Total of 10 Companies		\$19,164	100.0	100.0

EXHIBIT No. 947

[Prepared by Securities and Exchange Commission Insurance Study Staff]

INDUSTRIAL LIFE INSURANCE

Relative importance in the 48 States and the District of Columbia, December 31, 1937

States	Number of Companies Issuing Industrial Insurance	Premium Income Industrial Insurance	Rank by Premium Income Industrial Insurance	Amount of Ind. Ins. in Force (in Thousands)	Rank by Amount Ind. Ins. in Force	Amount of Ordinary Insurance in Force (in Thousands)	Ratio of Amt's of Ordinary to Amt's of Ind. Ins. in Force	Number of Industrial Policies in Force ¹ (Estimated)	Ranked by Number of Industrial Policies in Force	Population 1937 (in Thousands)	Rank by Population 1937
Alabama.....	19	\$5,857,977	26	\$179,539	24	\$608,260	3.4	844,900	23	2,895	16
Arizona.....	3	114,754	45	4,439	45	151,473	34.1	20,900	45	412	45
Arkansas.....	12	2,399,682	36	63,159	36	400,209	6.3	297,200	36	2,048	23
California.....	7	27,341,723	7	698,466	7	4,114,966	5.9	3,107,700	7	6,154	6
Colorado.....	3	3,224,101	33	87,021	34	655,820	7.5	409,500	34	1,071	33
Connecticut.....	6	20,656,005	11	498,545	11	1,386,201	2.8	1,801,941	13	1,741	28
Delaware.....	11	3,005,712	35	80,944	35	265,078	3.3	300,100	47	261	47
District of Columbia.....	21	6,565,248	24	164,196	26	597,195	3.6	772,700	26	627	39
Florida.....	15	7,406,961	22	182,056	23	599,648	3.3	856,700	22	1,670	30
Georgia.....	21	12,504,699	15	318,785	15	898,658	2.8	1,500,200	15	3,085	13
Idaho.....	3	363,937	43	8,299	44	184,911	22.3	39,100	44	493	43
Illinois.....	17	52,268,236	4	1,417,564	4	6,205,863	4.4	6,307,300	3	7,878	3
Indiana.....	15	21,116,590	9	606,954	9	1,666,875	2.7	2,700,600	9	3,474	12
Iowa.....	5	4,937,890	28	132,333	28	1,416,547	10.7	622,700	28	2,552	20
Kansas.....	10	4,369,059	30	120,291	29	832,327	6.9	566,100	29	1,864	27
Kentucky.....	19	9,542,069	19	261,666	19	821,472	3.1	1,231,400	19	2,920	15
Louisiana.....	12	6,331,927	25	157,621	27	675,198	4.3	741,700	27	2,132	22
Maine.....	5	4,842,026	29	117,388	30	419,482	3.6	552,400	30	856	35
Maryland.....	27	18,727,490	13	466,440	12	1,095,258	2.2	2,336,200	11	1,679	29
Massachusetts.....	5	50,104,427	6	1,190,463	6	3,136,833	2.6	4,731,032	6	4,426	8
Michigan.....	14	25,185,175	8	687,608	8	2,854,902	4.2	3,007,686	8	4,830	7
Minnesota.....	6	7,030,240	23	185,814	22	1,604,285	8.6	874,400	21	2,652	19
Mississippi.....	10	2,289,848	38	60,200	38	387,373	6.4	283,300	38	2,023	24
Missouri.....	16	20,903,531	10	574,678	10	2,261,046	3.9	2,589,031	10	3,989	10
Montana.....	2	644,397	42	14,872	42	249,379	16.8	70,000	42	539	40

¹ Estimated except for the States of Connecticut, New York, New Jersey, Massachusetts, Michigan and Missouri. The figures for these states were obtained from the annual reports of the insurance departments.

Relative importance in the 48 States and the District of Columbia, December 31, 1937—Continued

States	Number of Companies Issuing Industrial Insurance	Premium Income Industrial Insurance	Rank by Premium Income Industrial Insurance	Amount of Ind. Ins. in Force (in Thousands)	Rank by Amount Ind. Ins. in Force	Amount of Ordinary Insurance in Force (in Thousands)	Ratio of Amt's of Ordinary to Amt's of Ind. Ins. in Force	Number of Industrial Policies in Force (Estimated)	Ranked by Number of Industrial Policies in Force	Population 1937 (in Thousands)	Rank by Population 1937
Nebraska	6	\$2,375,149	37	\$62,659	37	\$764,561	12.2	294,900	37	1,364	32
Nevada	1	18,382	48	444	48	48,801	109.8	2,100	48	101	49
New Hampshire	4	4,016,949	32	94,550	33	288,421	3.1	444,900	33	510	42
New Jersey	8	55,392,022	3	1,437,330	3	3,127,407	2.2	5,429,457	5	4,343	9
New Mexico	4	266,936	44	13,671	43	112,644	8.2	64,300	43	422	44
New York	5	151,150,981	1	3,812,779	1	13,766,696	3.6	13,583,107	1	12,959	1
North Carolina	14	11,524,975	18	311,283	17	981,431	3.2	1,464,900	17	3,492	11
North Dakota	2	18,851	47	576	47	208,506	362.0	2,700	47	706	36
Ohio	21	51,291,943	5	1,370,479	5	4,710,880	3.4	6,097,800	4	6,733	4
Oklahoma	10	3,016,492	34	95,063	32	819,133	8.6	447,400	32	2,548	21
Oregon	3	1,623,687	40	41,248	40	579,211	14.0	194,100	40	1,027	34
Pennsylvania	21	89,946,180	2	2,418,213	2	6,697,941	2.8	8,966,300	2	10,176	2
Rhode Island	5	9,436,083	20	226,961	20	493,567	2.2	841,500	24	681	38
South Carolina	15	7,630,899	21	210,981	21	441,828	2.1	992,900	20	1,875	25
South Dakota	1	9,964	49	248	49	215,034	866.4	1,200	49	692	37
Tennessee	22	19,657,048	12	279,764	18	882,637	3.2	1,316,500	18	2,893	17
Texas	20	11,922,206	16	413,803	13	2,266,224	5.5	1,947,300	12	6,172	2
Utah	3	1,273,636	41	33,399	41	268,825	8.0	157,200	41	519	5
Vermont	3	2,027,798	39	47,099	39	208,847	4.4	221,600	39	383	41
Virginia	20	13,278,367	14	331,970	14	1,004,361	3.0	1,562,200	14	2,706	18
Washington	4	4,024,998	31	103,613	31	952,126	9.2	487,600	31	1,658	31
West Virginia	11	5,233,034	27	174,004	25	623,656	3.6	818,800	25	1,865	26
Wisconsin	5	11,858,444	17	313,432	16	1,811,548	5.8	1,475,000	16	2,926	14
Wyoming	2	38,748	46	1,045	46	109,229	104.5	4,900	46	235	48
Total	112	\$774,767,476		\$20,103,953		\$74,872,778	3.7	83,383,454		129,257	

Source: Spectator Insurance Year Book, 1938; Statistical Abstract of the United States, 1938.

EXHIBIT No. 948

[Prepared by Securities and Exchange Commission Insurance Study Staff]

INDUSTRIAL LIFE INSURANCE

Relative Importance of Various States in Industrial Premiums Collected in 1937

States	Premium Income	Cumulated Premium Income	
	(In Mil- lions)	(In Mil- lions)	(In percent- ages)
New York.....	\$151.2	\$151.2	19.5
Pennsylvania.....	89.9	241.1	31.1
New Jersey.....	55.4	296.5	38.3
Illinois.....	52.3	348.8	45.0
Ohio.....	51.3	400.1	51.6
Massachusetts.....	50.1	450.2	58.1
California.....	27.3	477.5	61.6
Michigan.....	25.2	502.7	64.9
Indiana.....	21.1	523.8	67.6
Missouri.....	20.9	544.7	70.3
Connecticut.....	20.7	565.4	73.0
Tennessee.....	19.7	585.1	75.5
Maryland.....	18.7	603.8	77.9
Virginia.....	13.3	617.1	79.6
Georgia.....	12.5	629.6	81.3
Texas.....	11.9	641.5	82.8
Wisconsin.....	11.9	653.4	84.3
North Carolina.....	11.5	664.9	85.8
Kentucky.....	9.5	674.4	87.0
Rhode Island.....	9.4	683.8	88.3
South Carolina.....	7.6	691.4	89.2
Florida.....	7.4	698.8	90.2
Minnesota.....	7.0	705.8	91.1
District of Columbia.....	6.6	712.4	91.9
Louisiana.....	6.3	718.7	92.8
Subtotal.....			
Other 24 States.....	56.1	774.8	100.0
Grand total.....	774.8	774.8	100.0

Source: Spectator; Insurance Yearbook, 1938.

Industrial Insurance in the Several States Related to their Population in 1937

States	Amount of Industrial Premium Income Collected in 1937	Number of Industrial Insurance Policies in Force 1937	Popula- tion, 1937	Amount of Industrial Premium Income Collected Per Person	Number of Industrial Insurance Policies in Force Per 100 Persons
Alabama.....	\$5,857,977	844,900	2,895,000	\$2.02	29.18
Arizona.....	114,754	20,900	412,000	.28	5.07
Arkansas.....	2,399,682	297,200	2,048,000	1.17	14.51
California.....	27,341,723	3,107,700	6,154,000	4.44	50.50
Colorado.....	3,224,101	409,500	1,071,000	3.01	38.24
Connecticut.....	20,656,005	1,801,941	1,741,000	11.86	103.50
Delaware.....	3,005,712	300,100	261,000	11.52	114.98
District of Columbia.....	6,565,248	772,700	627,000	10.47	123.24
Florida.....	7,406,961	856,700	1,670,000	4.44	51.30
Georgia.....	12,504,699	1,500,200	3,085,000	4.05	48.63
Idaho.....	363,937	39,100	493,000	.74	7.93
Illinois.....	52,268,236	6,307,300	7,878,000	6.63	80.06
Indiana.....	21,116,590	2,700,600	3,474,000	6.08	77.74
Iowa.....	4,937,890	622,700	2,552,000	1.93	24.40
Kansas.....	4,369,059	566,100	1,864,000	2.34	30.37
Kentucky.....	9,542,069	1,231,400	2,920,000	3.27	42.17
Louisiana.....	6,331,927	741,790	2,132,000	2.97	34.79
Maine.....	4,842,026	552,400	856,000	5.66	64.53
Maryland.....	18,727,490	2,336,200	1,679,000	11.15	139.14
Massachusetts.....	50,104,427	4,731,032	4,426,000	11.32	106.89
Michigan.....	25,185,175	3,007,686	4,830,000	5.21	62.27
Minnesota.....	7,030,240	874,400	2,652,000	2.65	32.97
Mississippi.....	2,289,848	283,300	2,023,000	1.13	14.00
Missouri.....	20,903,531	2,589,031	3,989,000	5.24	64.90
Montana.....	644,397	70,000	539,000	1.20	12.99
Nebraska.....	2,375,149	294,900	1,364,000	1.74	21.62
Nevada.....	18,382	2,100	101,000	.18	2.08

Industrial Insurance in the Several States Related to their Population in 1937—Con.

States	Amount of Industrial Premium Income Collected in 1937	Number of Industrial Insurance Policies in Force 1937	Population, 1937	Amount of Industrial Premium Income Collected Per Person	Number of Industrial Insurance Policies in Force Per 100 Persons
New Hampshire.....	\$4, 016, 949	444, 900	510, 000	\$7.88	87.24
New Jersey.....	55, 392, 022	5, 429, 457	4, 343, 000	12.75	125.02
New Mexico.....	266, 936	64, 300	422, 000	.63	15.24
New York.....	151, 150, 931	13, 533, 107	12, 959, 000	11.66	104.82
North Carolina.....	11, 524, 975	1, 464, 900	3, 492, 000	3.30	41.95
North Dakota.....	18, 851	2, 700	706, 000	.03	.38
Ohio.....	51, 291, 943	6, 097, 800	6, 733, 000	7.62	90.57
Oklahoma.....	3, 016, 492	447, 400	2, 548, 000	1.18	17.56
Oregon.....	1, 623, 687	194, 100	1, 027, 000	1.58	18.90
Pennsylvania.....	89, 946, 180	8, 966, 300	10, 176, 000	8.84	88.11
Rhode Island.....	9, 436, 083	841, 500	681, 000	13.86	123.57
South Carolina.....	7, 630, 899	992, 900	1, 875, 000	4.07	52.95
South Dakota.....	9, 964	1, 200	692, 000	.01	.17
Tennessee.....	19, 657, 048	1, 316, 500	2, 893, 000	6.79	45.51
Texas.....	11, 922, 206	1, 947, 300	6, 172, 000	1.93	31.55
Utah.....	1, 273, 636	157, 200	519, 000	2.45	30.29
Vermont.....	2, 027, 798	221, 600	333, 000	5.29	57.86
Virginia.....	13, 278, 367	1, 562, 200	2, 706, 000	4.91	57.73
Washington.....	4, 024, 998	457, 600	1, 653, 000	2.43	29.41
West Virginia.....	5, 233, 034	818, 800	1, 865, 000	2.81	43.90
Wisconsin.....	11, 858, 444	1, 475, 000	2, 926, 000	4.05	50.41
Wyoming.....	33, 748	4, 900	235, 000	.16	2.09
	\$774, 767, 476	83, 333, 454	129, 257, 000	5.99	61.51

States Classified According to Industrial Insurance Premium Income Collected per Person in the Population in 1937

Premium Income Collected per Person	Number of States	Premium Income Collected per Person	Number of States
Less than \$1.00.....	7	8.00 to 8.99.....	1
\$1.00 to 1.99.....	8	9.00 to 9.99.....	1
2.00 to 2.99.....	7	10.00 to 10.99.....	1
3.00 to 3.99.....	3	11.00 to 11.99.....	5
4.00 to 4.99.....	6	12.00 to 12.99.....	1
5.00 to 5.99.....	4	13.00 to 13.99.....	1
6.00 to 6.99.....	1		
7.00 to 7.99.....	2	Total.....	49

¹ Ill., Ind., Tenn.² N. H., Ohio.³ Pa.⁴ D. C.⁵ Conn., Del., Md., Mass., N. Y.⁶ N. J.⁷ R. I.

Average for the United States \$5.99.

States Classified according to Number of Industrial Policies in Force per 100 Persons in Population of 1937

Number of Policies per 100 Persons	Number of States	Number of Policies per 100 Persons	Number of States
Less than 10.....	6	70 to 79.....	1
10 to 19.....	6	80 to 89.....	3
20 to 29.....	4	90 to 99.....	1
30 to 39.....	6	100 to 124.....	6
40 to 49.....	5	125 to 149.....	2
50 to 59.....	6		
60 to 69.....	3	Total.....	49

¹ Ind.² Pa., Ill., N. H.³ Ohio.⁴ Mass., N. Y., R. I., Conn., Del., D. C.⁵ Md., N. J.

Average for the United States 64.5.

EXHIBIT No. 949

[Prepared by Securities and Exchange Commission Insurance Study Staff]

INDUSTRIAL LIFE INSURANCE

Amounts in Force, Newly Issued and Terminated, 1900-1937

[Amounts in millions of dollars]

Year	In Force	Newly Issued	Terminated	Year	In Force	Newly Issued	Terminated
1900.....	\$1,469	\$566	\$390	1919.....	\$6,407	\$1,389	\$743
1901.....	1,641	599	407	1920.....	7,190	1,615	782
1902.....	1,807	612	426	1921.....	8,006	1,943	1,230
1903.....	1,978	597	426	1922.....	8,887	2,268	1,417
1904.....	2,136	613	471	1923.....	10,107	2,615	1,391
1905.....	2,310	661	487	1924.....	11,344	3,043	1,767
1906.....	2,454	631	489	1925.....	12,824	3,656	2,193
1907.....	2,577	576	451	1926.....	14,187	4,048	2,645
1908.....	2,669	594	502	1927.....	15,548	4,465	3,062
1909.....	2,968	793	499	1928.....	16,686	4,505	3,426
1910.....	3,177	735	522	1929.....	17,902	4,738	3,488
1911.....	3,424	773	534	1930.....	18,287	4,860	4,490
1912.....	3,709	842	558	1931.....	18,274	4,847	4,781
1913.....	3,977	850	574	1932.....	17,265	4,793	5,811
1914.....	4,164	858	643	1933.....	17,154	4,673	4,797
1915.....	4,435	974	710	1934.....	17,651	4,885	4,428
1916.....	4,811	999	610	1935.....	18,298	4,722	4,086
1917.....	5,223	1,051	639	1936.....	19,464	4,854	3,689
1918.....	5,703	1,203	641	1937.....	20,591	4,784	3,624

Source: Spectator Insurance Year Books.

EXHIBIT No. 950

[Prepared by Securities and Exchange Commission Insurance Study Staff]

INDUSTRIAL INSURANCE

Exhibit Showing for Each of 84 Companies: the Number of Industrial Policies Lapsed during 1938, the Number of New Industrial Policies Written during 1938, and the Number of Industrial Policies in Force at the End of 1938²

[Arranged in order of Number of Industrial Policies in Force]

INDUSTRIAL INSURANCE POLICIES

Rank	Stock or Mutual	Name of Company	Number of Policies Lapsed during Year	Number of New Policies Issued during Year (Including Revivals)	Percentage Ratio of Number Lapsed to New Issues	Number of Policies in Force December 31, 1938	Percentage Ratio of Number Lapsed to Number in Force December 31, 1938
1	M	Metropolitan Life Insurance Company.....	1,799,443	3,693,269	48.7	33,957,874	5.3
2	M	Prudential Insurance Company.....	1,585,650	2,922,196	54.3	27,107,713	5.8
3	M	John Hancock Mutual Life Insurance Co.....	1,644,328	1,027,327	62.7	6,712,333	9.6
4	S	Nat'l Life & Accident Insurance Co.....	661,155	882,894	74.9	2,819,983	23.4
5	S	Western & Southern Life Insurance.....	1,205,710	356,092	57.8	2,531,403	8.1
6	S	American National Insurance Company.....	554,661	708,770	78.3	1,856,365	29.9
7	S	Life Insurance Company of Virginia.....	163,713	240,832	68.0	1,279,633	12.8
8	S	Life & Casualty Insurance Company, Tennessee ²	381,973	439,729	86.9	1,093,232	34.9
9	S	Industrial Life & Health Insurance Co.....	1,407,606	1,504,010	93.6	940,803	149.6
10	S	Monumental Life Insurance Company.....	135,687	205,713	66.0	796,188	17.0
11	S	Home Beneficial.....	503,355	566,945	88.8	588,421	85.5
12	S	Peoples Life Insurance, D. C. ²	270,623	317,474	85.2	498,494	54.3
13	S	Colonial Life Insurance Company.....	51,402	73,839	69.6	499,067	10.5
14	S	Sun Life of America.....	47,936	73,252	65.4	452,829	10.6
15	S	Baltimore Life Insurance Company.....	81,693	107,171	76.2	448,664	18.2
16	S	Commonwealth Life Insurance Company ²	70,498	102,889	68.5	344,579	20.5
17	S	Washington National Insurance Company.....	269,840	247,529	84.8	311,873	67.3
18	S	Interstate Life & Accident Insurance Co.....	206,441	233,241	88.5	305,874	67.5
19	S	Durham Life Insurance Company.....	114,581	138,827	82.5	301,662	38.0
20	S	Atlanta Life Insurance Company.....	177,751	199,782	89.0	299,401	59.4
21	S	Liberty Life Insurance ² Company.....	175,846	216,045	81.4	293,359	59.9
22	S	Equitable Life Insurance Company, D. C.....	69,631	97,614	71.3	288,416	24.1
23	S	Home Life of America ²	40,836	61,180	66.7	275,811	14.8
24	S	Continental Life Insurance Company, D. C.....	99,451	113,448	87.7	274,292	36.3
25	S	Gulf Life Insurance Company.....	85,107	131,591	64.7	262,422	32.4
26	M	North Carolina Mutual Life Insurance Company.....	159,145	177,383	89.7	249,056	63.9
27	M	Boston Mutual Life Insurance Company.....	49,760	73,383	67.8	237,975	20.9
28	S	Knights Life Insurance Company of America.....	65,377	81,082	80.6	190,015	34.4
29	S	Kentucky Central Life & Accident Insurance Company.....	186,751	192,812	96.9	178,035	104.9
30	S	Liberty National Life Insurance Co.....	108,756	130,445	83.4	176,954	61.5
31	S	Home Security Life Insurance Company.....	54,971	70,961	77.5	171,815	32.0
32	S	Southern Life and Health Insurance Co.....	131,103	145,522	99.1	170,414	76.9
33	M	Home Friendly Insurance Company.....	70,289	78,391	89.7	167,722	41.9
34	S	Eureka-Maryland Assurance Corporation.....	58,330	62,376	93.5	145,841	40.0
35	S	Supreme Liberty Life Insurance Company.....	190,693	198,321	96.1	134,779	141.5
36	S	Afro-American Life Insurance Company ²	122,538	108,976	112.4	134,563	91.1
37	S	Reliable Life Insurance Company.....	105,950	115,500	91.7	134,284	78.9
38	S	Pilot Life Insurance Company ²	59,351	79,542	74.6	129,350	45.9
39	S	Gate City Life ²	74,490	93,386	79.8	128,529	58.0
40	S	Universal Life Insurance Company ²	84,793	90,982	93.2	125,050	67.8
41	S	Imperial Life Insurance Company.....	53,255	58,024	91.8	123,419	43.1
42	S	Missouri Insurance Company.....	65,475	73,434	89.2	117,189	55.9
43	S	American Life & Accident of Kentucky ²	119,395	131,055	91.1	115,031	103.8
44	S	Texas Prudential Insurance Company ²	61,625	71,577	85.1	111,002	55.5
45	S	Bankers Health & Life Insurance Co. ²	93,206	102,267	91.1	109,774	84.9
46	M	Pennsylvania Mutual Life Insurance ²	17,700	20,228	87.5	93,774	18.9
47	S	Peninsular Life Insurance Company.....	41,925	45,625	86.2	90,112	46.5

¹ In the case of these companies automatic extended term insurance is now allowed on policies on which premium payments cease. When such policies terminate they are said to terminate by expiry. Therefore, the figures given here include terminations by expiry in order to make them comparable with the figures for the other companies.

² Where no information was available for 1938 the data for 1937 have been employed.

Exhibit Showing for Each of 84 Companies: the Number of Industrial Policies Lapsed during 1938, the Number of New Industrial Policies Written during 1938, and the Number of Industrial Policies in Force at the End of 1938—Con.

Rank	Stock or Mutual	Name of Company	Number of Policies Lapsed during Year	Number of New Policies Issued during Year (Including Revivals)	Percentage Ratio of Number Lapsed to New Issues	Number of Policies in Force December 31, 1938	Percentage Ratio of Number Lapsed to Number in Force December 31, 1938
48	S	Pilgrim Health & Life Insurance Co. ²	53,411	55,533	96.2	83,858	63.7
49	S	Standard Life Insurance Company of the South.....	67,526	73,805	91.5	83,812	80.6
50	S	Empire Life & Accident Insurance Co.....	42,656	48,099	88.7	73,245	58.2
51	S	Home State Life Insurance Company.....	21,663	28,408	76.3	68,228	31.8
52	S	National Burial Insurance Company ²	86,275	97,202	88.8	63,846	135.1
53	S	Southern Aid Society.....	25,514	26,549	96.1	58,016	44.0
54	S	Lincoln Income Life Insurance ²	84,919	89,863	94.5	52,303	162.4
55	M	Philanthropic Mutual Life Insurance Co. ²	12,421	14,934	83.2	49,011	25.3
56	S	All States Life Insurance Company.....	37,740	42,168	89.5	47,920	78.8
57	S	Mammoth Life & Accident Insurance Co. ²	22,345	27,374	81.6	42,183	53.0
58	S	Rio Grande National Life Insurance Co.....	28,064	32,284	86.9	36,204	77.5
59	S	United Insurance Company.....	39,085	40,553	96.4	34,564	113.1
60	S	Domestic Life & Accident ²	21,301	22,215	95.9	31,871	66.8
61	S	Guaranty Life Insurance Company.....	40,765	42,822	95.2	29,236	139.1
62	S	Globe Life Insurance Company.....	2,658	735	361.6	27,931	9.5
63	S	American Bankers Insurance ²	11,260	15,623	72.1	27,830	40.5
64	S	American Home.....	25,496	27,869	91.5	26,480	96.3
65	S	Alta Life Insurance Company ¹	10,235	4,351	235.2	23,789	43.0
66	S	Star Life Of America.....	27,518	26,923	102.2	22,686	121.3
67	S	Union Life Insurance ² (Arkansas).....	26,514	32,768	80.9	22,447	118.1
68	S	State Capital.....	26,299	29,131	90.3	18,392	143.0
69	M	Cincinnati Mutual Life ²	44,658	43,849	101.8	16,713	267.2
70	S	Franklin National Life.....	15,490	15,867	97.6	15,850	97.7
71	S	Citizens Life Insurance Company.....	6,895	22,473	30.7	14,813	46.5
72	S	American Life & Accident ²	8,126	8,461	96.0	13,537	60.0
73	S	American Life of Alabama.....	20,804	21,533	96.6	13,031	159.7
74	S	Santa Fe National Life Insurance Co.....	10,454	14,242	73.4	9,829	106.4
75	M	Family Mutual Life Insurance Co.....	6,314	6,838	92.3	8,275	76.3
76	S	Great American Life Insurance Co.....	6,783	9,099	74.5	7,475	90.7
77	S	Southern Life Insurance Co. ²	1,566	2,193	71.4	5,976	26.2
78	S	Guaranty Income.....	697	6,261	11.1	5,481	12.7
79	S	State Life Insurance Company.....	2,129	2,233	95.3	5,119	41.6
80	S	American Life, Md. ²	645	1,138	56.7	2,107	30.6
81	S	American Union Life Insurance Co.....	217	1,000	21.7	1,740	12.5
82	S	American Citizens Life ²	625	1,242	50.3	874	71.5
83	S	Security Life Insurance Co. ²	613	322	199.7	832	77.3
84	S	Continental Assurance Company.....	50	321	15.6	271	18.5

Source: Annual Statements.

CONCENTRATION OF ECONOMIC POWER

EXHIBIT No. 951

[Prepared by Securities and Exchange Commission Insurance Study Staff]

INDUSTRIAL LIFE INSURANCE

Forty-four Stock Companies Selling Industrial Life Insurance: Amounts of Insurance in Force, Premium Income, Original Paid-in Capital, Dividends to Stockholders, Surplus and Capital in 1938

Name of company	Year began operations	Insurance in force		Premium income		Original paid in capital	Dividends to stockholders since organization		Surplus**	Capital
		Ordinary	Industrial	Ordinary	Industrial		Stock	Cash		
All States Life Insurance Company (Alabama)	1929	\$27,506,404	\$10,190,653	\$405,036	\$294,243	\$198,980	\$41,910	\$70,000	\$263,717	\$250,000
American National Life Insurance Company (Texas)	1905	215,839,000	488,354,000	5,601,000	11,862,000	100,000	1,750,000	3,795,000	9,776,550	2,000,000
Atlanta Life Insurance Company (Georgia)	1916	8,000,049	42,077,350	236,603	2,018,903	25,000	162,000	319,500	580,850	250,000
Carolina Life Insurance Company (South Carolina)	1902	4,536,217	35,741,043	112,660	1,273,990	25,000	75,000	48,500	101,551	100,000
Citizens Life Insurance Company (Louisiana)	1920		1,731,678	74,650	74,650	10,000	10,000	23,000	31,809	20,000
Colonial Life Insurance Company (New Jersey)	1898	33,434,000	81,462,000	977,000	3,444,000	100,000		2,299,500	690,326	900,000
Continental Life Insurance Company, Inc., (D. C.)	1914	12,796,045	63,228,389	370,017	2,283,947	30,000		132,600	136,746	120,000
Durham Life Insurance Company (North Carolina)	1913	10,678,958	53,028,158	300,791	2,065,653	25,000	275,000	450,200	351,951	300,000
Empire Life & Accident Insurance Company (Indiana) ¹	1922	4,872,501	19,305,439	477,759	718,926	50,000	200,000	519,370	259,618	300,000
Equitable Life Insurance Company (D. C.) ²	1902	37,519,335	67,171,224	1,034,282	2,232,134	100,000	20,000	357,969	648,938	200,000
Franklin National Life Insurance Company (S. C.)	1935		4,930,019		103,052	102,490			21,220	113,127
Home Beneficial Association (Virginia)	1899	13,793,896	82,310,414	373,650	4,380,485	5,000	170,000	4,111,000	1,830,156	200,000
Home Life of America (Delaware)	1899	51,294,366	66,008,888	1,314,249	2,336,565	30,000		761,910	901,422	250,000
Home Security Life Insurance Company (North Carolina)	1916	6,405,174	31,850,597	159,116	1,140,646	50,000	40,000	101,000	170,845	100,000
Home State Life Insurance Company (Alabama)	1929	8,506,137	20,174,829	181,874	459,696	100,000			206,280	102,000
Imperial Life Insurance Company (North Carolina) ³	1920	8,484,207	20,247,390	223,269	900,483	50,000	150,000	185,000	200,000	200,000
Industrial Life Insurance Company (Pennsylvania) ⁴	1903	26,250	6,177,220	(*)	411,694	25,000	25,000	270,000	46,320	50,000
Industrial Life & Health Insurance Company (Georgia)	1892		92,719,448		5,957,249	26,000	474,000	1,083,391	493,669	500,000
Interstate Life & Accident Insurance Company (Tennessee)	1910	6,764,241	43,308,762	164,175	1,081,721	78,770		642,222	256,096	300,000

CONCENTRATION OF ECONOMIC POWER

Kentucky Central Life & Accident Insurance Company (Ky.) ¹	1917	20,035,038	650,789	102,550	261,530	1,872,024	94,230	400,000
Knights Life Insurance Company (Pennsylvania)	1917	22,496,756	1,367,516	200,000	100,000	310,000	550,000	300,000
Liberty Life Insurance Company (South Carolina)	1919	9,095,468	1,457,292	100,000	100,000	150,000	213,107	200,000
Liberty National Life Insurance Company (Alabama) ²	1900	34,809,611	1,070,869	216,955		94,653	447,292	3,209,000
Life Insurance Company of Virginia (Virginia)	1871	178,362,000	9,979,000	100,000		14,177,423	5,307,944	6,000,000
Lincoln Republic Life Insurance Company (Nebraska)	1910	1,276,344	115,369	25,000	(*)	(*)	37,038	25,000
Missouri Insurance Company (Missouri) ³	1907	10,390,052	407,216	25,000	175,000	942,000	102,266	200,000
Monumental Life Insurance Company (Maryland) ⁴	1928	60,780,000	6,283,000	500,000	1,500,000	1,830,000	2,576,172	2,000,000
National Burial Insurance Company (Tennessee)	1931	8,550,063	732,017	110,500	0	48,880	243,850	110,500
National Life & Accident (Tennessee)	1900	221,751,000	12,607,000	15,500	3,934,500	6,693,349	4,060,613	4,000,000
Peninsular Life Insurance Company (Florida)	1910	7,109,824	1,040,963	50,000	(*)	(*)	114,423	125,000
Reliable Life Insurance Company (Missouri) ⁵	1916	935,755	1,209,326	100,000	140,000	232,000	131,825	150,000
Richmond Beneficial (Virginia)	1894	365,000	125,479	10,000	(*)	(*)	14,118	25,000
Rio Grande National Life Insurance Company (Texas)	1928	2,942,841	277,787	100,000			5,258	110,000
Santa Fe National Life Insurance Company (N. M.)	1931	4,284,227	65,937	150,000	(*)	(*)	14,592	126,558
Southern Aid Society (Virginia)	1893	205,000	470,000	5,000	50,000	209,826	225,599	150,000
Southern Life & Health Insurance Company (Alabama)	1890	5,767,956	963,026	5,000	14,010	226,997	160,354	118,370
Standard Life Insurance Company of the South (Mississippi)	1929	12,015,711	450,034	458,180		29,939	243,568	500,000
Star Life Insurance Company of America (Maryland)	1908	152,929	197,741	(*)			8,357.24	25,000
State Capitol Life Insurance Company (North Carolina)	1936	1,808,277	161,227	102,000			22,515	102,000
Sun Life Insurance Company (Maryland)	1897	36,417,000	2,129,000	15,000	1,483,000	2,103,900	1,036,954	1,500,000
Supreme Liberty Life Insurance Company (Illinois)	1919	10,036,320	660,622	100,000			184,599	100,000
United Insurance Company (Illinois)	1928	1,491,184	220,863	100,000	50,000	12,000	53,450	200,000
Washington National Insurance Company (Illinois)	1911	50,057,672	1,627,932	300,000	975,000	2,994,790	1,477,020	1,250,000
Western & Southern Insurance Company (Ohio)	1888	304,011,000	19,979,000	100,000	14,900,000	19,102,500	8,807,683	15,000,000
Totals.....		1,417,710,160	107,519,342	4,146,925	32,337,950	60,238,943	44,201,982	39,281,555

¹ Converted from Mutual Company in 1922.
² Converted from assessment company in 1902.
³ Converted from Mutual Company in 1920.
⁴ Converted from Mutual Company in 1908; Ordinary premium income amount unavailable.
⁵ Converted from assessment company in 1917.

⁶ Converted from Fraternal Benefit Society in 1929.
⁷ Converted from stipulated premium company in 1921.
⁸ Converted from Mutual Company in 1928.
⁹ Converted from Mutual Company in 1916.
^{*} Information not available from schedule sources.
^{**} Excludes contingency reserves.

Source: Bests Life Reports, Spectator Insurance Year Books, Annual Statements.

EXHIBIT No. 952

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Forty-four Stock Life Insurance Companies Selling Industrial Insurance As of December 31, 1938—Information Relating to Stock Ownership and Salaries Paid Chief Executives

Company—Shares Outstanding	Five Largest Owners of Stock Outstanding in Company				Five Highest Paid Officials in Company			
	Name	Position	No Shares	%	Name	Position	Salary	
All States Life Insurance Company (Alabama) 50,000 Shares.	Arthur Pelzer.....	V. Pres.-Dir.....	2,257.56	4.5	Ben W. Lacy.....	Pres.-Dir.....	\$11,749.98	
	Geo. E. Blue.....	V. Pres.-Med. Dir.-Dir.....	1,346.55	2.7	W. Clyde Jennings.....	V. Pres.-Act.-Dir.....	5,824.98	
	E. Fred Solomon.....	V. Pres.-Dir.....	1,260.38	2.5	Bernard Mount.....	Asst. Med. Dir.-Dir.....	3,450.00	
	Frank McPherson.....	V. Pres.-Treas.-Dir.....	497.52	1.0	E. F. Boone.....	Secy.....	2,826.48	
	C. W. Mizell.....	Dir.....	438.78	.9	Geo. E. Blue.....	V. Pres.-Med. Dir.-Dir.....	2,400.00	
American National Life Insurance Company (Texas) 20,000 Shares.	W. L. Moody, Jr.....	Pres.-Dir.....	12,649	63.2	W. L. Moody, Jr.....	Pres.-Dir.....	20,000.00	
	W. D. Haden.....	Dir.....	692	3.5	F. S. Anderson.....	Gen. Counsel.....	15,300.00	
	Edward Randall.....	Dir.....	400	2.0	B. Werkenthin.....	V. Pres.-Dir.....	15,000.00	
	J. H. Langben.....	Dir.....	217	1.1	W. J. Shaw.....	V. Pres.-Secy.....	15,000.00	
	Wm. A. Hughes.....	Dir.....	58	0.3	W. L. Moody, III.....	V. Pres.-Dir.....	12,000.00	
Atlanta Life Insurance Company (Georgia) 2,500 Shares.	Estate of A. F. Herndon.....	Pres.-Treas.-Dir.....	2,227.60	89.1	N. B. Herndon.....	Pres.-Treas.-Dir.....	42,296.97	
	N. B. Herndon.....	Secy.-Dir.....	60.60	2.4	Mrs. A. F. Herndon.....	1st V. Pres.-Dir.....		
	E. M. Martin.....	V. Pres.-Dir.....	37.40	1.5	E. M. Martin.....	Secy.-Dir.....		
	Mrs. A. F. Herndon.....	V. Pres.-Dir.....	25.00	1.0	L. H. Haywood, Sr.....	2nd V. Pres.-Dir.....		
	J. H. Starks.....	Dir.....	18.50	.7	J. T. Harrison.....	3rd V. Pres.-Dir.....		
Carolina Life Insurance Company (South Carolina) 1,000 Shares.	P. H. Haltiwanger.....	Chmn. of Bd.....	2,369.10	94.7	W. H. Smith.....	Cashier-Dir.....		
	A. B. Langley.....	Pres.....	290	29.0	F. A. Toomer.....	Auditor-Dir.....		
	Estate of A. H. Kohn.....	V. Pres.-Treas.....	286	28.6	H. W. Russell.....	Asst. Agency Supt.-Dir.....		
	Ames Haltiwanger.....	Secy.-Asst. Treas.....	104	10.4	A. F. Herndon, II.....	Dist. Mgr.-Dir.....		
	A. Hart Kohn.....		10	1.0	No information.....			
		980	98.0					

Citizens Life Insurance Company (Louisiana) 2,000 Shares.	Martin Kron Estate of J. Labanca, Sr. J. W. Englehardt Mrs. L. W. Kerstein C. A. Desporte	Treas. Pres. V. Pres.	575 390 350 240 200 1,755	28.8 19.5 17.5 12.0 10.0 87.8	No information.	
Colonial Life Insurance Company (New Jersey) 9,000 Shares.	Webster and Company. Mrs. Hattie L. Smith Ernest J. Heppenheimer George T. Smith George F. Perkins	Pres.-Dir. V. Pres.-Dir. Dir.	757 605 590 255 175 2,382	8.4 6.7 6.6 2.8 1.9 26.4	Ernest J. Heppenheimer. Charles F. Nettleship. John Yarrick Albert S. Irving Elphalet C. Wise	Pres.-Dir V. Pres.-Dir Secy.-Asst. Act. Med. Dir. Treas
Continental Life Insurance Company, Inc., (D. C.) 30,000 Shares.	Hall Liquidating Company F. F. Brooks H. A. Bartholomew J. R. Biggs R. E. Ankers	Pres.-Gen. Mgr.-Dir. Officer V. Pres.-Secy.-Treas.-Dir	25,689 2,213 917 300 200 20,319	85.6 7.4 3.1 1.0 .6 97.7	H. A. Bartholomew. R. E. Ankers J. D. Eason J. C. O. Hall W. W. Crisp	Pres.-Gen. Mgr.-Dir. V. Pres.-Secy.-Treas.-Dir V. Pres.-G. C.-Dir V. Pres.-Dir. V. Pres.
Durham Life Insurance Company (North Carolina) 3,000 Shares.	S. B. Coley J. R. Weatherspoon D. L. Cozart A. J. Mims Jesse Bishop	Pres.-Dir. Treas.-Dir Secy.-Dir V. Pres. Asst. Secy	804 750 624 336 276 2,790	26.8 25.0 20.8 11.2 9.2 93.0	S. B. Coley J. R. Weatherspoon. D. L. Cozart. E. T. Burr R. F. Harward	Pres.-Dir Treas.-Dir Secy.-Dir Actuary.-Dir Mgr. Ins. Dept.-Dir
Empire Life & Accident Insurance Company (Indiana) 6,000 Shares.	John M. Drake Mrs. Florence Drake Lane Mrs. Margaret C. Drake Hiram C. Gemmer Henry L. Drake, Jr	Pres.-Dir. Secy.-Dir V. Pres.-Dir	2,075 730 620 400 140 3,965	34.6 12.2 10.3 6.7 2.3 66.1	James M. Drake. Hiram C. Gemmer Arthur F. Gemmer Kenneth E. Yates Mark E. Archer	Pres.-Dir. Secy.-Dir Treas.-Dir Asst. Secy.-Dir Gen. Counsel-Dir
Equitable Life Insurance Company (D. C.) 2,000.	Allen C. Clark Henry P. Blair Trustees of Estate of H. K. Willard, Joseph Sanders	Secy.-Trustee. Pres.-Trustee V. Pres.-Trustee	421 ² / ₃ 230 ¹ / ₃ 187 166 ² / ₃ 135 1,140 ² / ₃	21.0 11.5 9.4 8.3 6.8 57.0	No information.	
Franklin National Life Insurance Company (S. C.) 11,105.	C. O. Milford H. Douglas Grg. Dr. Hugh Smith Z. F. Wright Luther P. Byars	Pres.-Treasurer-Dir. Dir. V. Pres.-Med. Dir.-Dir. Dir. Dir	1,724 120 105 105 100 2,154	15.5 1.1 .9 .9 .9 19.3	No information.	

Forty-four Stock Life Insurance Companies Selling Industrial Insurance As of December 31, 1938—Information Relating to Stock Ownership and Salaries Paid Chief Executives—Continued

Company—Shares Outstanding	Five Largest Owners of Stock Outstanding in Company			Five Highest Paid Officials in Company			
	Name	Position	No Shares	%	Name	Position	Salary
Home Beneficial Association (Virginia) 2,000 shares.	Mrs. Carrie V. Morton	Pres.	500	25.0	No information		
	M. D. Nunnally		333	16.6			
	Mrs. Cora B. Watkins		250	12.5			
	M. D. Nunnally, Jr.	V. Pres.	166	8.3			
	J. R. Cole	V. Pres.	125	6.3			
Home Life of America (Delaware) 25,000 shares.	No information		1,374	68.7			
	John Sprunt Hill	Dir.	650	65.0	Bascom Baynes	Exec. V. Pres.-Dir.	\$11,300.00
Home Security Life Insurance Company (North Carolina) 1,000 shares.	George Watts Hill	Pres.	136	13.6	Frank B. Hiltz	Secy.-Actuary-Dir.	7,550.00
	C. A. Adams, Jr.	Dir.	40	4.0	G. W. Mumford	V. Pres.-Dir.	7,200.00
	G. W. Mumford	V. Pres.	30	3.0			
	Homeland Investment Company.		13	1.3			
			869	86.9			
Home State Life Insurance Company (Alabama) 68,000 shares.	Joe D. Morse	Pres.	2,370	3.5	Joe D. Morse	Pres.-Dir.	9,300.00
	Norman A. Morse	Ex. V. Pres.	845	1.3	A. G. Palmie	Asst. Sec.-Mgr. Ind. Dept.	
Imperial Life Insurance Company (North Carolina) 2,000.	R. A. Krumme	Dir.	829	1.2	A. L. Hadley	Dir.	7,800.00
	Isaac W. Rodkey	Dir.	559	.8	Norman A. Morse	Asst.-Secy.-Mgr. Ord.	4,200.00
	Harry Campbell	Dir.	500	.7	B. C. Housel	V. Pres.-Dir.	2,445.00
							1,200.00
			5,103	7.5			
Industrial Life & Health Insurance Company (Georgia) 5,000 Shares.	Gay Green	Pres.-Dir.	392	19.6	Gay Green	Pres.-Dir.	18,200.00
	A. W. Ek	Secy.-Dir.	392	19.6	A. W. Ek	Sec.-Mgr. Ord.-Dir.	18,200.00
	J. N. Jarrett	V. Pres.-Dir.	392	19.6	A. E. Starnes	V. Pres.-Mgr. Invest. Dir.	18,200.00
	O. E. Starnes	V. Pres.-Dir.	392	19.6	J. N. Jarrett	V. Pres.-Agency Mgr.-Dir.	18,200.00
	Mrs. Maggie E. Starnes		56	2.8	J. Warlick-Maggie E. Starnes	Treas.-Auditor-Dir.	18,200.00
Industrial Life & Health Insurance Company (Georgia) 5,000 Shares.	J. N. McEachern		1,624	81.2	J. N. McEachern	Pres.	31,417.86
	Christine M. Smith		769	15.4	R. H. Dobbs	Treas.	28,904.49
	R. H. Dobbs, Jr. (Trustee-will of R. H. Dobbs, Sr.)		577	11.5	J. M. Sheffield	Secy.	28,485.60
			432	8.7	H. T. Dobbs	V. Pres.	23,458.71

Industrial Life Insurance Company (Pennsylvania) 5,000 Shares.	L. D. McEachern R. H. Dobbs, Jr.	385 385	7.7 7.7	T. B. Smith	V. Pres.	20,945.26
Est. Samuel Enion (deceased). George J. Edwards, Jr. Emma Bourgeois Leslie C. Reeves. Jacob Irion.	Pres. 1st V. Pres.-Treas. 2nd V. Pres.	2,548 1,695 652 ⁷ / ₆ 520 400 350	51.0 33.9 13.0 10.4 8.0 7.0	No information.		
Interstate Life & Accident Insurance Company (Tennessee) 66,666.67 Shares.	Mrs. Nell Evans Johnson Joseph W. Johnson T. L. Montague F. L. Underwood H. Clay Evans Johnson	19,683 ⁴ / ₁₅ 10,847 2,070 1,750 1,225	72.3 29.5 16.3 3.1 2.6 1.8	No information.		
Kentucky Central Life & Accident Insurance Company (Kentucky) 40,000 Shares.	Estate of T. O. West. G. W. Ford J. H. West W. B. Fahey E. H. Speckman	35,575 21,577 ¹ / ₂ 1,548 1,000 780 450	53.3 53.9 3.9 2.5 2.0 1.1	E. H. Speckman R. H. West Wm. B. Fahey H. P. Harris M. E. McCurdy	Pres.-Dir. Secy.-Treas.-Dir. V. Pres.-Dir. Mgr. Mgr.	15,790.00 10,590.00 9,290.00 7,696.47 6,097.17
Knights Life Insurance Company (Pennsylvania) 30,000 Shares.	Joseph H. Reiman Eva M. Speakman Wm. P. Brueckmann Walter Papencordt B. Chas. Held	3,337 1,618 645 300 393	11.1 5.4 2.1 1.0 1.3	Joseph H. Reiman Joseph J. Hess P. Jos. Hess Louis Seethaler John C. Hierholzer	Pres.-Dir. Secy. V. Pres.-Secy. Treas.-Dir. Med. Dir.-Dir.	7,100.00 5,000.00 4,000.00 3,600.00 3,600.00
Liberty Life Insurance Company (South Carolina) 1,403 Shares.	W. Frank Hipp F. M. Hipp B. C. Hipp Herman N. Hipp Dorothy Hipp	5,993 593 195 195 195	20.9 42.2 13.9 13.9 13.9	No information.		
		1,373	97.8			

¹ Home State Voting Trust controls 45,857 shares to which the above have contributed 2,185, 673, 628, and 558 shares respectively.

Forty-four Stock Life Insurance Companies Selling Industrial Insurance As of December 31, 1938—Information Relating to Stock Ownership and Salaries Paid Chief Executives—Continued

Company—Shares Outstanding	Five Largest Owners of Stock Outstanding in Company			Five Highest Paid Officials in Company			
	Name	Position	No. shares	%	Name	Position	Salary
Liberty National Life Insurance Company (Alabama) 41,800 Shares.	Frank P. Samford	Pres.-Dir.	7,334	17.5	Frank P. Samford	Pres.-Dir.	\$18,000.00
	Geo. J. Edwards, Jr.	Dir.	2,908	7.0	Ralph W. Beeson	Secy.-Dir.	6,000.00
	Frank E. Spain	V. Pres.-Counsel-Dir.	2,736	6.5	Frank E. Spain	V. Pres.-Counsel-Dir.	4,999.92
	L. E. Bashinsky	Dir.	1,996	4.8	E. A. Camp, Jr.	Treas.	4,487.50
	Rosalind R. Davison		2,538	6.1	James R. Adams	Asst. Secy.	3,326.14
Life Insurance Company Virginia (Virginia) 300,000 Shares.	John G. Walker Invest. Corp.		17,512	41.9			
	Mrs. Columbia H. Walker		153,000	51.0	Bradford H. Walker	Pres.-Dir.	65,000.00
	John A. Coke, Jr.	Gen. Counsel	16,002	5.3	A. Carlton McKenney	V. Pres.-Dir.	22,000.00
	J. T. Lawrence	Dir.	1,000	.3	Robert E. Henley	V. Pres.-G. C.-Dir.	19,000.00
	A. Carlton McKenney		175	.1	I. T. Townsend	V. Pres.-Dir.	17,000.00
Lincoln Republic Life Insurance Company (Nebraska) 2,500 Shares.			126	.0	John Sydney Davenport, Jr.	V. Pres.-Dir.	15,000.00
	E. N. Pennell	Pres.-Dir.	170,303	56.7			
	B. D. Lane	Secy.-Treas.-Dir.	834	33.4	E. N. Pennell	Pres.-Dir.	3,640.00
	Lillian Lutes		832	33.3	B. D. Lane	Secy.-Treas.-Dir.	4,680.00
	Helen Tripner	Dir.	278	11.1			
Missouri Insurance Company (Missouri) 2,000 Shares.	Estelle Lutes		277	11.1			
			2,498	100.0			
	T. O. West, Estate	V. Pres.	900	45.0	J. A. Walker	Pres.-Dir.	20,800.00
	J. A. Walker	Pres.-Dir.	326	16.3	James C. West	V. Pres.-Dir.	11,700.00
	Kentucky Central L. & A. Ins. Co.		260	13.0	H. G. Alewel	Secy.-Treas.-Dir.	6,500.00
Monumental Life Insurance Company (Maryland) 200,000	Lon. O. Hoeker	Gen. Counsel-Dir.	220	11.0	W. R. Martin	Supt. of Agency	5,200.00
	James C. Jones	Gen. Counsel-Dir.	220	11.0			
			1,926	96.3			
	Safe Deposit & Trust Co. of Balto.		21,000	10.5	Paul M. Burnett	Chmn. of Bd.-Dir.	3 25,000.00
	Paul M. Burnett	Chmn. of Bd.-Dir.	17,276	8.6	Leo P. Rock	Pres.-Dir.	3 18,500.00
Milton Roberts	V. Pres.-Dir.	12,813	6.4	F. Harold Loweree	Secy.	3 12,250.00	
Adelbert W. Mears	Dir.	11,853	5.9	William J. Biehl	Agency Mgr.	3 8,833.33	
Howard M. Emmons	V. Pres.-Dir.	11,138	5.6	James C. Harris	Mgr.	3 8,824.22	
		74,080	37.0				

National Burial Insurance Company (Tennessee) 11,050 Shares. National Life & Accident (Tennessee) 400,000 Shares.	No information. W. R. Willis. C. A. Craig R. E. Fort. C. R. Clements E. W. Craig.	V. Chmn. of Bd.-Dir. Chmn. of Bd.-Dir. V. Pres.-Med. Dir.-Dir. Pres.-Dir. Exec. V. Pres.-Dir.	47, 185-1/4 20, 850-1/4 18, 733-1/4 16, 493-1/4 12, 428 115, 290-1/4 5 626 5 511 91 1, 238	1.8 5.2 4.7 4.1 3.1 28.9	No information. C. A. Craig C. R. Clements W. H. Julian George D. Wright G. C. Lynch	Chmn. of Bd.-Dir. Pres.-Dir. Div. Mgr. Div. Mgr. Div. Mgr.	25, 000.00 17, 916.00 18, 000.00 15, 000.00 15, 000.00
Peninsular Life Insurance Company (Florida) 1,250 Shares.	Laurence F. Lee. Occidental Life Insurance Co. C. E. Hyre. British American Co., Ltd. Rev. Patrick Barry.	Pres.-Dir. Secy.-Treas.-Dir.	5 626 5 511 91 1, 238	0.4 50.1 0.4 40.9 7.2 99.0	Laurence F. Lee. B. B. Hudmall R. M. Anderson B. L. Dewitt S. F. McDonough	Pres.-Dir. Agency Manager V. Pres.-Dir. Asst. Treas. Asst. Secy.	8, 500.00 5, 300.00 4, 420.00 3, 120.00 2, 275.00
Reliable Life Insurance Company (Missouri) 15,000 Shares.	No information.				No information.	Pres.-Dir. V. Pres.-Dir. Sec.-Treas.-Dir. Asst. Secy.-Treas. Asst. Secy. Treas.-Dir. Pres.-Dir. Asst. Secy.-Mgr.-Dir. Dir.	12, 740.00 8, 060.00 5, 564.00 3, 640.00 3, 640.00 2, 926.00 2, 516.00 1, 914.00 1, 782.00 1, 438.00
Richmond Beneficial (Virginia) 2,500 Shares.	Percy Wilson Quinn Shelton M. H. Payne (Deceased) E. F. Johnson J. E. Harris	V. Pres.-Dir. Officer. V. Pres.-Dir. Dir. Asst. Secy.-Mgr.-Dir.	300 277 151 146 137 1/2	12.0 11.1 6.0 5.8 5.5	B. L. Tateman Chas. L. Mattes A. A. Jekal E. V. Corte S. J. Gould C. Bernard Gilpin J. J. Carter Geo. W. White J. E. Harris Percy Wilson	Pres.-Dir. V. Pres.-Dir. Sec.-Treas.-Dir. Asst. Secy.-Treas. Asst. Secy. Secy.-Mgr.-Dir. Treas.-Dir. Pres.-Dir. Asst. Secy.-Mgr.-Dir. Dir.	12, 740.00 8, 060.00 5, 564.00 3, 640.00 3, 640.00 2, 926.00 2, 516.00 1, 914.00 1, 782.00 1, 438.00
Rio Grande National Life Insurance Company (Texas) 11,000 Shares. Santa Fe National Life Insurance Company (N. M.) 126,558-1/2 Shares.	No information. Seth Alston C. R. McIntosh Lester Snyder C. E. Meisenholder John S. Sherritt	Dir. V. Pres. Dir. Treas. Pres.-Dir.	6, 079 4, 401 3, 990 2, 376-1/2 1, 664	4.8 3.5 3.2 2.2 1.3	R. W. Baxter G. B. Pattison Frances Harris No information.	Pres. Asst. Secy. Secy.	5, 100.00 2, 272.00 1, 328.00
Southern Aid Society (Virginia) 15,000 Shares.	A. Washington Jas. T. Carter W. A. Jordon W. E. Randolph A. D. Price, Jr.	V. Pres.-Dir. Pres.-Dir. Secy.-Mgr.-Dir. Dir. Dir.	723-1/2 634 543 504 2, 554 4, 958-1/2	4.8 4.2 3.6 3.4 17.0 33.0	W. A. Jordon J. E. Hall, Jr. Jas. T. Carter Chas. N. Jackson A. Washington	Secy.-Mgr.-Dir. Asst. Secy.-Mgr.-Dir. Pres.-Dir. Aud. Com. Exec.-Com.-Dir. Exec. Com. Dir.	6, 294.96 3, 522.45 3, 086.52 974.70 682.26

* Includes 2,214 shares owned beneficially.

† Dec. 31, 1937.

‡ Trustee for Paul M. Burnett.

Forty-four Stock Life Insurance Companies Selling Industrial Insurance As of December 31, 1938—Information Relating to Stock Ownership and Salaries Paid Chief Executives—Continued

Company—Shares Outstanding	Five Largest Owners of Stock Outstanding in Company			Five Highest Paid Officials in Company			
	Name	Position	No. shares	%	Name	Position	Salary
Southern Life & Health Insurance Company (Alabama) 11,837.	L. M. Orr.....	V. Pres.	5,721	48.3	No information		
	W. R. Lathrop-Estate.....		1,427	12.1			
	W. N. Culp.....	Chmn. Bd.-Dir.	778	6.6			
	P. P. Pepper.....	Secy.-Treas.	685	5.8			
	A. L. Kild.....	V. Pres.	573	4.8			
Standard Life Insurance Company of the South (Mississippi) 50,000 Shares.	W. B. Watkins.....	Dir.	9,184	77.6	No information		
	Geo. W. Covington.....	Pres.-Dir.	975	19.5			
	W. A. Davenport.....	Dir.	927	18.5			
	Niles Moseley.....	Counsel-Dir.	550	11.0			
	R. A. McRee.....	Dir.	319	6.4			
Star Life Insurance Company of America (Maryland) 5,000 Shares.	John M. Miller.....	Dir.	312-½	6.3			
	Daniel A. Miller.....	V. Pres.-Dir.	3,083-½	61.7	Ezra C. Miller.....	Pres.-Dir.	\$4,670.00
	Ezra C. Miller.....	Pres.-Dir.	2,764	55.3	Daniel A. Miller.....	V. Pres.-Dir.	4,670.00
	I. C. Lewis.....	Secy.-Treas.-Dir.	1,112	22.3	John M. Miller.....	Agent-Dir.	3,760.00
	John M. Foard.....	Dir.	1,100	22.0	I. C. Lewis.....	Secy.-Treas.-Dir.	3,240.00
State Capitol Life Insurance Company (North Carolina) 1,020 Shares.	Irving F. Hall.....	Pres.	12	.2	Elmer T. Mullen.....	Asst. Secy.	3,120.00
	Edwin Pate.....	Dir.	12	.2			
	J. P. Giddons.....	Dir.	5,000	100.0			
	R. M. Hanes.....	Dir.	100	9.8	R. L. Edwards.....	V. Pres.	4,800.00
	E. H. Evans.....	Dir.	100	9.8	R. C. Wade.....	Treas.	3,000.00
Sun Life Insurance Company (Maryland) 15,000 Shares.	Mirlam Rothschild, Trustee.....		6100	9.8			
	Sol Rothschild.....	V. Chmn. of Bd.-Dir.	500	49.0	C. F. Diehl.....	Chmn. of Bd.-Dir.	19,200.00
	Charles F. Diehl.....	Chmn. of Bd.-Dir.	3,702	24.7			
	S. Z. Rothschild, Trustee.....	Pres.-Dir.	2,000	13.3	S. Rothschild.....	V. Pres.-Dir.	19,200.00
	Felix Rothschild.....	V. Pres.-Dir.	1,500	10.0	S. Z. Rothschild.....	Pres.-Dir.	18,000.00
		1,250	8.3	J. H. Rosenblatt.....	V. Pres.-Treas.-Dir.	16,800.00	
		1,000	6.7	Felix Rothschild.....	V. Pres.-Dir.	15,600.00	
		9,452	63.0				

Supreme Liberty Life Insurance Company (Illinois) 40,000 Shares.	No information.....					Harry H. Pace..... J. K. Gibson..... W. Ellis Stewart..... J. G. Ish, Jr..... Earl B. Dickerson.....	Pres.-Dir..... Treas.-Dir..... Secy.-Treas.-Dir..... Agency-Officer-Dir..... Gen. Counsel-Dir.....	6,102.50 5,501.50 4,902.00 4,902.00 2,800.00
United Insurance Company (Illinois) 8,000 Shares.	Investors Finance & Thrift Corp. O. T. Hogan..... A. D. Johnson..... G. B. Hiser..... S. J. Russell, M.D.....	4,103	51.3			O. T. Hogan..... A. D. Johnson..... H. G. Rockwood..... G. B. Hiser.....	Pres.-Dir..... Secy.-Treas.-Dir..... V. Pres.-Dir..... V. Pres.-Dir.....	8,355.00 5,960.00 5,448.00 5,240.00
Washington National Insurance Company (Illinois) 125,000 Shares.	Harry R. Kendall..... Geo. R. Kendall..... C. B. Crawford..... H. Brooks Kendall..... Curtis P. Kendall.....	29,828 27,770 10,975 8,123 7,410	23.9 22.2 8.8 6.5 5.9			H. R. Kendall..... G. R. Kendall..... James F. Ramey..... Claude P. Kendall..... C. B. Crawford.....	Chmn. of Bd.-Dir..... Pres.-Dir..... V. Pres.-Secy.-Dir..... Treas.-Dir..... V. Pres.-Dir.....	13,000.00 13,000.00 12,863.50 10,999.96 10,999.56
Western & Southern Insurance Company (Ohio) 300,000 Shares.	Emma J. Williams ? Charles M. Williams ? William Joseph Williams ? James Ryan ? Mary Elizabeth W. Kyte ?	34,285 ⁶ / ₄ 27,697 ¹³ / ₄ 27,696 ³ / ₄ 27,696 ³ / ₄ 27,696 ³ / ₄	11.4 9.2 9.2 9.2 9.2	84,106	67.3	No information		
		145,0728 ⁸ / ₄	48.2					

⁶ Includes 90 Shares owned beneficially.

⁶ Includes 30 Shares owned beneficially.

⁷ Includes 34,285⁶/₄, 3,000, 18,000, 18,000 and 3,000 Shares respectively, owned beneficially.

"EXHIBIT No. 953," introduced on p. 5615, appears in Hearings, Part XI, appendix p. 5589

EXHIBIT No. 954

1922, ch. 492, sec. 96

99. CONVERSION OF MUTUAL LIFE TO STOCK COMPANY. Any life, accident or health insurance company heretofore incorporated under the laws of this State without capital stock, and whether conducted upon the mutual, legal reserve, cooperative or assessment plan, may, with the consent of at least three-fourths of its directors, become a stock corporation, subject to the laws of this State applicable to such corporations, and those prescribing the form and manner of making amendments to articles of incorporation, upon complying with the following conditions and regulations: Notice of the proposal so to change the form of the corporate organization and of the meeting of the members of the corporation, its policy holders or certificate holders, or by whatever name its members are known, to be held for the purpose of taking action thereon, shall be given by publication stating the time, place and object of said meeting, once a week for six consecutive weeks in at least one newspaper of general circulation published in the city or county in which said corporation has its principal place of business, and in at least two such newspapers if so many are published in said city or county.

At such meeting there shall be required, in order to effect the change proposed, the affirmative vote in person, or the consent in writing, of at least two-thirds of all the members of the corporation and the concurrence of at least three-fourths of the directors. At such meeting, if the proposed change be approved, the amount of the capital stock of the corporation shall be fixed, within the limits prescribed by law for such corporations, and the par value of the shares and number of shares into which the capital stock is to be divided shall also be determined. The members, policy holders or certificate holders of such corporation shall have the first right to subscribe to said stock, subject to such equitable regulations as the directors may prescribe, but all subscriptions for shares of stock must be made and paid for in cash and at a price not less than par. Upon the completion of its reorganization as a stock company the assets, if any, of such corporation and its liabilities shall be and become the assets and liabilities of the stock company, except so far as herein otherwise provided. Said company, however, shall not be entitled to do any business as a stock corporation, until the amount of capital stock, determined as herein provided and as authorized by law, shall have been subscribed and paid for at not less than par and in accordance with the laws governing the formation of corporations, and shall have been invested in an amount equal to the par value of such stock in securities mentioned and authorized by Section 20, and deposited with the Insurance Commissioner to guarantee the payment of policies issued by said company, and until the Commissioner shall, upon request, value the assets of the said company, and its outstanding policies, and shall give his certificate that the admitted assets of said company are sufficient to provide reserve upon all outstanding policies as required by the laws of this State in relation to insurance companies, over and above all bona fide debts and claims against it, exclusive of its capital stock liability. Upon the receipt of such certificate from the Insurance Commissioner, the stockholders may elect from among themselves not less than five or more than twenty-five directors to hold office until the ensuing annual meeting or until their successors shall have been duly elected and shall qualify, and the directors so elected shall have, and they are hereby authorized, to exercise all the rights and powers proper to be exercised by the directors of such stock company under the laws of this State.

The Insurance Commissioner upon request, and upon payment to him at the usual rates of the cost of such work, shall ascertain and certify the proportionate interest in the assets of the mutual corporation before its reorganization as a stock company, of each of the members of the mutual company who may refuse to assent to the change of said company into a stock company; but the interest of no member so dissenting shall be valued at more than the full legal reserve upon his policy as prescribed by law, at the time of the reorganization of the corporation as a stock company, and the amount of the interest of each such dissenting member or policyholder shall be paid over to him, and upon the payment or tender to him of the amount of interest so ascertained and certified, the membership of each such dissenting member or policy holder shall cease and determine; and the remainder of the assets in excess of the sum required for the compensation

of dissenting members or policy holders as aforesaid, may be deposited with the Treasurer of Maryland or the Insurance Commissioner under the provisions of Sections 19 and 20 of this article, as a guarantee for the payment of the policies issued by said company. Any surplus that may be found to exist in the assets of such corporation over and above all its liabilities, including the legal reserve for all outstanding policies in force, as ascertained and certified by the Insurance Commissioner as hereinabove provided at the date of its reorganization as a stock company, shall be held as a fund for the security of the creditors of the company, and shall under no circumstances pass to the ownership of the stockholders, be distributed among them or be used or encroached upon for the payment of dividends upon the capital stock.

The mutual policies and all rights and liabilities attaching thereto, and all the powers and obligations of the company with reference to the same, shall survive so long as said policies shall remain in force, except that such policies shall thereafter be considered as policies for the largest amount which, according to their terms, might be payable thereunder in case the assessments provided for should yield a sufficient amount to pay the same, and if any certain number of assessments be specified upon said policies as payable by the holders thereof, the company shall not be entitled to levy any further assessments, even though such rights may have been previously reserved in the policy. (Bagby's Annotated Code of Maryland, 1924, Vol. 1, p. 1839, 1840, and 1841)

EXHIBIT No. 955

[From the Baltimore Sun, Nov. 18, 1927]

CORPORATE CHANGE MUTUAL LIFE PLAN—DIRECTORS PROPOSE FORMING OF CORPORATION WITH CAPITAL OF \$500,000

HAS \$7,453,000 ASSETS—AIMED TO CUT OPERATION COST AND PERMIT REFORMS IN ADMINISTRATION

By J. S. ARMSTRONG

Directors of the Mutual Life Insurance Company of Baltimore have voted unanimously to change the form of the corporate organization from a mutual to a stock company. A meeting of members and policyholders has been called for January 5, 1928, to act on a resolution in that connection. It is understood that capitalization of the company is likely to be \$500,000.

\$119,000,000 INSURANCE IN FORCE

The amount of insurance in force on January 1, 1927, was \$119,000,000, and nearly \$7,000,000 has been paid to policy holders, it was stated. Assets on that date totaled \$7,453,000, of which \$729,000 was surplus. The company has been in business since 1870.

Paul M. Burnett, president of the company, said yesterday that the proposed capital will be subscribed and paid for in cash at par, and the stock issue, together with the surplus, will constitute a contingent reserve in addition to the legal reserve for the protection of policyholders. This contingent reserve cannot be used for any other purpose under the law, he said.

REFORMS IN ADMINISTRATION

"This change will enable the company to make certain reforms in the administration of its business," Mr. Burnett said, "and permit the issuance of non-participating policies for persons desiring the greatest amount of protection at death for the smallest premium outlay.

"The directors believe that this transition will result in saving of cost of operation," he said. "This change in the corporate form of the company has the approval of the Insurance Commissioner and the conversion will take place according to the provisions of the law, under his direction and supervision."

EXHIBIT No. 956

[From files of Monumental Life Insurance Co.]

POLICY No. -----

I hereby appoint PAUL M. BURNETT, HOWARD M. EMMONS and MILTON ROBERTS to be my substitute and proxy, to vote on all matters arising at a special meeting of the members of the Mutual Life Insurance Company of Baltimore called, under the Maryland Code (1924) Art. 48 A Section 99, as advertised in the Baltimore Daily Record of October 13th, 1927, in the same manner as I might or could do if personally present and voting thereat, and I hereby consent to the change of the corporate organization from a mutual to a stock company, and waive subscription to said stock.

WITNESS my hand and seal this ----- day of November, 1927.

----- [SEAL]
(Signature of Insured)

Witness

(Agent sign as witness)

EXHIBIT No. 957

[From files of Monumental Life Insurance Co.]

MINUTES OF A SPECIAL MEETING OF THE BOARD OF DIRECTORS OF THE MUTUAL LIFE INSURANCE COMPANY OF BALTIMORE.

BALTIMORE, December 29, 1927.

A special meeting of the Board duly warned and called was held this date at the office of the Company at 11:15 A. M.

Present: President, Mr. Paul M. Burnett, Vice-President, Mr. Howard M. Emmons, and the following directors:

Messrs. James D. Iglehart, Adelbert W. Mears, Thomas F. Shriver, John B. H. Dunn, C. Fred Hutchinson, Alfred J. Tormey, Milton Roberts and Henry Roth.

The President made a full verbal report to the Board of the progress being made as to the proposed change of the corporate organization from a mutual to a stock company. On motion of Dr. Iglehart, seconded by Mr. Shriver and unanimously carried, it was resolved by the Board of Directors that the Board recommends to the policyholders voting at the meeting, that this Company be changed from a mutual to a stock company, and recommends the adoption of the following as an amendment to the Charter of the Company, to wit:

That the capital stock of this Company be fixed at Five Hundred Thousand Dollars, consisting of Five Thousand Shares of Common Stock of the par value of One Hundred Dollars per share. Mr. Shriver then presented the following preambles and resolutions, to wit:

WHEREAS, at a meeting of this Board held on the sixth day of October, 1927 it was resolved that the President of the Company give notice of the proposal to change the form of the corporate organization from a mutual to a stock company to be voted on at a meeting of the policyholders of the corporation to be held for that purpose on January 5th, 1928; and

WHEREAS, the Board is unanimously in favor of such conversion of this Company to a stock corporation. Therefore be it resolved, That this Board and each and every member thereof concur in the change proposed, if the same be adopted by at least two-thirds of all the policyholders of the corporation; and

Be it further resolved as an evidence of and concurrence in the proposed change, That each member of the Board sign his name at the foot of and as part of this resolution; and

Be it further resolved, That the Secretary of this Board be and he is hereby authorized to present at that meeting for and on behalf of this Board and each of the members thereof, and as his proxy and agent, a copy of these resolutions duly attested by him as the secretary of this company and to read them at said meeting and file said copy as part of the Minutes thereof.

Mr. Shriver then moved the adoption of the preamble and resolutions which was seconded by Mr. Hutchinson, which motion was duly put and unanimously carried, and the members then signed the said preambles and resolutions and left the same in the possession of the secretary in accordance with the terms of the resolution.

It was then regularly moved by Mr. John B. H. Dunn and seconded by Mr. Alfred J. Tormey that the following resolutions be adopted by the Board for the regulation of the subscriptions to stock of the company in the event the proposed change to a stock corporation should be adopted, which said resolutions read as follows:

“RESOLUTION OF THE BOARD OF DIRECTORS OF THE MUTUAL LIFE INSURANCE
COMPANY OF BALTIMORE

“*Be it resolved by the Board of Directors of the Mutual Life Insurance Company of Baltimore under and by virtue of the power conferred upon us by Art. 48 A Section 99 of Bagby's Code of Maryland (1924), That all persons entitled to subscribe to the stock of the Company under the above mentioned section shall at the call for subscriptions submit and subscribe first, giving the name in full, the number of shares subscribed to, the number of their policy or policies and post office address; and*

“*Be it further resolved, That all subscriptions shall have accompanying them cash or a certified check to an amount not less than twenty-five per cent of the amount of the subscription; and*

“*Be it further resolved, That the balance of the unpaid amount of subscriptions shall be paid within ten days from the date of the subscription, time to be of the essence of the contract of subscription; and*

“*Be it further resolved, That in the event of an over-subscription allotments will be made by this Board, looking to the best interests of the Company by considering the value, past and present, of each subscriber from the standpoint of service to the Company as a policyholder, official or employee of the Company, as also his particular value to the Company at this time in any other way.”*

After the reading of the resolution, the motion was put and unanimously carried.

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE
MUTUAL LIFE INSURANCE COMPANY OF BALTIMORE, HELD JANUARY 5, 1928,
10:30 O'CLOCK A. M.

A regular meeting of the Board of Directors was called on this date and pursuant to the directions of the President.

Present: the president, Mr. Paul M. Burnett, Vice-president, Mr. Howard M. Emmons, Secretary, Mr. Henry Roth, and the following Directors:

Messrs. Milton Roberts, C. Fred Hutchinson, Alfred J. Tormey, John B. H. Dunn, Dr. James D. Iglehart and Adelbert W. Mears.

Absent: Mr. Thomas F. Shriver.

The Minutes of the meeting of October 6, 1927 were read and approved. The reading of the Minutes of the meeting of December 29th, 1927 were temporarily postponed. The report of the auditing committee was read and on motion of Mr. Adelbert W. Mears, seconded by Mr. Dunn, the report was received, accepted and filed.

Mr. Howard M. Emmons then offered the following resolution.

“WHEREAS, at a meeting of this Board held on the 29th day of December, 1927 a preamble and resolution was adopted in which this Board unanimously voted in favor of the conversion of this Company to a stock Company, and authorized the secretary of this Board to present as its proxy and agent at the meeting of the policyholders called for January 5, 1928, a copy of the resolution and to read and file the same as part of the Minutes thereof.

“NOW THEREFORE, *Be it resolved, That the said resolutions be and the same are hereby rescinded and annulled.”*

The motion of Mr. Emmons offering the above resolution was seconded by Mr. Dunn and unanimously carried.

On motion of Mr. J. B. H. Dunn, seconded by Dr. James D. Iglehart, the meeting of the Board took a recess until 11:15 in order to attend the meeting of the policyholders. The Board met again after the recess at 11:15.

The Minutes of December 29th, 1927 were then read and approved as amended by the resolution adopted at this meeting.

There being no further business to come before the meeting on motion of Mr. Adelbert W. Mears, seconded by Mr. Hutchinson, the Board adjourned.

Respectfully submitted.

HENRY ROTH, *Secretary.*

EXHIBIT No. 958

[From files of Monumental Life Insurance Co.]

MINUTES OF THE SPECIAL MEETING OF THE POLICYHOLDERS
OF THE
MUTUAL LIFE INSURANCE COMPANY OF BALTIMORE

BALTIMORE, January 30, 1928.

The special meeting of the policyholders of the MUTUAL LIFE INSURANCE COMPANY OF BALTIMORE re-convened this date at 11 A. M. at the Company's offices, at the northeast corner of Charles and Chase Streets, in the City of Baltimore pursuant to the motion to recess to this meeting passed at the meeting held January 5, 1928. The chairman, Mr. Howard M. Emmons presided and called the meeting to order. The chairman then asked for any recommendations which the Board of Directors might have to present to the policyholders, whereupon the secretary of the Board handed the chairman a recommendation from the Board of Directors advising the policyholders to convert the Company from a Mutual to a Stock corporation. The chairman then read the recommendation to the meeting which reads as follows:

"Resolved by the board of directors of the Mutual Life Insurance Company of Baltimore, that the Board recommends to the policyholders voting at this meeting that this Company be changed from a Mutual to a Stock Company, and recommends the adoption of the following as an amendment to the Charter of the Company, to wit:

"That the capital stock of this Company be fixed at FIVE HUNDRED THOUSAND DOLLARS, consisting of Five Thousand shares common stock of the par value of ONE HUNDRED DOLLARS per share."

It was then moved by Mr. Jackson and seconded by Mr. Roberts that the recommendation of the Board of Directors to the policyholders to convert the Company from a mutual to a stock corporation be adopted and that the policyholders proceed to a vote to change the corporate organization from a mutual to a stock company. The chairman then appointed Mr. Charles C. Ewell and Miss Rebecca Sharry inspectors of election and the policyholders present then proceeded to vote upon the motion.

Messrs. Paul M. Burnett, Howard M. Emmons and Milton Roberts then presented proxies authorizing them to vote at this meeting on all matters arising thereat from and on behalf of 376,982 policyholders of the Company, to which was attached in writing the consent of all of said policyholders to the change of the corporate organization from a mutual to a stock company, and the same being found in order and in compliance with the laws of the State of Maryland were received and accepted by the inspectors. The inspectors having counted the votes and consents cast announced that the vote of the meeting to change the corporate organization from a mutual to a stock company is as follows:

For the change 377,049.

Against the change, None.

The following certificate in writing was then filed with the chairman, in the following form, to wit:

"THIS IS TO CERTIFY, that I am Agency Manager of the Mutual Life Insurance Company of Baltimore, having under my direct supervision the Actuary Department and also the department receiving and tabulating the written consents (or proxy cards) under the provisions of Art. 48-A Section 99 of the Maryland Code (1924) and reading as follows:

'I HEREBY APPOINT PAUL M. BURNETT, HOWARD M. EMMONS and MILTON ROBERTS to be my substitute and proxy, to vote on all matters arising at a special meeting of the members of the Mutual Life Insurance Company of Baltimore called, under the Maryland Code (1924) Art. 48-A, Section 99, as advertised in the Baltimore Daily Record of October 13th, 1927, in the same manner as I might or could do if personally present and voting thereat, and I hereby consent to the change of the corporate organization from a mutual to a stock company, and waive subscription to said stock'—

and that on this thirtieth day of January, 1928 cards duly signed and witnessed have been received and tabulated from 376,982 policyholders out of a total number in force of 489,073 policies.

(Signed) CHAS. C. EWELL,
Agency Manager.

THIS IS TO CERTIFY that I am the Actuary of the Mutual Life Insurance Company of Baltimore and that on the 30th day of January, 1928 there are outstanding the total number of 489,073 policies in force. I further certify that I have examined the written consents (or proxy cards) signed by policyholders and that 376,982 have been received and recorded.

(Signed) REBECCA H. SHARRY,
Actuary.

Executed and sworn to this 30th day of January, 1928 by Charles C. Ewell and Rebecca Sharry.

(Signed) EMILY T. CROWLEY,
Notary Public."

[SEAL]

The chairman announced that the motion to adopt the recommendation of the Board of Directors to change the organization from a mutual to a stock company had been carried by a vote of more than two-thirds of all the policyholders of the company.

The chairman then announced that more than two-thirds of all the policyholders having voted to change the corporate organization from a mutual to a stock company, called for necessary amendments to the charter, fixing the capital stock, the par value per share, and the number of shares into which the capital stock is divided. Thereupon Mr. Arthur L. Jackson, counsel of the Company presented the following proposed certificate of amendment to the Charter of the Company, which reads as follows:

"CERTIFICATE OF CAPITAL STOCK OF THE MUTUAL LIFE INSURANCE
COMPANY OF BALTIMORE

IT IS HEREBY CERTIFIED, that at a special meeting of the policyholders of the corporation, duly called and warned by advertisement, as required by Section 99 Art. 48-A Bagby's Code of Maryland (1934) and held at the Company's offices in the City of Baltimore, State of Maryland on the fifth day of January, 1928, at 11 o'clock A. M., and recessed from that date to and duly re-convened on the 30th day of January, 1928 at 11 o'clock A. M., at the same place, it was recommended to the said policyholders and it was voted (more than two-thirds of all the policyholders of the Company voting in favor thereof or consenting thereto in writing) to change the corporate form of this Company so that it become a stock corporation, and that the capital stock of this Company be fixed at FIVE HUNDRED THOUSAND DOLLARS, consisting of FIVE THOUSAND shares common stock of the par value of One Hundred Dollars per share, and the capital stock of this corporation is hereby so declared according to said vote as provided in said Code Art. 23 Section 29.

THEREFORE, by virtue of the power conferred upon me by said Section 29 I have hereunto affixed my hand and acknowledge this amendment to the Charter of this Company in the name and on behalf of the said corporation, and have hereto attached the corporate seal of the said body corporate, attested by the Secretary of the Company.

*President, Mutual Life Insurance
Company of Baltimore.*

[SEAL]
Attest:

*Secretary of the Mutual Life Insurance
Company of Baltimore."*

On motion of Mr. James C. Harris, a policyholder, duly seconded by Mr. Edwin C. Brockenbrough a policyholder, the proposed amendments to the charter were approved and adopted by the following vote:

For the proposed amendment, 377, 049.
Against the proposed amendment, None.

The chairman of the meeting then requested the Board of Directors to present any resolution fixing regulations governing subscriptions to the stock of the Company, whereupon the secretary of the Company, Mr. Henry Roth, presented the resolutions of the Board of Directors fixing the regulations for subscriptions to stock, which were read by the chairman and read as follows:

“RESOLUTION OF THE BOARD OF DIRECTORS OF THE MUTUAL LIFE INSURANCE COMPANY OF BALTIMORE

Be it resolved by the Board of Directors of the Mutual Life Insurance Company of Baltimore under and by virtue of the power conferred upon it by Art. 48-A Section 99 Bagby's Code of Maryland (1924) that all persons entitled to subscribe to the stock of the Company under the above mentioned section shall at the call for subscriptions submit and subscribe first, giving the name in full, the number of shares subscribed to, the number of their policy or policies and post office address; and

Be it further resolved, that all subscriptions shall have accompanying them cash or a certified check to an amount not less than twenty-five per cent of the amount of the subscriptions; and

Be it further resolved, That the balance of the unpaid amount of subscriptions shall be paid within ten days from the date of the subscription, time to be of the essence of the contract of subscription; and

Be it further resolved, That in the event of an over-subscription allotments will be made by this Board, looking to the best interests of the Company by considering the value, past and present, of each subscriber from the standpoint of service to the Company as a policy-holder, official or employee of the Company, as also his particular value to the Company at this time in any other way.”

Upon the reading of the Resolutions it was moved by Mr. R. O. Wehrheim and seconded by Mr. Benjamin H. B. Long that the said resolutions of the Board of Directors be and the same are hereby adopted and approved. The said motion was adopted by the following vote:

For the motion, 377, 049.

Against the motion, 1.

The chairman then announced the opening of subscriptions to stock of the Company to policyholders. Thereupon Mr. Arthur L. Jackson, counsel of the Company submitted a form of subscription to shares of capital stock of the Company and Mr. Andrew J. Parr then moved that the subscription form submitted be approved and adopted and that all subscriptions must be at par and be placed by the subscribers in the hands of the President of the Company before Saturday, February 4th, at 12 o'clock noon, at which time the subscription books will be closed. This motion was then seconded by Mr. Benjamin H. B. Long and was adopted by the following vote:

For the motion, 377, 049 votes.

Against the motion, 2 votes.

The form is as follows:

MUTUAL LIFE INSURANCE COMPANY OF BALTIMORE,
Baltimore, Md.-----192--

I
WE hereby subscribe for-----shares of the capital stock of the Mutual Life Insurance Company of Baltimore at par value of \$100 per share, allotments subject to such equitable regulations as the Board of Directors may prescribe, and tender herewith twenty-five per cent of the amount of my subscription in cash-----and agree to pay the balance when called by the Board of
(by certified check)

Directors.

Time is the essence of this subscription.

(Signed) -----

There being no further business appearing before the meeting on motion of Mr. Arthur L. Jackson, seconded by Mr. Roberts, the meeting recessed to February 6th, 1928, at 11 o'clock A. M. to reconvene on that date at the same place, and to receive the report of the Board of Directors and their allotment of stock.

Respectfully submitted.

. HENRY ROTH, Secretary.

THIS IS TO CERTIFY that I am Agency Manager of the Mutual Life Insurance Company of Baltimore, having under my direct supervision the Actuary Department and also the department receiving and tabulating the written consents (or proxy cards) under the provisions of Art. 48-A, Section 99 of the Maryland Code (1924) and reading as follows:

"I hereby appoint Paul M. Burnett, Howard M. Emmons and Milton Roberts to be my substitute and proxy, to vote on all matters arising at a special meeting of the members of the Mutual Life Insurance Company of Baltimore called, under the Maryland Code (1924) Art. 48-A, Section 99, as advertised in the Baltimore Daily Record of October 13th, 1927, in the same manner as I might or could do if personally present and voting thereat, and I hereby consent to the change of the corporate organization from a mutual to a stock company, and waive subscription to said stock"—

and that on this 30th day of January, 1928, cards duly signed and witnessed have been received and tabulated from 376,982 policyholders out of a total number in force of 489,073 policies.

CHAS. C. EWELL,
Agency Manager.

THIS IS TO CERTIFY that I am Actuary of the Mutual Life Insurance Company of Baltimore and that on the 30th day of January 1928, there are outstanding the total number of 489,073 policies in force. I further certify that I have examined the written consents (or proxy cards) signed by policyholders and have been received and recorded. 376982.

REBECCA H. SHARRY,
Actuary.

Executed and sworn to this 30th day of January 1928 by Charles C. Ewell and Rebecca Sharry.

[SEAL]

EMILY T. CROWLEY,
Notary Public.

EXHIBIT No. 959

[From files of Monumental Life Insurance Co.]

MINUTES OF THE BOARD OF DIRECTORS OF THE MUTUAL LIFE INSURANCE
COMPANY OF BALTIMORE

BALTIMORE, *February 4th, 1928.*

The Board met this date at 1:30 o'clock P. M.

Present: The President, Mr. Paul M. Burnett, The Vice-President, Mr. Howard M. Emmons, The Secretary, Mr. Henry Roth, and

Messrs. James D. Iglehart, Thomas F. Shriver, C. Fred Hutchinson, Alfred J. Tormey, Milton Roberts, John B. H. Dunn and Adelbert W. Mears.

The Minutes of the meeting of the Board of January 5th, 1928 were read and approved.

The Minutes of the meeting of the policyholders held on January 5th, 1928 and January 30th, 1928 were read to the Board by the Secretary. The President reported that he had subscriptions from sixty-three policyholders. The subscriptions aggregating TWO MILLION, ONE HUNDRED AND FORTY-SEVEN THOUSAND, SIX HUNDRED DOLLARS.

The members of the Board being the persons required by law to make the allotments of stock, the Board decided that the members thereof who were not officers, executives or employees of the Company could receive only under the allotment the same number of shares as other policyholders and no more.

The counsel to the Board then presented a form of resolution to be filled in by the Board in making the allotments of the shares of stock. Whereupon the President and Vice-President announced their intention to leave the room while the allotment was being made, and at the request of the President Mr. Roberts took the chair.

Mr. Hutchinson then moved, seconded by Mr. Mears, that the form submitted by the counsel be approved and the allotments in said form be filled in so that the resolutions and allotment should read as follows:

"WHEREAS, the power is vested in this Board of Article 48-A Section 99 of Bagby's Code of Maryland (1924) to make equitable regulations affecting the right to subscribe to shares of stock of the Company by the policyholders; and

WHEREAS, if a large percentage of policyholders had subscribed it would have necessitated the issuing of fractional shares of the stock of the Company, which the Board regards as an undesirable thing to do, nevertheless at the closing of the subscription books at twelve o'clock noon today, it appears that the number of policyholders who have exercised their right to subscribe to stock of the Company is so small that it will not be necessary to issue fractional shares of the stock of the Company.

Therefore, be it resolved, That in pursuance of the power above mentioned, the Board does hereby allot to each subscribing policyholder of this Company five shares of the capital stock of the Company at par; and

Be it further resolved, That the Board is of the opinion that the balance of the stock shall be allotted to policyholders of the Mutual Life Insurance Company holding an executive position therewith, either as an official or department manager of the Company, or other capacities, in order that the present management, control and operation of the Company may continue in the same hands and under the same management which has successfully conducted the Company for years past, and according to said opinion the Board allots the following classes of policyholders, the number of shares hereinafter mentioned, to each class at the price of One Hundred and Ten Dollars per share, one hundred dollars of which constitutes the par value thereof and the price as fixed by the policyholders, and ten dollars shall constitute a surplus fund; and

Be it further resolved in accordance with the above resolutions, That the balance of the stock shall be allotted as follows:

To subscribing policyholders.....	315 shares
To employees.....	350 shares
To managers of offices.....	1425 shares
To heads of departments.....	1100 shares
To the secretary.....	250 shares
To the assistant secretaries.....	300 shares
To the Vice-president.....	500 shares
To the President.....	760 shares

And be it further resolved, That the Board allot to each of such employees, managers of offices, heads of departments, secretaries, Vice-President and President the number of shares set opposite their respective names, to wit:

To the following employees: E. B. Dow, H. M. Dunn, E. C. Reed, M. D. Wheeler, Geraldine O'Connell, C. J. Linke and Gertrude Sandlass, fifty shares each.

To the following managers of offices, viz: James C. Harris, C. W. Bowen, W. J. Hanley, George M. Mueller, L. P. Rock, H. T. Simmons, W. J. Leimkuhler, J. R. Hankins, C. C. Wachtel, R. P. Smith, C. H. Mund, Jr., R. L. Peck, D. C. DeRuse, A. M. Boteler, Leroy Baxter, J. C. Kulp, C. M. Kron, C. C. Knudsen and John Park, seventy-five shares each.

To the following heads of departments, viz: A. J. Parr, Charles C. Ewell, R. O. Wehrheim, E. E. Brockenbrough, F. H. Vinup, H. C. Roth, I. T. Reaney, H. C. Bregel, Rebecca Sharry, Robert J. Burton and Arthur L. Jackson, one hundred shares each.

To the following secretaries and assistant secretaries: Henry Roth, 250 shares, C. H. B. Long and Frederick Schneider, 150 shares each.

To the Vice-President, Howard M. Emmons, 500 shares.

To the President, Paul M. Burnett, 760 shares.

Be it further resolved, That if any subscriber shall fail to pay the balance due upon his subscription within ten days after notice, his stock may be sold by the President of the Company at the price of One Hundred and Ten Dollars per share and his deposit returned; and

Be it further resolved, That the Board hereby authorizes, constitutes and appoints Arthur L. Jackson, counsel of the Company, as its agent, to present these resolutions at the meeting of the policyholders to be held February 6th, 1928 and to ask said meeting to ratify and adopt these resolutions.

IN WITNESS WHEREOF, the members of the Board voting for the above Resolutions have hereto affixed their hands and seals this fourth day of February, 1928.

JAMES D. IGLEHARD,	[SEAL]
JOHN B. H. DUNN,	[SEAL]
ALFRED J. TORMEY,	[SEAL]
THOMAS F. SHRIVER,	[SEAL]
ADELBERT W. MEARS,	[SEAL]
C. FRED HUTCHINSON,	[SEAL]
MILTON ROBERTS,	[SEAL]

The chair then put Mr. Hutchinson's motion and the above Resolutions were adopted by a vote of seven Ayes and no Nays.

Whereupon the resolution and allotments as completed were signed and sealed by each of the members of the Board voting Aye.

Counsel of the Company then presented to the Board a form of Resolution reading as follows:

"WHEREAS, it is required by the provisions of Article 48-A Section 99 of Bagby's Code of Maryland (1924) that before this Company can be converted from a mutual to a stock company this Board must concur in such conversion; and

"WHEREAS, the Board of Directors having considered the action heretofore taken by the policyholders at a meeting duly called, warned and held on January 5th, 1928 and recessed to January 30th, 1928 and again recessed to February 6th, 1928, being of the opinion that the proposed conversion is for the best interests of the policyholders and of the Company:

"Be it resolved, That this Board, and each member thereof, does hereby concur in the proposed conversion of this Company from a mutual to a stock Company; and

"Be it further resolved, That Arthur L. Jackson, Counsel of the Company be authorized and directed at the meeting to be held February 6th, 1928 of the policyholders, to present this Resolution of concurrence on the part of the Board and request that it be spread upon the minutes of that meeting.

"IN WITNESS WHEREOF, the members of the Board voting for the above Resolutions have hereunto affixed their hands and seals this fourth day of February, nineteen hundred and twenty-eight."

WHEREUPON, it was moved by Mr. Mears and seconded by Mr. Hutchinson that the Resolution as presented by the counsel be adopted.

On the motion being put by the chair each and every member of the Board voted in the affirmative and there was no negative vote.

WHEREUPON, the resolutions were signed and sealed by each and every one of the ten members of the Board.

There being no further business to come before the Board, on motion of Mr. Roberts, seconded by Mr. Dunn the Board adjourned.

Respectfully submitted.

HENRY ROTH,
Secretary.

WHEREAS, it is required by the provisions of Article 48-A, Section 99 of Bagby's Code of Maryland (1924) that before this Company can be converted from a mutual to a stock company this Board must concur in such conversion; and

WHEREAS, the Board of Directors having considered the action heretofore taken by the policyholders at a meeting duly called, warned and held on January 5th, 1928 and recessed to January 30th, 1928 and again recessed to February 6th, 1928, being of the opinion that the proposed conversion is for the best interests of the policyholders and of the Company:

Be it resolved, That this Board, and each member thereof, does hereby concur in the proposed conversion of this Company from a mutual to a stock Company; and

Be it further resolved, That Arthur L. Jackson, Counsel of the Company be authorized and directed at the meeting to be held February 6th, 1928 of the policyholders, to present this Resolution of concurrence on the part of the Board and request that it be spread upon the minutes of that meeting.

IN WITNESS WHEREOF, the members of the Board voting for the above Resolutions have hereunto affixed their hands and seals this fourth day of February, Nineteen hundred and twenty-eight.

PAUL M. BURNETT [SEAL]
HOWARD M. EMMONS [SEAL]
HENRY ROTH [SEAL]
ALFRED J. TORMEY [SEAL]
JAMES D. IGLEHART [SEAL]
JOHN B. H. DUNN [SEAL]

C. FRED HUTCHINSON [SEAL]
ADELBERT W. MEARS [SEAL]
THOS. F. SHRIVER [SEAL]
MILTON ROBERTS [SEAL]
----- [SEAL]
----- [SEAL]

EXHIBIT No. 960

[From files of Monumental Life Insurance Co.]

CARVILLE D. BENSON,
*Insurance Commissioner*HAZELTON A. JOYCE, JR.,
Deputy Insurance Commissioner
ARTHUR M. SIEGK,
*Actuary*STATE INSURANCE DEPARTMENT OF MARYLAND
Baltimore.

I, Carville D. Benson, do hereby certify that the Mutual Life Insurance Company of Baltimore has complied with all the laws of Maryland in relation to its conversion from a mutual to a stock life insurance company, and is now fully authorized to transact the business of life insurance as a stock life insurance company.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal, at my office in the City of Baltimore, this 6th day of February, 1928.

[SEAL]

CARVILLE D. BENSON,
State Insurance Commissioner of Md.

EXHIBIT No. 961

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Temporary stock certificates were issued to the following individuals on Feb. 6, 1928:

Name	Number of shares	Certificate number	Name	Number of shares	Certificate number
Wm. J. Leimkuhler.....	80	1	Thomas F. Shriver.....	5	38
Frederick L. Schneider.....	155	2	Arthur L. Jackson.....	5	39
Clarence W. Bowen.....	80	3	Morton M. Prentis.....	5	40
Charles H. Mund, Jr.....	80	4	C. Emmerich Mears.....	5	41
Carl C. Knudsen.....	80	5	Leroy Baxter.....	80	42
James C. Harris.....	75	6	Andrew J. Parr.....	100	43
Roland O. Wehrheim.....	100	7	Andrew J. Parr.....	5	44
Milton Roberts.....	5	8	Charles C. Ewell.....	105	45
James C. Harris.....	5	9	Henry C. Roth.....	255	46
Roland O. Wehrheim.....	5	10	Howard T. Simmons.....	80	47
Carl M. Kron.....	80	11	E. C. Brochenbrough.....	105	48
D. C. DeRuse.....	80	12	Fred H. Vinup.....	100	49
John Park.....	80	13	Thomas J. Beika.....	5	50
Jacob W. Ulman.....	5	14	Chas. J. Linke.....	55	51
Leo P. Rock.....	80	15	Gertrude Sandlass.....	55	52
E. C. Reed.....	55	16	Rebecca Sharry.....	105	53
Hobart M. Dunn.....	55	17	A. S. Bumgarner.....	5	54
George M. Mueller.....	80	18	Robert R. Burton.....	105	55
W. J. Hanley.....	80	19	Max Kammer.....	5	56
John C. Kulp.....	80	20	Edward G. Cole.....	5	57
James R. Hankins.....	80	21	Francis M. Chipman.....	5	58
Carl C. Wachtel.....	80	22	Paul M. Burnett.....	765	59
Ernest B. Dew.....	55	23	Howard M. Emmons.....	500	60
Allen B. Lockhart.....	5	24	Jessie M. Munn.....	5	61
Fred H. Vinup.....	5	25	Elinor B. Clifford.....	5	62
Willard D. Wheeler.....	5	26	Arthur L. Jackson.....	100	63
A. W. Mears.....	5	27	Millard D. Wheeler.....	50	64
Howard M. Emmons.....	5	28	Howard C. Bregel.....	100	65
Emerson L. McCoy.....	5	29	Irene T. Reaney.....	100	66
Harry C. Roth.....	5	30	Harry C. Roth.....	100	67
Thomas Mahool.....	5	31	Raymond P. Smith.....	80	68
James D. Iglehart.....	5	32	Robert L. Peck.....	80	69
Alfred J. Tormey.....	5	33	Clarence H. B. Long.....	155	70
Irene T. Reaney.....	5	34	Alva M. Boteler.....	80	71
John B. H. Dunn.....	5	35	Summerfield B. Pearson.....	5	72
C. Fred Hutchinson.....	5	36	Geraldine O'Connell.....	55	73
Howard C. Bregel.....	5	37			

EXHIBIT No. 962

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Original stock certificates were issued to the following on Feb. 10, 1928:

1. James C. Harris	75	34. Edw. G. Cole	5
2. " " "	5	35. Francis M. Chipman	5
3. Clarence H. B. Long	125	36. Emerson T. McCoy	5
4. " " "	30	37. Thomas J. Betha	5
5. Paul M. Burnett	650	38. Morton M. Prentis	5
6. " " "	115	39. James D. Iglehart	5
7. Roland O. Wehrheim	50	40. Alfred J. Tormey	5
8. " " "	55	41. Alfred S. Bumgarner	5
9. Thomas Mahool	5	42. Jessie M. Munn	5
10. Andrew J. Parr	50	43. Alva M. Boteler	5
11. " " "	55	44. " " "	75
12. C. Fred Hutchinson	5	45. Fred'k L. Schneider	30
13. Thomas F. Shriver	5	46. " " "	125
14. J. H. B. Dunn	5	47. Rebecca Sharry	5
15. A. W. Mears	5	48. " " "	100
16. C. Emmerich Mears	5	49. Gertrude Sandlass	5
17. Elinor B. Clifford	5	50. " " "	50
18. Howard M. Emmons	300	51. Howard Brigel	105
19. " " "	5	52. Charles Linke	5
20. Milton Roberts	5	53. " " "	50
21. Henry Roth	205	54. Irene T. Reaney	5
22. " " "	50	55. " " "	100
23. Harry C. Roth	55	56. Charles H. Mund, Jr	20
24. " " "	50	57. " " "	60
25. Willard O. Wheeler	10	58. Wm. J. Leimkuhler	30
26. " " "	45	59. " " "	50
27. E. C. Brockenbrough	30	60. Milton Roberts (see note)	50
28. " " "	75	61. " " " " "	30
29. Robert R. Burton	10	62. Howard Emmons	200
30. Robert R. Burton	95	63. Summerfield B. Pearson	100
31. Arthur L. Jackson	25	64. Real Estate Trust Co	1550
32. " " "	80	65. Elizabeth M. Burnett	5
33. Max Kammer	5		

The stock under cert. 60 and 61 was originally issued to Carl C. Knudsen as temporary stock cert. #5.

Cert. 63 issued to Summerfield B. Pearson is comprised of 5 shares issued under temporary stock certificate #72 for 5 shares and 95 shares from certificate #64.

Cert. #65 represents stock issued to Jacob Ullman under temp. certificate #14. Certificate #64 issued to Real Estate Trust Co. for 1550 shares arose from transactions with the below listed holders of temporary stock certificates.

Name	Number of shares	Temp. stock cert. number	Name	Number of shares	Temp. stock cert. number
Frederick H. Ylnup emp	105	25 & 49	Howard T. Simmons mgr	80	47
Hobart M. Dunn emp	55	17	Carl C. Wachtel mgr	80	22
Robert L. Peck mgr	80	69	Leroy Baxter mgr	80	42
Raymond P. Smith mgr	80	68	Ernest B. Dew emp	55	23
Clarence W. Bowen mgr	80	3	John Park mgr	80	13
James R. Hankins mgr	80	21	D. C. DeRuse mgr	80	12
John C. Kulp	80	20	Carl M. Kron mgr	80	11
W. J. Hanley mgr	80	19	Leo P. Rock mgr	80	15
Geo. M. Mueller mgr	80	18	Chas. C. Ewell sec	105	45
E. C. Reed emp	55	16	Geraldine O'Connell emp	55	

The stock certificate for these shares was issued on Feb. 15, 1928. They were disposed of as follows (new certificates issued):

Cert. #	Name	Number of shares	Date
63	Summerfield C. Pearson	95	Feb. 15, 1928
66	Paul M. Burnett	295	Feb. 16, 1928
67	Thomas F. Shriver	45	"
68	Howard C. Bregel	5	"
69	John B. H. Dunn	45	"
70	Dr. James D. Iglehart	20	"
71	C. Fred Hutchinson	20	"
72	Fred G. Boyce, Jr.	50	"
73	Sewell S. Watts	10	"
74	Walter M. Weilepp	50	"
75	A. Claude Reader	20 ✓	"
76	Otto Joleit	20 ✓	"
77	Ernest Dent	10	"
78	Jessie M. Munn	45	"
79	Arthur J. McNally	10 ✓	Feb. 16, 1928
80	Alfred J. Tormey	70	"
81	Westheimer & Co.	85	"
89 thru 95	Adelbert W. Mears	500 225	Feb. 21, 1928
98	E. Eleanor Weidman	3	Feb. 23, 1928
101	Emily T. Crowley	5 ✓	Feb. 24, 1928
102	George M. Mueller	30	Feb. 27, 1928
103	George M. Mueller	50	Feb. 27, 1928
107	Fred'k H. Vinup	25 ✓	Mar. 1, 1928
108	Charles C. Ewell	42	Mar. 1, 1928

EXHIBIT No. 963

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Amount of Monumental Insurance Company Collateral Loans to Real Estate Trustee, Inc., Land Mortgages, Inc., and Real Estate Trust Company As of December 31 of Each Year 1929-1938

	Real Estate Trustee, Inc.	Land Mortgages, Inc.	Real Estate Trust Company
1929	80,000		
1930	165,000		50,000
1931	692,045.14		115,000
1932	766,803.87		115,000
1933		626,859.83	115,000
1934		577,974.17	
1935		570,898.49	
1936		547,648.61	
1937		551,248.90	
1938		342,218.38	

Annual Statements of the Company.

EXHIBIT No. 964

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Balance Carried By Monumental Insurance Company in The Real Estate Trust Co. As of December 31 of Each Year 1929-1938

Year:	Balance	Year—Continued.	Balance
1929	69,759.64	1934	9,148.09
1930	185,709.85	1935	52,829.76
1931	95,075.05	1936	35,238.32
1932	255,769.61	1937	58,642.03
1933	92,911.84	1938	176,464.00

Annual Statements of the Company.

EXHIBIT No. 965

[From files of Monumental Life Insurance Co.]

The stated quarterly meeting of the Directors of the Monumental Life Insurance Company was held on the 6th day of April, 1939, at 12 o'clock noon at the offices of the Company, Charles & Chase Streets, Baltimore, Maryland; those present being Doctors Stewart H. Clifford and Fred H. Vinup and Messrs. Alfred J. Tormey, Adelbert W. Mears, Morton M. Prentis, Howard M. Emmons, Milton Roberts, Leo P. Rock and Paul M. Burnett, Chairman.

The minutes of the last stated meeting were read and there being no corrections were declared approved.

The Chairman reported that the indebtedness of Land Mortgages, Incorporated, to the Company as of March 31, 1939 amounted to \$446,990.05, as adjusted by verbal agreement modifying agreement effective July 1, 1934, agreement of August 9, 1934 and agreement of December 24, 1934. He stated that a basis for the settlement of this indebtedness had been worked out by the officers and had been submitted to the Executive Committee at its meeting just held on this date and that the Executive Committee had approved and ratified the proposed settlement which is as follows:

1. That the Monumental Life Insurance Company purchase from Land Mortgages, Incorporated, certain shares of stock owned by Land Mortgages, Incorporated, and at present hypothecated to the Monumental Life Insurance Company under the said indebtedness at and for the sums herewith set opposite each:

a. 2193 shares Real Estate Trust Company at \$125.00 per share.....	\$274, 125. 00
b. 600 shares Mid-Continent Petroleum at \$35.00 per share....	21, 000. 00
c. 50 shares Monumental Life Insurance Company at \$27.50 per share.....	1, 375. 00
Total.....	\$296, 500. 00

2. The Land Mortgages, Incorporated, will apply the proceeds of this sale to its indebtedness to the Monumental, thus reducing the indebtedness from \$446,990.05 to \$150,490.05.

3. The Land Mortgages, Incorporated, will pay to the Monumental Life the sum of \$50,490.05, which will be a settlement in full of the said remaining indebtedness of \$150,490.05, and the Monumental Life will release all of the remaining pledged collateral under the said indebtedness. The Monumental Life will charge off as a loss the unpaid difference of \$100,000.00. In this connection, Monumental Life and Land Mortgages will enter into an agreement mutually releasing each other from all claims and demands of every kind and description.

4. In connection with the purchase of the 2193 shares of stock of Real Estate Trust Company as set forth in Item #1, the Company will enter, into an agreement with Mr. Milton Roberts to be effective March 31, 1939, wherein M1. Milton Roberts will agree to buy and the Monumental Life will agree to sell, before April 1, 1941, the said 2193 shares of Real Estate Trust Company at \$125.00 per share for a total of \$274,125.00 cash. The Monumental Life will execute and deliver to Mr. Roberts an irrevocable proxy to vote the said 2193 shares of stock of Real Estate Trust Company, good until March 31, 1941, or until the consummation of this purchase and sell agreement, should that first occur. Mr. Roberts will agree that during the continuance of this proxy he will vote the said 2193 shares, and all other stock of the Real Estate Trust Company which he might own or control, in favor of some person designated by the Monumental Life Insurance Company as a Director of the Trust Company.

5. In connection with the payment to the Monumental Life Insurance Company of \$50,490.05, as set forth in Item #3, it is understood that the collateral released to Land Mortgages is to be conveyed by such legal method as our attorneys advise to a corporation known as the Consolidation Company. The said Consolidation Company is to make a \$50,490.05 mortgage to the Monumental Life secured by collateral, as set forth below, for a period of three years from March 31, 1939, with interest at 3%. Each item of Collateral covered by the mortgage will be subject to specific minimum release values as set forth below opposite each item. The mortgage will contain a provision that the mortgagee shall receive all of the principal proceeds from the liquidation of the collateral, the same to be applied to the principal of the mortgage, and that in the event such principal payments amount to less than \$25,000.00 at the end of the first year the Consolidation Company will pay at the end of the first year a sum sufficient

to bring the principal payments up to \$25,000.00; and if such principal payments amount to less than \$50,000.00 at the end of the second year the Consolidation Company will pay at the end of the second year a sum sufficient to bring the principal payments up to \$50,000.00

The specific items of collateral to be covered by this mortgage with their respective release values are as follows:

Mortgages:	<i>Release Values</i>
J. G. Baublitz (2nd mtge.) 106 Clarendon Ave., Pikesville----	\$525. 00
Cityco Realty Co., Rosedale Gardens-----	10, 000. 00
Harry E. Gilbert (2nd mtge.) 925-29 N. Charles St.-----	5, 000. 00
Grand United Order of Odd Fellows, 407 W. Lanvale St.-----	10, 000. 00
G. U. O. O. F. Newhall Assn. (2nd mtge.), 407 W. Lanvale St.--}	
Leonard W. Porter:	
128 Oakdale Ave., Catonsville, 7 room stucco—brick house.	4, 600. 00
1308 Ridge Road, Catonsville, 7 room frame and shingle--	3, 300. 00
1310 Ridge Road, Catonsville, 7 room frame and shingle--	3, 400. 00
Total Mortgages-----	<u>\$36, 825. 00</u>
1405 E. Baltimore St., 3½ story brick building-----	4, 000. 00
Delight, Md. (Reisterstown Rd.), Gas Station—Store-----	5, 000. 00
Ferndale, Md., Approximately 2500 lots-----	5, 000. 00
212 E. Lake Ave., Frame & shingle cottage-----	6, 500. 00
610 E. Lombard St., 3 story brick warehouse-----	3, 000. 00
Ridgebrook, Catonsville, 50 building lots-----	7, 000. 00
1311 Ridge Road, Catonsville, Frame & shingle cottage-----	3, 800. 00
Sudbrook Park, Pikesville, 65 acres-----	6, 000. 00
45 Warrenton Road, 3 story brick house-----	18, 000. 00
618 E. Baltimore St., 3 story brick building-----	4, 000. 00
1100-02 Cathedral St.:	
1 story brick building-----	15, 000. 00
2 story brick building-----	15, 000. 00
3711 Marmon Ave.:	
Frame & shingle cottage-----	2, 500. 00
112 Hawthorne Ave., Pikesville-----	2, 000. 00
119 Sherwood Ave., Pikesville-----	2, 000. 00
121 Sherwood Ave., Pikesville-----	2, 000. 00
125 Sherwood Ave., Pikesville-----	2, 000. 00
All-frame & shingle bungalow-----	4, 000. 00
1309 Ridge Road, Catonsville, Cottage-----	4, 000. 00
Melvale, N. S. Coldspring Lane, W. Buchanan Ave.,	
Approx. 26 acres unimproved-----	10, 000. 00
Willoughby Beach, Approx. 220 acres-----	10, 000. 00
Total Real Estate-----	<u>\$111, 800. 00</u>
Grand Total-----	<u>\$148, 625. 00</u>

After due consideration and discussion, upon motion by Mr. Prentis, seconded by Dr. Stewart H. Clifford, the Board ratified and approved settlement on the basis set forth above.

This is to certify that the foregoing is a true and exact copy taken from the minutes of the stated quarterly meeting of the Directors of the Monumental Life Insurance Company held on this 6th day of April, 1939.

(Signed) F. H. LOWEREE,
Secretary.

EXHIBIT No. 966

[From files of Monumental Life Insurance Co.]

MONUMENTAL LIFE INSURANCE COMPANY

Home Office, Baltimore, Md.

Inter-office correspondence

Record of dividends paid on Monumental Life insurance stock

No. of Shares	Par Value	Cash Dividend per share	Total	Date Paid
1	\$100.00	\$6.00	\$6.00	4/4/29
1	100.00	10.00	10.00	2/1/30
1	100.00	10.00	10.00	2/2/31
20 ¹	10.00	1.00	20.00	2/1/32
20	10.00	1.00	20.00	1/13/33
20	10.00	1.00	20.00	1/8/34
40 ²	10.00	1.00	40.00	11/5/34
40	10.00	1.50	60.00	1/14/35
40	10.00	1.00	40.00	1/15/36
40	10.00	2.00	80.00	1/11/37
40	10.00	1.00	40.00	1/10/38
40	10.00	.50	20.00	10/10/38
40	10.00	1.50	60.00	1/9/39

¹ First Stock Dividend, 100% 8/1/31 (Par Value reduced from \$100.00 to \$10.00).

² Second stock dividend, 100% 4/10/34.

EXHIBIT No. 967

[Prepared by Monumental Life Insurance Co.]

MONUMENTAL LIFE INSURANCE COMPANY

Industrial Insurance in Force 12-31-38

Year Issued	No. of Policies	Premium	Amount
1878-1902	3,854	\$328.09	\$591,978
1903	617	55.10	95,905
1904	689	62.94	108,085
1905	800	75.95	128,254
1906	879	87.65	152,612
1907	869	87.35	144,929
1908	1,028	98.14	192,463
1909	1,116	107.23	217,340
1910	945	93.96	187,860
1911	858	87.87	179,592
1912	883	94.30	185,234
1913	1,013	106.61	201,341
1914	1,067	121.01	215,707
1915	1,148	134.30	223,179
1916	1,209	149.04	235,027
1917	1,029	121.79	184,257
1918	1,703	208.73	285,366
1919	2,886	437.47	601,095
1920	3,947	646.35	904,910
1921	4,365	697.38	960,809
1922	4,267	772.72	1,051,892
1923	3,751	711.87	934,912
1924	4,549	914.88	1,146,079
1925	8,903	1,936.69	2,447,796
1926	9,588	2,241.56	2,708,549
1927	12,916	3,109.59	3,673,353
1928	12,632	2,905.97	3,839,265
1929	19,587	4,458.22	5,962,033
1930	21,400	4,735.25	7,190,986
1931	31,121	5,633.43	9,598,616
1932	36,184	6,758.82	11,000,248
1933	48,588	8,220.82	13,903,443
1934	57,506	10,330.53	16,593,537

Industrial Insurance in Force 12-31-38—Continued

Year Issued	No. of Policies	Premium	Amount
1935.....	70,240	\$12,830.94	\$20,135,014
1936.....	85,355	15,808.43	24,366,703
1937.....	89,733	17,572.51	26,330,159
1938.....	129,998	23,540.45	38,035,916
Total premium-paying.....	677,223	126,283.94	194,914,494
Pure Endowment.....			778,176
Paid-Up.....	96,623		9,273,685.52
Extended.....	22,342		6,566,677
Grand Total.....	796,188	\$126,283.94	\$211,533,032.52

[In ink:] Furnished by Miss Watts.

EXHIBIT No. 968

[Prepared by Securities and Exchange Commission Insurance Study Staff]

MONUMENTAL LIFE INSURANCE COMPANY

Selected Insurance Data 1929-1938 Inclusive

Source: Annual Statements.

INDUSTRIAL INSURANCE

	In force	Issued	Lapsed	Surrendered	Ratio total Lapses and to Issues %
Jan. 1, 1929.....	123,434,694				
Dec. 31, 1929.....	136,119,768	75,294,611	63,050,439	4,334,822	89.5
" 1930.....	140,646,036	92,822,806	92,393,922	5,374,155	105.3
" 1931.....	137,506,390	99,329,923	94,620,745	5,911,205	101.2
" 1932.....	125,097,390	82,746,018	85,885,150	6,871,230	112.1
" 1933.....	129,788,501	57,697,976	46,934,778	4,083,686	88.4
" 1934.....	145,910,940	60,819,649	41,135,516	2,170,687	71.2
" 1935.....	161,816,700	61,975,076	41,463,463	3,349,870	72.3
" 1936.....	182,583,067	65,520,333	39,964,000	3,645,564	66.6
" 1937.....	199,627,312	65,548,411	43,150,596	3,864,512	71.7
" 1938.....	211,533,033	59,489,830	41,842,618	4,352,729	77.7
Total.....		721,244,638	590,441,227	43,958,460	88.0

ORDINARY INSURANCE

	In force	Issued	Lapsed	Surrendered	Ratio total Lapses and to Issues %
Jan. 1, 1929.....	23,254,743				
Dec. 31, 1929.....	28,474,820	11,907,000	11,256,500	434,500	98.2
" 1930.....	29,990,091	9,836,500	13,432,500	292,500	139.5
" 1931.....	32,871,544	10,047,000	6,624,450	1,044,324	76.3
" 1932.....	33,591,922	11,608,500	9,163,500	1,774,637	94.2
" 1933.....	34,519,200	9,397,500	6,179,927	1,832,122	85.3
" 1934.....	39,395,314	11,662,000	5,202,500	1,170,334	64.6
" 1935.....	43,041,584	11,223,500	5,953,250	1,078,090	62.6
" 1936.....	50,641,607	14,186,500	5,215,500	913,131	43.2
" 1937.....	58,459,063	15,894,500	6,571,000	1,071,686	48.1
" 1938.....	60,750,553	12,187,500	8,138,996	1,271,887	77.2
Total.....		117,950,500	77,738,123	10,883,261	75.1

EXHIBIT No. 969

[Source: Monumental Life Insurance Company stock register and record of cash dividend payments.]

MONUMENTAL LIFE INSURANCE COMPANY

Aggregate Cash Dividends paid to certain stockholders since organization as a stock company February 6, 1928

<i>Name of stockholder</i>	<i>Aggregate cash dividends</i>
Paul M. Burnett.....	\$181, 474. 00
The Real Estate Trust Co., trustee u/d from Emma J. Simmont.....	30, 500. 00
Safe Deposit & Trust Co. of Baltimore, trustee u/d from Paul M. Burnett.....	197, 500. 00
Donald J. Clifford, minor.....	812. 50
Frederick M. Clifford, minor.....	1, 250. 00
Paul B. Clifford, minor.....	1, 250. 00
Stewart B. Clifford, minor.....	1, 250. 00
Ellinor B. Clifford.....	2, 604. 00
Stewart H. Clifford and Ellinor B. Clifford (tenants by entireties) ..	34, 540. 00
Ellinor B. Clifford and Stewart H. Clifford (joint tenants).....	66. 00
Howard M. Emmons.....	112, 784. 00
Minnie M. Emmons.....	3, 260. 00
Minnie M. Emmons, for life remainder to Marion I. Emmons, Mildred B. Lenderking and Janet R. Viemeister.....	60. 00
Howard M. Emmons and Minnie M. Emmons (joint tenants).....	210. 00
Marion Emmons.....	2, 425. 00
Milton Roberts.....	158, 837. 00
The Real Estate Trust Co.....	62, 040. 00
Cecelia G. Roberts.....	5, 109. 00
Sarah H. Roberts.....	8, 500. 00
Adelbert W. Mears.....	141, 782. 00
C. Emerich Mears.....	3, 132. 00
Milton, Mann & Moreton, Inc.....	60, 564. 00
Irene T. Reaney.....	12, 989. 00
Arthur M. Siegk.....	27, 280. 00
M. Isabelle Siegk.....	9, 580. 00
Milton Roberts and F. H. Loweree, trustees under deed of trust from Irene T. Reaney.....	6, 000. 00
Land Mortgages, Inc.....	250. 00
Denton S. Lowe.....	460. 00
John P. Albert.....	460. 00
John P. Albert and Mrs. Lily C. Albert (tenants by entireties).....	3, 800. 00
The Equitable Trust Co. and Arthur M. Siegk, trustees.....	8, 520. 00
Union Trust Co. of Maryland.....	6, 500. 00
The First National Bank of Baltimore.....	2, 612. 00
The Real Estate Trust Co. and Joshua N. Warfield, trustees u/d from Adelbert W. Mears.....	7, 500. 00
The Real Estate Trust Co., trustee u/d from Adelbert W. Mears.....	180. 00
Aggregate Cash Dividends paid to above stockholders.....	1, 096, 080. 50

“EXHIBIT No. 970”, introduced on p. 5729, is on file with the Committee.

EXHIBIT No. 971

[Prepared by Securities and Exchange Commission Insurance Study Staff]

*Forty-four Stock Companies Selling Industrial Insurance December 31, 1938—
Number of Shares Outstanding and Their Par Value*

Name of company	Number of Shares Outstanding	Par Value
All States Life Insurance Company (Alabama).....	50,000	\$5
American National Life Insurance Company (Texas).....	20,000	\$100
Atlanta Life Insurance Company (Georgia).....	2,500	\$100
Carolina Life Insurance Company (South Carolina).....	1,000	\$100
Citizens Life Insurance Company (Louisiana).....	2,000	\$10
Colonial Life Insurance Company (New Jersey).....	9,000	\$100
Continental Life Insurance Company, Inc., (D. C.).....	30,000	\$4
Durham Life Insurance Company (North Carolina).....	3,000	\$100
Empire Life & Accident Insurance Company (Indiana).....	6,000	\$50
Equitable Life Insurance Company (D. C.).....	2,000	\$100
Franklin National Life Insurance Company (S. C.).....	11,108	\$10
Home Beneficial Association (Virginia).....	2,000	\$100
Home Life of America (Delaware).....	25,000	\$10
Home Security Life Insurance Company (North Carolina).....	1,000	\$100
Home State Life Insurance Company (Alabama).....	68,000	\$1.50
Imperial Life Insurance Company (North Carolina).....	2,000	\$100
Industrial Life & Health Insurance Company (Georgia).....	5,000	\$100
Industrial Life Insurance Company (Pennsylvania).....	5,000	\$10
Interstate Life & Accident Insurance Company (Tennessee).....	66,666.67	\$4.50
Kentucky Central Life & Accident Insurance Company (Kentucky).....	40,000	\$10
Knights Life Insurance Company (Pennsylvania).....	30,000	\$10
Liberty Life Insurance Company (South Carolina).....	1,403	\$100
Liberty National Life Insurance Company (Alabama).....	41,300	\$5
Life Insurance Company Virginia (Virginia).....	300,000	\$20
Lincoln Republic Life Insurance Company (Nebraska).....	2,500	\$10
Missouri Insurance Company (Missouri).....	2,000	\$100
Monumental Life Insurance Company (Maryland).....	200,000	\$10
National Burial Insurance Company (Tennessee).....	11,050	\$10
National Life & Accident (Tennessee).....	400,000	\$10
Peninsular Life Insurance Company (Florida).....	1,250	\$100
Reliable Life Insurance Company (Missouri).....	15,000	\$10
Richmond Beneficial (Virginia).....	2,500	\$10
Rio Grande National Life Insurance Company (Texas).....	11,000	\$10
Santa Fe National Life Insurance Company (N. M.).....	126,558½	\$1
Southern Aid Society (Virginia).....	15,000	\$10
Southern Life & Health Insurance Company (Alabama).....	11,837	\$10
Standard Life Insurance Company of the South (Mississippi).....	50,000	\$10
Star Life Insurance Company of America (Maryland).....	5,000	\$5
State Capitol Life Insurance Company (North Carolina).....	1,020	\$100
Sun Life Insurance Company (Maryland).....	15,000	\$100
Supreme Liberty Life Insurance Company (Illinois).....	40,000	\$2.50
United Insurance Company (Illinois).....	8,000	\$25
Washington National Insurance Company (Illinois).....	125,000	\$10
Western & Southern Insurance Company (Ohio).....	300,000	\$50

Source: Information secured from companies.

EXHIBIT No. 972

[Prepared by Prudential Insurance Co. of America]

PRUDENTIAL

Company (20 Divisions)—Chargeable Finals

Year	Avg. No. of Agencies	Chargeable Finals	Per cent	Year	Avg. No. of Agencies	Chargeable Finals	Per cent
1908	7,777	4,188	53.85	1924	13,759	4,778	34.72
1909	10,049	7,151	71.16	1925	15,235	5,749	37.73
1910	9,910	8,414	84.90	1926	17,039	6,966	40.88
1911	8,993	5,309	59.03	1927	18,494	6,298	34.05
1912	8,948	4,864	54.35	1928	19,494	5,622	28.83
1913	9,041	4,796	53.04	1929	20,502	6,215	30.31
1914	9,536	4,973	52.14	1930	21,238	6,116	28.79
1915	10,359	5,526	53.34	1931	20,707	4,968	23.99
1916	11,005	6,374	57.91	1932	20,028	4,434	22.13
1917	11,408	6,249	54.77	1933	19,245	3,262	16.94
1918	11,334	6,393	56.40	1934	19,572	3,592	18.35
1919	10,536	5,378	51.04	1935	19,613	3,134	15.97
1920	10,183	4,691	46.06	1936	19,592	3,111	15.87
1921	10,642	3,454	32.45	1937	19,633	2,555	13.01
1922	12,454	5,574	44.75	1938	19,524	1,371	7.02
1923	12,921	5,018	38.83				

AUGUST 15, 1939.

C:CL

EXHIBIT No. 973

[Prepared by Prudential Insurance Co. of America]

(In ink:) General Solicitor's Office

Company (20 Divisions)—Record of chargeable finals covering new agents appointed on or after January 1, 1931

Year	No. of Newly Apptd. Agents	Number Finaled for Non-Success								Number Finaled for Other Work							
		1931	1932	1933	1934	1935	1936	Total	%	1931	1932	1933	1934	1935	1936	Total	%
1931	5,176	278	380	113	83	49	36	939	18.1	198	225	118	98	74	55	768	14.8
1932	4,419		237	221	130	43	42	673	15.2		165	224	147	100	66	702	15.8
1933	3,894			117	236	120	64	537	13.7			139	305	128	127	699	17.9
1934	4,467				191	298	132	621	13.9				221	279	244	744	16.6
1935	3,718					151	229	380	10.2					151	263	414	11.1
1936	3,662						198	198	5.4						198	198	5.4
Total	25,336	278	617	451	640	661	701	3,318	13.2	198	390	481	771	732	953	3,525	13.9

Year	No. Finaled For Deficiency and Other Irregularities								Total							
	1931	1932	1933	1934	1935	1936	Total	%	1931	1932	1933	1934	1935	1936	Total	%
1931	262	715	390	210	103	67	1,747	33.7	738	1,320	621	391	226	158	3,454	66.7
1932		226	500	302	154	95	1,277	28.8		628	945	579	297	203	2,652	60.0
1933			123	379	204	128	834	21.4			379	920	452	319	2,070	53.1
1934				172	400	241	813	18.2				584	977	617	2,178	48.7
1935					145	300	445	11.9					447	792	1,239	33.3
1936						195	195	5.3						591	591	16.1
Total	262	941	1,013	1,063	1,006	1,026	5,311	20.9	738	1,948	1,945	2,474	2,399	2,680	12,184	48.0

EXHIBIT No. 974

Debit No. _____ (USE BLACK INK)

AGENT _____ (PRINT)

Asst. Sup't. _____ (FOR H. O. USE ONLY)

Application for Weekly Premium Industrial Insurance in

The Prudential Insurance Co. of America
Incorporated under the laws of the State of New Jersey HOME OFFICE, NEWARK, NEW JERSEY

Questions to be answered by the person proposed for insurance if legally competent to contract for insurance; other wise by parent or guardian.

2. RACE WHITE COLORED X	3. PLACE OF BIRTH U. S. A., give State; if elsewhere, County or Province, Town and Country.	4. DATE OF BIRTH Month Day Year	5. AGE NEXT Birthday	6. Amount of Insurance	7. Weekly Prem. for First Five Years After Five Years Increased One-fifth	8. APT. No. Floor
9. SEX MALE FEMALE	10. MARRIED SINGLE DIVORCED	11. OCCUPATION (Omit if under age 15)	12. Full name of person proposed for insurance. (Print) No. Street Town or City State	13. Has person proposed ever been rejected or postponed by this or any other Company or Association? If so, state name and date.	14. Is person proposed now insured in any other Company? If so, for what amount?	15. Is any other application for insurance in this Company now pending or being submitted with this application? If so, give particulars.
16. Is person proposed now insured in this Company? If so, state Policy Numbers	17. Is person proposed now insured in this Company under Paid-up or Extended Insurance? If so, give policy numbers and amounts.	18. Height and weight? (Exact if over age 15)	19. When last sick? Of what disease? Mo. Yr.	20. Does any physical or mental defect or vision impairment exist?	21. Has person proposed ever had apoplexy, asthma, cancer, convulsions, diabetes, disease of the gall-bladder, liver or kidneys, dyspepsia, etc., gall-stones, habitual cough, heart disease, influenza, insanity, obstinate constipation, paralysis, rheumatism, spitting of blood, syphilis, tuberculosis, tumor, ulcers, operation or injury of any kind? Give particulars.	22. Has either parent, brother, sister, husband, wife or child ever had tuberculosis? If so, give dates and relationship.
23. Has person proposed been treated by a doctor or at a dispensary within three years or ever been confined to a hospital or sanitarium for any reason? State particulars.	24a. To whom is this insurance to be payable at death? (Print full name.)	24b. Age	24c. Relationship to person proposed for insurance.	The right is reserved to change the beneficiary.		

I HEREBY DECLARE that all the statements and answers to the above questions are complete and true, and I agree that the foregoing, together with this declaration, shall constitute an application for such insurance as the Company issues for the premium on the plan and at the age stated above. I understand and agree that no Agent has power in behalf of the Company to make or to modify this application for insurance or to bind the Company by making any promise or representation or by giving or receiving any information. I further agree that the policy herein applied for, if issued by the Company, shall be accepted subject to the privilege and provisions therein contained, and that UNLESS the full first premium is paid by me at the time of making this application, the policy shall not take effect until issued by the Company and received by me and the full first premium thereon is paid, while the health and occupation of the person proposed are the same as described in this application, but that, if at the time of signing this application the full first premium is paid, the insurance shall be in force from the date of this application, in accordance with the provisions of the policy hereby applied for, provided this application is approved and accepted at the Home Office of the Company, in Newark, New Jersey.

To be signed by the person whose life is proposed for insurance if legally competent; otherwise by the parent or guardian.

APPLICANT (Mark of applicant not accepted if able to write.) _____ Relationship to person proposed _____

I CERTIFY that I have this day collected _____ cents in advance and have personally seen the person proposed and I have asked all the above questions of the herein named applicant who has answered as reported above, and I recommend the Company to accept the risk. The signature above was made in my presence.

By: _____ Agent

Form 1040-1 MEDICAL-REV. 1-29 4000-29 PRINTED IN U. S. A. BY PRUDENTIAL PRESS

THE FOLLOWING QUESTIONS MUST BE ANSWERED IN EVERY CASE AND CERTIFIED TO BY THE AGENT

A. Is the insurance applied for intended to replace any policy on this life, or on the life of any relative sharing the home with the person proposed, which has been or will be discontinued? Give full particulars. (If MDO, Int., or Ind. give folio here:

B. What is the present total weekly Industrial premium in this family? Prudential _____ Other Co.'s _____

I hereby certify to the accuracy of the above statements. _____ Agent.

Kind	Age	Amount	Premium	Total	Examined by	Approved by	Card

Unless you receive your policy, or your money is returned within three weeks from the date of this receipt, please notify the Company, giving the name of the Agent, the District, the amount paid, and the date when paid.

Amount of this receipt returned on _____ 10 _____

Received from _____ the sum of _____ cents, being the payment of weekly premium on account of a Weekly Premium Industrial policy applied for in the Prudential Insurance Company of America. It is understood and agreed that no Agent has power in behalf of the Company to make or modify any application for insurance or to bind the Company by making any promise or representation, and that there shall be no liability on the part of the Company on account of this payment unless and until the policy is issued. Any death occurring after the date hereof and of the application from which this receipt is detached and prior to the issue of such policy, payment of the amount of such policy shall be determined in accordance with the provisions of the policy then in force. This receipt is not valid unless the application is approved and accepted at the Home Office of the Company, for the premium on the plan and at the age stated.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, Home Office, Newark, N. J.
Incorporated under the laws of the State of New Jersey

Name of person proposed for insurance: _____

Agent

EXHIBIT No. 975

[From files of Prudential Insurance Co. of America]

(In ink:) Mr. Sutphen's office.

PRUDENTIAL

Average weekly earnings of industrial field force (all sources)

Year	Superintendents	Assistants and Agency Organizers	Agents	Year	Superintendents	Assistants and Agency Organizers	Agents
1906.....	\$96.57	\$24.26	\$14.86	1923.....	\$181.55	\$59.77	\$46.50
1907.....	97.94	25.06	16.71	1924.....	186.68	62.53	48.24
1908.....	94.88	25.04	17.10	1925.....	187.31	66.09	49.91
1909.....	99.46	26.17	18.27	1926.....	182.35	65.87	49.22
1910.....	96.76	24.96	17.98	1927.....	176.69	65.29	49.30
1911.....	101.58	26.14	19.43	1928.....	194.13	68.84	51.90
1912.....	106.14	27.04	20.69	1929.....	199.81	70.76	53.19
1913.....	112.16	27.77	21.57	1930.....	189.01	68.46	51.62
1914.....	117.14	29.94	22.02	1931.....	181.29	65.60	50.19
1915.....	123.79	31.54	22.10	1932.....	159.91	59.93	46.34
1916.....	131.99	32.85	22.86	1933.....	151.29	58.63	44.82
1917.....	128.04	36.76	25.44	1934.....	153.44	60.80	46.21
1918.....	114.39	40.65	30.38	1935.....	158.39	64.13	47.67
1919.....	128.41	45.71	36.45	1936.....	163.53	67.34	49.34
1920.....	144.37	51.31	42.85	1937.....	161.04	68.90	52.25
1921.....	151.64	54.66	44.75	1938.....	141.51	62.56	50.07
1922.....	162.56	54.10	42.53				

FEBRUARY 24, 1938.

EXHIBIT No. 976

[Furnished by Prudential Insurance Co. of America]

AGENT'S AGREEMENT

In consideration of my appointment as an Agent of THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, I do hereby agree as follows:

Sec. 1. That I will promote the success and welfare of the Company; conform to and abide by its instructions, rules and requirements; and refrain from engaging in any other pursuit or calling from which I receive financial remuneration while this Agreement is in force.

Sec. 2. (a) That, after being properly licensed, I will canvass regularly for applications for life insurance policies and annuity contracts of the kinds and upon the plans sold by the Company; and that I will advocate the class of insurance most suitable to the applicant's position and will not press for a larger amount of insurance than the applicant is able to maintain.

(b) That I will endeavor to keep in force the existing insurance of the Company, to secure the reinstatement of insurance that has lapsed and perform all the duties incident to the care and conservation of the Company's business, that may be assigned to me from time to time by the Company.

Sec. 3. (a) That each week my account is to be debited with the amount of the premiums on the Weekly Premium policies shown on the "Life Register" schedules, less the amount of the premiums on such policies shown on the "Lapse Register" schedules, and the difference shall constitute my "Weekly Premium Debit".

(b) That I will collect my "Weekly Premium Debit" regularly each week.

Sec. 4. (a) That each month my account is to be debited with the amount of the premiums on the Intermediate Monthly Premium, Intermediate Monthly Premium Industrial and Monthly Debit Ordinary policies shown on the "Life Register" schedules, less the amount of the premiums on such policies shown on the "Lapse Register" schedules, and the difference shall constitute my "Monthly Premium Debit".

(b) That I will collect my "Monthly Premium Debit" regularly each month.

Sec. 5. That there shall be payable to me for my services hereunder "Weekly Premium Collection Commission" as provided in Section 6, "Monthly Premium Collection Commission" as provided in Section 7, "New Business Commission" as provided in Section 9, "Conservation Commission" as provided in Section 10, "Temporary Allowance" as provided in Section 11, and "Commissions on Ordinary Insurance" as provided in Sections 14 to 21, inclusive.

Sec. 6. That "Weekly Premium Collection Commission" shall be paid to me weekly for collecting and conserving the "Weekly Premium Debit", for canvassing for new Weekly Premium insurance and for performing all the duties required by the rules of the Company; and that such "Weekly Premium Collection Commission" shall be equal to twelve per cent. (12%) of all premiums collected by me on policies on my "Weekly Premium Debit", when such premiums are paid over to the Company in cash; provided, however, that if my "Weekly Premium Debit" amounts to less than \$150.00 for any week, my "Weekly Premium Collection Commission", if I work the entire week, shall be such a percentage of the said premiums collected by me and paid over to the Company in cash as will make such commission exactly eighteen dollars (\$18.00).

Sec. 7. That "Monthly Premium Collection Commission" shall be paid to me monthly for collecting and conserving the "Monthly Premium Debit", for canvassing for new Monthly Premium Debit insurance, and for performing all the duties required by the rules of the Company incident to the care of the "Monthly Premium Debit"; and that the "Monthly Premium Collection Commission" will be payable at the rate of four and one-half per cent. (4½%) of all premiums collected by me on policies on my "Monthly Premium Debit" when such premiums are paid over to the Company in cash.

Sec. 8. That a "Fiscal Quarter" shall mean a period of thirteen (13) weeks commencing with the second week after the week in which this Agreement becomes effective, or each succeeding period of thirteen (13) weeks.

Sec. 9. (a) That beginning with my second "Fiscal Quarter", and during each "Fiscal Quarter" thereafter, a "New Business Commission" shall be paid to me each week I work, but only so long as this Agreement is in force, for services performed during the week of payment in obtaining new Weekly Premium insurance and new Monthly Premium Debit insurance, said "New Business Commission" being determined in accordance with the following method:

From the sum of the first-year premiums on Weekly Premium policies and Monthly Premium Debit policies officially issued to my credit during each "Fiscal Quarter", plus any unpaid balance of the first-year premiums on all such kinds of policies credited to me when originally issued and officially revived during such "Fiscal Quarter", there shall be deducted the unpaid balance of the first-year premiums on all such kinds of policies originally issued to my credit, whether under this or any previous agreement, which canceled during such "Fiscal Quarter" before premiums had been paid thereon for one full year. The resulting amount shall be my "Net First-Year Premiums" for such "Fiscal Quarter" and shall be ascertained separately (1) for Endowment policies for a term of less than thirty (30) years, and (2) for all other policies.

The appropriate percentages, as indicated in the next following table, shall be applied to my "Net First-Year Premiums", separated as above, for each "Fiscal Quarter"; the resulting amounts shall be added together and the sum divided by thirteen (13), and the amount thus determined shall constitute my "New Business Commission" for each week I work during the next succeeding "Fiscal Quarter" but shall be payable only so long as this Agreement is in force.

Percentage to be applied to "Net First-Year Premiums" credited

	In My First Fiscal Quarter	In My Second Fiscal Quarter	In My Third and Subsequent Fis- cal Quarters
Endowment Policies for a Term of			
Less Than 30 Years-----	20%	23%	25%
All Other Policies-----	28%	32%	35%

(b) That the terms used in subdivision (a) of this Section shall have the following significance:

"First-year premiums" shall mean the fifty-two (52) weekly premiums payable during the first policy year on Weekly Premium policies and the twelve (12) monthly premiums payable during the first policy year on Monthly Premium Debit policies.

“Unpaid balance of the first-year premiums” shall mean, for Weekly Premium policies, the weekly premium times the number of weeks for which premiums remain to be paid in order to complete the payment of fifty-two (52) weekly premiums on the policy, and for Monthly Premium Debit policies the monthly premium times the number of months for which premiums remain to be paid in order to complete the payment of twelve (12) monthly premiums on the policy.

(c) That, in the calculation of my “Net First-Year Premiums”, I shall not receive credit for any “first-year premiums” on any policy written by me on the life of any person, or any relative sharing the home with the person, who has terminated a policy of any kind or description, either by non-payment of premiums payable under the terms thereof or by surrender, not more than three months before or within three months after such policy is written. A policy lapsed for non-payment of premiums, and having continuing benefits under paid-up or extended insurance, shall be deemed to have terminated for the purposes of this Section.

(d) That if my “Net First-Year Premiums” for any “Fiscal Quarter” is a negative amount, such negative amount shall be considered in the calculation of my “Net First-Year Premiums” for the next “Fiscal Quarter”.

(e) That if this Agreement be terminated either by myself or the Company, I shall not be entitled to or paid, following the last week I work under this Agreement, any “New Business Commission” which a continuance of this Agreement might have secured to me.

Sec. 10. (a) That, unless prohibited by the laws of any State or Province in which I operate, beginning with my second “Fiscal Quarter”, and during each “Fiscal Quarter” thereafter, a “Conservation Commission”, if any is payable, shall be paid to me each week I work, but only so long as this Agreement is in force, for services performed during the week of payment in maintaining in force the policies on my “Weekly Premium Debit” and the policies on my “Monthly Premium Debit”, such “Conservation Commission” to be computed according to the following method:

My “Combined Net Lapse Per \$100 of Combined Cumulative Debit” for each “Fiscal Quarter” shall be divided by the “Combined Net Lapse per \$100 of Combined Cumulative Debit” of the Company (excluding all office accounts) for the thirteen-week period ending one week prior to the expiration of my said “Fiscal Quarter”, and on the basis of the resulting percentage my “Conservation Commission” payable to me each week I work during the next succeeding “Fiscal Quarter” shall be determined in accordance with the following table:

Percentage Described Above		“Conservation Commission”	Percentage Described Above		“Conservation Commission”
Less than 25%	-----	\$6.00	105% but less than 115%	-----	\$2.50
25% but less than 45%	-----	5.50	115% “ “ “ 125%	-----	2.00
45% “ “ “ 60%	-----	5.00	125% “ “ “ 140%	-----	1.50
60% “ “ “ 75%	-----	4.50	140% “ “ “ 160%	-----	1.00
75% “ “ “ 85%	-----	4.00	160% “ “ “ 180%	-----	.50
85% “ “ “ 95%	-----	3.50	180% and over	-----	0
95% “ “ “ 105%	-----	3.00			

My “Combined Net Lapse per \$100 of Combined Cumulative Debit” for any “Fiscal Quarter” shall be the amount produced by dividing my “Combined Net Lapse” for such “Fiscal Quarter” by one one-hundredth (1-100th) of my “Combined Cumulative Debit” for such “Fiscal Quarter”.

My “Combined Net Lapse” for any “Fiscal Quarter” shall be the total premiums on all lapsed Weekly Premium and Monthly Premium Debit policies shown on my “Lapse Register” schedules, including the premiums on all such policies lapsed after being transferred to or from me, for which I am responsible under the Company’s rules, after deducting from such total the aggregate of the premiums on all such policies officially revived to my credit, and after deducting, also, the aggregate of the premiums on all such policies lapsed because of death or the operation of the disability provisions of such policies and such policies maturing or becoming paid-up other than through the operation of the non-forfeiture provisions—it being understood that before making these calculations the premiums on Monthly Premium Debit policies in each instance will be reduced to a weekly basis by dividing the total of such premiums by four and one-third (4⅓).

My "Combined Cumulative Debit" for any "Fiscal Quarter" shall be determined as follows: each week the amount of my "Monthly Premium Debit" [after adding thereto the premiums on any policies then in course of transfer to such debit, and after deducting therefrom the premiums on any policies then in course of transfer from such debit, when the amount in course of transfer to or from any other single debit, in any instance, is twenty dollars (\$20) or more] shall be reduced to a weekly basis by dividing it by four and one-third ($4\frac{1}{3}$), the resulting amount shall be added to the amount of my "Weekly Premium Debit" [after adding thereto the premiums on any policies then in course of transfer to such debit, and after deducting therefrom the premiums on any policies then in course of transfer from such debit, when the amount in course of transfer to or from any other single debit, in any instance, is ten dollars (\$10) or more] for the week to determine my "Combined Weekly Debit", and the sum of my "Combined Weekly Debts" for the "Fiscal Quarter" shall be my "Combined Cumulative Debit" for said "Fiscal Quarter".

The "Combined Net Lapse per \$100 of Combined Cumulative Debit" of the Company shall be computed in the same manner as the foregoing.

(b) That if my "Combined Net Lapse" for any "Fiscal Quarter" is in excess of the amount which would cause my "Combined Net Lapse per \$100 of Combined Cumulative Debit" for said "Fiscal Quarter" to be one hundred eighty per cent. (180%) of the "Combined Net Lapse per \$100 of Combined Cumulative Debit" of the Company (excluding all office accounts) for the thirteen-week period ending one week prior to the expiration of my said "Fiscal Quarter", such excess "Combined Net Lapse" shall be added to my "Combined Net Lapse" for the next succeeding "Fiscal Quarter".

(c) That if my "Combined Net Lapse" for any "Fiscal Quarter" is a negative amount, such negative amount shall be deducted from my "Combined Net Lapse" for the next succeeding "Fiscal Quarter".

(d) That my "Combined Net Lapse" shall be reduced by the equivalent of one weekly premium on Weekly Premium and Monthly Premium Debit policies written by me, to the extent excluded in the calculation of my "Net First-Year Premiums".

(e) That if this Agreement be terminated either by myself or the Company, I shall not be entitled to or paid, following the last week I work under this Agreement, any "Conservation Commission" which a continuance of this Agreement might have secured to me.

Sec. 11. (a) That each week I work during the period beginning with the week in which this Agreement becomes effective to and including the last week of my first "Fiscal Quarter" under this Agreement, a "Temporary Allowance" of five dollars (\$5.00) shall be paid to me which, in the event of termination of this Agreement, shall be in lieu of any "New Business Commission" and "Conservation Commission" which a continuance of this Agreement might have secured to me.

(b) That if this Agreement be terminated either by myself or the Company, I shall not be entitled to or paid any "Temporary Allowance" following the last week I work under this Agreement, nor in any event following the last week of my first "Fiscal Quarter" under this Agreement as provided in subdivision (a) of this Section.

Sec. 12. That under no circumstances will I pay, either directly or indirectly, premiums for policyholders from whom it is my duty to collect premiums, nor will I make entries in my Collection Books which will show that premiums have been collected by me unless such premiums have actually been received.

Sec. 13. (a) That I will prepare and forward to the Home Office each week, on proper lapse schedules, a list of all Weekly Premium policies upon which premiums for four weeks are overdue and unpaid; and daily, on proper cancellation schedules, a list of all policies on my "Monthly Premium Debit" upon which premiums are thirty-one days overdue and unpaid.

(b) That if any Weekly Premium policy, or any Monthly Premium Debit policy, reported for lapse in accordance with the Company's rules does not appear upon my "Lapse Register" schedules on or before the third official week after I have reported said policy for lapse, I will immediately notify the Home Office in writing.

Sec. 14. That if a policy or annuity contract issued under this Agreement is changed to a policy or annuity contract of a different kind or to a different form of insurance or annuity, the Company shall have the right in its discretion to adjust the commissions or to pay no commissions.

Sec. 15. That if a policy is issued under this Agreement as the result of the conversion of a Group Life insurance certificate or a Wholesale policy, the Company shall have the right in its discretion to adjust the commissions or to pay no commissions.

Sec. 16. That if an Ordinary policy or annuity contract issued under this Agreement replaces a policy or annuity contract of any kind or description previously issued by this or any other insurance company, the Company shall have the right in its discretion to adjust the commissions or to pay no commissions on the new policy or annuity contract.

THE FOLLOWING SECTIONS (IN ADDITION TO SECTIONS 14, 15 AND 16) RELATE TO
ORDINARY INSURANCE

(Sections 17 to 21, inclusive, do not relate to Monthly Debit Ordinary Insurance):

Sec. 17. That during the continuance of this Agreement, the "Commissions on Ordinary Insurance" to be allowed me shall be a commission upon premiums and considerations, when collected by me and paid over to the Company in cash, on the Ordinary policies and annuity contracts issued from applications secured by me under this Agreement, at the rates and for the periods set forth in the table which immediately follows Section 21 hereof, except that commissions on premiums or considerations discounted and paid in advance shall be allowed me only on the due dates of such premiums or considerations.

Sec. 18. That no commissions shall be paid to me on account of any policy or annuity contract, issued under this Agreement, after it has been canceled or after the discontinuance of premium or consideration payments for any reason by the insured, the annuitant or the holder of the policy or annuity contract; but if, during the continuance of this Agreement, I shall secure the revival of any policy or annuity contract issued under this Agreement, I shall be entitled to the commissions payable on account of such policy or annuity contract; but if I shall secure the revival of any policy or annuity contract not issued under this Agreement, the Company shall have the right to adjust the commissions in accordance with its general rule and practice.

Sec. 19. That if the Company shall return all the premiums or considerations, or any portion thereof, upon a policy or annuity contract issued under this Agreement, I will repay to the Company on demand the amount of commissions received by me on such premiums or considerations so returned.

Sec. 20. That no commissions shall be allowed to me upon any premium or consideration, or portion thereof, upon a policy or annuity contract issued under this Agreement, payment of which is waived because of the disability provisions contained in the policy or annuity contract.

Sec. 21. That if this Agreement shall be terminated either by myself or the Company, the commissions which shall then have been paid to me on account of premiums and considerations paid over by me to the Company in cash, together with the amount of such commissions then accrued under this Agreement, shall be in full settlement of all claims and demands upon the Company in my favor under this Agreement, it being understood that I shall not be entitled to any further "Commissions on Ordinary Insurance" which a continuance of this Agreement might have secured to me.

Kind of Policy	Per Cent. of Premiums		
	1st Policy Year	2d and 3d Policy Years	4th Policy Year
1.—Modified Life 3-----	35	10	8
2.—Modified Life 3-20-----	35	10	8
3.—5-Payment Life-----	25	4	4
4.—10-Payment Life-----	30	9	8
5.—15-Payment Life-----	30	10	8
6.—20-Payment Life-----	35	10	8
7.—20-Pay't Life With Pure End't-----	35	10	8
8.—25-Payment Life-----	40	10	8
9.—30-Payment Life-----	40	10	8
10.—5-Year Endowment-----	15	4	4
11.—10-Year Endowment-----	20	5	5
12.—15-Year Endowment-----	25	7	7
13.—20-Year Endowment-----	30	10	8
14.—25-Year Endowment-----	30	10	8
15.—30-Year Endowment-----	35	10	8
16.—Endowment at Age 85-----	See 24	See 24	See 24
17.—20-Payment 30-Year End't-----	35	10	8
18.—Retirement Annuities with premium-paying period of:			
20 or more years-----	25	10	8
15 but less than 20 years-----	20	7	7
10 but less than 15 years-----	15	5	5
19.—Extra Premiums-----	5	5	5
20.—Single-Payment Annuities-----	2	—	—
21.—10-Year Term—face amount:			
\$1,000 but less than \$2,000-----	10	9	8
2,000 but less than 3,000-----	15	9	8
3,000 but less than 4,000-----	20	9	8
4,000 but less than 5,000-----	25	9	8
5,000 and upwards-----	30	9	8
22.—15-Year Term-----	Same as for 10-Year Term	10	8

23.—Modified Life 5:

First Policy Year	Second and Third Policy Years	Fourth and Fifth Policy Years
35%	10%	5%
	Sixth Policy Year	

35% on the excess of the premium in the said year over what it was in each of the five policy years preceding, provided this Agreement is then in full force.

24.—Endowment Policies for Various Periods:

On policies running for a term of years not a multiple of five the commission rates will be the same as for an Endowment running for the nearest multiple where the period exceeds twenty years, and the same as for an Endowment running for the next lower multiple where the period is less than twenty years; for instance, on a Twenty-three-Year Endowment the commission rates will be the same as for a Twenty-five Year Endowment, while on a Nineteen-Year Endowment they will be the same as for a Fifteen-Year Endowment. On Endowments of more than thirty years the commissions will be the same as for the Thirty-Year Endowment.

25.—Salary Allotment Plan:

Commissions shall be at the same rates as for individual policies as set forth in these tables.

	Per Cent. of Premiums*	
	1st Policy Year	2d, 3d, and 4th Policy Years
26.—One-Year Renewable Term Group Insurance*†‡:		
First \$1,000 of premiums or part thereof	15.0	6.0
Next 4,000 " " " " "	15.0	4.0
Next 5,000 " " " " "	12.5	2.5
Next 10,000 " " " " "	10.0	2.0
Next 10,000 " " " " "	7.5	2.0
Next 20,000 " " " " "	5.0	1.5
Excess of premiums over \$50,000	2.5	1.0

*The premiums for the first policy year are the premiums which fall due within twelve months from the date of issue of the policy. The premiums for the second and subsequent policy years are those premiums which fall due in the second and subsequent periods of twelve months, respectively, from the date of issue of the policy.

†Includes (1) Group Life, (2) Group Accident and Sickness, (3) Group Accidental Death and Dismemberment insurance, where the contract is issued in each case to an employer; and (4) insurance on the Renewable Term plan issued to members of a group of one hundred or more persons who become borrowers from one financial institution under unsecured personal loans. In the case of sub-division (4), the first year commission scale will be continued on the excess of the second year's premium over the premiums paid during the first policy year, the balance only of the second year's premium being subject to commissions at the scale applicable to the second policy year.

No commission shall be payable on account of any such policy issued upon the lives of members of any Association or Labor Union who are not actual employees of such Association or Labor Union.

‡The commission rates for One-Year Renewable Term Group Insurance shall apply only to such insurance as may be secured solely through the personal efforts of the Agent; except that in the case of increases or additions due to a change in the plan of insurance, or the inclusion of new classes or units by amendment, the Company shall have the right to determine what commissions, if any, shall be allowed the Agent.

27.—Wholesale Insurance:

First Policy Year	30%
Second and Third Policy Years	10
Fourth Policy Year	8

The premiums for the first policy year will include only those premiums which fall due within twelve months from the date of the first policy issued to a member of a group insured under the Wholesale plan.

The premiums for the second and subsequent policy years are those premiums which fall due in the second and subsequent periods of twelve months, respectively, from the date of the aforesaid first policy.

28.—Single-Payment Insurance:

1% of the premium plus 1% of the amount of insurance.

29.—If any of the policies or annuity contracts specified above are issued with premiums payable on a monthly basis (excluding all Group Insurance, Group Annuities, Wholesale Insurance, Salary Allotment Insurance and Monthly Debit Ordinary policies), no commissions shall be payable on the first monthly premium, but commissions shall be payable on monthly premiums becoming due thereafter, as follows:

(a) On premiums falling due in the second to the eleventh policy or annuity contract month, inclusive, first-year commissions at the rate set forth above;

(b) On premiums falling due in the twelfth policy or annuity contract month, commissions at twice the first-year commission rate as set forth above;

(c) On premiums falling due in the second policy or annuity contract year and thereafter, commissions at the rate and for the period specified above.

30.—On all other classes of policies, annuity contracts and group annuity contracts the commissions shall be determined by the Company.

GENERAL PROVISIONS

Sec. 22. (a) That I will keep true accounts of the business in the books provided by the Company, and render when required on the forms provided a true account of all moneys received by me on behalf of the Company.

(b) That I will treat all moneys received by me on behalf of the Company as trust funds, and pay over such moneys to the Company promptly upon receipt.

(c) That in all instances where the accounts kept by me in the books provided by the Company and the reports made by me to the Company contain entries or items made by me indicating that moneys have been received by me on behalf of the Company, such entries or items shall be conclusive evidence of such receipt by me on the Company's behalf and the Company shall not be bound to make further proof of such receipt.

Sec. 23. (a) That upon termination of this Agreement either by myself or the Company, or at any other time upon request by the Company, I will immediately submit said books and records for an inspection and accounting, to be made in accordance with the rules of the Company then in force.

(b) That all books, records, and supplies furnished to me by the Company shall be the property of the Company; and that, upon the termination of this Agreement, I will hand over said books, records, and supplies to a proper representative of the Company.

Sec. 24. That I will pay all expenses for postage, license fees, transmission of moneys and parcels, and all expenses of every other kind incident to carrying on the business of my agency.

Sec. 25. That I have no authority on behalf of the Company to make, alter or discharge any policy or annuity contract, to extend the time for paying a premium or consideration, to waive forfeitures, to incur any liability on behalf of the Company, to allow the delivery of any policy unless the person proposed be in good health and the first premium paid in full, or to allow the delivery of any annuity contract unless the required consideration is paid in full.

Sec. 26. That no assignment of commissions earned or accrued or to accrue under this Agreement shall be binding upon the Company unless approved in writing by it.

Sec. 27. That I will not pay or allow, or offer to pay or allow, as an inducement to any person to insure or to purchase an annuity contract, any rebate or premium or consideration or any inducement not specified in the policy or annuity contract.

Sec. 28. That I will not issue or circulate any bills or papers, or write or send any communication to or insert any advertisement in any publication, at my own expense or otherwise, in any way relating to the business of this or any other insurance company without first obtaining the written authority of the Company; or use any language or commit any act tending to bring this or any other insurance company into disrepute.

Sec. 29. That my appointment as Agent and this Agreement may be terminated either by myself or the Company at any time.

Sec. 30. That if this Agreement shall be terminated either by myself or the Company, any indebtedness to the Company from me shall be a prior lien upon any amounts due me, my executors, administrators or assigns, by the terms of this Agreement, until the amount of such indebtedness is fully paid.

Sec. 31. That in case inquiry is made of the Company for information regarding my record therewith, my personal character, habits, ability, and cause for leaving the service, I hereby authorize the Company to furnish such information and release it from all liability for damages in connection with the furnishing of such information.

Sec. 32. That no suit at law or in equity relating to my employment under this Agreement shall be maintainable until thirty days shall have expired after service, upon the proper representative of the Company, of a written statement of particulars and amount of my claim; nor after six months from the termination of this Agreement.

Sec. 33. That this Agreement, if approved by the Company at its Home Office, shall become effective on Monday, the _____ day of _____, 19____, and shall cover the territory to which I may be assigned from time to time by the Company.

Sec. 34. That this Agreement supersedes any previous agreement that I may have had with the Company.

Sec. 35. That the terms and conditions as herein set forth may be altered only by a duly authorized officer of the Company.

(Two Copies of this Agreement are to be Signed; One to be kept by the Company, the Other by the Agent.)

----- Agent. ----- District.
Dated at ----- this ----- day of -----, 19-----
Witness -----

[Filing on back]

No. -----

AGENT'S AGREEMENT

Name -----
 District -----

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

Home Office, Newark, N. J.

Edward D. Duffield, *President*

Examined -----
 Approved -----

EXHIBIT No. 977

[Furnished by Life Insurance Adjustment Bureau]

LIFE INSURANCE ADJUSTMENT BUREAU

Forms 1 Received—State totals

State	1932	1933	1934	1935	1936	1937	1938	Total
Alabama								
Arizona								
Arkansas								
California	26	27	228	1,609	205	184	503	2,782
Colorado			1	36	6		1	44
Connecticut	1,543	1,384	2,477	4,482	1,543	700	1,001	13,130
Delaware	1	3	73	464	88	18	6	653
District of Columbia	35	49	531	1,677	484	147	110	3,033
Florida			3	10	2	1	5	21
Georgia	4	21	1,246	1,407	409	216	201	3,504
Idaho								
Illinois	3,887	17,471	13,953	12,905	4,371	2,191	3,084	57,862
Indiana	13	69	450	1,364	559	753	755	3,963
Iowa	27	490	286	888	1,030	1,230	951	4,902
Kansas		3	28	33	22	19	23	128
Kentucky			12	11	15	4	5	47
Louisiana			23	20	4	1	7	55
Maine	5	14	2	74	127	296	291	809
Maryland	46	91	631	3,780	879	408	529	6,364
Massachusetts	986	1,575	980	5,855	3,721	2,376	2,807	18,300
Michigan	4	115	4,190	3,777	1,461	592	3,160	13,299
Minnesota	31	242	379	1,441	1,131	577	851	4,652
Mississippi								
Missouri	436	871	1,076	1,519	369	205	110	4,586
Montana								
Nebraska	28	617	900	2,324	586	267	219	4,941
Nevada								
New Hampshire	4	35	147	15	8	4	19	232
New Jersey	2,531	5,030	6,922	13,205	4,383	2,741	4,294	39,106
New Mexico								
New York	17,993	40,506	70,925	86,033	47,527	31,593	39,721	334,298
North Carolina							5	5
North Dakota								
Ohio	761	2,697	6,234	4,711	1,213	645	977	17,238
Oklahoma	1							1
Oregon		1	2	1		99	119	222
Pennsylvania	513	1,712	2,112	5,133	10,435	8,077	13,114	41,096
Rhode Island	485	495	269	240	112	101	83	1,785
South Carolina								
South Dakota								
Tennessee			13	610	68	27	1	719
Texas					1			1
Utah				68	7	2		77
Vermont		1	260	630	51	11	10	963
Virginia	7	6	14	11	6	5	18	67
Washington	8	24	11	52	55	112	21	283
West Virginia			2	1	1		2	6
Wisconsin	8	3,966	4,996	3,413	1,352	576	1,350	15,661
Wyoming			4					4
Total	29,383	77,515	119,380	157,799	82,231	54,178	74,353	594,839

EXHIBIT No. 978

[Furnished by Life Insurance Adjustment Bureau]

LIFE INSURANCE ADJUSTMENT BUREAU
450 Seventh Avenue, New York, New York*Number of Social Agencies Sending Forms 1*

State	1933		1934		1935		1936		1937		Total	
	Pub- lic	Pri- vate	Pub- lic	Pri- vate	Pub- lic	Pri- vate	Pub- lic	Pri- vate	Pub- lic	Pri- vate	Pub- lic	Pri- vate
California.....	7	2	19	2	25	-----	17	1	13	1	45	4
Colorado.....	-----	-----	1	-----	2	-----	1	-----	-----	-----	2	-----
Connecticut.....	10	17	51	15	61	15	56	15	34	7	115	28
Delaware.....	2	-----	1	-----	3	1	3	1	2	-----	4	1
Dist. of Columbia.....	3	3	3	3	2	3	1	3	3	2	4	9
Florida.....	-----	-----	2	-----	2	-----	1	-----	1	-----	5	-----
Georgia.....	2	2	7	2	7	4	1	1	2	1	12	3
Illinois.....	32	12	70	11	87	7	65	6	10	5	126	20
Indiana.....	7	-----	21	2	36	3	50	4	36	1	101	5
Iowa.....	1	2	8	2	32	2	49	5	41	2	74	8
Kansas.....	5	-----	5	-----	8	-----	8	-----	4	1	18	1
Kentucky.....	-----	-----	2	1	2	1	2	-----	1	-----	2	1
Louisiana.....	-----	-----	2	1	2	2	1	-----	1	-----	4	2
Maine.....	2	-----	1	-----	2	-----	1	-----	5	3	8	3
Maryland.....	1	1	7	2	11	3	16	5	14	4	22	7
Massachusetts.....	20	30	21	28	23	31	23	24	31	29	54	49
Michigan.....	4	-----	11	-----	18	-----	15	-----	11	-----	25	-----
Minnesota.....	3	2	7	1	9	2	9	2	7	2	15	2
Missouri.....	4	8	10	3	15	6	11	6	7	7	28	8
Nebraska.....	5	8	3	9	6	4	4	3	3	2	8	9
New Hampshire.....	8	1	3	1	3	1	5	1	1	1	13	2
New Jersey.....	76	23	126	18	111	16	138	18	91	16	188	36
New York.....	200	126	277	110	302	89	332	73	370	52	513	183
Ohio.....	10	14	39	16	38	13	20	10	28	9	79	24
Oregon.....	1	-----	-----	1	-----	1	-----	-----	1	-----	2	2
Pennsylvania.....	28	29	55	23	62	20	78	15	92	20	150	48
Rhode Island.....	11	7	10	7	14	5	11	3	11	2	28	14
Tennessee.....	-----	-----	1	-----	7	-----	5	1	2	1	9	1
Texas.....	-----	-----	-----	-----	-----	-----	1	-----	-----	-----	1	1
Utah.....	-----	-----	-----	-----	2	-----	1	-----	-----	1	2	1
Vermont.....	1	-----	8	-----	10	1	1	-----	3	-----	14	1
Virginia.....	-----	3	1	4	-----	2	1	1	-----	2	2	7
Washington.....	1	1	1	3	6	2	5	1	7	1	15	4
West Virginia.....	-----	-----	1	-----	1	-----	-----	1	-----	-----	2	1
Wisconsin.....	1	4	3	3	22	1	3	2	6	-----	26	5
Total.....	443	295	777	268	931	235	936	203	838	172	1,715	490

"EXHIBIT No. 979," appears in text on p. 5810

EXHIBIT No. 980

[Furnished by Policyholders' Advisory Council]

THE CASE OF THE UNFORTUNATE

FORTUNE FAMILY

Reproduction of a Letter Addressed to

MR. LEROY LINCOLN, President, Metropolitan Life Insurance Co.
MR. EDWARD DUFFIELD, President, Prudential Insurance Co. of Am.
MR. GUY W. COX, President, John Hancock Mutual Life Ins. Co.

Copies Were Forwarded to

HON. HERBERT H. LEH AN, Governor, Albany, New York.
HON. HARRY A. MOORE, Governor, Trenton, New Jersey.
HON. C. F. CURLEY, Governor, Boston, Massachusetts.

MR. LOUIS H. PINK, Superintendent of Insurance, New York.
 MR. C. K. WITHERS, Commissioner of Banking & Insurance, New Jersey.
 MR. F. J. DECELLES, Commissioner of Insurance, Massachusetts.

POLICYHOLDERS' ADVISORY COUNCIL

New York City, May 1938

FORTUNE FAMILY

DEAR SIR: This letter is being addressed to you personally on the ground that it merits your individual attention, as you will agree after you have studied the facts outlined here.

A family by the name of Fortune, of 910 Columbus Avenue, New York City, is one of your policyholders and also pays premiums to the other two industrial companies. Copies of this letter are being sent to the Presidents of the other companies as well as yourself. By occupation Mr. Fortune is a longshoreman. His premiums total \$926.89 a year.

We hasten to assure you that this is not a typographical error—that he is indeed paying almost \$1000 a year for life insurance and we also wish to add that he is the sole support of the family. Lest it be suspected that his family is a large one, we point out that beside himself, there are only his wife, one child, and one near relative—four all told.

Here is a condensed picture of their life insurance holdings in the three companies:

	Insurance	Premiums	Rate per thous.
William (Husband)—Age 51.....	\$6,532	\$294.71	\$45.30
Mary (Wife)—Age 44.....	3,725	274.56	72.00
William, Jr. (Son)—Age 15.....	5,092	206.72	41.00
Joseph (Brother)—Age 51.....	2,858	150.80	52.70
	\$18,207	\$926.89	-----

Can there be any justification for such vicious imposition on helpless people? Could there be a severer indictment of the industrial insurance business than the picture presented here?

NOTE THAT THE PREMIUMS ON MRS. FORTUNE ALMOST EQUAL HER HUSBAND'S. NOTE ALSO THAT WILLIAM, JR., WHO ONLY RECENTLY ATTAINED AGE 15, IS INSURED FOR OVER \$5,000, AND THE DETAILED LIST OF HIS POLICIES SHOWS THAT FROM THE TIME HE WAS EIGHT YEARS OF AGE HE WAS INSURED FOR AN AMOUNT THAT WAS ILLEGAL AND BEYOND THAT PERMITTED BY THE LAWS OF THIS STATE.

By what manner of reasoning can a rate of \$72.00 per thousand be justified in any workingman's family? Why should a boy of fifteen, a non-producer, be insured for \$5000 when your companies would never consider issuing ordinary of any kind on an unemployed adult? AND WHY DO ALL THREE COMPANIES PERMIT A WAGE-EARNER TO PAY ALMOST \$300 A YEAR IN PREMIUMS ON HIMSELF, WHEN THESE SAME COMPANIES WOULD REFUSE TO ISSUE \$10,000 OF ORDINARY INSURANCE FOR THAT PREMIUM ON HIS LIFE?

Would your respective companies have issued \$12,000 of insurance on the life of a housewife? That is the amount of insurance she could have obtained for the premium she is now paying. Would your respective companies have insured a boy of 15 for \$13,000? Yet that is the amount of protection purchaseable for the premium now being paid on this boy.

WOULD NOT YOUR RESPECTIVE AND RESPECTABLE COMPANIES HAVE GIVEN CONSIDERATION TO THIS FAMILY, HAD YOU REALLY HAD THE INTERESTS OF YOUR POLICYHOLDERS AT HEART?

Why did not your inspectors report this state of affairs to you? Why did not the assistant managers and assistant superintendents report this type of "racketeering" to you? Why did not your own home-office clerks, who check the weekly report sheets of the agents, tell you that this family was being cold-bloodedly drained of the funds needed to maintain a decent living standard within their own sphere?

You know the reason. Your field men, assistants, inspectors and agents know the reason. WE ALSO KNOW THE REASON. *None of your representatives would report a situation that might bring about a lapse—a premium reduction.*

Any why should they do so, regardless even of their own financial loss that would result from a cancellation of some of those policies? Your companies' official policy, is to seek increase—increase—increase—regardless of whom it hurts and whom it oppresses without mercy.

Your agents are not solely responsible. Their actions are a direct result of the policies promulgated and insisted upon by those of you in high official capacity, who refuse to see the dire effects of your methods and who urge continual, continuous and unremitting pressure to bring in more and more business, so that you may show "gain in force."

The Fortune family was mis-named. When they fell into the hands of your predatory agents, they became the most unfortunate of beings. For your perusal we append a detailed statement of their insurance, showing a total of 43 policies. Think of it! 43 policies on four members of a family.

And note that as far back as 1920—eighteen years ago—the Metropolitan considered Mr. Fortune a good enough risk to sell him an "ordinary" policy. On an annual basis, too. He is still paying that premium annually, and his occupation then was the same as the one in which he is now engaged. Yet none of your companies made any further attempt to sell this family ordinary insurance for many years. By 1924, five industrial policies had been added; by 1926, four more; in 1927, seven; in 1928, six more; three more in 1929, six more in 1931; and so on and on, until the heart sickens at the callousness of it, and the soul revolts.

No, Mr. Fortune's health did not decline with the passing of the years. That MIGHT have been the basic cause of the issuance of this non-medical "insurance," if you insist on dignifying "industrial" by that name. Not until 1934 did Prudential issue a \$2000 ordinary policy,—ON AN ANNUAL BASIS—with an "A" rating by reason of occupation. We stress the annual premium as being indicative of the fact that this family was still able to pay premiums once a year. Thus every possible objection that could be raised to this indictment falls of its own weight.

These cases are far too common. The frequency with which they come to light is disquieting—it leads to the conclusion that since only a small proportion of the 10,000,000 insured families seek the benefits of our advice at present, there must be far too many of these families from whom your collective staffs of 65,000 agents are draining funds needed for the very essentials of life.

These are the abuses that have led to the recent demands for legislative inquiries in New York, New Jersey and Massachusetts. These are the impositions that are causing a concerted movement for the publicising of the behind-the-scenes miseries in industrial insurance. These are the cases that give the lie to company claims that it is their official policy to treat with the policyholder as his interests are best served.

An isolated case? Our files are open to you, so that you may see for yourselves. We offer you all the proof in the world that there are altogether too many such cases for you to sit smugly in the seats of officialdom, with only a policy of laissez-faire to guide you.

And we believe it is urgent upon you, as well as the other two companies, to take whatever steps may be necessary to correct the situation in the Fortune family, without consideration for technicalities—without protests that these people have been protected while the policies were in force and that, therefore, a correction of this intolerable situation now would discriminate against other policyholders.

It is precisely such false and hollow protests that lead to a conclusion that all company policy is formulated with tongue in cheek—that it is intended for the "sucker" public, and not for the agent or his superiors, who practise other than you preach.

We await with interest your action in this case, so that the sincerity of your attitude toward your policyholders may be gauged.

Very truly yours,

POLICYHOLDERS' ADVISORY COUNCIL,
 (Signed) MORRIS H. SIEGEL
 (Typed) MORRIS H. SIEGEL, *Director*.

MHS:MEZ

Name	Policy Number	Company	Amount	Premium	
William.....	72666098	Prudential.....	647. 40	50¢ wkly.	
	77551888	Prudential.....	278. 20	25¢ wkly.	
	87028075	Prudential.....	147. 00	15¢ wkly.	
	8749860	Prudential.....	2000. 00	82.08 Ann.	
	87028074	Prudential.....	132. 00	15¢ wkly.	
	87028073	Prudential.....	148. 00	20¢ wkly.	
	18455909	John Hancock.....	250. 00	27¢ wkly.	
	18455912	John Hancock.....	250. 00	27¢ wkly.	
	18455911	John Hancock.....	250. 00	27¢ wkly.	
	18455910	John Hancock.....	250. 00	27¢ wkly.	
	14941135	John Hancock.....	455. 00	35¢ wkly.	
	92385016	Metropolitan.....	650. 00	50¢ wkly.	
	3198746-C	Metropolitan.....	500. 00	23.35 Ann.	
	59961138	Metropolitan.....	250. 00	21¢ wkly.	
	92385017	Metropolitan.....	325. 00	25¢ wkly.	
Mary.....	75102475	Metropolitan.....	250. 00	42¢ wkly.	
	93422395	Metropolitan.....	500. 00	84¢ wkly.	
	66429991	Metropolitan.....	250. 00	30¢ wkly.	
	96455794	Metropolitan.....	250. 00	42¢ wkly.	
	79578474	Metropolitan.....	500. 00	84¢ wkly.	
	108176487	Prudential.....	195. 00	25¢ wkly.	
	71066827	Prudential.....	205. 00	25¢ wkly.	
	104763624	Prudential.....	384. 00	40¢ wkly.	
	108176488	Prudential.....	195. 00	25¢ wkly.	
	19007583	John Hancock.....	290. 00	50¢ wkly.	
	19007584	John Hancock.....	290. 00	50¢ wkly.	
	15292837	John Hancock.....	250. 00	21¢ wkly.	
	13207675	John Hancock.....	166. 00	10¢ wkly.	
	William, Jr.....	8845497-A	Metropolitan.....	1000. 00	43.64 ann.
		70282491	Metropolitan.....	255. 00	25¢ wkly.
96455731		Metropolitan.....	175. 00	25¢ wkly.	
28176454		John Hancock.....	460. 00	50¢ wkly.	
25946049		John Hancock.....	230. 00	25¢ wkly.	
2545051		John Hancock.....	2000. 00	11.52 q.	
101525036		Prudential.....	322. 00	35¢ wkly.	
70862427		Prudential.....	150. 00	15¢ wkly.	
74475681		Prudential.....	250. 00	25¢ wkly.	
89535544		Prudential.....	250. 00	25¢ wkly.	
Joseph.....	92056514	Prudential.....	430. 00	50¢ wkly.	
	81192418	Prudential.....	490. 00	50¢ wkly.	
	89535528	Prudential.....	450. 00	50¢ wkly.	
	18450241	John Hancock.....	480. 00	50¢ wkly.	
	92526816	Metropolitan.....	560. 00	50¢ wkly.	
	94595055	Metropolitan.....	448. 00	40¢ wkly.	

NOTE.—Metropolitan policy #75102475 was discovered after the case was first called to our attention, and brings the total to 44 policies.

EXHIBIT No. 981

[From files of Policyholders' Advisory Council]

[Copy]

MASSACHUSETTS ASSOCIATION OF LIFE UNDERWRITERS

150 Congress Street, Boston, Massachusetts

OCTOBER 29, 1938.

Mr. W. CORT TREAT,
Radio Station WORL Myles Standish Hotel 30 Bay State Road Boston, Massachusetts

DEAR Mr. TREAT: You recall that Mr. London and I late last week discussed with you the matter of Mr. Morris Siegel broadcasting under the name of "Policyholders Advisory Council", and reporting further thereon this morning I can advise that his contract with Mr. Pote of Station WMEX has been canceled as of last Thursday, and that I am this morning submitting to Mr. Slattery of Station WCOP the enclosure herewith contained, namely, a pamphlet distributed by the Metropolitan Life Insurance Company to its own Agents, setting forth the situation in respect to Mr. Siegel's dismissal from that Company and three documents indicating how Mr. Siegel operates in respect to collection of his fees. And Then I quote as follows from an address of the Commissioner of

Insurance, Charles F. J. Harrington, made on October 19th last in a speech at Springfield, in discussing this particular situation: "The Massachusetts Department maintains a competent staff to investigate complaints and to afford proper protection to policyholders without charge. We propose to seek legislation which will give us supervision over those who prey upon credulous policyholders who are entitled to protection against the activities of these so-called experts."

I discussed this matter with Commissioner Harrington earlier in the week and passed along to him your suggestion that he use the facilities of your station to advise the public thereon. I am not at all sure that he will not avail himself of this opportunity a little later on.

I am most anxious to submit to you, if you are desirous of further investigating this matter, material which I believe will conclusively demonstrate the fact that Mr. Seigel is operating a very definite racket and one which is most despicable in that it preys upon the savings of the citizens, fine intentioned and substantial, but unadvised to the extent that they are not competent to judge the advice offered by a clever individual having considerable knowledge of the insurance contracts and their terminology.

I have no hesitancy in saying this thing ought to be stopped and the more carefully you investigate the matter the more you are to be convinced that this is not a proper type of business for you to encourage by permitting its discussion from this station.

Sincerely yours,

MERLE G. SUMMERS.

EXHIBIT No. 982

[From files of Policyholders' Advisory Council]

W O R L
November 1st, 1938.

Mr. MORRIS H. SIEGEL,

Policyholders Advisory Council 36 West 44th Street New York City

DEAR MH: Sorry to keep bothering you, but here is a copy of letter received this morning from the Massachusetts Association of Life Underwriters, accompanying the printed Letter "To our Agents" issued by the Metropolitan Life Insurance Company under date of June 24, 1938.

I have no answers from the Metropolitan denunciation of you, beyond pointing out it obvious bias, and quoting you that the matter is now in the courts, It would help me out if you could supply me with some factual data about this matter, and the actual state of the court-case, as I expect Mr. Summers and Mr. London to be showing up here soon with more pressure.

With kindest regards,

Yours cordially,

W. CORT TREAT,
General Manager.

PS: Facts I would like for the Metropolitan attack are: (1) Answer to photostatic copies of letters written by you to the Met. and (2) Answer to photostatic copies of two letters and a receipt given by you to clients. As you know, these photostatic copies are part of the Met letter.

920 Kilocycles

500 Watts

MYLES STANDISH HOTEL, Boston, Mass.

Commonwealth 5100

EXHIBIT No. 983

[From files of Policyholders' Advisory Council]

TOWNLEY, UPDIKE & CARTER

220 East Forty Second Street

NEW YORK, February 1, 1939.

NEW JERSEY BROADCASTING CORPORATION,
2866 Hudson Boulevard, Jersey City, New Jersey.

DEAR SIRs: We represent The Metropolitan Life Insurance Company and this letter to you is written on its behalf.

We are advised that you own and operate the radio station known as WHOM. For some time past broadcasts over your station have been made by one Morris H. Siegel, who sometimes refers to himself as the "Counselor" and who is connected with the "Policyholders' Advisory Council" of 36 West 44 Street, New York City.

These broadcasts contain statements which, in our judgment, are defamatory of The Metropolitan Life Insurance Company, as well as of certain of its officers and agents. That these defamatory utterances are serious and calculated to produce a reduction in its business is apparent from the face of them.

Without prejudice to the existing rights to recover with respect to past defamation, this will constitute notice to you that you will also be held strictly accountable and responsible under the law for all future broadcasts, with respect to our client, by Morris H. Siegel or by any one else under his sponsorship, or under the sponsorship of the "Policyholders' Advisory Council".

Very truly yours,

TOWNLEY, UPDIKE & CARTER,
By (Signed) STUART N. UPDIKE.

SNU:RHR
R. R. R.

EXHIBIT No. 984

[From files of Policyholders' Advisory Council]

THE INSURANCE COUNSELOR

Morris H. Siegel Program A-7 13:30 Min.

I have chosen as my subject for this broadcast something that has always created a great stir of interest, and which has, I must admit not been very popular—my viewpoint—that is, with those of you who pay premiums on endowment insurance policies. Yet—I return to this subject because I believe that it is time you learned a little more about what you're paying for.

As you know, my business is not to SELL insurance, but to give you the facts about the policies you already have, and to offer you my advice and aid in reorganizing your policies so that you will have better insurance in the SAME company, at less cost, and, perhaps, recover some cash besides.

What is the truth about endowment insurance? Is it all that you have been let to believe it is? Or is there some truth in the criticisms of impartial and non-commercial organizations? For instance, there is an organization known as the Navy Mutual Aid Association, which is a nonprofit institution, and which insured only United States Naval officers. This organization put out a pamphlet some time ago in which it said—"endowment insurance is not the proper kind for the average man to buy." The same opinion is held by the non-commercial Carnegie Foundation, which set up the Teachers' Insurance and Annuity Association.

And now I take you closer to home and give you the opinion of the deputy insurance commissioners of both Massachusetts and New York. Listen while I read you from a pamphlet issued by one of these departments. I quote:

"Unfortunately, endowment insurance does not merit the popularity which it enjoys, because it does not fit the needs of a majority of those who buy it. Endowment insurance is an expensive form of insurance if one wishes protection; it is a costly method of saving if the object is to accumulate a savings fund."

That is the opinion of two men highly placed in the insurance departments of two of the leading States in this country, and, if you will listen to me until I

finish, you will learn WHY they express such disapproval of a form of insurance which most people have been led to believe is the best to buy.

I'm not going to discuss children's insurance now—I know it's an important subject because tremendous amounts of endowment insurance have been sold on children—but I'll leave it for another broadcast. For the present I'm going to talk about a young man who is, say, twenty-five years of age, married only a year, or two, and with a recent addition to the family by courtesy of the stork.

Now, although I'm going to quote some figures I want you to stay tuned in because this is the utmost importance to you and your family—and let me add that I shall use round figures to avoid confusion. Suppose this young father is considering a life insurance policy and has decided that he can afford to pay about fifty dollars a year out of his modest income—which would boil down to about a dollar a week. For fifty dollars a year he can buy a one thousand dollar, twenty-year endowment policy.

We will assume that he likes the idea of collecting one thousand dollars in cash at the end of twenty years, and besides, he feels, like so many others, that without the pressure of a premium to pay, he might not save that money and after the twenty years had passed, he wouldn't have it anyway. So he buys the policy and manages to pay on it for the entire twenty years.

Nothing arises in his circumstances that causes him to borrow on the policy. He never loses his job, gets no cuts in his pay, never gets sick nor is there any sickness in his family which creates a demand for funds—everything goes along in placid fashion, and the twenty years pass uneventfully.

You and I know, of course, that this chain of circumstances is almost an impossibility—we both know, that life is far too often subject to ups and downs, and I know, (and the company records prove it,) that only ten out of every hundred policies last for as long as twenty years.

But we are giving our young husband and father the benefit of every doubt, and we are travelling along with him for twenty years, when the grand day arrives for him to collect his thousand dollars. He gets his check, and then, for the first time, it occurs to him—that maybe it wasn't such a good buy after all. Why? Because with a little simple figuring he finds out that the same money he paid to the insurance company, put away in another form of safe saving, would have returned to him almost one thousand, three hundred dollars, not only, one thousand.

And why is that? Here is where the criticism that endowment insurance is an expensive form of saving comes in. First, this form of saving is subject to all the high expenses of a life insurance company—and it seems very unwise to PAY high expenses in order to save your money. The next thing to remember is that protection—any kind of protection costs money, and you must pay for that too. Then another thought is that he is only forty-five years of age, when his policy matures, and he still needs life insurance.

Now he must begin to look for new insurance. If he passes the medical requirements, he will be able to buy new insurance that will cost him practically twice what a life policy would have cost him twenty years earlier—when he bought the endowment policy. But—what if he cannot meet the insurance company's requirements? His physical condition may have changed in twenty years so that he is no longer able to buy life insurance—then what? How will he protect his wife, and others of his family who may still be dependent on him?

Now, let's take a look at what happened during the twenty years he was paying for that insurance. Suppose he had died? His family would have collected exactly one thousand dollars, but here's the unfortunate part of it. Had he bought the same kind of policy that most business men buy—straight life, he could have been insured for almost two thousand, five hundred dollars, and his family, had he died, would have collected two thousand, five hundred instead of only one thousand * * *

And at just about this point I can imagine most of you saying to yourselves—who wants a life policy? Who wants to die to win? I can sympathize with such a thought, but it doesn't accord with the facts. A life policy is not die-to-win insurance, ladies and gentlemen. A life policy has a cash value and all the other benefits that every endowment policy has, but without the disadvantages that endowment insurance is subject to.

If you want to cash your life policy you can do so, but if you don't want to, you can continue it and pay the same low premiums. You can, if it is for more than one thousand dollars, cash in part of it and keep the balance; you can do several other things with that life policy, far too complicated to explain here—but the important point is this—for the same premium that you would pay on a

twenty-year endowment, at early ages, you can have from two to two and one-half times as much straight life protection for your family, and I repeat it will NOT be die-to-win insurance.

I ask you to consider just this one case. Here is a man who bought two policies from the same company, each for one thousand dollars, one a twenty year endowment and the other a straight life. He died ten years later, and his beneficiary collected one thousand dollars under each policy. But the premium on the life policy was only twenty five dollars a year, and on the endowment policy, fifty dollars a year—twice as much—still, the company paid the same thousand dollars on both policies.

Now, the company was well paid on the life policy. The company could afford to pay out a one thousand dollar death benefit in return for a premium of only twenty-five dollars a year. What, then, became of the excess premium on the endowment policy that cost twice as much—fifty dollars a year? There is the real flaw in endowment insurance, and much worse merely than the loss, of the extra cost each year, is the fact that the same man could have been insured for twice as much as the endowment policy cost him—and there is the real loss to his family.

I hope you have been listening closely, because all this is not pure theory on my part—it's concrete fact taken from actual cases. I can understand the motive that leads people to buy the kind of policy under which they can collect the full amount when that date rolls around. If that person understands what he is buying, and the chances he is taking, when he buys endowment insurance, then the risk is his and he can make his own choice. But if he buys endowment insurance because he is NOT aware of its dangers, and if he refuses to buy straight life insurance because he is under the mistaken impression that is die-to-win insurance, then he should submit his policies to us for examination.

If, after what I have just told you, you rush out and cash in or give up your present endowment policies, then I will have done you more harm than good. By no means should you attempt to make your own adjustments or changes on something as complicated as life insurance is.

There are, generally, nine different changes that can be made with most endowment policies, even though you already have been paying for two or three or five or ten years, or even longer. Bring them to us—bring all your policies to us so that we may be able to prepare a plan that will be best for you, and that will take into consideration all the particular circumstances in your case.

We won't sell you any insurance. We won't give your name and address to any company, agent or broker. We will not charge you any percentage of the cash you recover as a result of our advice, or any percentage of the saving in premium we show you how to make. We have no outside solicitors and we do not offer our services from door to door. We tell you our story here over the radio and you decide, in your own home, and without personal pressure from anyone, whether you should take advantage of our offer to help you reduce your premiums without reducing your protection, leave you with better insurance in the same company, and, perhaps, help you recover some cash besides.

If you prefer to write, address your letter to me, Morris H. Siegel, S-I-E-G-E-L, the Insurance Counselor, N. Y. C. Our fees are reasonable and the vast majority of our thousands of clients have saved the amount of our fee within a few months, from the saving in premium we show them how to make. Listen to the announcer for our address—let us examine all your policies, not just one or two, and don't wait until you are in trouble with your insurance before you seek our advice—do it now and avoid trouble later on.

MAY 4, 1939.

THE INSURANCE COUNSELOR

Program M18

May I ask you, please, those of you who write to me, to bear in mind that it is utterly impossible to use a single fifteen minutes in answering all the queries that come in as a result of these broadcasts? As a matter of fact, if someone had told me some years ago that so many people would listen to a broadcast on a subject as dry as life insurance normally is, I would have refused to believe it. But you DO listen, perhaps because you know that I have no insurance to sell, and you DO write to me, and so I'm back to where I started except to say that

on occasion I DO answer queries publicly, where the type of question is such as to interest the average listener. Here's one letter:

"DEAR MR. SIEGEL: I have heard you say on two separate occasions that your clients through your efforts saved, last year, one hundred and forty five thousand dollars in premiums. Just what does this mean, and if it means what it seems to mean, how is such a condition possible and why does our insurance department not do anything about it?

"Yours truly,

H. M."

Such a condition, my dear Mr. H. M., and all you others who may be interested, is possible because there is something rotten in Denmark, as Captain Katzenjammer used to say in the Sunday comics. The something that is rotten is that there has been no adequate check of any kind on the insurance being sold to people to whom the average policy is just so much Greek, and to whom it would mean little or nothing even if they took the trouble to read the thousands and thousands of words of fine print which would result, not in knowledge, but in a call for aspirin in large doses.

You see, Mr. M., life insurance is one thing you buy for which you can pay a variety of prices, and, I hasten to add, I know that is true of every other thing you buy. But there is a difference—a difference that means a great deal to you out there who pay life insurance premiums in the belief that your insurance departments have stood by you nobly and well.

The unfortunate part of that siren song is that your insurance departments have practically no power whatsoever, and, certainly they have no authority, to question the companies as to the amount you pay in premiums, the cash value you get back, or the amount of your dividends, if any.

Believe it or not, all these things lie wholly and solely in the control of those who manage your companies, and you have all paid through the nose for that little bit of absentmindedness on the part of your legislators. That's why the people who came to us last year are now saving one hundred and forty-five thousand dollars a year—each and every year—in premiums.

Such an extraordinary performance is possible ONLY because they were sold the wrong kind of policies by those who are INSIDE the business, and they had to be lifted out of the mire into which they were thrown, by those NOT in the insurance business.

Now you may have occasionally detected a note of sarcasm in certain of my references to remarks dealing with those in the insurance business, but that is because I marvel at the least evidence on the part of the insurance fraternity in attempting to stop the clock of progress—to hold back the tides—to order the sun to stand still.

What purport to be true life stories are being put on the air hereabouts, accompanied by all the tear-jerking of the olden days of mellerdrama, showing the weeping, willing woman whose hard earned money had been filched from her by a dastardly person NOT in the insurance business. It seems that all these people NOT in the insurance business are out for no good, and I have even heard a story of one of these so-called insurance advisers—this is the story put out by the company sponsoring two thousand dollars worth a week of radio time in this area—and scheduled to buy more, so I hear, to put us insurance counsellors out of business—I say in one of those broadcasts the adviser actually told the poor woman to make changes that would INCREASE her premiums by a hundred or a hundred and fifty dollars a year—I forget which.

Now, I regret, ladies and gentlemen, that I cannot bring you any weeping women, for the simple reason that the members of the fair sex who call at our offices or who seek our guidance in their insurance troubles, have nothing to weep about—in fact, well, how about some REAL letters—you know, nothing phony or trumped up, and, let me assure you, entirely, wholly, unsolicited and NOT paid for.

After all whom am I to attempt to match pocketbooks with the greatest insurance company in the world? Here's a letter No. 10829:

"DEAR MR. SIEGEL: Thank you ever so much for the interest you took in securing the refund due me from my company. For the past three years I tried to secure a refund from the company, but was refused, and in two months time you helped me get back six hundred and two dollars I paid on my mother's policy. Through an error, a policy on my mother was issued at the incorrect age, but the company felt that I was not due for a refund and must wait until my mother's death. I made a personal trip to Newark myself and after a half day wait I was refused. But now I have it thanks to you.

"Sincerely yours."

"DEAR-MR. SIEGEL: You have done a good job and I am sending some friends.

"Yours truly."

brief and to the point. Here's another—file No. 21791:

"Sorry I did not write sooner. I can join the chorus of many others of not having to worry about how I'm going to pay my policies. Now, instead of two dollars a week, I pay that much once a MONTH, and I have better insurance. The agent never told me about anything but the kind of policies he wanted to sell me, so I didn't know that his company had anything better to offer. Boy, have you got them stepping—we need a Siegel in every home. Keep up the good work, and good luck.

"Yours very truly."

Even if I were quintuplets, I couldn't keep up with that request. Here are two letters, dated two days apart, both from the same person, file No. 30,040. The first letter says, in part:

"DEAR MR. SIEGEL: My agent was here Thursday, four days after you sent my policies to the company. He said that they could not make out the papers till I told them what you charged me for the work you did. I told him if the company wants to know they should write to you. You can use this on your broadcast but don't mention my name."

We didn't wait until the company wrote to us—we wrote them ourselves and told them what fee we had charged, but apparently our letter did not reach them soon enough, because two days later we received another letter from file no. 30,040:

"DEAR MR. SIEGEL: The agent was here again with a confidential form with these questions: (1) Fees charged and paid by this policyholder. (2) Details regarding forms and agreements signed by policyholder. (3) Written statement from policyholder on his own stationery that he is satisfied with the service in this case. Now, Mr. Siegal, I did not answer these questions on the form and what shall I do next?

"Yours very truly."

I call to your attention the fact that company representatives seem to be more anxious to obtain information as to our method of operation than of serving their policyholders. Here is a public offer, made to all three of the industrial, weekly premium companies—Metropolitan, Prudential and John Hancock. This is an offer now outstanding to any reputable organization such as better business bureau, newspapers, periodicals, legal aid societies, insurance departments, relief agencies, legislative committees and any member of any governing body in this country.

This is an offer to permit any duly authorized representative, who bears a letter of authorization from the directing official of that organization, to come into our offices at any time, without preliminary warning, and go through any file, any paper, and desk, with the sole exception of our personal books.

I repeat this offer to the three weekly premium companies so that they may cease to beat about the bush in an endeavor to learn of our operations, and so that they may obtain first hand information instead of getting it in garbled form.

When they come they can choose any file at random, much as I choose now in telling you the story of one whom I will call Harry Brown. It is a new file—the register date is only April 3. Listen to this man's first letter:

"INSURANCE COUNSELOR: I am writing to see if you can help me. As you will see from the enclosed Policy Form which I am returning to you, all the insurance in my family is on my wife and children, and none on myself. I earn only twenty-five dollars a week now, and it is difficult to keep going.

"It is difficult to keep going. Of course it's difficult to keep going on twenty-five dollars a week, with a wife and two children, if they lose their breadwinner—if they lose even that pitiful income? Yet, what else do we see on this Policy Blank? We see a five thousand dollar policy, taken out five years ago, paid on for about two years, and permitted to lapse. But this family is now paying, and has been paying for more than five years, two dollars a week in premiums for insurance on the wife and children. Two dollars a week—one hundred and four dollars a year, just as surely as though that sum were paid out in one lump sum every year.

Those premiums were continued and the five thousand dollar policy on the head of the house permitted to lapse. Why? The policy was in the same company as that which issued the weekly premium policies on the dependents. The agent in charge of this family's insurance knew full well that if they lapsed the five thousand dollar policy, he—the agent—would suffer a money loss even though he had not written any of the policies and had received no commission on them.

Is such a system conducive to good advice? Is such a system conducive to honest advice? Of what value is the free advice now being babbled about on the radio and in millions of leaflets with which policyholders are being deluged? How can such advice be called free in any real sense of the word?

Under such a system, how can an agent honestly advice a family such as this what to do with their problem? Now they have come to us, and they have found the answer. The five thousand dollar policy is in force once more. The wife and children have five hundred dollars of insurance each—more than ample—they have one hundred dollars in cash—and, instead of one hundred and four dollars a year they now pay only eighty-eight.

No magic. No legerdemain. And all done by us—who are NOT in the insurance selling business. You NEED our advice— Since we sell no insurance we can afford to be impartial, because we have no interest in commissions. Nor, for that matter, are we concerned with how much or how little cash you recover, for we do NOT base our fees—on that cash recovery.

We have no outside solicitors to peddle our services from door to door, and we can show you how, in most cases, you can reduce your premiums without reducing your protection and have better insurance in the SAME company.

Remember, there are nine different changes that can be made with most weekly premium policies, and we can show you which is best for you.

THE INSURANCE COUNSELOR

MAY 11, 1939

Program M17

As I speak to you now I have before me a volume known as Best's Insurance News, one of the leading trade journals of the country in insurance matters. The issue carries a complete report on the recommendations made by Superintendent Pink of New York State, with regard to the evils existing in the weekly premium life insurance business.

It may be coincidence, but it happens that practically all of his recommendations coincide with my own which were made public as far back as February of 1938, but the most important part of this magazine article is that it quotes Mr. Pink on what is wrong with the weekly premium business.

According to the whisperings of the radio waves, there is *nothing* wrong with the insurance business, and even if there is, why, by no means should you even listen to those NOT in the insurance selling business.

I must admit, ladies and gentleman, that I am not in the insurance SELLING business—that much of it I leave to your agents, but I wish to say most emphatically that while I carry no insurance licenses, I am very decidedly in the insurance business, precisely because of the comments I am about to transmit to you via the same radio waves that have lately been carrying such dire warnings to refrain from consulting anyone but an agent.

I quote New York's superintendent of insurance: "Two outstanding causes for criticism of weekly premium insurance are cost, and the large number of lapses, but there is another serious criticism which cannot be entirely eliminated by law and this is—high pressure salesmanship. There is no doubt that this underlies the weaknesses of industrial insurance and is perhaps subject to more just criticism than any of the other matters. Service to the public and not mere production must be the goal."

Service to the public? Let's see just what those words mean. Here is our file No. 29,728, covering a family whom I will call Hamlin, which is not their real name. The file discloses some evidence of the "philanthropy" of life insurance management—I said management, just in case your insurance man is leaning over your shoulder and whispering the old, old, red herring that I am "attacking" life insurance.

Five people in the Hamlin family are living on fourteen dollars a week— I withdraw the word "living"—I substitute the word—"starving." Fourteen dollars a week means two dollars a day, and two dollars a day divided by five means forty cents per person. If the entire forty cents per person were being spent for food, subsistence MIGHT be accomplished, although at what a loss to morale, to dignity, to health, I leave to your own good common sense.

But there is rent still to be paid. There is light and heat. There is the matter of soap and laundry and shoe repairs and such minor pieces of wearing apparel as simply cannot be dispensed with and which *must* be bought, after the old has been patched and patched and re-patched again until it simply won't hold together any longer.

Then what? What becomes of the forty cents a day, then? Does the thought give you a shudder as it does me? Does it leave you to wonder and ponder on how the other half lives? Well, then what does it do to you to learn that of that miserable fourteen-dollar-a-week income the insurance man comes in every week and takes *five*?

Five dollars a week for life insurance, out of a total weekly income of fourteen dollars, for a family of five. Mrs. Hamlin goes out nights to scrub floors in an office building. Her hands are calloused. Her back aches continually. Her knees bear mute evidence of her labor. Mr. Hamlin is slowly losing his sight. But each and every week the insurance man is around with his outstretched hand, for his five dollar share of the fourteen.

They eat starchy foods, the people to keep body and soul together, and they pay five dollars a week for life insurance in case the effort fails—in case the poor, miserable soul finally gives up the unequal task and takes flight to wherever it's Maker sends it, where it will ultimately find peace and surcease from its physical agony here on earth.

Philanthropy is a beautiful word. It has been applied to the life insurance institution, which merits such a description, but I say to you that to those who MANAGE life insurance it is just another word culled from the dictionary.

Only in the sale of weekly premium life insurance are such horrors possible, and the sale of weekly premium policies in this country is in the hands of three companies who do ninety percent of the business in this greatest of all forces for social destruction—the Metropolitan, Prudential and the John Hancock.

We hear much talk of how revolutions are impossible in countries where people have security and are protected from want. We have been told that dictatorships such as flourish abroad will be impossible here provided we feed our people and see that they have shelter, and clothing, so that they and their children may not suffer. Yet, right here under our very noses lies a destructive force that causes undernourishment in young children that leads to illness and premature death in adult life.

But we do nothing about it because we have all been led to believe that since life insurance is a philanthropic institution, it must necessarily be operated with philanthropic motives.

Such, I say to you, is not the case. Those in charge of the business know full well of its iniquities and yet they not only persist in their present course—they not only resist all effort at change by legislation, but they attempt to kill criticism by slandering the critics, and by choking off the inalienable right of free speech to those who would bring publicity to bear in the iniquities that have crept into life insurance management.

My broadcasts now go out over a Philadelphia station—and it was in Philadelphia just last year that the association of agents prevailed upon the radio stations to kill a forthcoming program because it was to be critical of certain life insurance practices. My broadcasts now go out in Washington, which seven years ago witnessed a desperate battle on the part of the Big Three of the weekly premium business to prevent the enactment of a law looking to the correction of the least important of the abuses of the weekly premium system.

Two names in Washington have a great meaning in connection with weekly premiums—one, Louis D. Brandeis, who said, forty years ago, that weekly premium insurance was the greatest of life insurance wrongs. The other is Percy D. Budlong, official reporter of the United States Senate, who fought a five year battle in the district of Columbia and who finally had the satisfaction of seeing Congress pass a statute, applicable only to the residents of the capitol, designed to alleviate certain abuses in weekly premium insurance, but which did not strike at the root of the evil.

I salute these two men, because they gave their time and energy and thought to a cause in which their only interest was for the betterment of conditions of their fellow men. We, too, in our organization, are working toward the same goal, but legislation is long and weary in obtaining—and by constitutional bar cannot be made to apply to existing insurance holdings of families who need help.

Let me tell you how we go about such situations as I told you of in the beginning of this broadcast. This family of five, with an income of fourteen dollars a week, out of which they were paying five dollars a week for insurance, is now paying only one dollar and fifty cents, yet there is the same amount of protection on every one of its members. They have in their possession more than two hundred dollars obtained as a result of the changes we advised, and they have far better insurance than they had before.

All in the very same company that permitted the family to drag out a miserable existence under an intolerable burden, without lifting a finger to assist them. But

life insurance management, with certain exceptions, tolerates no criticism. The Detroit Life Underwriters association, not long ago, heard an address by President Fulton of the Home Life of New York, who said first that criticism of life insurance was a healthy thing, then added:

"Let any business institution get the idea that it is perfect and that there can be no ground for criticism, and the result is a complacency that defeats self-improvement."

I recently conducted what I might term a debate in print, in one of the leading trade journals, with Mr. Valentine Howell, vice-president and actuary of the Prudential Insurance Company. Shortly after this debate appeared, Mr. Howell addressed the managers of his company at a meeting and told them that the present uncertainty about life insurance was due primarily to a group of individuals who had found a new way, and apparently, in his opinion, a questionable way, to make a living—that is, not by selling insurance, but by selling insurance advice.

Mr. Howell pointed out that while a man who had been "fleeced," as he put it, by an insurance counselor, was of course angry at the counselor, he also had a tendency to blame the insurance business companies.

But like so many other things in the insurance business, there was a serious inconsistency in his remarks. While attacking the insurance counselors, who criticized the wrongs of life insurance, Mr. Howell went on in the next breath to say that the net result of our activities would not ALL be on the bad side, since there would undoubtedly be changes for the better which would not have occurred except for our criticisms.

If all's right with the insurance companies' world, what is there to make better? And if it isn't, what is it that the life insurance business is so desperately trying to hide by stifling all freedom of speech? Perhaps the fact that we saved our clients, last year, more than one hundred and forty-five thousand dollars in PREMIUMS—and helped them recover almost one million dollars in cash, is what is disturbing the weekly premium companies.

Yet all this was accomplished while leaving the insurance in the VERY same company—which means that all these people, like so many of those now listening to me, were paying far too much and had an inferior type of insurance besides. If you seek impartial and unbiased advice, then submit your policies to us.

May I ask that when you consult us, do not ask our opinion on just one or two policies that may be troubling you, or that you may think you want to cash in. It may not be necessary to surrender those policies, and furthermore, our advice on any one policy is very often dependent on the other insurance in the family. When you come, bring ALL your policies so that we may give you the advice to which you are entitled, and which will be best for you.

Write for our Policy Analysis Form, if you do not live within easy travel distance of one of our offices. We will NOT comply with requests to send representatives to your home as we do not employ outside solicitors of ANY kind. And if you write to us about your problem, address your letter to—The Insurance Counselor, New York City—the Insurance Counselor, New York City, and it will reach me without fail. Do not wait until you are in trouble with your insurance before you seek our advice—do it now and avoid trouble later on.

EXHIBIT No. 985

WELFARE WORK OF METROPOLITAN LIFE INSURANCE COMPANY

NOTE.—During the testimony of the witness, Frederick H. Ecker, Chairman of the Board of the Metropolitan Life Insurance Company, and during a discussion of that Company's Welfare activities, the then Chairman of the Security and Exchange Commission, Mr. Douglas, stated: "I think it might be desirable, Mr. Chairman, if Mr. Ecker submitted such a statement for the record of their Welfare work." It was then understood that such a statement would be submitted. The following statement is made for the record of the Temporary National Economic Committee, in response to that suggestion.]

It is just about thirty years ago that the Metropolitan Life Insurance Company endeavored to initiate in this country a new cooperative relationship between the policyholder and the corporation. That project was the beginning of a new era in the expanding social value of life insurance in America. The original purpose was to explore the possibilities which the industrial life insurance business opened

to the Company to serve the welfare of policyholders along socially useful as well as its usual contractual lines. It had been realized, for example, that there was a sphere of mutual interest as between the Company and the policyholders in preventing disease and in extending the length of life. But this field had been only sparingly developed. In 1909, in recognition of an opportunity and a social obligation, the Company realized that the time had come for a direct attack on these possibilities. It opened its doors and its resources, within reasonable limits, to cooperation with those official and voluntary agencies which were mutually concerned with the prevention of disease and life extension as well as social betterment, and cleared the way for a joint effort toward the achievement of their own and the Company's objectives.

The head of this movement within the Company was Dr. Lee K. Frankel, formerly a social worker and publicist of eminence, a man who had won the respect of those engaged in social welfare activities. As a result of his studies of various forms of workingmen's insurance both here and abroad, he developed a number of ideas as to how a progressive life insurance company in America could serve the welfare of its policyholders. He envisioned a program to be developed along four principal lines, namely: health educational efforts through various channels; direct health service to policyholders, as through public health nursing; cooperative efforts in disease preventive campaigns with health departments, schools, industries, and other agencies; and limited research, through which the Company might add to the reservoir of practical knowledge regarding disease prevention—a reservoir from which useful information could be supplied in an increasing degree to the public at large. Dr. Frankel also saw in the large agency staff of the Company a body of willing and useful co-workers, who in their close weekly contacts with millions of policyholders, could carry a very useful message into millions of American homes. They were the pivot around which the welfare program of the Company swung and this has been true to this day.

It was the agents who were to distribute the series of health leaflets which the Company was to prepare. In this way developed a campaign of health education which in its broad scope and intensity was quite unlike anything in insurance or public health history. Never before on any such scale have the authenticated findings of science been translated and interpreted in popular terms for immediate application by the mass of lay readers, thus materially cutting in America the time-lag between the discovery and the utilization of scientific fact. Publications on over one hundred separate subjects have been prepared during this interval and well over a billion copies of such pamphlets have been distributed mainly to policyholders. These pamphlets cover such topics as the prevention of tuberculosis, and other communicable affections, including the diseases of childhood; the care of the mother and her infant, nutrition, industrial hygiene, and the control of accidents. They touch upon the principal preventable factors in disease and the outstanding elements in health conservation, as these apply to the prenatal period, to infancy, to the preschool and school periods, to the industrial working period, and to the adult and older age groups—all aspects of family life. So attractively were these publications prepared and so authoritative was their message that public health departments of states and cities, school systems and civic and social agencies throughout the country have availed themselves of the privilege of receiving supplies of these pamphlets, to which they have given their official stamp as material for the education of the public in various phases of personal hygiene and disease prevention.

In this way, a large section of the American people have become aware of the newer developments in preventive medicine and have learned how to lead a more hygienic life, how to exercise safely and wisely, how to control their diet, to live more actively in the open, to protect themselves and their children against infectious diseases, to avoid accidents, and to make better use of the medical facilities which have sprung up during this period in their communities. This educational effort has from time to time been supplemented by the showing of attractive motion pictures on health and safety to a total of 85,000,000 people in theatres and elsewhere, with the use of other educational devices, including lecturers, radio broadcasts, exhibits, posters, film strips, talking slide films, etc. The effect of such broadcasting of health information has undoubtedly been considerable, because much of the excess mortality of the earlier period was clearly the result of ignorance.

The year 1909 also saw the beginning of the now historical association of the Company with the public health nursing services of the country. The first contract was made with Miss Wald of the Henry Street Settlement and provided for the care of sick industrial policyholders of the Company in New York City at

Company expense by the visiting nurses of that organization. This experiment soon spread over the whole country so that today nursing service at the bedside of policyholders of the wage earning classes by trained public health nurses is available without additional charge to the insured in 7400 towns and cities of the United States and Canada. The Company also employs directly 725 Metropolitan staff nurses who serve policyholders in communities where affiliations with public nursing associations are impossible. To date, nearly 82 millions of visits by trained professional women have been made to the sick. Such visits have brought to the bedside much more than comforting and relieving ministrations, important as they were. In numbers of instances, the visit of the nurse brought the physician into the home. It made much easier the early transfer of the patient to the appropriate hospital. It inhibited the spread of disease to others. It brought the social agencies of the community to bear in numerous ways. It meant the application of intelligence and training to the needs of poor people in periods of distress.

But more than all this, the very service paid for by the Company has made it possible for nursing organizations to become established and to function in large numbers of cities and states of the Union. It is freely admitted that without this financial support from the Metropolitan, which pays for services to its policyholders, the founding and growth of many of these nursing organizations, available for the service of the general public could not have taken place. Moreover, the association of the Company with these nursing organizations has meant better supervision, better accounting and altogether higher standards of nursing service throughout the country. This is one of the most significant although often overlooked by-products of the activities of the Company in the field of social welfare.

From the very beginning of this welfare program, it was recognized that the Company should cooperate closely with the official, as well as the private agencies operating in the public health and social welfare fields. Such cooperation has involved not only educational efforts, but also an attempt, through scientific research and demonstration, to add to the growing body of knowledge so essential to the health, happiness, and longevity of the Company's policyholders and, incidentally, of the public at large. This phase of the program has been of inestimable value and has been freely acknowledged by leaders in welfare work.

In 1916 the Company launched the Framingham Demonstration to discover how a community could best rid itself of tuberculosis. This seven year experiment was an epoch-making event in the campaign against tuberculosis, not only through results there obtained, but also because its widely publicized reports of a signal achievement led other communities to organize themselves effectively against this disease. In the 10 years before the demonstration (1907-1916) the tuberculosis death rate of Framingham, Mass., had averaged 121 per 100,000. At the end of the demonstration, in 1923, the tuberculosis death rate was 38.2 per 100,000, or a reduction under the pre-demonstration decade average of 68 percent.

A new era in the control of tuberculosis began with the developments following this demonstration. In like manner, the Company's demonstration in the village of Thetford Mines, Quebec, resulted in showing to that Province and to other areas how needless was a high infant mortality, and how readily a community could organize itself to bring such high infant mortality rates down. At the end of three years, the infant death rate had dropped from 300 per thousand live born to 96 per thousand. Largely because of the success of this demonstration, the Provincial Government of Quebec appropriated \$500,000 for similar work in other communities where the infant mortality rate was high.

The Influenza-Pneumonia Commission of the Company over the last twenty years has worked incessantly to increase general knowledge of the causes and methods of control of influenza and pneumonia. The practical outcome of these activities has been to perfect serums for the treatment of various types of pneumonia, as well as to hold out promise of vaccines which appear to have the power of preventing pneumonia and perhaps influenza as well. Largely as a result of this activity, pneumonia is rapidly being brought under control. The Company has spent much effort in popularizing the results of all these demonstrations and investigations. Through its welfare advertisements, through a huge correspondence, through field visits of its staff to various public meetings, through conference with health officers and lay organizations, through literature, through films developed in cooperation with the United States Public Health Service, etc., the message has been reiterated thousands of times that preventable disease can and should be prevented.

Pneumonia is indeed an excellent example of a number of elements in the Company's welfare program. It is typical of the goals which the Company has always

had in its efforts to bring disease under control. Outstanding objectives in the past have been such diseases as tuberculosis, diphtheria, infant mortality, and maternal mortality. Present efforts are largely concentrated upon the control of pneumonia, automobile accidents, and, to an increasing degree, syphilitic infection. Pneumonia is also an example of the value of modern public health effort, and the effectiveness of current procedures for disease control. In the approach to this disease by public health authorities, perhaps never before has the inevitable though unfortunate time-lag between scientific discovery and practical application been so foreshortened. This factor has always been a serious problem in scientific effort. Largely through the efforts of the Company's Influenza-Pneumonia Commission sera for the treatment of pneumonia were perfected during the years 1920 to 1935. After experimental use in hospitals during that period, the Metropolitan in 1936 began a national campaign of education among the physicians and the public, aimed at a wider use of this life saving discovery. With the cooperation of many agencies, it has taken less than three years for this program to reach nearly all sections of the country. From 1937 to 1938 alone the death rate for pneumonia among the Company's Industrial policyholders declined from 66.0 to 50.5 per 100,000, or 24½%. The disease dropped from third to fifth place in the leading causes of death, and the Company's death claims from this disease declined from \$10,904,621 to \$8,093,181, or \$2,811,440. Incidentally, it is now anticipated that the decline in pneumonia mortality may proceed even more rapidly, in view of the chemotherapeutic developments, to the study of which the Company is contributing through research channels and through educational efforts by means of its literature, films, exhibits, etc.

One might cite other examples from current experience of outstanding savings in lives and death claims, coincident with special cooperative efforts at education. Again in the one-year contrast between 1937 and 1938, the death rate of Industrial policyholders from automobile accidents declined from 21 to 17.5 per 100,000, and death claims dropped by \$1,480,498. During the last several years the Company has also made a concentrated attack upon appendicitis by means of advertisements, literature, posters, and other devices. From 1937 to 1938 this death rate declined from 11.2 to 10.4 per 100,000. Of course, the death rates used in the preceding comparison are based on the experience of only two years and the reduction in the rates may be due in part to fortuitous circumstances. The ultimate result of these cooperative efforts can not be more definitely determined until there is available the experience of a longer period subsequent to the inauguration of these recent programs.

It has always been a matter of considerable interest and of great encouragement to the Company that the improvement in mortality has been most striking in those fields in which the Company has been most deeply engaged. This is true of the long time efforts, as well as of the more recent programs just cited. Thus, tuberculosis has from the very beginning appealed to the Company as a promising field of operation. The agents threw themselves into this work with enthusiasm, distributing through the years millions of copies of the Company's leaflets on this subject. The leadership taken by the Company in launching the Framingham Demonstration which showed the best ways of administering a tuberculosis program in local communities, its many scientific publications on this subject, and a host of other activities in this direction, have produced striking results. Tuberculosis was the leading cause of death among Industrial policyholders at the beginning of this effort with death rates over 220 per 100,000. Today, tuberculosis has been reduced to seventh place in the list of causes of death with death rates well under 50. This activity alone has meant the saving of the lives of hundreds of thousands of Industrial policyholders.

The control of diphtheria has been another medical problem which has for a long time attracted the attention of the Company, its first effort being a state-wide campaign in New York, in cooperation with the State Department of Health, the State Medical Society, and other agencies. The results have been spectacular in the extreme. In the beginning of the period, the Metropolitan Life Insurance Company Industrial policyholder death rate was over 27 per 100,000. Last year, the mortality rate had been reduced to less than two, and this year promises to reach one or even less. At every point in the campaign during the last thirty years, the Company has been in the forefront, educating mothers, stimulating health officers, organizing communities, in fact, whole states, toward the objective of "No more diphtheria".

Also, since the very beginning of the Welfare work, and especially since the initiation of the Nursing Service, emphasis has been placed upon maternal care, and has included a great deal of attention to prenatal and postnatal problems.

This work has been carried out through millions of visits by nurses to maternity cases, through education of the family by the nurse, and by means of special literature. In addition to marked improvements in infant mortality, the maternal mortality rate among Industrial policyholders has declined from 19.8 per 100,000 in 1911 to 6.2 for 1938. Furthermore, an acceleration in this decline may now be anticipated in view of the chemotherapeutic developments of the recent period, which include much more effective methods for the treatment of hemolytic streptococcic infections and related complications of pregnancy. The Company will, of course, be on the alert to see that its policyholders have the advantage of the practical application of current scientific findings in this field.

Reference has been made to favorable experience recently with reference to automobile fatalities, and in this connection it might be said that the Company has had a long-time interest in safety problems, including not only the prevention of automobile and public accidents, but also home accidents, and industrial accidents. Furthermore, in this industrial field the Company has for a long time participated in the study of problems affecting the health of the worker; in fact, here as elsewhere educational efforts aimed at employers as well as employes have been carried out by means of literature, exhibits, posters, and other methods. Many cooperative efforts have been undertaken with employer and employee units through the Group Division of the Company, for the direct benefit of Group certificateholders, a great many of whom are Industrial policyholders as well. In cooperation with the United States Public Health Service, the Bureau of Mines, and other agencies, studies have been undertaken, dealing with silicosis, asbestosis, hazards in the ceramic industries, in the leather industry, and in other fields. The maintenance of a well-equipped and busy industrial hygiene laboratory in the Home Office has meant a wealth of service to Group policyholders, to the public, and to the Company, and has resulted in important contributions to the science of disease control in industry in America.

In a somewhat similar way, the Company has exercised a natural interest in the school children of the country, having a great number of policyholders in this age group. Cooperation has been extended to school authorities in health educational projects. Educational devices for classroom use of a high order have been developed with the guidance and approval of an outstanding group of educators, serving the Company in an advisory capacity. Materials and services furnished the schools, upon request, have included literature, films, study courses, lectures, information through correspondence, etc. In 1938 alone the public schools of the United States used 12,572,136 Metropolitan Life Insurance Company pamphlets on health education and disease prevention.

At the same time through other channels and in cooperation with appropriate agencies, similar efforts are continually fostered in the fields of nutrition, dietetics, home economics, and physical education.

The Company was the instigator of the Committee on Administrative Practice of the American Public Health Association—a committee which has been a powerful agency in raising the standards of public health service in the United States. It also suggested the Intercity Health Conservation Contest and helped to finance it during the first period. Since then this contest has been taken over by a group of life insurance companies acting in conjunction with the American Public Health Association and the U. S. Chamber of Commerce. The Company was also instrumental in establishing, with the cooperation of the National Safety Council, a system of accident reports in the larger communities of the United States and Canada. Through this effort the movement for the control of vehicular and other public accidents was greatly stimulated.

As a result of these various activities, the Company is today an acknowledged leader in the movement for improving the health and welfare of the American people. Every national organization in the public health field looks upon the Company as a ready partner, and avails itself of the services of the Company in the achievement of its own objectives.

What has been the result of the various welfare efforts of the Company in its own experience?

From the very beginning of the campaign, as indicated by the foregoing data, there has been a steadily decreasing death rate among the policyholders for whom the program was instituted. This is true, of course, of the general death rate from

all causes, as well as for the specific rates already cited. In 1911, the first year for which authentic figures are available, the general death rate among Industrial policyholders was 12.5 per 1,000. With a very few exceptions as, for example, in 1918, the year of the influenza outbreak, the trend of the annual mortality has been steadily downward, and in 1938, the extraordinarily low death rate of 7.7 per 1,000 was reached. At the beginning of this period, the mortality of Industrial policyholders was 37.1 per cent higher than that of the general population, having in mind the comparable age periods. At the end of the period the mortality of Industrial policyholders was virtually identical with that recorded for the general population, and that in spite of the fact that the general population includes a large proportion living in rural areas where health conditions are, on the whole, better than in cities, and a large proportion of people of the higher income groups whose low death rates might be expected to reduce the mortality of the general group.

Another interesting way of approaching the same problem is to note what has happened in the average length of life or the life expectation of these insured persons. In 1911-1912, their expectation of life at one year of age was 52.48 years. In 1938, the figure was 64.11, or an increase of over 11 years. This is several years more than the increase in life expectation in the general population over the same period. In whichever way the comparison is made, the conclusion is inescapable that the improvement in mortality among Industrial policyholders has been at a very much faster rate than in the general population, in spite of the fact that the general population figures include the mass of Industrial policyholders. The difference in degree of improvement would be even more striking if the comparison could be made with the general population outside of the Metropolitan family.

The question may well be asked whether this welfare program has justified itself in other ways than in life saving; in other words, whether this activity on the part of the Company has brought financial returns commensurate with the expenditure of amounts substantial in the aggregate but small in relation to income, which the Company has made over the years. While for certain diseases, as cited earlier, death claim experience, coincident with preventive effort is strikingly favorable, yet it is always difficult, if not impossible, conclusively to prove financial returns from specific efforts such as have been described. The Company's program has been extended along various lines. Moreover, the Company has not been alone in the field of disease prevention and of life extension. Its efforts have not been isolated, but have been merged with many agencies in innumerable directions. No one would, therefore, dare to apply specific yardsticks of money saving with any feeling of scientific accuracy. Nevertheless, concurrent with the development of the Company's demonstrations, nursing activities and educational work, a remarkable change has taken place in the mortality of Industrial policyholders, and more particularly in those diseases and conditions which have received the bulk of the Company's attention. There has been a reduction in mortality on a huge scale, which, if translated into terms of claim payments averted or at least postponed, would amount to sums far in excess of the amounts expended.

But how are these savings reflected in the cost of insurance to policyholders? Clearly, reductions in mortality in a mutual life insurance company are reflected in a lower net cost of insurance, in larger dividends paid, in the addition of many valuable features to the policy itself. Such has been the history of the Industrial Department of the Metropolitan Life Insurance Company throughout this period. There has been a continuous decline in the net cost of insurance to these policyholders, reflecting the increasing improvement in mortality. At this time, when interest rates on investments are low and still further declining, a saving in mortality is a substantial contribution toward keeping the cost of life insurance down to the point where large numbers of people can purchase and maintain their policies.

The Company itself, and indeed medical and public health authorities throughout the world, look upon this program as a whole, with its demonstrated results, as one outstanding example and tangible proof of the social value of organized preventive effort in the field of disease control and health promotion.

EXHIBIT No. 986

[Submitted by Metropolitan Life Insurance Company]

METROPOLITAN LIFE INSURANCE COMPANY

Metropolitan health and welfare expenditures for policyholders only

Year	Total	Life Extension Institute	General Welfare	Nursing Service
1909	\$14,028.35			\$14,028.35
1910	129,433.51			129,433.51
1911	312,011.77		\$6,034.62	305,977.15
1912	522,154.29		63,090.15	459,064.14
1913	686,329.62		118,990.04	567,339.58
1914	665,751.57	\$10,329.10	80,560.45	574,862.02
1915	778,135.06	10,481.65	161,111.38	606,542.03
1916	824,464.37	10,981.35	150,354.39	663,128.63
1917	924,668.26	24,042.75	176,490.53	724,134.98
1918	989,619.08	37,285.10	141,946.12	810,387.86
1919	1,080,267.99	43,819.90	234,051.98	802,396.11
1920	1,455,770.83	43,174.45	364,627.65	1,047,968.73
1921	2,052,877.38	73,517.40	565,668.50	1,413,691.48
1922	2,764,337.48	117,201.40	777,566.68	1,869,569.40
1923	3,069,768.24	204,278.00	678,351.02	2,187,139.22
1924	3,263,698.75	236,697.50	637,750.09	2,389,251.16
1925	4,066,115.21	290,090.00	1,168,947.53	2,607,077.68
1926	4,639,863.92	259,877.50	1,133,240.09	3,246,746.33
1927	5,325,928.21	470,817.50	1,221,308.26	3,633,802.45
1928	5,953,211.12	476,227.20	1,457,895.18	4,019,088.74
1929	6,165,184.46	469,253.80	1,323,343.28	4,372,587.38
1930	6,521,786.92	489,125.43	1,411,940.11	4,620,721.38
1931	6,404,986.65	548,318.54	1,230,633.52	4,626,034.59
1932	6,179,255.58	542,695.07	1,373,367.39	4,263,193.12
1933	5,432,687.91	571,924.50	1,150,578.24	3,710,185.17
1934	5,228,963.66	579,129.31	1,173,775.05	3,476,059.30
1935	5,397,147.81	591,614.39	1,172,595.26	3,632,938.16
1936	5,537,105.18	563,259.00	1,178,020.16	3,755,826.02
1937	5,952,922.47	547,032.50	1,389,733.06	4,016,156.91
1938	6,265,331.68	704,379.00	1,398,004.84	4,162,947.84
Total to date	\$98,603,807.33	\$7,915,552.34	\$21,939,975.57	\$68,748,279.42

INDUSTRIAL DEPARTMENT ONLY

Year	Total	General Welfare	Nursing Service
1909	\$14,028.35		\$14,028.35
1910	129,433.51		129,433.51
1911	312,011.77	\$6,034.62	305,977.15
1912	522,154.29	63,090.15	459,064.14
1913	686,329.62	118,990.04	567,339.58
1914	655,422.47	80,560.45	574,862.02
1915	767,653.41	161,111.38	606,542.03
1916	791,128.05	127,999.42	663,128.63
1917	875,472.14	151,337.16	724,134.98
1918	930,981.54	120,593.68	810,387.86
1919	991,064.90	188,668.79	802,396.11
1920	1,298,424.62	265,147.18	1,033,277.44
1921	1,838,090.25	442,306.53	1,395,783.72
1922	2,470,148.70	627,275.19	1,842,873.51
1923	2,685,227.98	540,931.48	2,144,296.50
1924	2,838,505.99	501,254.19	2,337,251.80
1925	3,511,274.63	965,324.37	2,545,950.26
1926	4,101,390.46	954,000.16	3,147,390.30
1927	4,469,426.11	1,023,691.83	3,445,734.28
1928	5,033,108.54	1,227,539.93	3,805,568.61
1929	5,247,721.64	1,111,595.33	4,136,126.31
1930	5,568,309.44	1,180,310.19	4,387,999.25
1931	5,408,613.57	1,029,815.36	4,378,798.21
1932	5,178,542.50	1,150,577.29	4,027,965.21
1933	4,461,813.88	969,643.29	3,492,170.59
1934	4,260,942.69	987,505.89	3,273,436.80
1935	4,406,487.74	986,277.07	3,420,210.67
1936*	4,564,091.23	996,119.83	3,567,971.40
1937*	4,907,908.84	1,163,955.15	3,743,953.69
1938*	4,948,034.33	1,058,131.47	3,889,902.86
Total to date	\$83,873,743.19	\$18,199,787.42	\$65,673,955.77

* Excluding any charge for Social Security taxes although such a charge is included in the total company expenditures in Schedule 3-1.

EXHIBIT No. 987

[Prepared by Metropolitan Life Insurance Company]

METROPOLITAN LIFE INSURANCE COMPANY

Number of industrial policies in force December 31st—On the same basis as that reported in the policy exhibits of the annual statements to the State of New York (including both premium-paying and paid-up policies)

	End of Year	Life Plans	Long Term Endowment Plans ¹	Life Plans (including Long Term Endowment Plans) ¹	Endt. Plans (excluding Long Term Endowment Plans) ¹	Term Plans ²	Total
Weekly Premium Business..	1900	2,808,107	1,283,968	4,092,075	1,093,861	141,131	5,327,067
“ “ “	1905	3,076,252	2,163,704	5,239,956	2,634,996	244,206	8,119,158
“ “ “	1910	4,945,897	2,125,100	7,070,997	3,134,367	259,710	10,465,074
“ “ “	1915	7,756,194	2,198,257	9,954,451	4,036,104	454,339	14,444,894
“ “ “	1920	11,718,017	2,623,426	14,341,443	6,113,733	426,232	20,881,408
“ “ “	1925	14,076,644	3,047,495	17,124,139	13,379,742	380,103	30,883,984
Weekly Premium Business..	1930	14,175,689	2,749,192	16,924,881	19,563,244	311,895	36,800,020
Ind. Monthly Prem. Bus...	1930	415,178	23,652	438,830	295,420	149	734,399
Total Industrial.....	1930	14,590,867	2,772,844	17,363,711	19,858,664	312,044	37,534,419
Weekly Premium Business..	1935	15,145,552	2,271,168	17,416,720	15,043,508	297,797	32,758,025
Ind. Monthly Prem. Bus...	1935	748,530	15,065	763,595	361,272	2,873	1,127,740
Total Industrial.....	1935	15,894,082	2,286,233	18,180,315	15,404,780	300,670	33,885,765
Weekly Premium Business..	1937	16,373,825	2,282,752	18,656,577	14,166,149	248,067	33,070,793
Ind. Monthly Prem. Bus...	1937	1,022,873	17,546	1,040,419	476,761	3,985	1,521,165
Total Industrial.....	1937	17,396,698	2,300,298	19,696,996	14,642,910	252,052	34,591,958
Weekly Premium Business..	1938	16,317,852	2,238,921	18,556,773	13,449,984	306,375	32,313,132
Ind. Monthly Prem. Bus...	1938	1,104,159	17,624	1,121,783	507,708	15,251	1,644,742
Total Industrial.....	1938	17,422,011	2,256,545	19,678,556	13,957,692	321,626	33,957,874

¹ Number of policies on premium-paying Endowment policies in force which mature at ages 65 or over and have terms of 30 years or longer excluding any such policies which could not be readily separated in our records and excluding all such Endowment policies in force in our Paid-up Account. (The records of our Paid-up Account are such that this separation cannot readily be made.)

² Includes the relatively small number of policies in force on the Life and Annuity plan.

Industrial Monthly Premium policies were not issued prior to 1927.

Amount of Industrial Insurance in Force December 31st—On the same basis as that Reported in the Policy Exhibits of the Annual Statements to the State of New York (Including both Premium-paying and Paid-up Insurance)

	End of Year	Life Plans	Long Term Endowment Plans ¹	Life Plans (including Long Term Endowment Plans ¹)	Endt. Plans (excluding Long Term Endowment Plans ¹)	Term Plans ²	Additions	Total
Weekly Premium Business	1900	\$370, 103, 374	\$228, 570, 723	\$598, 674, 097	\$165, 955, 739	\$4, 347, 840		\$768, 977, 676
" " " " " "	1905	436, 157, 142	392, 619, 918	828, 777, 060	371, 383, 877	7, 768, 375		1, 207, 924, 312
" " " " " "	1910	750, 955, 239	370, 112, 195	1, 121, 067, 434	380, 993, 144	10, 538, 546		1, 512, 599, 124
" " " " " "	1915	1, 087, 284, 849	369, 176, 572	1, 456, 461, 421	415, 672, 958	43, 411, 659		1, 915, 546, 088
" " " " " "	1920	1, 699, 856, 170	456, 418, 546	2, 156, 274, 716	682, 898, 855	40, 409, 653	\$81, 294	2, 879, 664, 118
Weekly Premium Business	1925	2, 300, 431, 141	597, 064, 603	2, 897, 495, 744	2, 078, 688, 087	35, 208, 448	2, 059, 887	5, 013, 452, 116
Ind. Monthly Prem. Bus	1930	2, 602, 509, 756	559, 718, 036	3, 162, 227, 792	3, 222, 104, 707	34, 887, 705	6, 873, 202	6, 426, 093, 406
Total Industrial	1930	225, 728, 254	13, 396, 892	238, 625, 146	156, 963, 593	86, 400		395, 675, 281
Weekly Premium Business	1930	2, 327, 738, 010	573, 114, 928	3, 400, 852, 938	3, 379, 068, 300	34, 974, 105	6, 873, 344	6, 821, 768, 687
Ind. Monthly Prem. Bus	1935	3, 233, 882, 190	495, 566, 598	3, 729, 448, 788	2, 490, 872, 421	42, 762, 611	9, 207, 301	6, 272, 291, 121
Total Industrial	1935	366, 560, 840	8, 346, 217	374, 907, 057	169, 521, 562	1, 563, 544	11, 217, 096	557, 209, 259
Weekly Premium Business	1935	3, 000, 443, 030	503, 912, 815	4, 104, 355, 845	2, 660, 393, 983	44, 326, 155	20, 424, 397	6, 829, 500, 380
Ind. Monthly Prem. Bus	1937	3, 746, 006, 375	513, 319, 009	4, 259, 325, 384	2, 440, 518, 702	36, 496, 858	9, 024, 706	6, 745, 365, 650
Total Industrial	1937	509, 295, 142	9, 676, 298	518, 971, 440	227, 620, 159	2, 102, 962	17, 477, 746	7, 766, 172, 307
Weekly Premium Business	1937	4, 255, 301, 517	522, 995, 307	4, 778, 296, 824	2, 668, 138, 861	38, 599, 820	26, 502, 452	7, 511, 937, 957
Ind. Monthly Prem. Bus	1938	3, 785, 153, 098	508, 645, 553	4, 293, 798, 651	2, 364, 375, 874	54, 040, 252	8, 765, 045	6, 720, 979, 822
Total Industrial	1938	549, 467, 807	9, 689, 173	559, 156, 980	242, 231, 725	8, 019, 318	19, 928, 910	829, 886, 933
Weekly Premium Business	1938	4, 334, 620, 905	518, 334, 726	4, 852, 955, 631	2, 606, 607, 599	62, 059, 570	28, 693, 955	7, 550, 316, 755

¹ Amount of insurance on premium-paying Endowment policies in force which mature at ages 65 or over and have terms of 30 years or longer excluding any such policies which could not be readily separated in our records and excluding all such Endowment policies in force in our Paid-up Account. (The records of our Paid-up Account are such that this separation cannot readily be made.)

² Includes the relatively small amount of insurance in force on the Life and Annuity plan. Industrial Monthly Premium insurance was not issued prior to 1927.

METROPOLITAN LIFE INSURANCE COMPANY

Distribution by plan and year of issue—weekly premium business

Year	Life	METROPOLITAN LIFE INSURANCE CO.							Total	Year			
		Number of policies in force Dec. 31, 1938											
1879	84								84	1879			
1880	2,021								2,921	1880			
1881	5,332								5,332	1881			
1882	8,579								8,579	1882			
1883	11,716								11,716	1883			
1884	12,538								12,538	1884			
1885	14,678								14,678	1885			
1886	19,388								19,388	1886			
1887	26,350								26,350	1887			
1888	33,200								33,200	1888			
1889	33,606								33,606	1889			
1890	39,664								39,664	1890			
1891	40,967								40,967	1891			
1892	60,701			293					60,994	1892			
1893	44,720	2,264		303					47,287	1893			
1894	81,102	2,417		596					83,519	1894			
1895	64,099	2,363							66,462	1895			
1896	45,831	720		24,616	\$500 Endowment at 80	Year 1897	25-Year Endowment		71,167	1896			
1897	10,168	469		71,690		1897			82,327	1897			
1898	6,662	8,233		78,625		1898			84,598	1898			
1899	6,756			99,276		1899		12	105,456	1899			
1900	7,628			100,237		1900		24	108,374	1900			
1901	18,067			94,064		1901		16	109,727	1901			
1902	18,543			84,176		1902		222	103,405	1902			
1903	18,057			78,958		1903		101	97,607	1903			
1904	22,612			81,160		1904		33	104,179	1904			
1905	26,337			84,011		1905		23	110,929	1905			
1906	31,934			79,156		1906		8	111,912	1906			
	707,045			875,959					58				
1907	Life Paid-up at 75	20-Payment Life	Convertible	Life and Annuity	Endowment at 80	1907			134	78,920	1907		
1908	64,744				14,042	1908			267	74,472	1908		
1909	61,002				13,203	1909			431	78,230	1909		
	63,874			164	13,238			623					
1910	70,484			36	13,070	1910			977	85,048	1910		
1911	70,221			22	14,722	1911			1,241	86,772	1911		
1912	71,492			14	15,942	1912			1,277	89,512	1912		
1913	77,035		3	21	16,699	1913			326	95,096	1913		
1914	75,761		30	18	17,554	1914		3,421	4,790	1,016	97,800	1914	
1915	82,721		96	54	20,825	1915		3,232		1,226	108,154	1915	
1916	79,296		245	4	20,915	1916		2,812		1,407	104,679	1916	
1917	84,279		413	332	25,187	1917		4,181		1,582	115,642	1917	
1918	93,945	500		893	29,469	1918		4,496		1,816	130,218	1918	
1919	109,252	15,747		2,320	34,300	1919		5,473	79,107		246,199	1919	
1920	120,570	505		3,510	37,032	1920		9,879	91,542		263,038	1920	
1921	140,592			6,733	36,912	1921		12,881	110,921		308,039	1921	
1922	167,631			10,498	46,102	1922		15,472	126,223		365,926	1922	
1923	186,643			7,761	64,056	1923		21,312	236,984		546,087	1923	
1924	204,224	7		83	87,095	1924		25,736	233,607	103,106	722,336	1924	
1925	259,631	11		42	66,127	1925		53,459	283,595		931,119	1925	
1926	268,212	42			43,243	1926		50,964	258,638		882,437	1926	
1927	247,108	59,610			35,710	1927		50,221	220,239		888,498	1927	
1928	325,416	88,393			49,334	1928		63,652	237,724		1,157,237	1928	
1929	447,783	150,194			47,426	1929		53,417	273,228		1,414,152	1929	
1930	405,861	197,939			36,798	1930		38,190	252,824	283,446	1,272,362	1930	
1931	417,098	243,678			30,907	1931		29,621	242,849	190,019	1,201,159	1931	
1932	502,730	269,462			28,105	1932		31,313	252,162	150,047	1,295,671	1932	
1933	610,441	286,362			33,379	1933		47,801	258,832	136,706	1,490,405	1933	
1934	743,477	366,614			43,974	1934		67,417	309,634	159,190	1,831,649	1934	
1935	756,455	419,359			2,050	1935		58,678	348,383	186,293	1,910,779	1935	
1936	788,053	483,002			139,661	1936		61,356	397,700	218,198	2,095,327	1936	
1937	751,480	530,780			147,018	1937		67,236	586,678		2,081,817	1937	
1938	732,442	612,393			160,160	1938		78,075	666,007		2,149,077	1938	
Total	9,079,853	3,624,498	32,627	543,479	1,965,942	Total		850,096	5,466,867	2,618,997	10,783	25,794,724	Total

METROPOLITAN LIFE INSURANCE COMPANY

Distribution by plan and year of issue—weekly premium business

Year	Life	METROPOLITAN LIFE INSURANCE CO.							Total	Year		
1879	11,746	<p style="text-align: center;">Amount of insurance in force Dec. 31, 1938</p>							11,746	1879		
1880	400,900								400,900	1880		
1881	728,354								728,354	1881		
1882	1,197,559								1,197,559	1882		
1883	1,648,972								1,648,972	1883		
1884	1,787,758	1,787,758	1884									
1885	2,062,169	<p style="text-align: center;">SUMMARY</p>							2,062,169	1885		
1886	2,720,451								2,720,451	1886		
1887	3,807,175								3,807,175	1887		
1888	5,027,429								5,027,429	1888		
1889	5,222,311								5,222,311	1889		
1890	6,274,576	<p style="text-align: center;">Grand Total..... \$6,720,979,822</p>							6,274,576	1890		
1891	6,700,493								6,700,493	1891		
1892	9,950,371								10,001,656	1892		
1893	7,356,188								8,548,461	1893		
1894	13,284,425								14,511,166	1894		
1895	10,972,804	1,200,792	4,280,549	\$500 Endowment at 80	Year	25-Year Endowment		12,173,596	1895			
1896	7,881,509	404,865	13,253,050		1897			12,666,923	1896			
1897	1,709,579	262,593			1898		3,685	15,225,227	1897			
1898	964,916	4,233,353	14,569,213	181,655	1899		2,801	15,719,369	1898			
1899	978,553		18,484,796	251,625	1900			19,717,775	1899			
1900	1,301,585		18,771,311	354,843	1900		5,221	20,432,960	1900			
1901	2,625,007		17,662,295	352,367	1901		2,206	20,641,875	1901			
1902	3,236,649		16,897,437	278,183	1902		37,487	19,449,756	1902			
1903	3,275,330		16,155,818	296,724	1903		17,829	18,745,701	1903			
1904	4,074,746		15,818,753	292,249	1904		6,770	20,192,617	1904			
1905	4,861,800		16,650,663	336,946	1905		3,969	21,853,378	1905			
1906	5,874,886		15,921,671	455,657	1906		1,297	22,265,409	1906			
	116,918,240		166,465,556	2,800,240								
1907	Life Paid-up at 75	20-Payment Life	Convertible	Life and Annuity	Endowment at 80	Year						
1908	11,015,356				2,154,754	1907		19,756	13,189,866			
1909	10,144,269				2,003,064	1908		49,061	12,196,394			
	10,628,220			16,400	1,993,311	1909		42,061	12,755,211			
1910	11,607,302			3,500	1,936,562	1910		97,083	13,785,839			
1911	11,551,746			2,200	2,289,922	1911		136,828	14,085,265			
1912	11,706,640			1,400	2,521,268	1912		149,628	14,526,741			
1913	12,593,507		375	2,100	2,622,165	1913		40,503	15,446,522			
1914	12,365,888		3,750	1,800	2,733,438	1914	504,310		15,803,179			
1915	13,705,728		12,017	5,400	3,271,693	1915	490,299	15-Year Endowment	17,708,709			
1916	13,838,528		37,471	400	3,198,968	1916	445,854	228,672	17,799,263			
1917	13,787,805		67,512	33,200	3,798,519	1917	643,751	278,042	18,627,189			
1918	16,095,371	126,896	162,808		4,738,191	1918	717,540	329,602	22,219,542			
1919	20,300,072	3,930,462	439,165	Cumulative Endowment	6,129,570	1919	990,662	378,736	40,818,076			
1920	23,535,567	126,504	679,180		6,893,294	1920	1,780,462		47,584,153			
1921	26,218,118		1,263,767		6,871,810	1921	2,223,138		53,573,389			
1922	32,161,342		1,934,047		9,287,721	1922	2,801,426		67,601,225			
1923	42,884,399		1,437,824	8,277,270	13,354,600	1923	4,031,831		112,838,809			
1924	53,626,416	1,826	10,863	18,314,266	15,587,512	1924	5,473,081	20,627,766	158,361,016			
1925	77,153,696	2,997	5,750	18,016,643	24,404,997	1925	13,467,380	58,285,001	228,967,208			
1926	84,566,754	12,595		13,181,424	23,379,582	1926	13,074,486	67,689,762	231,984,407			
1927	68,253,419	15,226,061		9,546,508	18,706,174	1927	11,871,313	43,078,254	205,704,943			
1928	89,808,304	23,290,641		13,932,143	22,653,721	1928	14,833,669	44,925,202	267,952,098			
1929	116,324,784	39,605,599		9,160,687	17,394,306	1929	11,898,602	54,119,880	318,634,919			
1930	121,965,925	81,098,879		7,239,293	13,747,526	1930	8,397,241	67,169,388	323,357,178			
1931	131,758,804	79,692,796		6,057,372	11,750,222	1931	6,362,083	58,919,907	332,609,108			
1932	147,766,041	82,034,305		6,265,006	14,410,694	1932	6,426,848	68,049,623	343,182,836			
1933	172,827,842	84,875,313		6,201,478	26,589,209	1933	9,570,730	57,552,908	383,398,361			
1934	209,966,939	110,234,831		9,252,280	34,102,643	1934	11,636,543	70,574,517	476,802,075			
1935	216,374,863	130,615,391		402,672	34,631,187	1935	13,077,880	84,310,641	515,573,650			
1936	218,924,177	148,247,228			36,372,851	1936	13,774,971	96,822,866	556,177,184			
1937	208,269,305	166,560,710			37,448,339	1937	15,474,974	149,363,384	577,112,712			
1938	194,561,394	161,944,073			41,286,317	1938	17,831,424	166,602,672	572,125,780			
Total	2,405,280,420	1,097,623,006	6,054,529	124,846,942	448,314,130	Total	187,805,498	1,207,954,609	521,044,791	2,091,517	6,291,118,499	Total

EXHIBIT No. 989

[Prepared by Metropolitan Life Insurance Company]

METROPOLITAN LIFE INSURANCE COMPANY

Percentage Distribution of Industrial Policies Issued—On the Basis of the Number of Policies Issued as Reported in the Policy Exhibits of the Annual Statements to the State of New York

WEEKLY PREMIUM AND INDUSTRIAL MONTHLY PREMIUM POLICIES COMBINED
BASED ON NUMBER OF POLICIES ISSUED FROM JANUARY 1, 1934 TO DECEMBER 31, 1938.

Age at Issue	Life Plans	Long Term Endowment Plans ¹	Life Plans (including Long Term Endowment Plans) ¹	Endt. Plans (excluding Long Term Endowment Plans) ¹	Total
	%	%	%	%	%
1.....	4.57	0.34	4.91	6.78	11.69
2.....	1.18	0.13	1.31	1.51	2.82
3.....	1.08	0.12	1.20	1.15	2.35
4.....	1.03	0.12	1.15	0.95	2.10
5.....	1.02	0.11	1.13	0.83	1.95
6.....	1.02	0.11	1.13	0.75	1.88
7.....	1.02	0.11	1.13	0.66	1.79
8.....	1.06	0.11	1.17	0.67	1.84
9.....	1.08	0.11	1.19	0.65	1.84
10.....	1.30	0.12	1.42	0.70	2.12
11-15.....	6.69	0.62	7.31	2.95	10.26
16-25.....	12.80	1.29	14.09	5.34	19.43
26-35.....	9.65	1.46	11.11	3.78	14.89
36-45.....	8.00	1.28	9.28	2.30	11.58
46-55.....	6.62	0.50	7.12	1.69	8.81
56-65.....	4.21	.....	4.21	0.43	4.64
66 & over.....	.....	.....	.....	.....	.....
All Ages.....	62.33	6.53	68.86	31.14	100.00

¹ Endowment policies which mature at age 65 or over and have terms of 30 years or longer.

EXHIBIT No. 990

[Prepared by Metropolitan Life Insurance Company]

METROPOLITAN LIFE INSURANCE COMPANY

Year	No. of Agents and Open Debits ¹ at End of Year	No. of Agents at End of Year	Agents Average Earnings per Week
1915.....	11,438	.....	\$23
1916.....	11,771	.....	24
1917.....	12,364	.....	26
1918.....	12,065	.....	29
1919.....	12,744	.....	36
1920.....	12,965	.....	44
1921.....	13,996	.....	45
1922.....	15,285	.....	44
1923.....	16,558	.....	50
1924.....	18,261	.....	52
1925.....	19,625	.....	55
1926.....	20,840	.....	55
1927.....	21,715	.....	53
1928.....	22,188	.....	53
1929.....	22,389	22,054	56
1930.....	22,615	22,357	54
1931.....	22,624	22,445	50
1932.....	22,235	22,025	43
1933.....	21,774	21,629	42
1934.....	21,457	21,302	45
1935.....	21,259	21,017	48
1936.....	21,030	20,760	50
1937.....	21,018	20,794	53
1938.....	20,591	20,459	52

¹ Debits to which agents would normally be assigned but which are temporarily vacant—the agent previously in charge having been dismissed, transferred, etc., and a new agent not appointed as yet.

EXHIBIT No. 991

[Prepared by Metropolitan Life Insurance Company]

METROPOLITAN LIFE INSURANCE COMPANY

*Distribution Of Income**Amounts in Thousands of Dollars (Incurred Basis)¹ 1934-1938, Inclusive*

	Industrial		Ordinary (excl. Group)	
	Amount	Percent of Total Income	Amount	Percent of Total Income
Premium Income.....	\$1,609,246	84.60	\$1,670,700	80.77
Investment Income.....	292,827	15.40	397,711	19.23
Total Income.....	1,902,073	100.00	2,068,411	100.00
Claims and Maturities.....	410,653	21.59	598,968	28.96
Surrender Values.....	535,165	28.14	356,863	17.25
Dividends.....	217,192	11.42	236,743	11.45
10% Allowance.....	34,611	1.82	0	0
Paid Insured and Beneficiaries.....	1,197,621	62.97	1,192,574	57.66
Insured's Health and Welfare.....	23,089	1.21	4,206	.20
Increase in Insured's Funds.....	256,287	13.47	573,394	27.72
Total to Policyholders.....	1,476,997	77.65	1,770,174	85.58
Paid Managers, Assistants, Agents.....	252,716	13.29	116,842	5.65
Paid District Office Clerks.....	16,484	.87	13,401	.65
Other Field Expenses.....	21,553	1.13	27,645	1.33
Total Field Expenses.....	290,753	15.29	157,888	7.63
Home Office Salaries.....	50,010	2.63	59,624	2.88
Home Office Rents.....	9,476	.50	10,165	.49
Employees' Health and Welfare.....	22,930	1.20	15,036	.73
Other Home Office Expenses.....	18,562	.98	23,109	1.12
Total Home Office Expenses.....	100,978	5.31	107,934	5.22
Taxes.....	33,345	1.75	32,415	1.57
Total Expenses.....	425,076	22.35	298,237	14.42
Grand Total.....	\$1,902,073	100.00	\$2,068,411	100.00

PARTIAL SUBDIVISION (CASH BASIS) OF "OTHER HOME OFFICE EXPENSES"

Advertising.....	\$2,638	0.14	\$3,332	0.16
Stationery and Printing.....	3,318	0.17	3,935	0.19
Restaurant.....	2,855	0.15	3,437	0.17

¹ "Total Payments to Policyholders" are on a cash basis, adjustments for outstanding claims, claims paid in advance, dividend liability, etc. being included under "Increase in Funds Held for Policyholders."

The above data are on the same basis as that found on pages 10 through 13 of the New York Insurance Department's report on examination of the Metropolitan Life Insurance Company, Special Study of Industrial Insurance.

It is not possible to subdivide readily the field compensation accounts into the exact amounts paid in each Department to each type of field personnel. Such a subdivision would require considerable labor and delay.

EXHIBIT No. 992

[Prepared by Metropolitan Life Insurance Company]

METROPOLITAN LIFE INSURANCE COMPANY

Tabulation of Terminations (All Figures Being Number of Policies)

WEEKLY PREMIUM POLICIES

1935 Experience	Premiums Paid for Period of						Total
	1 to 4 Weeks	5 to 12 Weeks	13 to 25 Weeks	26 to 51 Weeks	1 to 2 Years	2 to 3 Years	
Life Plans:							
Lapses.....	339,916	175,273	138,649	133,817	108,907	49,710	946,272
Deaths.....	1,419	1,803	2,402	4,296	7,823	7,071	24,814
All Others.....	9	54	164	366	780	917	2,290
Endowment Plans:							
Lapses.....	140,740	53,785	38,908	37,111	32,538	18,934	322,016
Deaths.....	683	677	774	1,147	1,446	1,269	5,996
All Others.....	8	31	71	165	468	782	1,525
Substandard Plans:							
Lapses.....	56,468	41,848	34,378	34,160	26,739	10,114	203,707
Deaths.....	257	480	741	1,310	2,309	1,513	6,610
All Others.....	0	1	2	5	11	31	50
All Plans:							
Lapses.....	537,124	270,906	211,935	205,088	168,184	78,758	1,471,995
Deaths.....	2,359	2,960	3,917	6,753	11,578	9,853	37,420
All Others.....	17	86	237	536	1,259	1,730	3,865
1938-9 Experience:¹							
All Plans--Lapses.....	179,118	² 141,814	² 119,932	-----	-----	-----	-----

MONTHLY PREMIUM POLICIES

1935 Experience	Premiums Paid for Period of					Total
	1 Month	2 to 5 Months	6 to 11 Months	1 to 2 Years	2 to 3 Years	
Life Plans:						
Lapses.....	19,845	19,064	9,867	7,921	2,989	59,686
Deaths.....	99	224	323	582	383	1,611
All Others.....	2	42	33	74	50	201
Endowment Plans:						
Lapses.....	5,638	3,737	1,589	1,228	676	12,868
Deaths.....	16	42	44	97	81	280
All Others.....	6	28	21	58	36	149
Substandard Plans:						
Lapses.....	415	387	218	169	57	1,246
Deaths.....	8	11	10	21	19	69
All Others.....	0	0	0	0	0	0
All Plans:						
Lapses.....	25,898	23,188	11,674	9,318	3,722	73,800
Deaths.....	123	277	377	700	483	1,960
All Others.....	8	70	54	132	86	350

¹ No. of policies lapsed July 4, 1938-June 26, 1939, inclusive, less policies revived during the same period.

² The groups used are 5-13 weeks and 14-26 weeks rather than those indicated in the headings (the latter were not available).

Terminations as Percentages of Policies Written

WEEKLY PREMIUM POLICIES

1935 Experience	Premiums Paid for Period of						Total
	1 to 4 Weeks	5 to 12 Weeks	13 to 25 Weeks	26 to 51 Weeks	1 to 2 Years	2 to 3 Years	
Life Plans:							
Lapses.....	16.01%	8.25%	6.53%	5.63%	4.82%	2.37%	43.61%
Deaths.....	.07	.08	.12	.18	.35	.34	1.14
All Others.....	0	0	.01	.02	.03	.04	.10
Endowment Plans:							
Lapses.....	16.09	6.15	4.45	4.22	3.73	1.99	36.63
Deaths.....	.08	.08	.08	.13	.17	.13	.67
All Others.....	0	0	.01	.02	.05	.08	.16
Substandard Plans:							
Lapses.....	14.51	10.75	8.84	7.33	6.17	3.00	50.60
Deaths.....	.07	.12	.19	.28	.53	.45	1.64
All Others.....	0	0	0	.01	0	.01	.02
All Plans:							
Lapses.....	15.86	8.00	6.26	5.50	4.72	2.33	42.67
Deaths.....	.07	.08	.12	.18	.33	.29	1.07
All Others.....	0	0	.01	.02	.03	.05	.11
1938-9 Experience: ¹ All Plans—Lapses.....	8.46	6.69	5.67				

MONTHLY PREMIUM POLICIES

1935 Experience	Premiums Paid for Period of					Total
	1 Month	2 to 5 Months	6 to 11 Months	1 to 2 Years	2 to 3 Years	
Life Plans:						
Lapses.....	10.53%	10.11%	5.23%	5.66%	2.54%	34.07%
Deaths.....	.05	.12	.17	.42	.33	1.09
All Others.....	0	.02	.02	.05	.04	.13
Endowment Plans:						
Lapses.....	11.07	7.33	3.12	3.94	2.42	27.88
Deaths.....	.03	.08	.09	.31	.29	.80
All Others.....	.01	.06	.04	.19	.13	.43
Substandard Plans:						
Lapses.....	8.87	8.27	4.66	5.52	3.11	30.43
Deaths.....	.17	.24	.21	.69	.92	2.23
All Others.....	0	0	0	0	0	0
All Plans:						
Lapses.....	10.61	9.49	4.81	5.34	2.52	32.77
Deaths.....	.05	.11	.16	.40	.33	1.05
All Others.....	0	.03	.02	.07	.06	.18

¹ No. of policies lapsed July 4, 1938—June 26, 1939, inclusive, less policies revived during the same period.

² The groups used are 5-13 weeks and 14-26 weeks rather than those indicated in the headings (the latter were not available).

EXHIBIT No. 993

[From files of Metropolitan Life Insurance Company]

NEW YORK
HOLLYWOOD

CHICAGO
MONTREAL

DETROIT
TORONTO

YOUNG & RUBICAN, INC.

Advertising

AUGUST 7, 1939.

Metropolitan Life Insurance Co.

Radio Program Presented by EDWIN C. HILL for the Metropolitan Life Insurance Company, 1 Madison Avenue, New York, N. Y., over the following stations:

(N. Y.) WOR—Friday, August 4, 1939—9:15 to 9:30 P. M.

(N. Y.) WNEW—Monday, August 7, 1939—7:00 to 7:15 P. M.

(N. Y.) WHN—Monday, August 7, 1939—9:30 to 9:45 P. M.

(WASH.) JWOL—Friday, August 4, 1939—9:15 to 9:30 P. M.

(BOSTON) WAAB—Friday, August 4, 1939—9:15 to 9:30 P. M.

Mr. HILL: How do you do, everyone. This is Edwin C. Hill bringing you another program presented by the Metropolitan Life Insurance Company.

As you know, ladies and gentlemen, my purpose on this program is to remind you of the many ways in which your Metropolitan Agent and the Company itself can serve and advise you, as a policyholder. In the past several weeks I have brought you many stories to illustrate the varied forms this service may take. Frequently, too, you have heard policyholders themselves tell you how they were helped by their agents' sound, common-sense advice and friendly, capable service.

Well, on *this* program I'd like to bring home to you the service rendered by life insurance itself—to show you what it can and does mean to millions of policyholders. How it serves, not only as a form of family protection against the financial consequences of death, but as a preparation for and contribution to, a family's increased enjoyment of living. For life insurance today applies not alone to dark days, but as much to the sunny days of life.

Let's imagine, then, a family—say a mother, father, and their son. In our dramatization we'll call them the Sullivans—Al and Catherine Sullivan and their son Alex.

As our story opens, Mr. and Mrs. Sullivan, Alex, and his fiancee, Betty Shoemaker, are sitting in the living room. It is Alex's twenty-first birthday, and the Sullivans have just finished a big birthday dinner in honor of Alex's arrival at man's estate. Mr. Sullivan speaks—

FATHER. Well, Cathy, you certainly can cook. Best meal I've had all day.

MOTHER. That's a *fine* compliment—after you told me you only ate a sandwich for lunch.

SON. Now, Mom, I'm sure Dad means it. It was a swell dinner. Wasn't it, Betty?

BETTY. Sure was. That chicken was as tender as butter.

FATHER. By the way, Betty, how are *you* on cooking chicken? Alex is pretty particular!

BETTY. Oh, I guess I'm pretty good.

SON. Pretty good won't be enough for me, Betty. Mother's spoiled me.

FATHER. Yes, you'd better watch your step, Betty—and get your mashed potatoes under control, too. Alex is pretty fussy.

MOTHER. Now you men leave Betty alone! I'm sure you'll do beautifully dear—and if you want any recipes of mine, you just ask for them.

BETTY. Thanks, Mrs. Sullivan. I will.

FATHER. Did you get that, Alex—"you men", your mother said. How does it feel, now that you're twenty-one and a man?

SON. Feels great, Dad—though not very different from yesterday, to tell you the truth.

MOTHER. Anyway, dear, you've had a nice birthday, haven't you?

SON. It's been swell, Mother.

FATHER. Well, I've got a little surprise for you, son. A present that will mean a lot to both you and Betty.

BETTY. Me, too, Mr. Sullivan?

SON. What is it, Dad?

FATHER. Can't you guess, Alex? Think hard. It's your twenty-first birthday—and what else was supposed to happen today?

BETTY. Oh, tell us, Mr. Sullivan.

SON. Wait a minute. I've got it! It's my insurance policy!

FATHER. It is. I thought in time you'd remember it.

BETTY. Insurance policy? What do you mean, Alex?

MOTHER. Come here, both of you, and look at what I've got. That'll help answer your question.

SON. A check—for me. Look, Betty.

BETTY. Why, Alex Sullivan, how wonderful!

FATHER. You see, Betty, when Alex was a baby, Mrs. Sullivan and I took out an endowment policy for him. That policy matured and the Metropolitan sent the check today.

SON. Gee, Dad, this is the best birthday present I ever had.

FATHER. It is. I thought in time you'd remember it.

MOTHER. Yes—and you know, now that I look back on it, the time has just seemed to fly since Alex was a baby.

BETTY. I guess all mothers feel that way, Mrs. Sullivan.

MOTHER. I guess they do.

SON. You know, Dad—it's funny my not remembering that policy was due to mature. Because I've known about that policy for years. Why, I remember

back one day when I must have been about nine or ten years old. I came running into the house for you. Remember what happened?

* * * * *

BOY. Dad! Dad!

FATHER. Yes, son.

BOY. Where are you?

FATHER. In here.

BOY. Oh. Dad, would you do me a favor?

FATHER. What is it, son?

BOY. Well—there's a peachy new knife I saw in the store today, and I was wondering—well—could you give me the money to buy it?

FATHER. A new knife, eh? What happened to the old one?

BOY. Well, I guess I lost it.

FATHER. That's too bad, son. You must learn to be more careful. But now I seem to remember giving you your allowance just a few days ago—Or am I wrong?

SON. No, Dad, you did give it to me, but—somehow I guess I must have spent it.

FATHER. I see—and Alex—I don't want to seem ungenerous, but I've got a very good reason for not giving you more money now—and I think you'll agree with me. You know Mr. Oliver, don't you?

SON. The Metropolitan agent? Sure I know him. He's been calling at the house as far back as I can remember.

FATHER. Do you know why he's been calling?

SON. To collect your insurance money.

FATHER. Yes, Alex, and also *your* insurance money, too.

SON. *Mine*? Have I got insurance, Dad?

FATHER. You have, Alex, and I'll tell you why. It's for two things—for protection and to make sure that when you get to be twenty-one, you'll have a certain amount of money.

SON. Gee, that's great, Dad—but it's an awful long ways off.

FATHER. Not so long as you think. But now I want to ask you something. Every week I set aside a certain amount of money to give to Mr. Oliver. If I give you extra money now in addition to your allowance, I might not have enough for Mr. Oliver. So the question is—would you rather have a little extra money now or a good many dollars when you get to be twenty-one?

SON. Well, Gee—I guess the dollars *would* be better.

FATHER. I thought you'd see it that way, son, and I'm glad. When you get to be a little older and understand more about insurance, then you'll be glad, too.

* * * * *

ALEX. Do you remember that, Dad?

FATHER. I certainly do, Alex. And as I recall it, you eventually did get that knife any way.

MOTHER. Yes, Al—you were as anxious to get it as he was.

BETTY. That's the way my Dad is, too.

FATHER. Yes—Do you remember that other time, Alex, when Mr. Oliver first started talking to you seriously about insurance?

ALEX. You mean that time when I was in high school?

FATHER. Yes, Mr. Oliver told me about it afterwards. As I recall it, he was just leaving the house one day when you were coming home from school.

* * * * *

SON. Oh, hello, Mr. Oliver.

AGENT. Hello, Alex. How are you?

SON. Fine, thanks. Guess I know it's Thursday, all right.

AGENT. Thursday, Alex? Why?

SON. 'Cause you're here. Gosh you've been coming around as long as I can remember.

AGENT. You're right, Alex. Guess I'm one of the family's oldest friends.

SON. Say! You are, at that. Guess you're the most important friend I've got.

AGENT. How do you mean?

SON. Well, you're looking after my insurance policy, aren't you. It's still safe and sound, isn't it?

AGENT. Still safe and sound, Alex. Never worry about that.

SON. Oh, I won't. Pretty swell, isn't it, for me to be getting that money when I'm 21?

AGENT. Yes it is, Alex. But by the time you're 21, insurance is going to mean a lot more to you than just getting money from this one policy.

SON. I don't get you, Mr. Oliver.

AGENT. Well, Alex, you're going to find that life insurance will give you a feeling of real security when you're married and have a family of your own.

SON. Hey, wait a minute, Mr. Oliver. Me married and with a family?

AGENT. Of course, and when you are married, you'll want your wife to be protected in case anything happens to you, won't you?

SON. Sure I'll want my wife to be protected.

AGENT. Well, life insurance will help you to protect her. When you're a bit older, you'll probably want a whole program of insurance mapped out for you, for that very purpose.

SON. A whole program?

AGENT. Yes—a plan that will take care of your family's needs.

ALEX. Oh, I see. Sure, I'll want an insurance program.

AGENT. And another thing, Alex. You can arrange that same plan to help you do some of the things *you'll* want to do, when you get still older.

ALEX. Boy, that sounds good to me, Mr. Oliver.

AGENT. Then I'll tell you what, Alex. Maybe about five years or so from now, you and I will talk it all over very seriously. How would that be?

ALEX. Fine, Mr. Oliver—and then we'll think about a—a program for me?

AGENT. We will, Alex, if you want to. So don't forget.

ALEX. I won't, Mr. Oliver—I won't forget.

* * * * *

FATHER. That was about five years ago, Alex. And now that your endowment policy *has* matured, it's about time for you to talk with Mr. Oliver.

ALEX. Yes, Dad. But first—what am I going to do with the money from that policy?

MOTHER. Well, Alex, when your father and I got the policy for you, we kind of thought you'd have a very good use for the money at about this time.

DAD. We didn't *know* you'd be getting married, but we thought—

SON. Of course—why didn't I think of that myself?

BETTY. We can use part of the money to help furnish our house, Alex.

SON. That's right.

DAD. I'd say a good idea would be to use part of that money to pay the first premium on a new policy.

SON. I was just going to say the same thing, Dad. I'm going to keep that date I made with Mr. Oliver five years ago. Now that I'm getting married, it's high time I did something more about insurance.

MOTHER. What kind of policy do you think you'll get, Alex?

SON. What do *you* think, dad?

DAD. Well, Mr. Oliver can tell you a lot more about it than I can. But I will say this much. You want life insurance for two things, Alex. First, you want it for protection. You want to make sure that if anything happens to you, Betty will be well provided for. Right?

SON. Right.

DAD. So the thing to do is to get as much life insurance as you can fit into your budget now and keep adding to it as your income increases. Plan it out in a program with your Metropolitan agent, just as I did, and then have your Agent help you keep that program suited to your needs as the years go by. Insurance is very flexible, son. You can get many types of insurance. Most of them give you a choice as to how the amount due under your policies shall be paid.

SON. I see, and your choice depends upon your needs?

DAD. Yes. Now you remember I said there are two general purposes for taking out life insurance. The first is for protection for your family. The second purpose many people have is to make sure they can retire when they get to be older.

BETTY. Oh, I've heard my dad talk about that, too.

DAD. And if I know your father, Betty, he's done more than just talk about it. He's *done* something about it.

MOTHER. And if I know *you*, Al Sullivan, you'll probably never retire. You may take it a bit easier, but I don't think you'd be happy out of harness.

DAD. Maybe not. But Alex you see what I mean, don't you—that life insurance can help you personally, as well as your family?

SON. Yes, dad. Go on.

DAD. You can get many different *types* of insurance for different needs. For example, you can get a policy to cover every life insurance need—protection for

the family, redemption of a mortgage; education of a child, income retirement and for many other purposes, as Mr. Oliver can tell you.

SON. Well, Dad—what did *you* do?

DAD. Me?—I've arranged with Mr. Oliver for either of two things. If anything happens to me before I'm 65, your mother will receive a lump sum sufficient to pay any outstanding bills. Then she'll get a monthly income for life—enough to live on comfortably. And a part of my insurance money will be left so that it will be available for her any time she wants it.

SON. You've thought of everything, dad, haven't you?

DAD. I've tried to, son, and that's what you'll have to do for Betty.

BETTY. Mr. Sullivan—what happens when you get to be 65?

DAD. Then, Betty, when I'm 65, with the money from my insurance, I'll be able to take it easier. Retire, if I want to, and mother and I will be able to do some of the things we've always wanted to do.

SON. Boy! Wouldn't I like to be set up like that someday!

DAD. I hope you will be some day, son. But remember, you'll have to plan. You'll have to lay out your insurance program very carefully.

SON. You're right, Dad, and I'm going to see Mr. Oliver about it. What do you think, Betty? You'd like me to have the sort of plan that Dad has, wouldn't you?

BETTY. Of course I would.

DAD. It'll take you time, son. The sort of plan I've outlined doesn't materialize over night. You're still young and you're making a small salary. So you can't expect to get as elaborate an insurance program at first as you'd like eventually to have.

SON. No, Dad, I suppose not, but just think what a goal it is to shoot for!

* * * * *

Mr. HILL. Ladies and gentlemen, maybe *your* ideas are very different from the Sullivan family's. Maybe you have a different goal. But whatever your dreams of the future may be, I know that life insurance can play a very important part in them.

For life insurance *does* make dreams come true. Just how insurance can accomplish *your* personal objectives is something that probably most of you already know. For undoubtedly your own Agent has worked out an insurance plan suited to your particular needs. And as the years pass and circumstances change, he will help you *keep* your insurance suited to your needs. He will give you advice based, not only on his training in life insurance, but on the Company's long experience with all sorts of life insurance problems.

On my next program, ladies and gentlemen, I will have some very interesting stories for you, based on facts from the Metropolitan files. So, join me then, won't you? Meanwhile, if there is any phase of life insurance that you would like to hear about on these programs, I'd be glad to hear from you. And now it's time to say goodbye and thank you all.

NEW YORK
HOLLYWOOD

CHICAGO
MONTREAL

DETROIT
TORONTO

YOUNG & RUBICAM, INC.

Advertising

MAY 18, 1939.

Metropolitan Life Ins. Co.

Radio Program presented by EDWIN C. HILL for the Metropolitan Life Insurance Company, 1 Madison Avenue, New York, N. Y., over:

STATION WOR—Wednesday, May 17, 1939—9:15 to 9:30 P. M.

STATION WNEW—Thursday, May 18, 1939—7:00 to 7:15 P. M.

Mr. HILL. How do you do, ladies and gentlemen. This is Edwin C. Hill, bringing you another program presented by the Metropolitan Life Insurance Company.

This is *your* program, ladies and gentlemen. It is about people like you and me, and it is presented to help you . . . to warn and protect you against certain men who are in the business of selling what they call service and advice to life insurance policyholders.

These men have solicited patronage from policyholders of all insurance companies. And they invariably have charged these policyholders a fee . . . a fee

that has run as high as two hundred dollars or more. Yet, policyholders who entrust their insurance problems to these men often found that their so-called "help" was not to their best interests. For example, I am minded of the true story of one policyholder—a very real person. In our re-enactment of this case we'll call her Mrs. Cook.

Mrs. Cook went to one of these men not in the life insurance business, and got his advice. She paid him a fee, signed a blank form, and left his office. Afterwards, she began to worry. And not till then did she call in her Metropolitan agent, Mr. Byrne . . .

Mrs. COOK. Mr. Byrne, I'm so glad you could come. I need your advice badly.

Mr. BYRNE. I'll be glad to help you, Mrs. Cook. It just came to my attention today that a change has been requested in your husband's policy and . . .

Mrs. COOK. That's just what I want to discuss with you, Mr. Byrne. You see, I heard of a man who I thought could help with our insurance.

Mr. BYRNE. So, you went to this man for his advice?

Mrs. COOK. Yes, I did. And he said he could clear the loan my husband had on his policy. I thought that was wonderful.

Mr. BYRNE. Did you realize that your husband's policy would be changed so that you would have to pay premiums for a period much longer than you would under the original policy?

Mrs. COOK. No . . . You see, that part of the form I signed was left blank. This man must have filled it in, after I had signed it.

Mr. BYRNE. After you left?

Mrs. COOK. Yes . . . But that's not the worst of it. I paid this man a \$56 fee. I had to borrow most of it.

Mr. BYRNE. \$56! That's terrific!

Mrs. COOK. It certainly is. That's why I tried to get it back.

Mr. BYRNE. What happened then?

Mrs. COOK. Well, at first this man tried to convince me it was all right. He tried to smooth everything out. But he just made me madder and madder. Finally, I stood up and demanded that he return my fee. [She relates the conversation that took place:]

MAN. Now . . . Mrs. Cook . . .

Mrs. COOK. Now see here, sir. I'm not going to argue with you another second. I demand that you return my \$56.

MAN: Isn't that a bit irregular, Mrs. Cook? We gave you advice, and you paid for it.

Mrs. COOK. Your advice wasn't right for me. Now I know I could have gotten sound advice without paying a cent for it. I want my money back.

MAN. Why, Mrs. Cook, I don't understand . . . I . . .

Mrs. COOK. Don't "Why, Mrs. Cook" me! I want *action*, not words.

MAN. I'm only following instructions, lady.

Mrs. COOK. Then, I'm going to see the man who gives the instructions.

MAN. Just a moment, Mrs. Cook. I think I can save you a little trouble. I'll write you a note.

Mrs. COOK. That won't do any good.

MAN. Please. This can be handled very quietly. I only want to assist you.

Mrs. COOK. I don't believe a word you say.

MAN. Here you are. Now this note I've written should clarify everything. Sign it and we'll see about your \$56.

Mrs. COOK. Let me see that note.

MAN. There's no reason for you to worry, Mrs. Cook. No reason in the world.

Mrs. COOK. Just a moment . . . I can't sign this. It isn't true . . . not a word of it.

* * * * *

Mrs. COOK. And, not a word of it *was* true, Mr. Byrne. I wouldn't think of signing such a note.

Mr. BYRNE. Do you have the note, Mrs. Cook?

Mrs. COOK. No. But I remember it well. It said, in effect, that: "Because of certain conditions over which I had no control, due to health, the Metropolitan could not make the changes requested. In view of this, I would appreciate a refund . . ."

Mr. BYRNE. And this is what the man wanted you to sign to get your money back?

Mrs. COOK. Yes. Perhaps he thought this note would leave him in the clear with other people and justify the return of my fee, and not theirs. But they'll

never get me to sign such a thing. I'll get my money back honestly. But . . . Mr. Byrne . . . why do people have to go through an experience like this?

* * * * *

Mr. HILL. Yes, why have people had to go through an experience like this? Why have they let themselves in for such treatment? Mrs. Cook knows now what a mistake she made. She paid out fifty-six dollars for poor advice, and "service" harmful to her interests. She is taking steps to get her money back. But even if she gets it back, she has been caused unnecessary trouble and anxiety.

Yet, if she had gone to her Metropolitan Agent in the first place, he would gladly have suggested a sensible solution to her problem. He would have explained to her what any changes in her policy would involve. And he would have given her every possible service and advice without charging her any fee at all.

You see, the service and advice of Metropolitan Agents have *always* been available to *all* Metropolitan policyholders . . . promptly, willingly, and without cost. They are given by men trained in life insurance, and in his training, the agent is guided by men who have spent their lives in the insurance business . . . men who are each expert in some particular branch of life insurance. The service of his great company is back of the agent all the time.

And so, ladies and gentlemen, when *you* have an insurance problem, by all means entrust it to the man best fitted to help you.

Now, I'd like you all to know more about another important service that Metropolitan renders . . . the Nursing Service of Metropolitan's Welfare Division. To illustrate one of the many ways in which this service helps policyholders, I have invited one policyholder to tell you of her experience with the Welfare Division. She's here in the studio now, and her name is Mrs. Bessie Phillips. First, Mrs. Phillips, will you tell us a little about yourself?

Mrs. PHILLIPS. There really isn't a great deal to tell. I have three small children . . . the youngest five years old and the oldest eight . . . and we live very modestly.

Mr. HILL. I see, Mrs. Phillips. And now will you tell your story?

Mrs. PHILLIPS. Well, there are really two sides to my story. You see, the dramatization you have just done reminds me of a similar experience that I had recently.

Mr. HILL. I'm very interested to hear that. Just what was it?

Mrs. PHILLIPS. . . . I have insurance with Metropolitan. Recently, I talked to my mother about it and she told me to see a man she had heard about. This man . . . like the man in your dramatization . . . was supposed to give advice on insurance.

Mr. HILL. And did you go to him, Mrs. Phillips?

Mrs. PHILLIPS. Yes, he suggested some changes. But he wanted me to pay a fee before he put the changes through. I didn't have enough money at the time so he said he would keep the policies until I paid him.

Mr. HILL. What happened then?

Mrs. PHILLIPS. I just couldn't seem to save the money for that fee. Then I got to thinking about the man and what he had told me. I began to wonder if I had done the right thing. I didn't like the idea of his keeping my policies. Finally I went to the district office of the Metropolitan and told my story. The assistant manager was very kind to me. I found that he could make any possible changes. And he would do it for nothing.

Mr. HILL. What did you do then?

Mrs. PHILLIPS. I went back to the other man to get my policies. But he wouldn't give them back. I was terribly upset. I was afraid I would lose my policies if I didn't pay that fee. I went to the Metropolitan office again. To my great relief they told me not to worry. I would still be insured and the company would issue duplicate policies for me. Then they made all the necessary adjustments in my insurance.

Mr. HILL. I am glad that your experience had a happy ending, Mrs. Phillips.

Mrs. PHILLIPS. Yes, and I consider myself lucky. And now shall I tell the other side of my story—about the Metropolitan nursing service?

Mr. HILL. By all means. But before you begin . . . your story appealed to me so much that I have had it dramatized, Mrs. Phillips. In that way we can bring it more effectively to our listeners. So if you will start from the beginning and set the scene, so to speak, we will pick it up from there.

Mrs. PHILLIPS. That's fine. It all begins several months ago. At that time my youngest daughter, Barbara, was quite sick. One day our Metropolitan agent, Mr. Feld, made his regular call. Just as he was about to go we suddenly heard Barbara crying in the bedroom. I called to her and said . . . "Yes, dear, I'll be with you in just a minute."

Mr. FELD. Why . . . who is that, Mrs. Phillips?

Mrs. PHILLIPS. It's Barbara. She's been sick, Mr. Feld.

Mr. FELD. I'm sorry to hear that. Is it anything serious?

Mrs. PHILLIPS. Well—yes. The doctor says she has rheumatic fever.

Mr. FELD. But what are you doing for her?

Mrs. PHILLIPS. Everything I can. But . . . I'm so busy . . . the housework . . . the two other children . . . sometimes it seems almost too much for me.

Mr. FELD. Did the doctor think you could take care of her alone?

Mrs. PHILLIPS. Well . . . he said I ought to have a nurse. But that's out of the question. I just can't afford a nurse.

Mr. FELD. But, Mrs. Phillips, the Metropolitan has a Visiting Nurse Service—for cases just like yours.

Mrs. PHILLIPS. Won't it be expensive?

Mr. FELD. Our nurse charges no fees. I'll get in touch with the office right away. I'll see that a nurse visits Barbara today.

(Mr. Feld left, to arrange about having a nurse call.)

* * * * *

BARBARA. Mama . . . am I going to get well . . . ever?

Mrs. PHILLIPS. Of course you are, dear.

BARBARA. But my legs hurt so, mama. Please make it stop . . . Oh . . . it hurts.

Mrs. PHILLIPS. Oh, darling. I do wish I could do something for you. There's somebody at the door. Be a good girl till I get back.

(Mrs. Phillips answered the doorbell. There stood a Metropolitan Visiting Nurse.)

NURSE. How do you do? Are you Mrs. Phillips?

Mrs. PHILLIPS. Yes. Are you the nurse that . . .

NURSE. That's right. I'm Miss O'Connor. May I look at your little girl?

Mrs. PHILLIPS. Oh yes. Right this way. And here are the instructions the doctor wrote down. I told him you were coming, and he asked me to give them to you. You can't know how grateful I am for this help. This is Miss O'Connor, Barbara.

NURSE. Hello, Barbara.

BARBARA. Will you make it stop hurting me? Please?

NURSE. I'll do everything I can, Barbara. I'm sure you'll feel better after I give you the care the doctor ordered for you.

(The nurse went about her work . . . quietly . . . efficiently.)

Now, Mrs. Phillips, before I go there are just a few things. Barbara must remain as quiet as possible.

Mrs. PHILLIPS. I'll try to see that she does.

NURSE. We must give her things to do that will keep her mind off her pain. Maybe she could do some simple sewing. And there are picture books she could color.

Mrs. PHILLIPS. I'll try to get some . . .

NURSE. I'll tell you what. I'll bring her some books the first time I come back.

Mrs. PHILLIPS. Oh . . . you will be back then?

NURSE. Of course, Mrs. Phillips. As often as necessary. Now don't forget—keep her quiet and keep her mind occupied.

* * * * *

Mr. HILL. Miss O'Connor did come back often. She helped Barbara in every possible way. Under doctor's orders, she gave the child proper care. She helped Mrs. Phillips find books and playthings to amuse the sick girl. But one day when she visited the Phillips home she found Mrs. Phillips sobbing . . .

NURSE. Why . . . Mrs. Phillips . . . what is the trouble?

Mrs. PHILLIPS. Oh . . . I've just had some bad news.

NURSE. Bad news? Tell me . . . is it about Barbara?

Mrs. PHILLIPS. Yes, the doctor was just here. He said that Barbara would have to have her tonsils out or she wouldn't get well.

NURSE. Well . . . that isn't so serious. A tonsillectomy is a simple operation.

Mrs. PHILLIPS. But . . . Miss O'Connor . . . I simply haven't the money for an operation for her . . . what am I going to do?

NURSE. Now please don't worry, Mrs. Phillips. I met your doctor as I was coming in, and he asked me to help you make arrangements for Barbara's operation.

Mrs. PHILLIPS. You mean . . . for nothing? Would the Metropolitan do that?

NURSE. No, this has nothing to do with the Metropolitan. But for people in your circumstances the city has certain facilities . . .

Mrs. PHILLIPS. And you could get them to do it for Barbara?

NURSE. I'll certainly do my best.

Mrs. PHILLIPS. Oh, thank you so much. Now maybe Barbara can really get well. You must come with me and tell her right away. She'll be so happy.

* * * * *

Mr. HILL. Your story is certainly a splendid example of the service that the Metropolitan visiting nurse service renders, Mrs. Phillips.

Mrs. PHILLIPS. Thank you, Mr. Hill. I was glad to be able to tell it. I simply don't know what I would have done without Miss O'Connor. I will always be grateful for the help she gave Barbara and me when we needed it most.

Mr. HILL. And thank you, very, very much, Mrs. Phillips. Ladies and gentlemen, the type of service that Mrs. Phillips has told us about is available to you, too, if you live in a nursing area and if you have a Metropolitan Industrial or Intermediate policy, or a Metropolitan Group Certificate.

And this Nursing Service is only one of many means by which the company helps and serves its policyholders. For Metropolitan's purpose is not only to help conserve life and protect your health, but also to safeguard your money. The services of Metropolitan and its trained, licensed Agents are available to you, as a policyholder, without additional charge. By all means, avail yourself of your company's many services. They are given to make life better and more secure for you.

I'll be back with you again with more true-life stories from the Metropolitan Life Insurance Company files. So join me for our next program, won't you? And in the meantime, goodbye and thank you.

EXHIBIT No. 994

[From files of Metropolitan Life Insurance Company]

LEDGER.....		Form 38 N. A.
FOLIO.....		June 1938
Name of Agent.....	Full Address.....	PRINTED IN U. S. A.
District.....	Manager.....	

METROPOLITAN LIFE INSURANCE COMPANY
(Incorporated by the State of New York)

APPOINTMENT OF AGENT

TO.....

You are hereby appointed an Agent of Metropolitan Life Insurance Company (hereinafter referred to as the Company). Until further notice, you will be attached to the District Office at, and will receive all routine communications from the Company and transact all business with the Company through the Manager or Acting Manager in charge of said District.

During the continuance of such appointment you are authorized to represent the Company in the solicitation of applications for Life insurance, Annuities, and Accident and Health insurance, of the kinds and classes of risks and upon the plans designated by the Company, and to represent the Company with respect to the insurance which shall, for the time being, be allotted by the Company to your accounts, all in accordance with your Agreement with this Company.

You are not authorized to make, alter or discharge the Company's contracts; to waive forfeitures; to quote premium rates other than those published by the Company; or to bind the Company in any way not specifically authorized in writing by an Officer of the Company.

METROPOLITAN LIFE INSURANCE COMPANY,
By,
Superintendent of Agencies

DATED AT NEW YORK, N. Y.

19.....

AGENT'S AGREEMENT WITH METROPOLITAN LIFE INSURANCE COMPANY

(Incorporated by the State of New York)

In consideration of my appointment as Agent of Metropolitan Life Insurance Company (hereinafter referred to as the Company) I hereby agree as follows:

Article 1. To canvass for and procure applications for contracts of Life insurance, Annuities, and Accident and Health insurance, of the kinds and classes of risks and upon the plans designated by the Company; to deliver all policies and contracts issued by the Company on such applications and to collect the premiums payable upon delivery and such other premiums and other moneys as I may be authorized to receive; to account for and pay over to the Company daily all moneys paid to me as such Agent; to use the appropriate Company forms as contemplated by such forms; to conserve the Company's business; to assist the holders of policies of the Company in realizing the benefits provided by their policies; to bear all expenses (except those expressly assumed by the Company by a separate written agreement) incurred by me in connection with my performance of this Agreement; and to accept in full satisfaction for all services the commissions and advances hereinafter provided and limited.

ANNUITY, PERSONAL ACCIDENT & HEALTH, GROUP, AND ORDINARY ACCOUNTS

Article 2. To accept the commissions and fees set forth and provided in the applicable Schedule of Commissions and Fees and in the applicable Commission Announcements as made from time to time (subject to the rules specified in such Schedule and Announcements), in full payment for all Annuities, Personal Accident and Health insurance, Group insurance, and Ordinary insurance which shall include Intermediate and Special Class policies (excluding all Ordinary policies allotted to my Monthly Premium Debit) written on applications procured and submitted by me, and for the collection of premiums and stipulated payments on such Annuities, Personal Accident and Health insurance, Group insurance, and Ordinary insurance as shall, for the time being, be allotted by the Company to my Annuity, Personal Accident and Health, Group, and Ordinary Accounts.

WEEKLY AND MONTHLY PREMIUM DEBIT ACCOUNTS

Article 3. (a) My first fiscal quarter under this Agreement shall be the period of thirteen (13) weeks commencing with the week beginning-----

(b) From ----- to and including the week following the end of my first fiscal quarter I shall receive weekly, for each week I shall actively conduct my Agency under this Agreement, an advance in an amount to be fixed by the Company in lieu of the commissions provided in Articles 5, 6, and 7 hereof. All subsequent fiscal quarters referred to herein shall be determined according to the date when my first fiscal quarter begins, as specified in paragraph (a) of this article.

Article 4. Beginning with the second week of my second fiscal quarter under this Agreement, for all Weekly Premium Debit business (Industrial) and Monthly Premium Debit business (Industrial and Ordinary) written on applications procured and submitted by me and for the collection of premiums on my Weekly Premium Debit business and Monthly Premium Debit business, I agree to accept each week a commission payment which shall be the sum of (a) the First-Year Commission (computed as provided in Article 5 hereof), (b) the Collection Commission (computed as provided in Article 6 hereof) and (c) the Conservation Commission (computed as provided in Article 7 hereof), if such Conservation Commission is permitted by the law of the jurisdiction in which this Agreement is to be performed. This sum shall be paid each week that I actively conduct my Agency under this Agreement, and shall be in full payment for all such business written, collected on, and conserved by me up to the end of the week for which such commission became payable.

FIRST-YEAR COMMISSION

Article 5. (a) Beginning with the second week of each fiscal quarter and extending for successive periods of thirteen (13) weeks each, my First-Year Commission payable each week that I shall actively conduct my Agency under this Agreement in any such period shall be the appropriate percentages shown in the next following table of my COMBINED INCREASE IN FIRST-YEAR PREMIUMS (as defined and computed in accordance with paragraphs (b) and (c) of this article)

made during the completed four fiscal quarters immediately preceding or during so many completed fiscal quarters as shall have elapsed since the beginning of my first fiscal quarter under this Agreement if less than four fiscal quarters have elapsed thereunder.

Table of percentages for computing first-year commission

	For endowments (premiums payable for 30 years or less)	For all other plans
Percentages applicable to my Combined Increase in First-Year Premiums where only one fiscal quarter has elapsed.....	68%	90%
Percentages applicable to my Combined Increase in First-Year Premiums where only two fiscal quarters have elapsed.....	40%	53%
Percentages applicable to my Combined Increase in First-Year Premiums where three or more fiscal quarters have elapsed (hereinafter called the basic rates).....	28%	37%

(b) My COMBINED INCREASE IN FIRST-YEAR PREMIUMS made during any period shall be the total of the premiums (all monthly premiums to be divided by four and one third ($4\frac{1}{3}$) for the purpose of reducing them to a weekly premium basis) duly entered during such period in the FIRST COLUMN on:

(1) My official Monthly Premium Life Register Lists and on my official Weekly Premium Life Register Lists for policies issued or revived, and on

(2) My Credit Forms M631 and 631;
Less the total of the premiums (all monthly premiums to be divided by four and one third ($4\frac{1}{3}$) for the purpose of reducing them to a weekly premium basis) duly entered during the same period in the FIRST COLUMN on:

(3) My official Monthly Premium Lapse Register Lists and on my official Weekly Premium Lapse Register Lists for policies canceled, and on

(4) My Debit Forms M85 and 85.

Premiums to be entered in the FIRST COLUMN on my official Life and Lapse Register Lists and in the FIRST COLUMN on my Forms M631, 631, M85, and 85 shall be determined in accordance with the rules and practice of the Company.

(c) My COMBINED INCREASE IN FIRST-YEAR PREMIUMS shall be separately computed as herein provided for (1) policies written on the Endowment Plan on which premiums are payable for thirty (30) years or less, and for (2) all policies written on other plans. If my COMBINED INCREASE IN FIRST-YEAR PREMIUMS for any class of policies for which Combined Increase in First-Year Premiums is separately computed is a negative amount, such negative amount, multiplied by the appropriate percentage, shall be deducted from my First-Year Commissions payable under this article on the other class of policies.

COLLECTION COMMISSION

Article 6. Beginning with the second week of each fiscal quarter and extending for successive periods of thirteen (13) weeks each, my Collection Commission payable each week that I shall actively conduct my Agency under this Agreement, in any such period shall be one thirteenth ($1/13$) of the sum of

(a) twelve percent (12%) of the total amount of premiums remitted by me to the Company in cash and by dividend credit receipts duly executed during the preceding completed fiscal quarter which were collected and duly credited on my Weekly Premium Debit; except, that if during such preceding fiscal quarter the average weekly amount of my Weekly Premium Debit was less than one hundred fifty dollars (\$150.00), then my weekly Collection Commission under this paragraph shall be eighteen dollars (\$18.00); plus

(b) four and one half percent ($4\frac{1}{2}\%$) of the total amount of premiums remitted by me to the Company in cash and by credit of dividends during the preceding completed fiscal quarter which were collected and credited on my Monthly Premium Debit.

THE FOLLOWING PROVISION (ARTICLE 7) FOR THE PAYMENT OF A CONSERVATION COMMISSION IS NOT A PART OF THIS CONTRACT IN ANY JURISDICTION IN WHICH IT MAY BE IN CONFLICT WITH ANY LAW

CONSERVATION COMMISSION.

Article 7. (a) Beginning with the second week of each fiscal quarter and extending for successive periods of thirteen (13) weeks each, my Conservation Commission payable each week that I shall actively conduct my Agency under this Agreement in any such period shall be the amount shown in the next following table, depending upon the ratio obtained by dividing (i) My COMBINED NET RENEWAL LAPSE PER \$100 OF CUMULATIVE DEBIT (hereinafter called My RENEWAL LAPSE RATE) during the last preceding completed fiscal quarter, by (ii) the COMBINED NET RENEWAL LAPSE PER \$100 OF CUMULATIVE DEBIT OF THE COMPANY AS A WHOLE (hereinafter called THE COMPANY RENEWAL LAPSE RATE) during the same period. The definition of and method of computing My RENEWAL LAPSE RATE and THE COMPANY RENEWAL LAPSE RATE shall be in accordance with paragraph (b) of this Article.

RATIO DESCRIBED ABOVE	Amount of weekly conservation commission
Over 175% -----	\$0. 00
Over 150% and not over 175% -----	1. 00
Over 125% and not over 150% -----	1. 50
Over 100% and not over 125% -----	2. 25
Over 80% and not over 100% -----	3. 00
Over 60% and not over 80% -----	3. 75
Over 40% and not over 60% -----	4. 50
Over 20% and not over 40% -----	5. 25
20% or under -----	6. 00

METHOD OF DETERMINING COMBINED NET RENEWAL LAPSE PER \$100 OF CUMULATIVE DEBIT

Definition of Combined Net Renewal Lapse

(b) The COMBINED NET RENEWAL LAPSE OF THE COMPANY AS A WHOLE during any period shall be the total of the premiums (all monthly premiums to be divided by four and one third (4 1/3) for the purpose of reducing them to a weekly premium basis) duly entered during such period in the SECOND COLUMN on:

- (1) All official Monthly Premium Lapse Register Lists and on all official Weekly Premium Lapse Register Lists for policies Canceled, and on
- (2) All Debit Forms M85 and 85; Less the total of the premiums (all monthly premiums to be divided by four and one third (4 1/3) for the purpose of reducing them to a weekly premium basis) duly entered during the same period in the SECOND COLUMN on:
- (3) All official Monthly Premium Life Register Lists and on all official Weekly Premium Life Register Lists for policies Revived, and on
- (4) All Credit Forms M631 and 631.

My COMBINED NET RENEWAL LAPSE during any period shall be similarly determined from my official Monthly Premium Life and Lapse Register Lists, my official Weekly Premium Life and Lapse Register Lists, my Debit Forms M85 and 85, and my Credit Forms M631 and 631.

Premiums to be entered in the SECOND COLUMN on all such official Life and Lapse Register Lists and in the SECOND COLUMN on all such Forms M85, 85, M631, and 631 shall be determined in accordance with the rules and practice of the Company.

Definition of Debit and of Cumulative Debit

My WEEKLY PREMIUM DEBIT for any week shall be the amount of the weekly premiums on the insurance in force in my Account as shown on my official Industrial Weekly Premium Life and Lapse Register Lists for such week.

My MONTHLY PREMIUM DEBIT at the beginning of any calendar month shall be the amount of the monthly premiums on the insurance in force in my Account as shown on my official Monthly Premium Life and Lapse Register Lists for the beginning of such month.

My CUMULATIVE DEBIT for any fiscal quarter shall be the sum of my Weekly Premium Debits for each week during such period, plus the sum of my Monthly Premium Debits at the beginning of each calendar month which commences during such period.

The CUMULATIVE DEBIT OF THE COMPANY AS A WHOLE for any fiscal quarter shall be the sum of all Weekly Premium Debits for each week during such period, plus the sum of all Monthly Premium Debits at the beginning of each calendar month which commences during such period.

Method of Calculation

THE COMPANY RENEWAL LAPSE RATE during any fiscal quarter shall be calculated by dividing the COMBINED NET RENEWAL LAPSE OF THE COMPANY AS A WHOLE during the period by one one-hundredth (1/100) of the CUMULATIVE DEBIT OF THE COMPANY AS A WHOLE for the same period, taking the result to tenths of a cent.

MY RENEWAL LAPSE RATE for any fiscal quarter shall be similarly calculated by dividing MY COMBINED NET RENEWAL LAPSE during the period by one one-hundredth (1/100) of MY CUMULATIVE DEBIT for the same period, but subject to the adjustment, if any, provided by paragraph (i) and paragraph (ii) below:

- (i) If MY RENEWAL LAPSE RATE in any fiscal quarter is more than one hundred seventy-five percent (175%) of THE COMPANY RENEWAL LAPSE RATE during the same period, MY RENEWAL LAPSE RATE for such fiscal quarter shall be added to MY RENEWAL LAPSE RATE computed as above for the next fiscal quarter, and the sum thereof, divided by two (2), shall be considered as MY RENEWAL LAPSE RATE for such next fiscal quarter.
- (ii) If MY RENEWAL LAPSE RATE in any fiscal quarter is a negative amount, such negative amount shall be deducted from MY RENEWAL LAPSE RATE, computed as above, for the next fiscal quarter.

GENERAL PROVISIONS

Article 8. I agree to observe and to be bound by the rules and regulations of the Company as embodied in the Instruction Book for Agents as heretofore and hereafter amended by Circular Letter or otherwise.

Article 9. In consideration of the payment of the advance provided for in Article 3 of this Agreement, and of the payment pursuant to the provisions of Article 5 of First-Year Commissions during my second and third quarters at rates in excess of the basic rates of twenty-eight percent (28%) and thirty-seven percent (37%), I agree that, in the event of the termination of this Agreement by my death or by action of myself or of the Company, the obligation to pay commissions provided in Articles 5, 6, and 7 of this Agreement shall cease with the payment of the Weekly Commission or Advance for the last week during which I shall actively conduct my Agency under this Agreement.

Article 10. (a) I stipulate that I shall have the right in my discretion to terminate this Agreement by giving one week's written notice thereof to the Manager or Acting Manager of the District Office to which I am attached.

(b) I agree that the Company shall have the right to terminate my appointment as an Agent and this Agreement summarily for any violation or breach of this Agreement; also the Company shall have the right at any time to terminate my appointment as an Agent and this Agreement by giving two weeks' written notice thereof either to me in person or by mailing such notice to my last address as shown by the records of the Company.

Article 11. I agree that this Agreement is to take the place of any present contract I may have with the Company, and all other contracts as to commissions and compensation are hereby canceled and my commissions shall hereafter be determined solely according to the terms of this Agreement.

Dated at _____ the _____ day of _____ 19____

Signature

Witness -----

Manager

EXHIBIT No. 995

[From files of Metropolitan Life Insurance Company]

METROPOLITAN LIFE INSURANCE COMPANY,
New York City, April 29, 1938

Re Final Sales Congress Period.

To Managers in Metropolitan territory.

GENTLEMEN: Only the May-through-August period remains in which the Field-Man can qualify for attendance at the Territorial Sales Congress. The required standards are such that success should still be possible for most of the men in your District.

An important phase of District management, and one of great personal satisfaction to the Manager, is helping the Field-Men help themselves to higher accomplishment. The Field-Man's desire to achieve Sales Congress eligibility presents a favorable opportunity for managerial supervision aimed at better salesmanship and more efficient conduct of the business. Accordingly, in promoting Sales Congress qualification, you will be able at the same time to further your efforts to develop the capabilities of the men in your District.

The requirements for Sales Congress attendance and membership in the Star-Salesman Club during the May-through-August period are repeated on the attached sheets.

Very truly yours,

ERNEST W. WILKES,
Vice President.
CECIL J. NORTH,
Third Vice President.
A. W. TRETHERWEY,
Third Vice President.

CONDITIONS OF QUALIFICATIONS FOR 1938 TERRITORIAL SALES CONGRESSES AND
FOR STAR-SALESMAN CLUB MEMBERSHIP, MAY-THROUGH-AUGUST PERIOD,
1938

Qualification of Agents for 1938 Territorial Sales Congress.—Invitations to attend the 1938 Sales Congresses will be extended to Field-Men who have to their credit at least 1800 points for the 12-month period beginning with the week of September 6, 1937, and ending with the week of August 29, 1938. The total number of points scored must include at least 660 points, representing \$66,000 Paid-for Ordinary, and at least 45 points representing three A&H policies placed. Only those agents whose Industrial records show an increase for the full 12 months will be eligible to attend, regardless of the number of points scored in other Departments.

Invitations will be extended to Agents appointed after September 6, 1937, who have been in service at least *four* months at the end of August 1938, and who have to their credit at that time an average of at least 36 points for each full week of service. The total must include Ordinary points at the rate of 55 points, representing \$5,500 Paid-for Ordinary, for each month of service or fraction thereof; and A&H points at the rate of 15 points representing one placed A&H policy for each four-month period of service or fraction thereof. The Field-Man must have some Industrial increase for the period of service.

Qualification of Assistant Managers for 1938 Territorial Sales Congress.—Invitations will be extended to Assistant Managers of Districts in which 25 percent of the debits qualify for Sales Congress attendance. Assistant Managers may qualify also through the personal production of at least \$100,000 of Paid-for Ordinary.

Qualification for Star-Salesman Club.—Agents may qualify for the Star-Salesman Club during the May-through-August period of 1938 by scoring a minimum of 600 points, including at least 220 points representing \$22,000 of Paid-for Ordinary, some Industrial increase, and at least 15 points representing one placed A&H policy. Managers and Assistant Managers may qualify through the personal production of at least \$33,500 of Paid-for Ordinary or by the qualification of 35 percent of the debits in the District.

Quality of Business.—The Company reserves the right to withhold Sales Congress eligibility or Star-Salesman Club membership from any Field-Man, otherwise qualified, if the quality of the business submitted by him is questionable or if the condition of his account seems to warrant such a step.

Schedule of Points.—Points will be credited toward qualification for Sales Congress attendance and Star-Salesman Club membership on the following basis:

- 30 points for each \$1 of Industrial increase.
- 10 points for each \$1,000 of Paid-for Ordinary.
- 15 points for each A&H policy placed.

Progress Posters will be supplied *monthly* for display in each District and Detached Office to show the cumulative record of each Agent's progress toward qualification for the Sales Congress and the Star-Salesman Club. The spaces following each Field-Man's name have been divided so that the amount of placed Ordinary, as well as the total number of points in all Departments, can be shown. The total number of points will be entered in the upper half of the space, and the amount of placed Ordinary in the lower half.

Star-Salesman Club Stationery and Business Cards will be supplied to qualified members of the Club at the rate of 50 letterheads, 50 envelopes, and 150 business cards for each four-month period of membership. Application for the stationery and business cards should be submitted by the District Office on Form 3478 and forwarded with Form T. (h) 3571, the monthly report to the Superintendent of Agencies.

Gold Lapel Buttons will be available to Field-Men qualified for membership in the Star-Salesman Club.

Monthly Reports.—Monthly reports showing the standing of candidates for Sales Congress attendance and Star-Salesman Club membership will be submitted to the Superintendent of Agencies on Form T. (h) 3571.

Progress Record Card.—A current edition of the Progress Record Card, Form T. 3586, will be supplied upon which the Agent may keep a personal record of his sales Congress and Star-Salesman Club progress.

EXHIBIT No. 996

[From files of Metropolitan Life Insurance Company]

LEROY A. LINCOLN, *President.*

METROPOLITAN LIFE INSURANCE COMPANY,
New York City, November 17, 1937.

To the Field Force.

GENTLEMEN: For substantially a year and a half last past, one of my principal activities has consisted in a comprehensive visit throughout the entire Field Force of the Company. My purpose in this undertaking was to familiarize myself with the situation in the Field throughout the United States and Canada, while, at the same time, bringing to the Field some message from those who represent the Company at the Home Office. The trips have just recently been completed, and I now want to express my very genuine appreciation for the hospitable reception which was accorded to our party at all its meetings and for the cordial spirit and deep interest in the Company which were everywhere evident.

In the course of these visits to Field-Men in so many different locations, working under such varying conditions of business and differences of local population, I sought to get first-hand knowledge of their situation and, so far as possible, to reduce conditions of a general nature to some common denominators. And now, by way of a summary of these Field visits, I want to state my impressions and to express some of what I call the "Common Denominators"; that is, conditions pertaining throughout the Company's entire operations, as distinguished from those which are local in character.

Everywhere, our conferences with Managers, our discussions with Assistant Managers, our meetings with Agents, gave opportunity for the discussion of many things of common interest.

Foremost, of course, as a subject of discussion in every meeting, was, and always must be, the responsibility of each of us to each individual of our 29,000,000 policyholders. There can be no relaxation of this duty on the part of any of us, whether Officers, Home Office people, or Field-Men. Our platform is "Superlative attention in every relationship; no exploitation; with courtesy and consideration, constant and undeviating". From this standard we will countenance no departure on the part of any single individual in Metropolitan service.

Embraced under this responsibility is the manner of bringing new individuals into the Metropolitan family as policyholders. In our meetings, we discussed what the Company is doing (at its own expense and not with a charge to the

Field-Men for the service, as in some other institutions) in the way of training and education, to enable our Field-Men to attain a higher standard of performance in their work. The Division of Field Education and Sales Promotion, which is now carrying on its work as a part of the Division of Field Management, is seeking through methods of cooperation to bring its advantages to the door of every Field-Man who appreciates the opportunity and desires to use its service.

Good underwriting was emphasized as a basic requirement, as always; good selection in all Departments, and extreme care in the placing of Industrial, to the end that early lapsation of Industrial policies should be reduced to a minimum. Already, I am able to report that there have been most gratifying reductions in the rate of lapsation since the beginning of our series of Field trips.

Cost of insurance was given an important place in our discussions—cost as reflected in good underwriting, in prompt response to inquiries from the Home Office, in acquisition of new business. This subject occupies a major place in our business, not alone on the ground of proper treatment of policyholders, but also because it is a subject which deserves and is constantly receiving the close attention of members of legislative bodies and of supervising officials. The public looks to us to furnish insurance at the lowest possible cost, consistent with safe management and good service.

Accident and Health insurance was specially discussed, and I was able, I think, to better understand the reasons why Metropolitan had not attained in that branch a standing comparable with its activities in its other lines of business. In consequence, we have recently established a new Vice-Presidency, under the Division of Field Management, in order to give special attention to Field production in Accident and Health. I commend this work to your special attention.

In every meeting I pointed out what the Company is doing in matters of health and welfare as an integral part of our performance of our duty to policyholders and to the people of the United States and Canada. Nursing Service must be made available where needed, so far as possible; suitable Welfare literature must be furnished to policyholders; and practical cooperation must be given to public health activities. The Metropolitan occupies an unique position in the field of Public Health and must continue to deserve the praise which has been showered on it for this work.

On the side of the Field-Men, I hope I have brought to them a sense of our very genuine interest in all that has to do with their success and the happiness of themselves and their families.

In no meeting of our Agents, from the first to the last meeting, have I failed to point out that, through years when unemployment was the horror of so many fine American families, no person in the Metropolitan service needed to be out of work because there was no work to do, as was the case in so many other lines of business. In my discussions with Field-Men concerning their earnings, I found some interest manifested as to the effect of the Agent's Contract which was evolved by the Company at the end of 1933, during depression conditions. In this connection you will be interested to know that a comparison of earnings since 1934 of nearly a thousand Agents, taken at random throughout the United States and Canada, shows that the whole body of Agents is earning very substantially more under the present form of contract than would have been earned by the same Agents under the same conditions during the last three years, had the old contract continued in effect.

I have hoped that I have succeeded in knitting all Field-Men closer to the Home Office with a better comprehension of the common interest of every one in Metropolitan service, in whatever capacity. I have met and talked personally with a very large number of Field-Men and have familiarized myself with their points of view as to matters of common interest. My knowledge gained from these trips has, of course, been supplemented by letters which come to my desk from time to time from Field-Men in different parts of the country. Each of these communications has had my personal attention because of my sincere belief that every Agent is entitled to have his problems fairly considered and justly disposed of, regardless of his remoteness either in location or position. From these personal contacts and communications, I am able to construct a picture of those situations which, in one direction or another, seem of special importance to the average Agent.

In my own appraisal I place first the relations between Agents and their Managers and Assistant Managers. In all our discussions with the Managers and Assistant Managers, we continually emphasized the importance of good understanding between them and the Agents, wishing to draw more and more to their attention a feeling of common interest on the part of all the Company's representatives in the District Offices. I consider it of the greatest importance that

there be mutual respect and good relations with each other and a common purpose of service to policyholders and to the Company. I propose to see to it that this policy is carried out in every District Office.

Secondly, I found in various parts of the country a certain amount of misunderstanding over the work which the Division of Field Education and Sales Promotion was seeking to accomplish. My study of this subject has persuaded me that, as indicated in an earlier paragraph of this letter, Field-Men in greater and greater numbers are coming to understand and appreciate the value to them of what the Company is doing in this direction.

There is one detail of Field activity as to which my survey of conditions has persuaded me there should be a change in our rules. It has to do with the "age-old" custom of reporting to the District Office on Saturdays. This custom is quite as much out of date in Field activities as in other occupations. The subject has been having our study, keeping in mind, on the one hand, the situation as respects Agents and Clerks as well, and, on the other, the absolute necessity, nevertheless, of having the District Offices kept open on Saturday mornings as a convenience to policyholders for payment of premiums and for the rendering of service. As we pursue our studies we hope to be able to announce some feasible manner of relieving Agents and Clerks from attendance on Saturdays, while at the same time keeping Offices sufficiently staffed for necessary service.

In the course of my travels I frequently visit District Offices. I have not been altogether satisfied with the general atmosphere of some of our Offices as places of business. For more than a year we have had a committee studying this general subject, and I am assured that such committee expects to make a report with certain tangible recommendations in the near future.

I come finally to a phase of the Field-Man's interest which has been occasionally mentioned to me and about which there may not be complete understanding. I refer to persistency of new and old business in its relation to compensation. Our primary obligation is to our existing policyholders, and in compensation contracts we are obliged to see to it, in the interest of the policyholders themselves, that the contract contains provision which will insure the continuance in force of as much existing insurance as possible, irrespective of who wrote the business. The total amount that can be paid for acquiring new business and conserving the old can, of course, be only a limited part of the current first and renewal premiums, whether in Ordinary or Industrial, and in determining the total which can be paid, we must, of necessity, consider not only the compensating of the Agent according to his own accomplishments, but also the cost to the policyholder. That portion of the premium available for compensation would have to remain substantially the same as now, unless we were willing to contemplate legislative or Insurance Department criticism, which is jealous of the cost of insurance to the public.

In conclusion, here, as in the course of our meetings, I have reserved for mention the tribute we paid to those Agents and Assistant Managers who were brought to the last Managers' Convention, not on the basis of production record, but on the basis of long and faithful service to the Company. In each of the meetings, you will recall that I was privileged to call to his feet each delegate who came to the last Convention on that basis. I stated then, and I reiterate, that it is our expectation to bring to the next Convention and to succeeding Conventions, perhaps in increasing numbers, those men of long and faithful service who would not otherwise be invited to the Convention because of outstanding production. As I said in the meetings, these selections mark our especial interest in long service. I have no patience with the thought that a man may fall a little short of a superior record in production and must therefore be put aside. Men who are more advanced in age and in Company service and who have had a part in making the Company what it is today have developed offsetting qualities which should make them of particular value in an organization in which the addition of new business is not the sole goal of the management. As I stated in all the meetings, I had no prouder moment or greater thrill during the recent Managers' Convention than that embraced in observation of the presence at that Convention of these extraordinary Field-Men who came to be fondly known as our "Blue-Ribbon Delegates".

I have sought in the foregoing rather long communication to make a sort of report to the Field and to give you my reactions gained after a visit to our Field Force embracing some 25,000 miles of travel, covering most of the States of the United States and the Provinces of Canada. I have seen some 25,000 Field-Men and have personally greeted a great number of you. I feel a personal acquaintance with you all. If I can hope that, as a result of these arduous trips, I have brought the ideas and ideals of the Home Office and the personalities of some of the

Officers a little closer to you, and that I have brought out of the Field some closer understanding of your sentiments regarding the business, I can feel amply repaid.

I hope it may be my privilege to visit you again in the not-too-distant future. In the meantime I want you to feel that I welcome any communication which you at any time feel like addressing to me.

I send my heartiest wishes to each of you, first for good health and second for success, and my best wishes to your families as well.

Sincerely yours,

LEROY A. LINCOLN,
President.

EXHIBIT No. 997

[From files of Metropolitan Life Insurance Company]

ANALYSIS OF RESPONSE FROM THE FIELD TO LETTER OF NOVEMBER 17, 1937
(In writing:) Office of E. H. Wilkes, Vice Pres.

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 III. Digest of *suggestions* from the field.....
 IV. Digest of favors asked.....
 V. Excerpts from the above letters.....
 A. Excerpts Containing *Comments*.....
 B. Excerpts Containing *Suggestions*.....

PART I

Distribution of letters received from the field in Response to the President's Letter of November 17, 1937 and answered Prior to December 31, 1937

Territory	Man-agers	Asst. Mgrs.	Agents	Groups	Anon-ymous	Others	Total
(A) Metropolitan.....	3	0	77	5	5	2	92
(B) Southern.....	2	0	1	0	0	1	4
(C) Great Eastern.....	2	3	13	0	0	2	20
(D) Great Lakes.....	7	6	36	0	0	1	50
(E) Southwestern.....	1	0	2	0	0	0	3
(F) New England.....	6	3	35	0	0	1	45
(G) Central.....	7	0	11	2	0	2	22
(H) Atlantic Coast.....	4	2	9	1	0	1	17
Pacific Coast.....	2	1	1	0	0	1	5
Canada.....	8	0	4	0	0	1	13
Total Field.....	42	15	189	18	5	12	271

¹ These 8 letters from groups of signers carry a total of 222 signatures. Five of these letters were expressions of loyalty; three were congratulatory. The signers included 1 Manager, 8 Assistant Managers, 194 Agents, and 19 Clerks.

² Represented under the heading "others" are 5 Agents' wives, 2 Ex-Agents, 1 Agent on permanent disability, 1 retired Agent, 1 Assistant Superintendent of Nursing, 1 Nurse, and 1 Agent of another company.

PART II

Digest of Comments from the field in Response to the President's Letter of November 17, 1937, Classified by Subject

	<i>Number of Letter</i>
Expressions of Appreciation:	
"I appreciate all the things the Company has done for me and wish to assure you of my continuing loyalty"-----	195
"I have always wanted to know why the Home Office was 'so far away'. This is the first time I have received any communication direct from the Home Office to my home. I welcome your letters"-----	3
Labor Organization:	
"I have this day severed my connection with the ----- Union"-----	42
"We resent the activity of labor organizers and protest affiliation with any outside labor organization"-----	9
"We have full confidence and faith in the officers of the Company to treat all employees with justice"-----	3
"The fear of being considered a scab by my associates influenced me to join the union"-----	2
"Bombarded with union literature, I should like to have your opinion as to what I ought to do"-----	2
"I joined the Employees' Fidelity Organization"-----	1
Managers:	
"My Manager threatens and abuses the Agents"-----	13
"The Manager's high-pressure methods force the Agents to do dishonest selling"-----	2
"My Manager has always treated me with courtesy and consideration"-----	6
Superintendent of Agencies:	
"My Manager says, 'Put yourself in my place. I have never seen such third-degree methods used on a Manger'"-----	2
Veterans and Retirement:	
"It is comforting to know that years of service and loyalty are recognized and appreciated by our Company"-----	12
"The Metropolitan retirement plan is inadequate, and the age set for retirement is far too late in life"-----	1
Saturday Holiday:	
"The announcement of the elimination of the Saturday meetings was received with profound enthusiasm"-----	11
Sales Training:	
"I appreciate the work of the Sales Educational Department"-----	9
"I use the Rainy-Day canvass in as many cases as I can and find it a great help"-----	1
The Contract:	
"The men do not like the 2nd column charge"-----	5
"The President's convictions on the 1934 Contract are reassuring"-----	1
"The new contract has increased our earnings"-----	1
Disability:	
"After disability, I was not allowed to return to a debit"-----	3
Sanitarium Treatment:	
"I am grateful for treatment I received at Mt. McGregor"-----	3
Services to Policyholders:	
"I am proud of the services rendered to our policyholders"-----	3
Clerical Work:	
"The clerical work we have to do is burdensome"-----	1

PART III

Digest of Suggestions from the Field in Response to the President's Letter of November 17, 1937, Classified by Subject

	<i>Number of letters</i>
Labor Organization:	
"The Company should set up its own employee representation program"-----	5
"Encourage the Managers and their staffs to join the Underwriters Association"-----	1
Clerical Work:	
"I suggest the adoption of the Boland Plan Control Clerk System of Accounting"-----	1
"I suggest that we mechanize the completion of Agents' and D. O. Forms 34 and M34"-----	1
Premium Receipt Book:	
"Make a place in the Premium Receipt Book for recording all other insurance in force in a home. Also have a receipt form attached to checks issued to policyholders"-----	1
"Make space on the Collection Book above the family name for the parents' first names and ages"-----	1
Annual Letter from the President:	
"A letter from the President to the Field once a year would be a great incentive to the men"-----	1
Sales Education:	
"I would like to see the new Agent have at least two weeks in school"-----	1
The Contract:	
"A less complicated contract would tend to eliminate a great deal of the radicalism among the Agents. Not more than one-third of them can figure out their salary scale"-----	1
Veterans:	
"Might a position be created for the Field-Man who has reached the age of sixty or over and finds his debit duties too strenuous?"-----	1
Office to Interview Policyholders:	
"There is a deplorable lack of private convenience for interviewing a policyholder in our offices. I also hope to see the day when the present desks may be replaced by something more dignified"-----	1

PART IV

Digest of favors asked

"May I have a personal interview?"-----	2
"Forced to resign and later reemployed, I desire rank as a veteran"-----	1
"I should like to be given work other than selling"-----	1
"I feel that my inspection privilege should be returned to me"-----	1
"Now on permanent disability, may I supplement my income by some sort of light work?"-----	1
"Having had poor health, I was sent to the sanitarium. When I returned I was refused a debit. I feel that I can handle one"-----	1
"May my son, a physician, become a Company Medical Inspector?"-----	1
"I am an Agent for another company. May I have a job with the Metropolitan?"-----	1

PART V

SECTION A

Excerpts containing comments received from the field in response to the President's letter of November 17, 1937

In the following pages are presented in more extended form, typical excerpts from which the preceding digests were derived.

[NOTE.—Initial letters (A), (B), (C), etc., refer to territories.]

Expressions of Appreciation (Typical excerpts from 198 letters).

"I appreciate all the things the Company has done for me and wish to assure you of my continuing loyalty."

(A) "I am reiterating the contents of your letter to show my appreciation for the humane attitude of the Company towards the Field Force, and I can assure you that there are many hundreds of other Field-Men that join me."

(A) "Please be advised that I am totally in accord with your views and ideas toward the agency staff of this great Company of ours. You may count on me to do all in my power to continue servicing our policyholders."

(A) "You can expect my full cooperation as I have given to our Company in the past."

(C) "Your letter of the 17th instant addressed to the Field Force is an inspiring document of American democracy. It exemplifies that spirit of analysis, understanding, and sound administration which is so necessary to bind our great Company into a single cooperative unit. Permit me to convey to you that the responsive echo in the staff of the----- District, with which I have been affiliated for over 24 years, was a unanimous expression of jubilant satisfaction, and my personal aspiration was greatly stimulated to continue the good work."

(H) "I thank you for your interest in the Field Force, knowing fully that all innovations, changes, regulations, and decisions emanating from the Home Office are for the improvement of Field conditions and the welfare of the men in the Field, and that such fairness will continue."

(H) "I assure you that I will do my best at all times to uphold the Metropolitan principles and standards, and I consider it a privilege to be a member of this organization."

"I have regretted that the Home Office has never in the past shown much interest in its loyal workers in the Field."

(A) "I have been in the employ of the Company for the last ten years, and this is the first time I have received any communication direct from an official of the Home Office to my home. I have always wanted to know why the Home Office was so far away, so to speak, from their faithful men. I welcome your letters."

(B) "I read with great interest and pleasure your personal letter to the Field Force. It is the first time since my entrance into this great Company of ours that I noticed any President taking such deep interest in the welfare of its Agents."

(C) "I always labored under the impression that the Home Office showed lack of interest in the Field-Men and cared less for their woes, hardships, and troubles. My opinion is shared by the men of the Field."

"In the past we could not write to you without the letter passing through the Manager's hands, and now with your new policy of writing direct to you, you may feel sure that an Agent feels safe in writing letters that are uncensored."

Labor Organization (Typical excerpts from 59 letters).

"I have this day severed my connection with the----- Union."

(A) "After reading your communications, I have severed my connection with the Union because I have realized I was originally in error. My loyalty has always been to my Company."

(A) "I wish to take this opportunity to express my loyalty to you and the Company. I have today forwarded my resignation to the----- Union, of which I am no longer a member."

"We resent the activity of labor organizers and protest affiliation with any outside labor organization."

(A) "To fulfill this ideal, we who have contracts with this Company resent any outside interference from any individual or organization in attempting to dictate the policies of this Company, which has so ably and fairly carried out its duties of management over a long period of years, to both policyholders and employees."

(A) "We, as signed below, of various experience with our Company, hereby protest in so far as our interests are concerned, such movement as may eventually

cause the affiliation with any organized labor, with representation outside of our Company, the Metropolitan Life Insurance Company. Our business depends upon the individual initiative and ability, for any monetary returns, which cannot be gauged by hours or adherence to the so-called time clock, as we definitely represent a profession not within the category of wage and hour."

(A) "We realize that it has taken some seventy years of diligent thought for you and your predecessors to place our great Company on the pedestal on which it stands today. We therefore object to any outside influence, or interference in the form of management as it represents us today. We are not interested in being connected with any labor organization, and will not countenance interference in our daily work by either of the two Union organizations that have notified you that they represent the Field Force in this Territory."

(A) "Today I find myself in an awkward situation, one that I never thought possible. I am white and over 21, but I am beginning to doubt that I am free. I say this because (as you no doubt are aware) of the activities now going on within the agency ranks, the methods used in applying pressure on men to sign up with this so-called Agents' union. Many have become members for fear of losing their jobs in the event the unions were successful, and other means of intimidation are being employed to obtain members. I find myself in the midst of all this and warned that it is unwise to speak against this organization. It seems there are no longer two sides to a question—particularly in this field."

"Men with whom I have worked and played and whose confidences I have shared are succumbing to this new school of mob psychology. It seems the vogue these days to look for and demand something for nothing. At times I begin to wonder that perhaps I am wrong, yet after talking with one of these men and discussing the whys and wherefores I cannot satisfy myself that they are right and after such a discussion I find myself more determined to stay out of this movement."

"I abhor paying tribute for the right to work."

"We have full confidence and faith in the officers of the Company to treat all employees with justice."

(A) "I am in full accord with you in regard to the policy of the Company. I am fully convinced that the welfare of the policyholder and associates of the Company will be better served by the official family of our great Company than can possibly be hoped for from outside sources. You have my assurance of my implicit faithfulness to the Company."

(A) "I have given faithful service to the Metropolitan Family for over eleven years, and am in full accord with the policy of our Company, and I am convinced that the welfare of both policyholders and associates of our great Company will better be served by you and your officers than can be hoped for from without."

(A) "We, the undersigned, employees of the Metropolitan Life Insurance Company, pledge our loyalty to the Company. We have full confidence and faith in the officers of the Company to treat all employees with justice."

(F) "Your letter of November 17th addressed to the Field Force received. It was as welcome as it was unusual. It was a real pleasure to have direct word from the President on matters embracing the broad problems of good management, personnel relations, underwriting, finances, and the betterment of service to the policyholders. Those of us who have spent the best years of our lives with the Company, and have had much to do with moulding the minds of new men to Metropolitan ideals and standards of service, appreciate deeply your efforts to share responsibilities with us. Our lives and the present and future well-being of our families are bound so closely to the welfare and progress of the Company, we desire to be kept informed, to be adequately prepared to resist demands from within based on falacious information, and combat all attacks from without."

(A) "I trust that the Company will not be swayed by the attitude of those who claim to be dissatisfied with the Company's management and seek outside organizations to discuss matters that you yourself have stated would be welcomed for discussion with you and any group of Field-Men."

"I write to you, because I feel that you should know that there are many loyal Field-Men in our Company's ranks who will, like myself, continue to give our time and effort to the American ideals of our great Company and to the profession we represent. We will continue to render the service our policyholders and our Company expect us to render, and we need no outside organization to represent us and interrupt the mutual understanding that exists between Management and the Field Force."

"The fear of being considered a scab by my associates influenced me to join the union."

(A) "It is always a comfort to know that our Company stands behind us one hundred percent.

"Therefore, this recent union business has been the source of considerable distress, as well as bafflement, to me. I cannot understand how the organizers built up the impetus required to swing so many men to the union's favor. Nor do I know the individual viewpoints of my colleagues; but I am sure there must be many who feel, as I do, that outright coercion was responsible in many cases. I believe myself to have been the last man to sign up; and, had I been familiar with certain phases of the law which have since been pointed out to me, I would now be the only non-union man of my district. I presume the fear of being considered a scab by the men with whom I associate daily, influenced me to join perhaps more than the pressure brought to bear by the organizers."

"Bombarded with union literature, I should like to have your opinion as to what I ought to do."

(A) "As you know, most of the men in the Field have joined some labor organization or other. The ----- Office Account, where I am now working, has signed up almost one hundred percent—I being the only Agent who has not joined. I write this purely as a statement of fact.

"In view of these statement, please do not think me presumptuous if I ask the privilege of a visit to the office of the President to have a personal talk with a fellow business associate."

(D) "I just finished reading your long, interesting, and very important letter dated 11/17/37, and feel privileged for receiving same. I can't help but call your attention to the growing activity that is going on in our District. Last week we were bombarded with union newspaper and other literature relative to union activities, with headlines showing that New York and other cities have already joined it. Personally, I think it's a lot of bosh, and I'd be glad to have your opinion, as to just what I might do. I'm entirely out of sympathy with this movement. Perhaps in writing to you I'm not doing the right thing, but surely you must know something of this matter, so if you see fit to reply to this unusual request, please be sure it will be in strict confidence."

"I joined the Employees Fidelity Organization."

(A) "Please be advised that I was never a member of any organization or Union having any direct or indirect connection with this Company. When I was approached by the Employees Fidelity Organization I immediately joined, feeling that by this group differences could be settled in a Metropolitan way without hindering the management in its various duties."

Managers (Typical excerpts from 21 letters).

"My Manager threatens and abuses the Agents."

(C) "Sales promotion under some Managers is very crude and doesn't get results, I mean by that, threats of loss of position if not up to the Manager's standard of expectations. If the Managers could only use the methods of our dearly loved Manager, Mr. F. J. Williams, Vice President, now lost to us. Not lost, because I think his teachings, personality, and methods will live in the hearts of all men who were fortunate enough to work under his supervision. Why did he get results? Because he felt men were men and used them accordingly."

(G) "Our Manager is the militant and dynamic type. Unfortunately, however, he has been using the browbeating method so long that he knows no other method of getting results. I have tried to reason with him on occasions without success.

"It is my understanding that Managers now are not to hold more than one general meeting a week. In this District accounts are turned in on Saturday mornings, eight to ten a. m. From ten to twelve, or so, we have our general meeting. About fifteen percent of the time is taken over by a review of the District record in the Territory. Then fifty percent in a review of each Agent's record. There is plenty of embarrassment for all concerned, including Assistant Managers. Quite often it goes entirely too far. These meetings, as conducted, are most depressing, even to the men who may not be denounced. The general atmosphere is bad—not always, but too often."

(A) "If the Field-man is to be raised to a higher level and really and truly preach the gospel of life insurance, then I have been wondering for quite some time why in the name of justice has he been so mistreated, abused, villified, and made to look oftentimes ridiculous and disgraced on the part of his dealings with the only superior he knows, namely, his Manager."

(H) "It is my opinion that of all the evils that beset an Agent (and believe me there are plenty in the Field) none is greater than the "aggressive manage-

ment" of some Managers. A remark made by the Manager in the morning often spoils an Agent's mental attitude and health for weeks. This occasion of the Agent reporting to the Manager every morning should be an opportunity for giving advice and encouragement; otherwise it had better be cut out."

(A) "Let me endeavor to portray the picture as it exists:

"It has been mere digs which time has gotten us used to that made us tell ourselves that the abuse for a daily blank report was not an insult. Assistant Managers' speeches, that wasted out time in the morning were never sales talks. They were so full of threats of our jobs, that by the time we were really ready to leave the office, we were in such a fog that we did not know whether we were coming or going. All this put us in a frame of mind that could do little justice to policyholders or further sales."

(E) "Is it possible that during the panic following the depression, when every Manager rallied to the call to conserve business, we formed a habit of driving and threatening, like mule skimmers, and it has become a regular procedure? Is it not quite true that men who were promoted to positions of Manager and Assistant Manager at that time still believe their mule skinning methods are proper and right?

"These methods are in the very atmosphere. They have become habitual in the business. Yet everyone dislikes them, including the Manager."

(D) "I have always maintained that to have a successful sales organization of any kind, harmony, contentment and respect for superiors must exist; otherwise there can be no loyalty, enthusiasm, or desire to improve oneself for promotion, nor can the proper service to policyholders be rendered. I am sure you will agree that these proper conditions cannot exist when Agents are treated unlike human beings, when they are compelled to report at the office at six or nine in the evening or possibly late Saturday unless a certain volume of business is written. The compelling of agents to take off accounts after nine in the evening and many other conditions that I know exist in some districts."

(G) "You see our Manager still believes in Saturday meetings. From eight in the morning till one or two p. m. they stay cooped up in an office, with no windows (they never know if it's raining or not) and listen to things that usually have them down in the dumps when they do get out. When my husband started as an Agent we were told that they'd have meetings just once a month."

(C) "Twenty-eight years have been happy years and the most congenial relations existed between me and my Managers. But very reluctantly, I shall state some of my experiences for the past year. I feel it my duty to do so, and I shall be very frank.

"Once when I was on decrease, I was greeted by my present Manager, before my fellow workers, with this remark, 'Mr. ———, you should come in this office backwards,' to which I made no reply.

"Three weeks ago, I asked to be excused one Saturday morning from a meeting and my Manager said 'You have a hell of a nerve to ask to be excused with the record you have.' My Manager also said 'Do you know I am having a hell of a time to keep you on?'"

(A) "You probably have already received many other letters concerning goings on in the ——— Office, by that I mean the way the Manager treats his men."

(A) "The high pressure in ——— brought about what the Managers called meetings 3 or 4 times daily, often as late as Saturday midnight and Sunday a. m. reports to the office, occasional telegrams (collect) to Agent's home, if his report was below expectation.

"It was common practice in the District to load new Agents with salary indebtedness of ex-agents, all for points. It broke Agents before they started."

(F) "Every so often they take his collection book away from him to check. Why must they take it from him his busiest day, Saturday? Then he has to call for his collection book at his Assistant Manager's home on Sunday.

"My husband tells me that in all the years he has been employed with the Company, he never once heard the Manager give a constructive talk on insurance. The only thing the Manager does is to antagonize everyone connected with him, constantly threatening them with their jobs, or calling them foul names."

(C) "My present condition was caused by a former Manager. His abuse has been the cause of a shattered nervous system."

(A) "Please try to imagine yourself an Agent in one of the Metropolitan districts. You, an intelligent man, probably, as the majority of the man, having had respected and responsible positions in other fields, become an Agent, eager to show your ability and certainly willing to learn. From the first day you are handed a book you are made to feel that your Manager is your Lord and Master, Judge

and Jury, and he has your life in his hands at all times. You are made to feel that you are just nothing at all in this world and inferior to everybody. After the introduction you are on your own. Starting with Monday, three or four hundred people to see in three days, with many in the four-week column by this time; you know the meaning of lapses, and four-week cases mean lapses. You rush to get to the office at 8 o'clock in order to take care of the many things requiring your attention; then the Manager comes into the room with an order to drop your work. He take a report of the business done over the week-end, insulting every man who has no report. He will then talk for over 2 hours of how much business the men ought to do and what will happen to the man who does not bring in business. This is all very discouraging and tiresome to a new man or to a man who has been with the Company for a long period of time, and is certainly a waste of time. You then reach your debit wondering where you can get the business the Manager has ordered you to get—you know you will have trouble with your four-week cases—you will find many people out—you will get innumerable complaints. Tuesday morning the same is repeated, except that the meeting lasts longer, and sometimes you are ordered to come back at 4 or 8 o'clock to another meeting as punishment for not being able to get an application.

"These men have no consideration for your feelings and instead of cooperating with you, they hamper you with you work. Under the circumstances, you are forced to work late every night.

"Wednesday you have the weekly account to make. If you want an idea of what it takes to make an account and balance it correctly and fill out the different forms that go with it, try to make it; and the last week of every month you have a monthly account to make, as well as the weekly. After struggling for hours with the account, you are lined up outside of the Manager's office and every man must face him and get his O. K. on the account, and if he does not like the looks of it, he will tear up the sheets and make you go out on the debit for more money, although he knows no more could be collected, and make another one. It is heart-breaking to see the men lined up almost like criminals, after they try their best in their work.

"It is hard to describe in words the suffering and humiliation forced on the men by these so-called Managers and Assistant Managers. Here are some expressions used by them during their "pep" talk meetings, 'Why don't you go on relief, you are too old to be useful.' 'I will give you two weeks to make good or get out.' 'You are yellow.' 'You are a coward.' Once I heard the Manager tell a man, who was with the company over 11 years, that he was a yellow dog if he did not resign, and for that they receive \$500.00 or more per week, or about \$30.00 per week for humiliating each man. They never go out in the Field with the men, they constantly threaten them with dismissal, and do not prove to them that it is possible to get business. Instead of lending a helping hand to the man who is down, they force him to desperation."

(G) "On December 17, 1937, it will be nine years that I have been with the Company, and although I have prospered and enjoyed my work which gave me the opportunity to express myself partly, yet I was somewhat disillusioned. On a few occasions I was made to believe that no Agent has the right to make suggestions to the Company. From my own experience I can tell you, Mr. President, that when one did make a suggestion he was accused of being disloyal to the Metropolitan. I wonder if the Metropolitan would be in its position of prestige today, if it did not encourage new ideas. I do believe in discipline, but it should be based on Democratic Principles."

"The Manager's high-pressure methods force the Agents to do dishonest selling."

(A) "Everyone in the States knows the abuses Agents go through from their Managers and some clients that treat them like dogs. "Why, I know of a Manager that told one of his Agents 'Go out and sell to your mother, father, or your grandparents. Sell it to yourself. I don't care so long as you sell.' With high pressure abuses like these, no wonder they are sometimes forced to do dishonest selling."

(A) "About a year ago I was called by my Mangaer into his private office and was bluntly told to tender my resignation, because my Ordinary and A. & H. record was poor. I pleaded and begged for my job, reminding him that I was a married man with two children and that I was the only breadwinner for my home, that if I lost my job my family's financial structure would collapse. It would ruin me and the innocent ones at home. It would cause untold suffering to my dear ones. He relented a bit and said, 'Well, if you get me a \$5,000 application and two A. & H.'s by the end of the week, you may continue working.'

"When I walked out of that office, I was in a quandary. I was dazed. That night I could not sleep, thinking and thinking where I could get the \$5,000 appli-

cation and the two A. & H.'s. Mr. Lincoln, you know those kind of prospects do not grow on trees. I only had three days to get the business. The next 48 hours I canvassed every eligible prospect that I knew. The only success I had was a \$1,000 application and one A. & H. I was sure this would not pacify my Chief, so in desperation and as a last resort I went to a relative of mine who could not afford to buy the insurance, and I offered to pay the first premium on a \$4,000 life insurance and also the semi-annual premium on the A. & H. as long as he would help me keep my job.

"He readily agreed; applications were submitted and issued. I paid out \$48 of my hard earned money. Now, I am not one of the average Agents who you claim earn \$3,225 a year. My average weekly salary in reality is about \$40.00 so for months my family and myself were denied some of the necessities of life."

"My Manager has always treated me with courtesy and consideration."

(A) "I have worked during this period of time under three different Managers, and have always been treated with courtesy and consideration by these gentlemen."

(F) "Our Metropolitan Company means everything to me and my family. Thanks to my Manager, Mr. _____, who has advised and tutored me in days when things looked very black, I am still with the Company and doing a fair record."

Superintendent of agencies (Excerpts from 2 letters).

"My Manager says, 'Put yourself in my place. I have never seen such third-degree methods used on a Manager.'"

(G) "My knowledge of conditions is not limited to only one District. As business becomes harder to secure, the pressure from the top down becomes intolerable."

(G) "We had our regular meeting December 4th. Same old story. During the meeting the Manager read four letters from the Agency Division written a week apart. The first one read, 'For the week of November 1st a certain number of men were blank in Ordinary production. Are you satisfied? Write and tell us what you intend to do about it.' The other three were the same with a difference in the number blank. One for the week of November 8th, another for the week of November 15th and then the week of November 22nd. The Manager says, 'Put yourself in my place and try and answer these letters. Four in a row. In all my experience I have never seen such third-degree methods used on a Manager. Do you wonder that I go crazy? It just means that I must continue my third-degree on you men, who are on the bottom one-third in production, even to the extent of increasing the pressure.'"

"What else does this pressure do? During the week the Manager has a whispering campaign with men on the bottom one-third in production. Each morning he will visit their desk and rake them over the coals like a demon to the extent that these Agents and Assistants too, find themselves down on the street, shockingly depressed and bewildered, instead of in possession of a spirit of confidence brought about by encouragement."

Veterans and retirement (Typical excerpts from 13 letters):

"It is comforting to know that years of service and loyalty are recognized and appreciated by our Company."

(E) "Your letter of November 17th was almost a Thanksgiving Day message. It covered many points where doubt sometimes arises regarding an Agent's relation to the Company, especially among the older Agents. It is indeed as comforting thought to feel that years of service, of loyalty, experience and integrity in conserving established business, are recognized and appreciated by our Company as well as the outstanding production of new business."

(D) "I am on my last lap of the 20th year with the Company, and after February 11, 1938 have only one year left to normal retirement."

"It especially warmed my heart to read in your November 17, 1937 letter what you said in regard to that group of men of which I am a member, and I want to assure you of my sincere appreciation."

(H) "I have the great fortune to have been connected with this great institution of ours since March 18, 1912, and at no time have I received such an encouraging and inspirational letter from a Chief Executive. Particularly inspiring was the part referring to those Agents of long and faithful service, titled 'Blue Ribbon Delegates', and the invitation to communicate with you."

(C) "Though I was not fortunate enough to attend the last Convention of which you speak, I am highly pleased to note that you gave such recognition to the men who have rendered long and faithful service to the Company."

(D) "Your reference to the 'Blue Ribbon Delegates' impressed me. Leadership of this kind will long be respected."

(Can.) "Your outspoken appreciation of the older men in this Company who have served faithfully and well is deeply appreciated by every one in the Field from the youngest member to the oldest."

(A) "In all this time I have earned a good living for my family and have never known the fear of being unemployed. Now, as I approach old age, I am able to look forward to a pension provided by our good Company."

(A) "During this period of association with the Company, let me assure you that it was gratifying to know that in the event of sickness, disability, or even death, provisions had been made by my company for me, and at the present time it affords me a great sense of security to know that both my mother and the young lady I recently married are provided for and that we may look forward some day to my receiving a life income upon retirement."

(D) "It was the first time also, that any President ever invited Agents with long and faithful service to the Convention. It was this honor bestowed upon me, for which I feel greatly indebted to you and which prompts me to write to you this letter of deep appreciation."

"This invitation of Agents with long years of faithful service proves to us old-timers that our services are still desired, even if younger men could probably beat some of our records. However, I was glad to notice the familiar faces of quite a few old-timers at the last Sales Congress, which I greatly enjoyed."

(G) "Yours of November 17th at hand. I greatly appreciated your visit to the Field. I also appreciated the privilege of being at the Home Office as a 'Blue Ribbon Delegate.' I would not take a thousand dollars for my experience on that trip. My visit with you and your associates was wonderful. I believe that I learned more on that trip than I have been able to gather in the past 24 years."

(D) "Thank you for your kind letter of November 17th, which I have read with a great deal of pleasure. I was particularly impressed with your idea of inviting the older Agents, who have given long and faithful service to the Company to our annual Convention."

"The Metropolitan Retirement Plan is inadequate, and the age set for retirement is far too late in life."

(H) "The Metropolitan Retirement Plan, in my modest opinion, is inadequate. The contributions are far too small to afford a living retirement income plan, and the age set for retirement is far too late in life for the average hardworking debit man to have any chance of enjoying the fruits of his labor."

Saturday holiday (Typical excerpts from 11 letters).

"The announcement of the elimination of the Saturday meetings was received with profound enthusiasm."

(D) "Particularly, I appreciate the possible elimination of Saturday meetings and I am sure that the entire Field Force will function more efficiently the other five working days and the better all-round records will be made. The improvement will be a great boon to all."

(D) "The announcement in our office today of the elimination of Saturday meetings was received with profound enthusiasm and I think the feeling in every man's heart was to do a better all-around job from now on, if possible."

(D) "Your contemplated idea of a five-day week would certainly be appreciated by the Field Force as a whole and it indicates you have their families' welfare at heart as much as the Agents."

(A) "Your decision to eliminate our Saturday morning report will, no doubt, help us for more advantageous field work, and I am positively sure that all the Field Force will prove their appreciation with greater loyalty and bigger achievements in our field as you do in yours."

(Can.) "On behalf of my wife and myself, I want to thank you sincerely for your great kindness in setting aside Saturday as a holiday for us workers in the Field."

(D) "Your idea regarding the 'age old' custom of reporting to the office on Saturday is very much in order with everyone's idea. I am sure it would work out satisfactorily to all if it were abolished."

Sales Training (Typical Excerpts from 10 letters).

"I appreciate the work of the Sales Educational Department."

(Can.) "The field educational work is coming to be more and more appreciated as we meet and learn from the instructors the Company sends to our district."

(C) "I realize that your intimate association with our men both of the United States and Canada to whom you conveyed your messages will help to increase their loyalty to and enthusiasm for the Metropolitan."

"I also feel particularly indebted to the Metropolitan Sales Educational Department for its efforts to promote a better understanding of the Company's policies and plans and a better method of presenting what the Metropolitan has to offer."

(H) "As Assistant Manager, I naturally would note certain points that the Agents would not, for example, the training and education of new men.

"This work, in my opinion, is the greatest thing the Company has ever done for the Field Force. It not only gives the Agent a working knowledge of the business before he starts in the Field, but it is of great assistance to the Assistant Manager undertaking the introduction which I feel is a great responsibility."

(H) "We appreciate the educational service which the Company provides for us and the fact that, as Field-Men, we never need to be unemployed if we do our part honestly and conscientiously. Every one of us is in a position to be successful according to his own efforts and ability."

(D) "In my own experience covering the past three years, I have had the good fortune to keep these eight men of mine with us, showing steady improvement in all departments of the business. For this I take no credit. It is due to the wonderful training and field supervision of our Company."

"I use the Rainy-Day canvass in as many cases as I can and find it a great help."

(G) "I am glad to get the valuable information thru the Educational Department. I use the Rainy-Day canvass in as many cases that I can and with a great help."

The Contract (Typical excerpts from 7 letters).

"The men do not like the 2nd Column charge."

(A) "Because of his second column lapse, an Agent who writes \$60.00 a year is charged twice as much of his commission as one who writes only \$30.00 a year."

(H) "There is a certain portion of an Agent's contract which costs the Company the loyalty of its Agents, and this is certainly too costly for the Company."

(D) "I am glad that you mentioned the persistency of old and new business. As you admit in your letter there is quite a 'misunderstanding' in the entire Field Force about the 2nd column charge of new business which causes very often heavy losses to receiving Agent through no fault of his. I feel safe in saying that the Field Force in general would greatly appreciate an improvement in this vital rule."

"The President's convictions on the 1934 Contract are reassuring."

(D) "It is reassuring to an Agent to learn the President's convictions on problems personal to the Agent, such as the 1934 Contract."

"The new contract has increased our earnings."

(D) "There is another reason the entire Field Force is indebted to the Home Office, and that is the new contract. We noticed quite an improvement in the earnings of the Agents."

Disability (Typical excerpts from 3 letters).

"After disability, I was not allowed to return to a debit."

(C) "I did not ask to be put on permanent disability. For the past several years I have asked for some kind of work which I feel I could do to earn a living. I understand the Metropolitan is fulfilling its contract to the letter as far as disability is concerned, but is there not a moral obligation in this case?"

"I understand the doctors state I will never be able to do agency work again, but could I not do some kind of inspection work or make investigations, or some light work in ———, or in cities close by?"

(A) "Once more, upon recovery, my husband had to sell himself to a Manager and go thru the same heartbreaking, nerve-wracking procedure. He found himself with no other alternative than once more accepting a debit in the ——— District. There he went thru almost unbearable torture again in the hands of a cruel and erratic Manager who was not loathe to take advantage of his position."

Sanitarium Treatment (Typical excerpts from 3 letters).

"I am grateful for the treatment I received at Mt. McGregor."

(D) "It is gratifying to know that our organization is headed by one alert to the changing problems and ever watchful of the well being of those of us in the ranks.

"At this time I wish also to express my appreciation for the privilege of treatment at Mt. McGregor. The many courtesies received there during my return to normally good health will never be forgotten. Those of us who have been at the 'San' can really gain the significance of 'Mother Metropolitan'.

"All of this can result in only one thing, a 'business loyalty' inconceivable elsewhere."

(A) "I have worked for this Company almost 9 years, 34 months of which were spent at the Sanitarium. I would be very ungrateful if I didn't mention that in this period the Company showered on me a care and devotion which cannot be forgotten. I am very thankful to the Company that thru this care I came back to life and work now as in the past."

(A) "In all this time I have earned a good living for my family and have never known the fear of being unemployed. When, in 1924, I was sick, I can never forget the beneficial and excellent care I received at the Sanitarium. At the same time, I was contented to know that my family was being provided for."

Services to Policyholders (Excerpts from 3 letters).

"I am proud of the services rendered to our policyholders."

(C) "I am especially proud of the unique position held by the Metropolitan in the field of Public Health Work, and I avail myself of every opportunity to extend its service."

(F) "There is a phase of our business that I am very proud of, the Department for Tracing Lost People and Investigating Claims, etc.

"I am fortunate in having an Assistant Manager who takes a great pride in that particular line. He has achieved wonderful results, and that has been very satisfactory to the people and to me.

"The happy faces when I deliver an unexpected check make me feel proud of my Company."

(D) "The dinner we had has stimulated thought on the points brought out. It placed an emphasis on Service to Policyholders, Nursing Service, and Field Education."

PART V

SECTION B

Excerpts containing suggestions received from the field in response to the President's letter of November 17, 1937

Labor organization (Typical Excerpts from 6 letters).

"The Company should set up its own employee representation program."

(A) "As a result of my twelve years with the Metropolitan, I am convinced that the welfare of the Field-Man will get the utmost consideration from you. I am greatly in accord with the idea that a company organization should take the place of any foreign unit."

(A) "If the Company does not take hold of differences that may arise among many minds in its employ and by personal contact arrange a solution, I feel we are inviting outsiders to answer and act on these differences, and if the questions perplex a man in the business for years, how can an unconcerned outsider answer these questions intelligently for the best interest of both parties concerned?"

"Therefore, may I suggest that you, Mr. Lincoln, through some of your able associates, arrange to form some kind of an association inside the business that will give the men closer personal contact with the Management and through this personal touch, I believe difficulties that do arise will be automatically ironed out, for most differences at present I believe are really a state of mind."

(C) "I have a plan that would surely go a long way towards knitting the Field Force closer to the Home Office.

"That—each Territory have its own organization made up from its District Offices.

"That—each District Office in that territory elect two (2) men who will represent them. And once every two weeks they hold meetings, and at these meetings they can air out their differences between men of other offices, take up and pass on 1074 Exemptions between their District and any grievances that may arise.

"That—each territory appoint representatives, that may in a body call on the Home Office for advice and air their differences if any.

"That—representatives from the Home Office attend and address these meetings from time to time and I am sure that would do the most towards bringing the Home Office and Field-Men closer together."

(A) "Just writing to let you know what a bad influence the ——— Union has in the office. My husband has been somewhat disgusted because the Agents can't think as they please. The Union is making the Agents feel independent and careless of their work. They spend so much time at the union meetings instead of working. My husband and many others are forced to attend meetings. The

leaders in the union are the men who were hired in the last few years. It is an outrage; now they will charge \$25 entrance fee. I can't see why a large Company can't do away with it all. The union sent letters to the Agent's wives and also to the policyholders to back the union. Why not have a "union" of the Company and run it right. The ——— Union is placing self-pity upon the Agents. If you asked the Agents to meet as often as the union they would complain. Fire the leaders and make it pleasant for the earnest workers. The Agents feel as though they can't be fired no matter what wrong they do because they are union Agents. Don't let them run you."

"Encourage the Managers and their Staffs to join the Underwriters Association."

(Can.) "In my observations in going around speaking to the Underwriters and so on, I find that where they have a good Underwriters Association with a good membership, conditions are generally very good, the Agents are more prosperous, friendly, and feeling good towards the business because they feel the Underwriters have done a lot for them and will continue to do so. I find where the membership is not so good in the Association there is not the same good feeling, they do not feel kindly towards the Metropolitan or ——— or whatever company it is that does not support them. I also find the Agents do not understand the problems of the Head Office and the Field on account of not being able to sit in and listen to talks explaining the problems of both sides. Men after all today are looking for someone to help them with their problems and I think it is much better for the Association to look after their problems because the Association works harmoniously with the Head Offices of the different companies, rather than an outsider to probably organize a union or something else.

"If I may make a suggestion, I believe it would be a good thing for any Head Office to encourage Managers to associate themselves with the Underwriters Association and have their staffs belong as well. They should not only belong but attend the monthly meeting to receive the proper information regarding our business."

Clerical work (Excerpts from 2 letters).

"I suggest the adoption of the Boland Plan Control Clerk System of Accounting."

(P. C.) "In line with the last statement of paragraph 2, page 5, I take this opportunity to write you regarding a subject which is very near to my thought, and which I feel is of inestimable value to the Metropolitan, as it aids materially in solving some of the problems with which we are confronted in our business.

"I am referring to the Boland Plan Control Clerk System of Accounting; which I have worked out and developed, at the request of our late Mr. Frederick J. Williams, Second Vice-President.

"I suggest that we mechanize the completion of Agents' and D. O. Forms 34 and M34."

(F) "For some years past I have wished to offer the suggestion of a study of the problem of manual execution of the taking off and completion of the Agents' and D. O. Forms 34 and M34, and exploration of the possibility of the mechanization of this work. I believe there are possibilities of great economies in time and expense for the agency force, clerks, and Home Office in the mechanization of these functions, if adaptable devices are available or feasible of development for reasonable investment. I respectfully commend the subject to your consideration."

Premium receipt book (Typical excerpts from 2 letters).

"Make a place in the Premium Receipt Book for recording all other insurance in force in a home. Also have a receipt form attached to checks issued to policyholders."

(E) "I am attaching two suggestions that I think would be very helpful on my debit—one to have a place in the weekly and monthly Premium Receipt Books to record all other insurance in force in that home (with name, policy, due date, and premium); the other to have a receipt form attached to checks issued to policyholders, so there is a complete record of each person handling it and signature of person receiving it."

"Make space on the Collection Book above the family name for the parents' first names and ages."

(A) "At the present time, the Agents of our Company are in process of writing up the 1938 Collection Book. A thought has just come to me, and in fact this idea has been used by me in my 1937 Collection Book. When I write an industrial application I make a pencil note in my collection book of the date of birth of applicant on the line where it will appear as an issued policy in the Collection

Book. It might be an idea to have the date of birth printed instead of the age column in the Collection Book so this date of birth always appearing before the Agent gives him a lead to canvass for additional insurance before the insured's age changes.

"In writing an Industrial application on children, I also make a memo on the page where the child's policy will appear, of the parents' names and ages, which information is gotten from the Industrial application, and keep this information on the page for future reference for canvass.

"I might therefore suggest that the parents' first names and ages be given space on each Collection Book above the family name, thus:

Father's given name_____ Age_____

Mother's given name_____ Age_____

"These suggestions are made especially for new families brought into the Metropolitan."

Annual letter from the President.

"A letter from the President to the Field once a year would be a great incentive to the men."

(F) "The Agents received your letter very enthusiastically and I might state that it had a wonderful effect on the entire staff.

"I personally believe that a letter of this type from you to the entire Field Force received once a year, would be a great incentive—especially when it is received at this time, after you have completed a tour of the country."

Sales education:

"I would like to see the new Agent have at least two weeks in school."

(H) "Merely as a suggestion, I would like to see a new Agent have, at least two weeks in school. Picture a man in school the first week, all excited, endeavoring to learn the sales talks, and accounting system, policies and plans, and the various forms. I really believe two weeks would be very helpful."

The contract:

"A less complicated contract would tend to eliminate a great deal of the radicalism among the Agents. Not more than one-third of them can figure out their salary scale."

(A) "It has been my observation that not more than one-third of the Agents can figure out their salary scale, even though it is explained to them almost every time their contract changes. Of the third who can do the mathematical calculations, only about one out of five know how or why they arrive at the given figure. This being true, it is obvious that there must be a certain amount of dissatisfaction, especially when an Agent who has had a good writing quarter finds he is going to receive less pay the following quarter.

"I am sure a less complicated contract would tend to eliminate a great deal of the radicalism now existing among the Agents. I know that the present contract goes a long way in preventing the men from writing bad business to plug a quarter. But is there not some way to make the contract fairer to all?"

Veterans:

"Might a position be created for the Field-Man who has reached the age of sixty or over and finds his debit duties too strenuous?"

(H) "May I suggest that a position be created for the Field-Man who has reached the age of sixty or over and finds his debit duties too strenuous, but is still able to actively perform other worth while duties and services? Such a position might consist of paying dividends for non-privileged Field-Men, assist in writing of Industrial business, collect open debits, help reduce arrears, and conserving Ordinary and Industrial business which would otherwise be lost. I believe such a position would be highly appreciated by the other men, and would be an additional incentive to the younger Field-Men, who would realize that their later years would be eased."

Office to interview policyholders:

"There is a deplorable lack of private convenience for interviewing a policyholder in our offices. I also hope to see the day when the present desks may be replaced by something more dignified."

(C an) "If I may be permitted to comment on any one or more of these proposed changes, I would like to point out the deplorable lack of private convenience for interviewing a policyholder by an Agent in our offices. I also hope to see the day when the present desks may be replaced by something more dignified."

Schedule of compensation of certain officers active, retired or deceased, based on schedule G of company's annual statements for years 1925 to 1938, inclusive—Continued

	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Raymond V. Carpenter:														
Senior Actuary	\$21,000.00	\$21,000.00	\$23,000.00	\$25,000.00	\$27,000.00	\$29,000.00	\$32,500.00	\$32,500.00	\$28,843.75	\$27,625.00	\$27,625.00	\$24,000.00	\$34,000.00	\$34,000.00
Actuary												8,000.00		
Charles G. Taylor, Jr.:														
Second Vice-President								26,000.00	24,500.00	24,000.00	24,000.00	19,500.00	28,000.00	32,000.00
Third Vice-President												6,500.00		
Samuel Milligan:														
Second Vice-President														
Third Vice-President			15,000.00	17,500.00	20,000.00	22,000.00	25,000.00	25,000.00	23,125.00	22,500.00	22,500.00	18,750.00	26,000.00	27,000.00
Assistant Actuary	10,000.00	11,000.00										6,250.00		
Alexander C. Campbell:														
Second Vice-President														
Third Vice-President		4,583.00	30,000.00	32,500.00	35,000.00	40,000.00	40,000.00	40,000.00	35,500.00	34,000.00	34,000.00	25,500.00	34,000.00	37,500.00
Assistant Secretary	25,000.00	22,917.00										8,500.00		
Harry D. Wright:														
Second Vice-President														
Third Vice-President														
Supt. of Agencies (Including commissions)	18,000.00	19,000.00	20,000.00	22,000.00	22,000.00	24,500.00	19,752.55	31,000.00	27,512.50	26,350.00	26,350.00	21,000.00	28,000.00	30,000.00
William S. Norton:														
Comptroller				10,416.00	27,500.00	30,000.00	32,000.00	34,000.00	30,175.00	28,900.00	28,900.00	32,500.00	34,000.00	35,000.00
Assistant Comptroller	17,000.00	20,000.00	22,000.00	14,584.00										
Horace R. Bassford:														
Actuary	8,000.00	9,000.00	10,000.00	12,000.00	13,500.00	17,000.00	16,500.00	16,500.00	15,262.50	14,850.00	14,850.00	15,000.00	20,000.00	22,000.00
Assistant Actuary												4,000.00		
Frederic G. Dunham:														
General Counsel														
Asst. General Counsel			8,750.00	15,000.00	16,500.00	17,500.00	19,000.00	20,000.00	18,500.00	18,000.00	18,000.00	15,000.00	20,000.00	22,000.00
Harry Cole Bates:														
General Counsel														
Assistant General Counsel														
Attorney	6,600.00	8,000.00	6,665.67	11,000.00	13,500.00	16,000.00	18,000.00	19,000.00	17,575.00	17,100.00	17,100.00	15,000.00	20,000.00	22,000.00
Francis M. Smith:														
Third Vice-President														
Assistant Actuary	7,000.00	8,000.00	3,333.32	12,000.00	15,000.00	17,000.00	19,000.00	20,000.00	18,500.00	18,000.00	18,000.00	20,000.00	21,000.00	22,000.00
Stewart M. LaMont:														
Third Vice-President														
Fourth Vice-President	14,000.00	15,000.00	10,665.68	18,000.00	20,000.00	22,000.00	24,000.00	24,000.00	22,200.00	21,600.00	21,600.00	21,600.00	23,000.00	25,000.00
James L. Madden, Third Vice-President:														
Third Vice-President														
Fourth Vice-President														
Assistant Secretary	13,000.00	14,000.00	11,665.66	20,000.00	21,000.00	22,000.00	23,000.00	24,000.00	22,200.00	21,600.00	21,600.00	23,000.00	24,000.00	26,000.00
Donald B. Armstrong:														
Third Vice-President														
Fourth Vice-President							5,000.00	24,000.00	22,200.00	21,600.00	21,600.00	22,500.00	24,000.00	26,000.00
Assistant Secretary							15,000.00	19,000.00	22,200.00	21,600.00	21,600.00	22,500.00	24,000.00	25,000.00

EXHIBIT No. 1000

[From files of Metropolitan Life Insurance Company]

*Weekly Premium Industrial—Distribution by Year of Issue of Policies in Force
December 31, 1938*

[Does not include extended insurance, non-forfeiture paid-up or disability paid-up]

Year of Issue	Whole Life	20 Year Payment Life	20 Year Endowment (Including children's 20 Year End't, 1920-1933)	All Others (L. P. L. & E., 1906-1914; Conv. End't., 1921-1938; End't. @ 60, 1921-1937; End't @ 65, 1937-1938)
1875	3			
76	59			
77	121			
78	317			
79	472			
80	847			
81	1,215			
82	1,748			
83	2,650			
84	4,043			
85	11,229			
86	10,589			
87	12,786			
88	13,032			
89	16,428			
90	16,842			
91	15,449			
92	24,622			
93	27,377			
94	36,217			
95	30,612			
96	29,271			
97	37,020			
98	41,989			
99	58,932			
1900	67,640			
01	67,540			
02	60,886			
03	67,370			
04	78,496			
05	78,615			
06	66,277			4,779
07	66,362			4,299
08	71,735			6,284
09	114,177			9,580
10	104,128			6,306
11	106,277			5,788
12	123,462			6,205
13	119,343			5,857
14	99,784	19,340		740
15	115,310	21,631		
16	104,614	23,860		
17	107,766	27,402		
18	112,576	29,900		
19	112,772	37,525	89,404	
20	127,780	41,380	101,405	
21	186,917	51,886	115,197	11,503
22	155,907	45,594	121,173	17,164
23 ¹	144,079	35,377	166,385	25,759
24 ¹	205,474	52,574	192,066	31,541
25 ¹	244,921	74,278	232,954	45,496
26	236,935	67,334	227,657	58,212
27	296,244	81,408	296,109	67,985
28	332,070	82,352	335,867	59,526
29	409,837	113,372	400,770	67,866
30	419,431	92,398	430,373	90,872
31	598,368	130,768	468,079	73,330
32	562,972	117,387	341,964	63,184
33	662,197	126,534	350,782	84,818
34	756,740	150,245	456,420	120,117
35	886,845	183,722	613,318	135,865
36	872,898	183,965	681,248	140,141
37	828,958	231,597	673,986	129,368
38	859,735	256,296	863,420	127,223
Total	11,027,308	2,278,125	7,158,577	1,399,808 21,863,818

¹ End't @ 80 Included in Whole Life.

*Weekly Premium Industrial—Reconciliation with Policy Exhibit Policies In Force
Dec. 31, 1938*

	Life	Endowment	Total
Regular.....	13,305,433	8,558,385	21,863,818
Non-forfeiture Paid-up.....	669,522	126,053	795,575
Disability Paid-up.....	32,853	4,039	36,892
End't @ Age 80 included with Regular Life above.....	-751	+751	
Total.....	14,007,057	8,689,228	22,696,285
Extended and Paid-up Term Insurance.....			3,375,557
Paid-up Additions.....			
Grand total.....			26,071,842

*Weekly Premium Industrial—Reconciliation with Policy Exhibit Amounts In Force
Dec. 31, 1938*

	Life	Endowment	Total
Regular.....	3,450,685,688	2,118,798,219	5,569,483,907
Non-forfeiture Paid-up.....	23,645,516	7,683,317	31,328,833
Disability Paid-up.....	6,850,039	959,834	7,809,873
End't @ Age 80 included with Regular Life above.....	-133,515	+133,515	
Total.....	3,481,047,728	2,127,574,885	5,608,622,613
Extended and Paid-up Term Insurance.....			843,148,718
Paid-up Additions.....			648,690,363
Grand total.....			7,100,461,694

*Weekly Premium Industrial—Distribution by Year of Issue of Amounts in Force
December 31, 1938*

[Does not include extended insurance, non-forfeiture paid-up, disability paid-up or paid-up dividend additions.]

Year of Issue	Whole Life	20 Year Pay- ment Life	20 Year Endow- ment (including Children's 20 Year End't., 1920-1933)	All Others (L. P. L. & E., 1906-1914; Conv. End't., 1921-1938; End't. @ 60, 1921-1937; End't. @ 65, 1937-1938)
1875.....	394			
76.....	7,601			
77.....	14,097			
78.....	39,827			
79.....	56,787			
80.....	99,104			
81.....	148,783			
82.....	218,979			
83.....	354,232			
84.....	550,536			
85.....	1,650,154			
86.....	1,629,834			
87.....	1,910,871			
88.....	1,819,082			
89.....	2,260,459			
90.....	2,433,238			
91.....	2,231,610			
92.....	3,511,503			
93.....	4,039,900			
94.....	5,574,360			
95.....	4,736,110			
96.....	4,210,833			
97.....	5,310,258			
98.....	6,172,979			
99.....	8,609,237			
1900.....	9,904,990			
01.....	10,200,037			
02.....	9,087,214			
03.....	10,172,995			
04.....	11,824,136			
05.....	12,209,629			

Weekly Premium Industrial—Distribution by Year of Issue of Amounts in Force
December 31, 1938—Continued

Year of Issue	Whole Life	20 Year Payment Life	20 Year Endowment (including Children's 20 Year End't., 1920-1933)	All Others (L. P. L. & E., 1906-1914; Conv. End't., 1921-1938; End't. K 60, 1921-1937; End't. K 65, 1937-1938)
06	10,549,458			534,280
07	11,327,056			496,832
08	12,157,627			719,836
09	18,618,366			1,083,540
10	17,410,898			723,920
11	17,652,286			670,208
12	20,175,974			716,424
13	19,737,296			674,172
14	15,896,098	2,944,824		84,932
15	17,989,408	3,398,798		
16	17,175,441	3,927,483		
17	19,379,998	4,949,438		
18	20,891,967	5,838,846		
19	22,519,868	7,831,091	10,157,002	
20	26,110,692	9,189,001	14,684,473	
21	38,778,639	11,286,583	17,096,085	5,490,914
22	36,048,182	10,901,673	19,877,648	7,661,418
23	40,954,816	10,063,841	28,506,428	12,323,576
24	57,512,704	15,514,676	37,055,478	14,761,791
25	61,811,179	21,693,846	42,396,464	21,522,789
26	70,509,679	23,748,202	48,533,599	27,367,385
27	88,917,232	27,994,444	61,976,946	31,211,958
28	96,393,845	25,408,111	65,601,796	28,239,180
29	115,182,336	34,128,400	77,878,012	32,351,452
30	135,353,782	29,376,019	89,890,571	44,220,469
31	155,221,635	31,135,999	84,738,735	35,536,679
32	146,663,048	28,469,965	65,440,359	30,474,211
33	176,745,337	32,321,227	67,188,588	40,991,194
34	213,696,129	42,164,255	91,545,737	55,898,227
35	244,979,448	51,043,483	120,098,449	62,212,646
36	238,554,852	50,819,321	137,987,198	65,295,600
37	230,257,034	87,630,208	174,244,817	59,943,494
38	241,853,240	100,890,635	221,880,686	60,812,024
Total	2,778,015,319	672,670,369	1,476,779,071	642,019,148
				5,569,483,907

† End't @ age 80 included in whole life.

EXHIBIT No. 1001

[From files of The Prudential Insurance Co. of America]

PRUDENTIAL INSURANCE CO.

7 (a) Monthly Premium Industrial—Number of Policies in Force (Policy Exhibit)

End of year	Life	End't	Extended term	Additions to policies by dividends	Total
1936	346,631	131,702	6,558	0	484,891
1937	567,464	236,493	20,059	0	824,016
1938	701,048	300,935	33,888	0	1,035,871

7 (b) Monthly Premium Industrial Amounts of Insurance in Force (Policy Exhibit)

End of year	Life	End't	Extended term	Additions to policies by dividends	Total
1936	180,358,114	69,401,676	3,442,900	0	253,202,690
1937	295,519,469	124,478,678	10,505,818	0	430,503,965
1938	365,091,164	158,146,320	17,787,661	0	541,025,145

EXHIBIT No. 1002

[From files of The Prudential Insurance Co. of America]

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

Weekly Premium Industrial Age Distribution of New Policies Issued

Kind of Policy ----- Basis -----

Ages at Issue	Years of Issue									
	1910	1911-1915	1916-1920	1921-1925	1926-1930	1931-1935	1936	1937	1938	1936-1938
	%	%	%	%	%	%	%	%	%	%
1				7	9	9	11	11	13	12
2	13	13	13	7	3	3	3	2	3	3
3	4	3	3	3	3	3	2	2	2	2
4	3	3	2	2	3	2	2	2	2	2
5	3	2	2	2	2	2	2	2	2	2
6	3	2	2	2	2	2	2	2	2	2
7	2	3	4	4	2	2	2	2	2	2
8	2	2	3	3	2	2	2	2	2	2
9	2	2	3	2	2	2	2	2	2	2
1-9	32	30	32	32	28	27	28	27	30	29
10-15	12	11	12	11	11	14	13	11	12	12
16-25	23	23	21	20	22	20	20	18	17	18
26-35	15	16	16	15	16	15	15	15	14	15
36-45	9	10	10	11	12	12	12	12	11	12
46-55	6	7	7	8	8	9	9	9	9	9
56-65	3	3	2	3	3	3	3	6	5	4
6 & over								2	2	1
All ages	100	100	100	100	100	100	100	100	100	100
1st 6 mo. '39	100									
1	10									
1-9	23									

EXHIBIT No. 1003

[Prepared by The Prudential Insurance Co. of America]

REVISED.—Analysis of Industrial Receipts, Disbursements, Etc. For Twelve Months Ending December 31, 1937-1938 (Includes Intermediate Monthly Premium Industrial)

[NOTE.—Amounts shown as Percentage of Total Income.]

	1937		1938		1938 Dec. % of Income
	Amounts	% of Income	Amounts	% of Income	
Insurance Premiums	\$262,074,281.84	65.15	¹ \$261,024,278.22	66.87	41.97
Misc. Premium Credits	57,105,810.61	14.19	50,413,267.04	12.91	69.26
Interest Dividends and Rents	² 74,389,186.64	18.48	72,460,042.16	18.57	-4.20
Supplementary Contract Credits	596,431.40	.15	639,500.84	.16	.10
Gross Profit on Sale or Maturity					
Ledger Assets	6,126,207.08	1.52	3,830,745.13	.98	-4.78
Other Income	² 2,057,474.61	.51	¹ 2,012,885.32	.51	-2.35
Total Income	402,349,392.18	100.00	390,380,718.71	100.00	100.00
Death Claims	56,847,255.12	14.13	54,309,226.97	13.91	8.59
A. D. B. Claims	2,854,717.61	.71	2,384,059.27	.61	.36
Disability Claims	1,716,616.42	.43	1,750,415.47	.45	.24
Matured Endowments	11,350,510.21	2.83	12,021,548.35	3.08	1.67
Dividends	57,212,727.81	14.22	50,500,225.70	12.94	69.22
Surrendered Policies	99,075,555.90	24.62	119,031,922.53	30.49	19.66
Total to Policyholders	229,087,383.07	56.94	239,997,398.29	61.48	99.74
Supplementary Contract Claims	574,913.96	.14	505,076.54	.13	-S 08-S

¹ On December 31, 1937 and adjustment voucher was put through transferring December collections from the Deposit account to the Premium account. This was reversed in January. Therefore, in order to place the "Insurance Premiums" and Other Income items on a basis comparable with 1937 the former has been increased and the latter decreased by \$1,210,984.00.

² Adjusted for comparative purposes. During July 1938 all joint investment deposit accounts were reversed and treated as Industrial.

REVISED.—*Analysis of Industrial Receipts, Disbursements, Etc. For Twelve Months Ending December 31, 1937-1938 (Includes Intermediate Monthly Premium Industrial)*—Continued

[NOTE.—Amounts shown as Percentage of Total Income]

	1937		1938		1938 Dec. % of Income
	Amounts	% of In- come	Amounts	% of In- come	
Field expenses:					
Weekly Salaries.....	\$30,858,781.50	7.67	\$30,540,622.92	7.84	5.03
Contingent Salaries.....	12,516,965.58	3.11	10,602,481.42	2.72	1.47
Superintendents' Salaries.....	2,782,204.60	.69	2,430,586.51	.62	.24
Asst. Supts' Salaries.....	7,934,947.26	1.97	7,220,652.34	1.85	.72
Inspectors' Salaries.....	203,442.95	.05	294,050.88	.07	.15
District Clerks' Salaries.....	1,972,842.67	.49	1,712,596.85	.44	-.30
Medical Fees.....	295,889.52	.07	235,886.86	.06	.04
Rents.....	724,912.15	.18	995,041.88	.25	.60
District Expense Allowance.....	357,096.16	.09	237,434.61	.06	-.17
Employees' Group Life Pre- miums.....	894,848.59	.22	854,121.41	.22	.13
Contribution to Employees' Retirement Pension.....	3,416,066.91	.85	6,457,952.22	1.65	11.24
Allowances.....	933,558.73	.23	923,961.27	.23	.15
Misc. Expense.....	407,487.89	.10	409,263.16	.11	.10
Total Field Expenses.....	63,299,044.51	15.72	62,914,652.33	16.12	19.40
Home office and general ex- penses:					
Salaries.....	6,952,595.32	1.73	7,718,348.06	1.98	1.48
Rents.....	975,642.96	.24	1,027,707.64	.26	.18
Advertising.....	238,082.61	.06	205,270.79	.05	.05
Furniture and Equipment.....	86,738.35	.02	222,284.32	.06	.09
Dining Room.....	339,778.96	.08	357,355.26	.09	.08
Employees' Group Life Pre- miums.....	25,093.88	.01	19,768.02	.01	-.01
Contribution to Employees' Retirement Pension.....	908,329.49	.23	1,652,359.51	.42	2.92
Allowances, etc., Welfare.....	278,606.99	.07	294,136.19	.07	.05
Misc. Expenses.....	2,086,977.87	.52	2,236,587.44	.58	1.01
Total H. O. and General Expenses.....	11,891,846.43	2.96	13,733,817.23	3.52	5.85
Total H. O. and Gen'l and Field Expenses.....	75,190,890.94	18.68	76,648,469.56	19.64	25.25
Insurance Taxes, Licenses & Fees.....	6,258,678.95	1.56	6,158,228.65	1.58	.02
Federal Excise Tax for Old Age Benefit.....	520,581.40	.13	478,968.22	.12	.00
Unemployment Taxes & Con- tri., Fed. & State.....	1,318,520.70	.33	1,799,124.12	.46	.10
Total Expenses Incl. Ins. Taxes... R. E. Taxes & Expenses & Misc. Inv. Exp.....	83,288,671.99	20.70	85,084,790.55	21.80	25.37
Total Expenses.....	14,611,181.12	3.63	13,580,083.82	3.48	-20.13
Total Expenses.....	97,899,853.11	24.33	98,664,874.37	25.28	5.24
Gross Loss on Sale or Mat. Led- ger assets.....	1,771,797.59	.44	532,092.36	.13	-.47
Other Disbursements.....	8,595,696.25	2.14	* 22,935,246.23	5.89	6.72
Total Disbursements.....	337,929,643.98	83.99	362,634,687.79	92.91	111.31
Excess of Income over Disburse- ments.....	64,419,748.20	16.01	27,696,030.92	7.09	-11.31

* Includes \$16,212,296.35 Special Bond write down in November 1938.

Total Income and Total Disbursements are less than ledger totals by \$232,962.24 for 1937 and by \$222,904.78 for 1938, representing dividends to stockholders returned treated above as offsets to disbursements.

L. R. MENAGH, Assistant Actuary.

EXHIBIT No. 1004

[Prepared by The Prudential Insurance Co. of America]

COMPARISON OF COST OF INSURANCE BENEFITS ON THE INDUSTRIAL PLAN WITH
THE COST FOR CORRESPONDING BENEFITS ON THE ORDINARY PLAN

The actual net cost for insurance to the policyholder under any plan of life insurance issued on the participating basis is determined principally by the rate of mortality actually experienced by the Company, the actual net rate of interest earned by the Company on its invested funds, and the actual expenses of carrying on the business.

A reasonable comparison of the ultimate cost to the policyholder of policies issued on the Industrial plan with the cost of similar policies issued on the Ordinary plan may be obtained by comparing hypothetical premium rates on the two plans where such premium rates are calculated on the basis of the actual experience of the Company with reference to mortality, interest and expense.

If we first calculate net premiums on the basis of the Company's actual Industrial mortality and on the basis of the Company's actual Ordinary mortality with the interest rate taken as that actually being earned, a comparison of these net premiums will indicate the savings which result from the lower mortality experienced on Ordinary business. It will be noted from the figures in Table A that a comparison of net premiums on this basis indicates that the more favorable mortality experienced on Ordinary business is responsible for a reduction of a little less than 10% in the net cost. In the case of endowment policies, especially at the younger ages, the mortality element is not important.

If to the net premiums calculated as indicated above there be added the actual expenses of the Company on the basis of current experience, we will have what might be considered actual experience premiums for the life insurance benefits. A comparison of the hypothetical premiums calculated in this manner for Industrial policies with hypothetical premiums for similar Ordinary contracts will indicate the actual difference in net costs to the policyholder. From the figures supplied in Table A it will be noted that, taking all these factors into account, Ordinary insurance costs from 13% to 20% less than Industrial.

The attached Tables B, C and D illustrate the calculations of the premiums for Life—Premiums Cease at 70, 20-Year Payment Life, and 20-Year Endowment policies, respectively.

Line 1 represents the actual premiums per thousand charged by the Company. The Industrial figures are 52 times the weekly premium while the Ordinary figures are composite premiums taking into account the distribution of business by mode of premium payment.

Line 2 in each case shows the net premium for the insurance benefit. A comparison of these net premiums indicates the reduction in cost to Ordinary policyholders due to the more favorable mortality experienced.

Line 3 shows the expenses separated into commissions, taxes and all other expenses.

Line 4 shows the gross hypothetical premium. A comparison of these premiums indicates the actual difference in net cost to the policyholder for the insurance benefit.

Line 5 indicates the actual cost of the disability benefit included in the policies without specific extra premium. The disability benefit under the Industrial policies is that granted under our current policy forms. While this benefit covers only loss of eyesight or limb, the value of the actual benefit after approval is much greater than the Premium Waiver benefit included under Ordinary policies. This is largely responsible for the higher cost under the Industrial policy.

Line 6 shows the cost of the accidental death benefit, which is included in Industrial policies without specific extra premium. This benefit is available to Ordinary policyholders upon payment of an extra premium.

Line 7 shows the gross hypothetical premium for insurance, disability and accidental death benefits. This premium, we believe, gives a fair indication of the total net cost to the policyholder. The premiums shown in Line 7 for Industrial and Ordinary policies are not comparable, however, because of the difference in the supplementary benefits under the two plans.

Line 8 indicates the amount available for contingencies and dividends other than those dividends required under Industrial policies to offset the increase in tabular premium after five years.

In the calculation of these premiums the Industrial mortality used was that shown by the Company's mortality table prepared from the experience of the years 1933 to 1935, inclusive, and the Ordinary mortality used was that shown by the Company's mortality table based upon the experience for the years 1934 to 1936, inclusive. Both these tables were already available and may be said to represent current mortality experience for the two plans. In each case interest was taken at 3½%, as this is approximately the rate being earned by the Company at the present time. Expenses were based in each case upon an analysis of the Company's actual expenses in the year 1937.

MAY 17, 1939

TABLE A.—Prudential industrial and ordinary premium comparisons

LIFE—PREMIUMS CEASE AT AGE 70

Ages	Net Level Premium per \$1,000 Insurance			Gross Hypothetical Premium per \$1,000 Insurance			Tabular Premium per \$1,000 Insurance		
	Ord.	Ind.	Ord. as % of Ind.	Ord.	Ind.	Ord. as % of Ind.	Ord.	Ind. ¹	Ord. as % of Ind.
10.....	\$6.79	\$7.42	91.5	\$10.50	\$12.80	82.0	\$14.72	\$15.20	96.8
20.....	9.61	10.81	88.9	13.53	16.49	82.0	18.24	21.31	85.6
30.....	14.16	15.86	89.3	18.32	22.70	80.7	23.78	28.57	83.2
40.....	22.24	24.48	90.8	27.33	33.90	80.6	33.90	41.27	82.1
50.....	38.03	41.05	92.6	45.12	55.92	80.7	54.20	66.67	81.3

20-YEAR PAYMENT LIFE

10.....	\$11.33	\$12.22	92.7	\$16.35	\$18.88	86.6	\$22.49	\$24.07	93.4
20.....	14.95	16.56	90.3	20.16	24.31	82.9	26.65	31.71	84.0
30.....	19.92	21.99	90.6	25.35	31.03	81.7	32.14	38.81	82.8
40.....	27.11	29.62	91.5	33.07	40.70	81.3	40.66	49.06	82.9
50.....	38.03	41.05	92.6	45.12	55.92	80.7	54.20	66.67	81.3

20-YEAR ENDOWMENT

10.....	\$35.40	\$35.72	99.1	\$41.95	\$48.02	87.4	\$47.37	\$50.00	94.7
20.....	35.71	36.64	97.5	42.21	48.67	86.7	48.01	53.06	90.5
30.....	36.35	37.90	95.9	42.75	50.14	85.3	48.92	55.32	88.4
40.....	38.41	40.72	94.3	44.95	53.94	83.3	52.06	60.47	86.1
50.....	44.21	47.40	93.3	51.46	63.06	81.6	60.23	72.22	83.4

¹ Commencing premium.

TABLE B.—Analysis of premiums per \$1,000 industrial and ordinary policies

LIFE—PREMIUMS CEASE AT 70

INDUSTRIAL

	Age 10	Age 20	Age 30	Age 40	Age 50
1. Tabular Commencing Premium.....	\$15.20	\$21.31	\$28.57	\$41.27	\$66.67
2. Net Level Premium (Insurance Benefit) ¹	7.42	10.81	15.86	24.48	41.05
3. Expenses:					
Commissions.....	2.18	3.07	4.17	6.16	10.35
Taxes.....	.33	.46	.62	.90	1.45
All other.....	2.87	2.15	2.05	2.36	3.07
4. Gross Hypothetical Premium (Insurance Benefit).....	12.80	16.49	22.70	33.90	55.92
5. Disability Cost.....	.17	.25	.38	.61	1.10
6. Accidental Death Benefit Cost.....	.40	.53	.60	.72	.92
7. Gross Hypothetical Premium (Insurance, Disability, Accidental Death Benefit).....	13.37	17.27	23.68	35.23	57.94
8. For Contingencies and Dividends.....	1.83	4.04	4.89	6.04	8.73

¹ Provides also for loss from mortality and interest resulting from use of true weekly premiums instead of annual premiums.

TABLE B.—Analysis of premiums per \$1,000 industrial and ordinary policies—
Continued

LIFE-PREMIUMS CEASE AT 70—Continued

ORDINARY

	Age 10	Age 20	Age 30	Age 40	Age 50
1. Tabular Premium ²	\$14. 72	\$18. 24	\$23. 78	\$33. 90	\$54. 20
2. Net Level Premium (Insurance Benefit) ²	6. 79	9. 61	14. 16	22. 24	38. 03
3. Expenses:					
Commissions.....	. 64	. 84	1. 17	1. 87	3. 41
Taxes.....	. 32	. 40	. 52	. 74	1. 18
All other.....	2. 75	2. 68	2. 47	2. 48	2. 50
4. Gross Hypothetical Premium (Insurance Benefit).....	10. 50	13. 53	18. 32	27. 33	45. 12
5. Disability Cost.....	. 04	. 06	. 09	. 15	. 25
6. Accidental Death Benefit Cost.....					
7. Gross Hypothetical Premium (Insurance, Disability, Acci- dental Death Benefit).....	10. 54	13. 59	18. 41	27. 48	45. 37
8. For Contingencies and Dividends.....	4. 18	4. 65	5. 37	6. 42	8. 83

Bases:

Mortality:

Prudential Industrial Experience 1933-35.
Prudential Ordinary Experience 1934-36.

Expenses: 1937 expense rates.

Interest at 3½%.

² Composite premiums taking into consideration proportions of business with annual, semi-annual, quarterly and monthly premiums.

TABLE C.—Analysis of premiums per \$1,000 industrial and ordinary policies

20-YEAR PAYMENT LIFF

INDUSTRIAL

	Age 10	Age 20	Age 30	Age 40	Age 50
1. Tabular Commencing Premium.....	\$24. 07	\$31. 71	\$38. 81	\$49. 06	\$66. 67
2. Net Level Premium (Insurance Benefit) ¹	12. 22	16. 56	21. 99	29. 62	41. 05
3. Expenses:					
Commissions.....	3. 65	4. 81	5. 91	7. 51	10. 35
Taxes.....	. 52	. 69	. 85	1. 07	1. 45
All other.....	2. 49	2. 25	2. 28	2. 50	3. 07
4. Gross Hypothetical Premium (Insurance Benefit).....	18. 88	24. 31	31. 03	40. 70	55. 92
5. Disability Cost.....	. 23	. 32	. 43	. 65	1. 10
6. Accidental Death Benefit Cost.....	. 62	. 78	. 80	. 85	. 92
7. Gross Hypothetical Premium (Insurance, Disability, Acci- dental Death Benefit).....	19. 73	25. 41	32. 26	42. 20	57. 94
8. For Contingencies and Dividends.....	4. 34	6. 30	6. 55	6. 86	8. 73

ORDINARY

	Age 10	Age 20	Age 30	Age 40	Age 50
1. Tabular Premium ²	\$22. 49	\$26. 65	\$32. 14	\$40. 66	\$54. 20
2. Net Level Premium (Insurance Benefit) ²	11. 33	14. 95	19. 92	27. 11	38. 03
3. Expenses:					
Commissions.....	1. 31	1. 56	1. 89	2. 44	3. 41
Taxes.....	. 49	. 58	. 70	. 88	1. 18
All other.....	3. 22	3. 07	2. 84	2. 64	2. 50
4. Gross Hypothetical Premium (Insurance Benefit).....	16. 35	20. 16	25. 35	33. 07	45. 12
5. Disability Cost.....	. 03	. 05	. 07	. 16	. 25
6. Accidental Death Benefit Cost.....					
7. Gross Hypothetical Premium (Insurance, Disability, Acci- dental Death Benefit).....	16. 38	20. 21	25. 42	33. 23	45. 37
8. For Contingencies and Dividends.....	6. 11	6. 44	6. 72	7. 43	8. 83

Bases:

Mortality:

Prudential Industrial Experience 1933-35.
Prudential Ordinary Experience 1934-36.

Expenses: 1937 expense rates.

Interest at 3½%.

¹ Provides also for loss from mortality and interest resulting from use of true weekly premiums instead of annual premiums.

² Composite premiums taking into consideration proportions of business with annual, semi-annual, quarterly and monthly premiums.

TABLE D.—Analysis of premiums per \$1,000 industrial and ordinary policies
20-YEAR ENDOWMENT

INDUSTRIAL

	Age 10	Age 20	Age 30	Age 40	Age 50
1. Tabular Commencing Premium.....	\$50.00	\$53.06	\$55.32	\$60.47	\$72.22
2. Net Level Premium (Insurance Benefit) ¹	35.72	36.64	37.90	40.72	47.40
3. Expenses:					
Commissions.....	7.58	8.06	8.42	9.26	11.21
Taxes.....	1.09	1.16	1.21	1.32	1.57
All other.....	3.63	2.81	2.61	2.64	2.88
4. Gross Hypothetical Premium (Insurance Benefit).....	48.02	48.67	50.14	53.94	63.06
5. Disability Cost.....	.08	.13	.19	.37	.91
6. Accidental Death Benefit Cost.....	.28	.45	.49	.62	.90
7. Gross Hypothetical Premium (Insurance, Disability, Accidental Death Benefit).....	48.38	49.25	50.82	54.93	64.87
8. For Contingencies and Dividends.....	1.62	3.81	4.50	5.54	7.35

ORDINARY

	Age 10	Age 20	Age 30	Age 40	Age 50
1. Tabular Premium ²	\$47.37	\$48.01	\$48.92	\$52.06	\$60.23
2. Net Level Premium (Insurance Benefit) ²	35.40	35.71	36.35	38.41	44.21
3. Expenses:					
Commissions.....	2.55	2.59	2.65	2.87	3.49
Taxes.....	1.03	1.04	1.06	1.13	1.31
All other.....	2.97	2.87	2.69	2.54	2.45
4. Gross Hypothetical Premium (Insurance Benefit).....	41.95	42.21	42.75	44.95	51.46
5. Disability Cost.....	.06	.08	.11	.20	.28
6. Accidental Death Benefit Cost.....					
7. Gross Hypothetical Premium (Insurance, Disability, Accidental Death Benefit).....	42.01	42.29	42.86	45.15	51.74
8. For Contingencies and Dividends.....	5.36	5.72	6.06	6.91	8.49

Bases:

Mortality:

Prudential Industrial Experience 1933-35.

Prudential Ordinary Experience 1934-36.

Expenses: 1937 expense rates.

Interest at 3½%.

¹ Provides also for loss from mortality and interest resulting from use of true weekly premiums instead of annual premiums.

² Composite premiums taking into consideration proportions of business with annual, semi-annual, quarterly and monthly premiums.

EXHIBIT No. 1005

[From files of The Prudential Insurance Co. of America]

EDWARD D. DUFFIELD,
President

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

Home Office, Newark, New Jersey

SEPTEMBER 6, 1938.

To the Policyholders of The Prudential Insurance Company of America:

By the provisions of Chapter 99 of the Laws of New Jersey for the year 1913, under which the proceedings were taken for the mutualization of The Prudential Insurance Company of America, the Trustees for policyholders are required to vote the stock held by them as such Trustees at any election of directors for the persons selected at a meeting of policyholders held for that purpose.

A meeting for the selection of four persons to serve as directors for four years will be held in the Assembly Room, at the Home Office of the Company, Broad and Bank Streets, Newark, New Jersey, on Monday, December 5, 1938, at twelve o'clock noon.

At this meeting every policyholder who is of the age of twenty-one years or upwards and whose policy has been in force for at least one year will be entitled to cast one vote, either in person or by proxy for four persons to serve as such directors, and will also be entitled to vote for or against such other measures as may properly come before the meeting.

At the monthly meeting of the Board of Directors of the Company held on January 10, 1938, a committee to nominate four persons to serve for four years was duly elected and said committee has nominated the following persons, all being members of the present board:

Hendon Chubb

Roy E. Tomlinson

Franklin D'Olier

Josiah Stryker

METHOD OF VOTING IN PERSON

Any policyholder having the qualifications above stated may attend said meeting and vote thereat in person for such directors as he or she may think proper.

METHOD OF VOTING BY PROXY

In case a policyholder is unable to be present at said meeting he may vote thereat by proxy.

The Board of Directors have appointed from their number Edward J. Ill, Physician and Surgeon and State Director, Newark, N. J.; A. Harry Moore, Governor of New Jersey and State Director, Jersey City, N. J., and Charles P. Messick, Chief Examiner and Secretary, Civil Service Commission and State Director, Trenton, N. J., as a committee to vote by proxy on behalf of such policyholders as may so authorize them.

Two forms of proxy have been prepared for the use of policyholders—one instructing the Proxy Committee to cast the vote of the policyholder for the persons nominated by the Committee of the Board of Directors, and the other in blank so that the policyholder may insert therein the names of any persons for whom he desires his vote to be cast.

The proxy should be signed in the presence of a witness, who should then sign the certificate annexed thereto. Only one proxy should be executed.

Proxies may be delivered to any representative of the Company and will then be transmitted to the Home Office without expense to the policyholder. If, however, the policyholder so desires, the proxy may be mailed direct to any member of the Proxy Committee at the Home Office.

EDWARD D. DUFFIELD, *President.*

EXHIBIT No. 1006

[From files of The Prudential Insurance Co. of America]

["Green Proxy"]

PROXY

I, the undersigned, being of the age of twenty-one years or upwards, and a policyholder in The Prudential Insurance Company of America, whose policy has been in force for at least one year, do hereby constitute and appoint Edward J. Ill, A. Harry Moore and Charles P. Messick or any one of them, my attorneys and agents for me and in my name, place and stead to vote as my proxy at the meeting of the policyholders of The Prudential Insurance Company of America to be held at the office of said Company on Monday, December 5, 1938, at twelve o'clock noon, or at any adjournment thereof, for the following named persons as Directors of said Company for four years:

In the event of the death or disqualification of any of the above named persons, then to vote for such other duly qualified person or persons as they may select; and, further, to vote upon all questions or matters which may properly be presented at such meeting, or any adjournment thereof, all as fully as I could do if personally present.

In Witness Whereof, I have hereunto set my hand and seal this _____ day of _____, one thousand nine hundred and thirty-eight.

-----[SEAL]
(Signature of Insured)

I do hereby certify that I am personally acquainted with the person signing the above proxy; that such person is to my knowledge a policyholder in The Prudential Insurance Company of America, whose policy is now in force and has been in force for at least one year; that said person is of the age of twenty-one years or upwards, and that the said proxy was signed, sealed and delivered in my presence.

Policy Number { ----- (Industrial)
----- (Intermediate)
----- (Ordinary) ----- (Witness)

["White Proxy"]

PROXY

I, the undersigned, being of the age of twenty-one years or upwards, and a policyholder in The Prudential Insurance Company of America, whose policy has been in force for at least one year, do hereby constitute and appoint Edward J. Ill, A. Harry Moore, and Charles P. Messick or any one of them, my attorneys and agents for me and in my name, place, and stead to vote as my proxy at the meeting of the policyholders of The Prudential Insurance Company of America to be held at the office of said Company on Monday, December 5, 1938, at twelve o'clock noon, or at any adjournment thereof, for the following named persons as Directors of said Company for four years:

Hendon Chubb Roy E. Tomlinson Franklin D'Olier Josiah Stryker

In the event of the death or disqualification of any of the above named persons' then to vote for such other duly qualified person or persons as they may select; and, further, to vote upon all questions or matters which may properly be presented at such meeting, or any adjournment thereof, all as fully as I could do if personally present.

In Witness Whereof, I have hereunto set my hand and seal this _____ day of _____, one thousand nine hundred and thirty-eight.

-----[SEAL]

(Signature of Insured)

I do hereby certify that I am personally acquainted with the person signing the above proxy; that such person is to my knowledge a policyholder in The Prudential Insurance Company of America, whose policy is now in force and has been in force for at least one year; that said person is of the age of twenty-one years or upwards, and that the said proxy was signed, sealed, and delivered in my presence.

Policy { _____ (Industrial)
Number { _____ (Intermediate)
_____ (Ordinary) (Witness)

1x3-REV 7-38 Printed in U. S. A.

EXHIBIT No. 1067

[From files of The Prudential Insurance Co. of America]

EDWARD D. DUFFIELD, President

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

Home Office, Newark, New Jersey

SEPTEMBER 6, 1938.

To Managers, Detached Assistant Managers, Superintendents and Detached Assistant Superintendents.

GENTLEMEN: We are forwarding you, for distribution among the policyholders, a letter by the undersigned in relation to a meeting to be held at the Home Office on Monday, December 5, 1938, for the purpose of enabling the policyholders to select four persons to be voted for as Directors by the policyholders' trustees at the annual meeting of the Company, to be held on January 9, 1939.

We are also sending a supply of proxies to be executed by the policyholders who may not find it convenient to attend the policyholders' meeting, but who desire to vote thereat.

There are two forms of proxies. One form, printed on white paper, is to be used by the policyholders who desire to vote for those persons who have been nominated by a committee of the Board of Directors; the other form, printed on colored paper, is to be used by policyholders who desire to vote for any person or persons other than those so nominated. In this case the policyholder should write in the proxy the names of the four persons for whom it is desired to vote, which number may include any of the persons nominated by the Committee of the Board.

We are also sending printed slips containing specific instructions concerning the proper execution of the proxy. THESE INSTRUCTIONS SHOULD BE READ VERY CAREFULLY.

Executed proxies should be carefully reviewed, in order to see that the execution is in proper form and that there has been no duplication.

All those received, up to and including Saturday, each week, should be forwarded to the Company in wrappers, which will be provided for that purpose, and the number and district plainly marked thereon.

All proxies are to be forwarded to the Company by FIRST-CLASS mail, in packages or envelopes containing nothing but proxies, and so marked. The postage, for which you will be reimbursed, should be fully prepaid.

We wish you would give this matter your best efforts in order that all policyholders who are entitled to vote may have the opportunity to do so brought to their attention.

Your cooperation is relied upon and we request an acknowledgment of this letter.

Yours truly,

EDWARD D. DUFFIELD, *President.*

MEMORANDUM FOR DIVISION MANAGERS, SUPERVISORS AND ALL OTHERS WHO HANDLE PROXIES

GREAT CARE IS TO BE EXERCISED IN EXAMINING AND COUNTING PROXIES

1. The white proxy should, if the policyholder has indicated no change, bear the names of
Hendon Chubb Roy E. Tomlinson
Franklin D'Olier Josiah Stryker
2. See that each proxy is properly signed and witnessed.
3. Absence of policy number does not invalidate the proxy.
4. If changes or marks of any character are made on a white proxy, send the form to the undersigned. In such cases enter on the proxy, in pencil, the District and give the title of the one who witnessed the signature of policyholder. Do not use ink or indelible pencil when marking a proxy. Write lightly with black lead pencil.
5. Do not include such changed or marked proxies in the count until they are returned to the Division with instructions.
6. If a green proxy is received bearing the same four names as appear on the white proxy, and no other names, everything else being regular, count as a white proxy without referring.
7. All other green proxies should be sent to the undersigned promptly; these will be voted separately at the policyholders' meeting. In such cases enter on the proxy in pencil the District from which received, the title of the one who witnessed the signature of policyholder and state whether the persons voted for are employees of the Company. Look over the white proxies of the District from which a green proxy is received to ascertain whether the policyholder also completed a white form. If one is found, attach it to the green proxy when sent to me.
8. ONE CLERK SHOULD EXAMINE AND COUNT THE PROXIES AND THE COUNT SHOULD BE VERIFIED BY ANOTHER CLERK. EACH SPECIAL CLERK SHOULD SUPERVISE THE EXAMINING AND COUNTING OF PROXIES RECEIVED FROM HIS DISTRICTS.
9. White proxies should be enclosed in the heavy wrappers provided for the purpose, by Districts as far as possible, and in lots of 1,000. If a bundle of 1,000 proxies should cover more than one District, the several Districts should be noted on the wrapper and the number of proxies from each, which make up the 1,000.
10. The bundles are to be held in the Division until instructions are received for moving them.
11. Both clerks, the one who did the examining and counting in the first place, and the one who verified the count, should sign the wrapper.
12. A Special Clerk designated by the Manager will keep a daily and cumulative record of proxies received, and, for the present, a report should be made on Tuesday morning each week to Mr. A. K. Rainey, Supervisors' Department. A daily report may be required later on, in which event you will be notified.
13. Arrangements should be made with Mr. Day to obtain all envelopes or wrappers in which proxies reach the Home Office. A record of postage expense incurred (By Districts) is to be kept by one of the Special Clerks. The policyholders' meeting will be on December 5, and one week later (December 12, 1938) Superintendents should be reimbursed in full for such postage expense. A list showing each District and the amount of postage paid is to be forwarded to the undersigned.
14. KINDLY SEE THAT THESE INSTRUCTIONS ARE THOROUGHLY UNDERSTOOD AND FOLLOWED BY ALL WHO HANDLE THE PROXIES.

WM. W. VAN NALTS, *Secretary.*

September 12, 1938.

HVG

EXHIBIT No. 1008

[From files of The Prudential Insurance Co. of America]

Proxies

INDUSTRIAL DIVISIONS

Year	White proxies						Green proxies							
	Total Staff End of Decem-ber	Number Printed	Combined Ordinary And Industrial Staff Average Per Man	Number Sent Out In September Each Year			Basis of Dist. Per Man	Number Printed	Number Sent Out	Additional Requests	Basis of Dis-tribution	Total	Total Proxies Voted	
				Initial	Additional Requests	Total							Number	Average Per Man (Ind. and Ord.)
1915	12,620	567,000	38.4	378,600	No Record	378,600	30	203,000	151,440	No Record	12 Per Man	151,440	222,207	15.0
1916	13,219	750,000	48.7	594,855	"	594,855	45	40,000	26,428	"	2 "	26,428	254,564	16.5
1917	13,418	550,000	35.5	201,700	"	201,700	15	15,000	3,362	"	1/4 Staff	3,362	1,000	
1918	12,873	550,000	37.3	195,095	"	193,095	15	10,000	3,218	"	"	3,218	1,000	
1919	12,079	550,000	39.4	181,185	"	181,185	15	10,000	3,020	"	"	3,020	1,000	
1920	12,073	550,000	39.1	181,095	"	181,095	15	10,000	3,018	"	"	3,018	1,000	
1921	14,287	500,000	30.6	214,305	"	214,305	15	10,000	3,572	"	"	3,572	1,000	
1922	14,793	488,900	29.6	356,353	50,000	406,353	25	10,000	7,373	"	"	7,373	1,000	
1923	15,511	474,403	27.2	381,450	22,500	403,950	25	10,000	7,994	"	"	7,994	1,000	
1924	16,667	417,706	22.1	326,720	23,700	350,420	20	10,450	8,060	"	"	8,060	230,653	12.2
1925	18,611	287,000	13.7	232,570	25,800	258,370	13	6,000	4,475	"	"	4,475	182,103	8.7
1926	20,729	300,000	13.0	240,768	12,236	233,004	12	6,290	5,016	"	"	4,442	161,441	7.0
1927	21,885	305,000	12.5	258,748	10,852	269,600	12	7,000	5,432	"	"	5,432	174,603	7.1
1928	23,157	375,000	14.5	296,381	25,637	312,018	13	8,000	5,509	"	"	5,509	202,204	7.8
1929	24,346	375,000	13.8	310,653	22,500	333,153	13	8,500	5,927	394	"	6,321	196,263	7.2
1930	24,617	400,000	14.5	316,686	22,000	338,686	13	9,000	6,096	926	"	6,022	215,137	7.2
1931	23,828	400,000	14.6	309,686	21,698	331,384	13	9,000	5,956	716	"	6,672	217,381	7.9
1932	22,853	400,000	15.1	305,240	37,626	342,866	13	9,000	5,865	1,061	"	6,916	234,628	8.8
1933	22,839	400,000	15.1	292,422	37,489	329,911	13	9,000	5,623	720	"	6,343	229,693	8.7
1934	23,061	400,000	15.4	298,805	45,398	344,203	13	9,000	5,772	977	"	6,749	231,998	8.9
1935	23,032	400,000	15.6	299,507	29,280	328,787	13	9,000	5,815	1,552	"	7,367	238,953	9.3
1936	23,089	400,000	15.8	299,507	26,913	326,420	13	9,000	5,901	1,026	"	6,927	243,639	9.6
1937	23,096	450,000	18.0	369,776	35,546	405,322	16	9,000	5,792	1,735	"	7,527	306,622	12.2
1938	22,888	569,000	24.8	468,001	2,762	470,763	20	29,500	11,960	5	1/2	11,965	376,770	15.3

ORDINARY AGENCIES

1915	2, 115	63, 450	30	25, 382	12 Per Man	25, 382	984
1916	2, 163	97, 335	45	4, 326	"	4, 326	550
1917	2, 002	30, 030	15	505	Staff	505	624
1918	1, 860	27, 900	15	465	"	465	973
1919	1, 870	28, 050	15	467	"	467	1, 227
1920	1, 989	29, 835	15	497	"	497	1, 030
1921	2, 025	30, 375	15	506	"	506	1, 174
1922	1, 717	42, 925	25	858	"	858	1, 970
1923	1, 912	47, 800	25	956	"	956	858
1924	2, 104	43, 280	20	1, 082	"	1, 082	1, 167
1925	2, 201	28, 613	13	550	"	550	1, 128
1926	2, 333	27, 996	12	583	"	583	904
1927	2, 450	29, 400	12	612	"	612	877
1928	2, 614	33, 982	13	653	"	653	691
1929	2, 719	35, 347	13	679	"	679	633
1930	2, 914	37, 882	13	728	"	728	548
1931	3, 432	44, 616	13	858	"	858	475
1932	3, 618	47, 084	13	904	"	904	939
1933	3, 507	42, 839	13	877	"	877	
1934	2, 763	37, 297	13	691	"	691	
1935	2, 533	35, 763	13	633	"	633	
1936	2, 192	30, 680	13	548	"	548	
1937	1, 902	31, 328	16	475	"	475	
1938	1, 814	36, 820	20	939	"	939	

¹ Add to Ind. Division for grand total.

² Included in above figures.

EXHIBIT No. 1009

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Record of votes cast at policyholders' meetings

	The four (4) persons nominated by the Comm. on Nominations	Votes Cast		Total
		By Proxy	In Person	
1934.....	Hendon Chubb.....	231,934	34	231,968
	Roy E. Tomlinson.....	231,998	34	232,032
	Franklin D'Olier.....	231,989	34	232,023
	Alfred Hurrell.....	231,926	34	231,960
	Eight (8) odd names voted for by proxy with a total vote of 17.			
1935.....	Howard Bayne.....	238,931	28	238,959
	Henry G. Parker.....	238,953	28	238,981
	Douglas G. Thomson.....	238,940	28	238,968
	Harold W. Dodds.....	238,924	28	238,952
	Ten (10) odd names voted for by proxy with a total vote of 37.			
1936.....	John A. Campbell.....	243,639	19	243,658
	W. Palen Conway.....	243,639	19	243,658
	J. H. Bacheller.....	243,637	19	243,656
	Aubrey H. Elder.....	243,637	19	243,656
	Seven (7) odd names voted for by proxy with a total vote of 31.			
1937.....	Edward D. Duffield.....	306,622	25	306,647
	Albert C. Wall.....	306,619	25	306,644
	Chester I. Barnard.....	306,619	25	306,644
	Jackson E. Reynolds.....	306,619	25	306,644
	Ten (10) odd names voted for by proxy with a total vote of 28.			
1938.....	Hendon Chubb.....	376,756	31	376,787
	Roy E. Tomlinson.....	376,759	31	376,790
	Franklin D'Olier.....	375,770	31	376,801
	Josiah Stryker.....	376,737	31	376,768
	Thirty (30) odd names voted for by proxy with a total vote of 79.			

EXHIBIT No. 1010

[From files of The Prudential Insurance Co. of America]

DECEMBER 19, 1934.

In re: *Meyer Levow*

This man made application for a \$5000 Modified 3 Policy, issued March 22, 1934, policy number being 7678799. He gave his residence as 1334 Prospect Avenue, Bronx. His wife Anna was named as beneficiary. He has a daughter, Viola Levow, about fourteen years of age. He stated in the application he was an inspector of structural work for the I. R. T. Railway, 159th St., and 8th Ave., New York City, and was employed on the elevated railway. He gave his birthplace as Roumania and was born January 20, 1901. He was described as being 5' 4½", 138 pounds. He later asked to have the policy changed to an Endowment for \$2000, with a quarterly premium payment of \$13.50.

In December, 1934, he wrote the Company demanding a list of the names of policyholders who had voted by proxy at the December election of Directors.

Investigation of the insured's record with the railway company shows that his employment was that of riveter, dating from July 24, 1929 up to the present writing and his compensation amounts to \$6.13 per day.

He has resided at 217 West 11th St., 36 LaSalle St., and 1334 Prospect Ave., (his present address) during the past thirteen years. When he applied as riveter at the I. R. T. Railway, he claimed to have had a berth as boatswain on the S. S. Yoka of the American Export Lines, whose offices are located at 25 Broadway, New York City. He further stated that this employment as boatswain on the Yoka was from May 2, 1929 to July 24, 1929.

The American Export Lines were interviewed and state that the Yoka was turned over to them in October, 1929 and Levow's name appeared on the list of the previous crew, but this company engaged their own crew subsequent to taking the steamer over and they have no record of Levow.

At the office of the U. S. Shipping Board, Seamen's Service Bureau at Cedar and West Streets, New York City, no record appears of Levow as being employed on the Yoka and the manager suspected there might be something irregular in this connection. At the U. S. Department of Commerce, Seamen's Passport and Re-entry Passport Division, located in the Barge Office, South Ferry, and also the U. S. Shipping Commissioner's Office, South Ferry, New York City, no record appears of Levow registering on the S. S. Yoka at the time this vessel was taken over by the American Export Lines. The U. S. Shipping Board record shows the Yoka was in drydock from August 8, 1921 to October 28, 1929 when it was delivered to the American Export Lines.

At 217 W. 11th St., where subject is alleged to have resided prior to 1921, Meyer Levow's name is unknown to the superintendent of the building and residents in the building, who are all negroes. A neighborhood inquiry developed the fact that residents who lived in this vicinity prior to 1921 have all moved away and the owners of the property at 217 W. 11th Street, have moved to Austria.

At 127 West 111th Street where insured stated to the American Export Lines his nearest relative (a sister Marie) resided in 1929, is now occupied principally by Spanish speaking people. Mr. Miller, the superintendent, stated that he had no knowledge of any person named Marie Levow. This section has changed completely in the past five years and is slowly turning into an almost entire colored and Spanish community so that no information was obtainable concerning Levow. The rental agent of this property, in 1929, was Oswald Soloman who has since died.

At 36 LaSalle Street, where insured is alleged to have resided from 1921 to 1929, the premises is completely empty of tenants with the exception of a Mrs. Diehr who has resided there for twenty years. The former janitress, Mrs. H. McIsaacs, who now resides at 3153 Broadway, a Mrs. R. McDermott, another janitress at 38 LaSalle St. and Joe Coleine, 38 La Salle St., all had an acquaintance with Meyer Levow and his family. They stated that subject was a man who went to sea and very little was known about him as he was seldom at home. That during the period of residence at 38 LaSalle Street, Mrs. Levow worked out by the day as a seamstress and housekeeper.

They further stated that in the Fall of 1929, the Levow family moved to their present address at 1334 Prospect Avenue, Bronx. The family bore a very good reputation, paid their rent and local store bills promptly and were considered nice people. So far as these informants know, insured had no radical tendencies and to the best of their knowledge was not a member of the I. W. W. or a labor union and never discussed anything along these lines. He seemed to get along well with his family and met all his financial obligations on time.

Inquiry at the 24th Police Precinct where records are kept covering 36 LaSalle Street and vicinity, there was nothing found to indicate that insured ever came under observation by the police and was never arrested.

Mr. Famos, superintendent of the building, 1334 Prospect Avenue, spoke in the highest terms of insured and his family. He stated they occupy apartment 9 on the top floor, four rooms and bath, at a rental of \$28 per month and have been tenants about five years in this location. They are considered to be very quiet people of the catholic faith and vote a democratic ticket. Insured's wife is German and made a trip to Germany, with the daughter Viola, two years ago. Viola was honor student at Morris High School and will graduate in June 1935. To the best of his knowledge, Mr. Famos stated that insured is not a member of any lodges, clubs or associations. He is considered to be a quiet, home loving man and when at home assists his wife in housecleaning and on Saturdays is often observed going to and from the market carrying home bundles and baskets of food produce. Local store proprietors state that insured pays his bills promptly, is a quiet jovial man and apparently has no radical ideas nor inclined to get into controversies. Pays all his bills in cash.

Records of both the police and detective bureaus of the 41st Precinct, 1086 Simpson Ave., Bronx, were checked and there is nothing to indicate that he has ever had any personal contact with the police and was never arrested.

At the Board of Elections, Bronx Borough, 3d and Tremont Avenues, all records of subject and his wife were checked for the past six years and are as follows:

Meyer Levow, age 35, 1334 Prospect Ave., 28 years in New York State, six years in Bronx County. Born Roumania. Became a U. S. citizen at age 21. Subject's father, Abraham Levow became a citizen on November 22, 1916 in New York Supreme Court.

Anna Levow, age 33, 1334 Prospect Avenue, 22 years in New York State, six years in Bronx County, Born Germany. Became a U. S. citizen upon marriage to subject.

Both subject and his wife have registered and voted the democratic ticket since moving to the Bronx in 1928.

It is suggested that since there is no record of Meyer Levow being employed through the U. S. Shipping Board in New York, it is possible that his record of employment is located at the Seamen's Service Bureau, Department of Commerce, Norfolk, Va., as the S. S. Yoka in 1929 was undergoing repairs at Newport News Shipyard. That might explain the reason why there are no records of insured in New York City covering the employment on the steamship.

W. J. R.,
Office of Chief Inspector.

EXHIBIT No. 1011

[Submitted by The Prudential Insurance Co. of America]

MEMORANDUM RE MUTUALIZATION OF THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

In June, 1913 The Prudential Insurance Company of America, a stock life insurance company organized under a special act of the Legislature of the State of New Jersey (P. L. 1873, p. 1418), commenced proceedings for the acquirement of its capital stock for the benefit of its policyholders by filing a petition with the Chancellor of the State of New Jersey pursuant to the provisions of Chapter 99 of the Laws of 1913 (Revised Statutes 17:34-33 to 43). The object of the proceedings and of the acquirement of the capital stock therein sought was the ultimate complete mutualization of the Company in the interest of its policyholders.

A review of the circumstances that led the Company to take this step and an account of the proceedings before the Chancellor, of the litigation that resulted, of the final adjudication permitting the Company to commence the process of mutualization pursuant to the statute and of the events immediately following, are set forth in a statement prepared by the late Edward D. Duffield in June 1921 in connection with a special examination of the Company by the Insurance Department of the State of New York relative to these matters. Mr. Duffield had represented the Company as counsel for some years prior to the commencement of the proceedings and, in collaboration with the late Mr. R. V. Lindabury, prepared the enabling legislation, conducted the proceedings, and guided the subsequent steps taken. It would be superfluous to attempt to enlarge upon his full and clear account of all of these matters. For the purpose of this memorandum we therefore present his statement of the facts up to June, 1921 and, with the omission of a few lines not now relevant, quote it verbatim, as follows:

"The main object sought to be obtained by the mutualization of the Prudential was the legal determination of the respective rights of stockholders and policyholders in the surplus funds of the Company and to secure to the policyholders not only their rights in the existing surplus but also in such additions thereto as should thereafter be made.

"The respective rights of stockholders and policyholders in the surplus of a stock life insurance company had long been a mooted question and one which had occasioned deep anxiety, particularly in the case of the Prudential whose charter contained no limitation whatever as to the amount of dividend which might be paid on the stock, differing in this particular from most large life insurance companies' charters.

"The question had been given consideration by the Armstrong Committee in New York, and also by the Hillery Committee of New Jersey. The latter Committee in referring specifically to the Prudential said: 'This money (the surplus) ought, in some way, to be assured to the policyholders, except such part as justly now belongs to the holders of the stock. Rather than allow this accumulation to go on for the benefit of the stockholders, at the expense of the policyholders of this Company, we would be in favor of the repeal of the charter of the corporation, and a reorganization of it under the general law.'

"As a result of the recommendation of the latter Committee a law was enacted under the provisions of which the Chancellor now appoints three directors to the Board of the Prudential who are policyholders but not stockholders. (Laws of New Jersey, 1907, Chapter 41).

"No other action was taken at this time, but the question soon became acute by reason of a suit brought by Leon F. Blanchard and others against the Prudential in 1910. This suit was for the purpose of obtaining an injunction enjoining the insurance company from the further payment to any policyholder of any sum or sums to which said policyholder might not be entitled by the terms of the policy contract, and from in any way enlarging or changing the policy contract of any policyholder of said Company in such way as to authorize or require the payment to such policyholder of any further sum of money than that to which such policyholder would be entitled under the terms of the policy contract; and also to compel the Company to forthwith declare a dividend of the amount of the surplus of said Company or such part thereof as could in the judgment of the Court at that time be safely distributed to the stockholders of said corporation.

"The contention of the complainants in that suit was that as the Prudential was a stock corporation the sole duty of its directors was to so manage the affairs of the Company as to make the largest amount of money possible for the stockholders; that this duty had been violated in that the directors had from time to time authorized returns to the policyholders in the way of so-called dividends certain accumulations upon their policies which it was contended belonged in law to the stockholders, and that the stockholders were, therefore, entitled to have such practices enjoined. They further complained that notwithstanding the fact that there was no limitation in the Prudential charter as to the amount of dividends which might be paid, the dividends had been limited to ten per cent. They urged that a dividend from the surplus, or, if possible, the entire surplus should be immediately distributed among the stockholders.

"The case was tried before the late Vice Chancellor James E. Howell, who denied the injunctive relief sought, but ordered the Company to immediately declare a dividend of \$2,500,000. to its stockholders. See *Blanchard vs. Prudential*, 78 N. J. Eq. 471.

"That portion of the decision of the Vice Chancellor requiring the payment of a dividend of \$2,500,000. was reversed by the Court of Appeals, upon the ground that the retention of the said sum was not an abuse of discretion by the directors and that if in their opinion the same was necessary to safeguard the security of the Company's policies the court was without power to compel its distribution. See *Blanchard vs. Prudential*, 80 N. J. Equity, 209.

"There was no denial by the court, however, of the Company's right to distribute dividends to its stockholders in such amount as the directors might deem proper when in their opinion the condition of the Company would warrant it, and strong pressure was brought upon the management not only by the complainants in the suit but by other stockholders to largely increase its annual rate of dividends.

"The discussion which this case occasioned strongly accentuated the necessity of a judicial determination of the relative rights of stockholders and policyholders in the Company's surplus earnings.

"The New Jersey Commissioner of Banking and Insurance, Hon. Henry J. Ford, after conference with Hon. Woodrow Wilson, at that time Governor of the State, urged upon the Company the necessity of a judicial ascertainment of the respective rights of the two classes in the Company's surplus earnings and the desirability that when the same had been ascertained the Company should be placed upon a mutual basis, so that future earnings should clearly belong to the policyholders whose contributions created the same.

"The Board of Directors of the Company gave careful consideration to the matter and at a meeting held January 13, 1913, appointed a Committee consisting of former Chancellor William J. Magie, former Supreme Court Justice Bennett Van Syckel, the General Counsel of the Company, Richard V. Lindabury, and the President to consider the subject of mutualizing the Company, with power to prepare and submit to the Legislature one or more bills under which with the concurrence of both the stockholders and the policyholders such mutualization might be effected.

"The Committee called into consultation as advisory counsel, Hon. William H. Hotchkiss, Commissioner of Insurance of the State of New York under the administration of Governor Hughes. Mr. Hotchkiss was retained because of the fact that as Insurance Commissioner he had been impressed with the necessity of mutualizing large stock life insurance companies and had given careful consideration to the methods by which such mutualization could be obtained.

"The Committee prepared and drafted a bill which was submitted to the Insurance Department of New Jersey, and after its approval was introduced into the Legislature by Senator J. Warren Davis, now Judge of the United States Circuit Court of Appeals for this District.

"The bill had the cordial support of Governor Wilson, who in summarizing the results of his administration in a conference with the Democratic members of the Senate and Assembly, held on February 19, 1913, referred to the bill as 'an especially worthy bill' for which he wished success.

"The plan of mutualization provided for in the bill was, briefly, as follows:

"The Board of Directors of the Company, having determined that it would be conducive to the welfare of the Company and in the interest of the policyholders thereof to change the Company from a stock to a mutual corporation, were given authority to petition the Chancellor for the appointment of two or more disinterested persons to appraise the value of the capital stock. Upon due notice to all parties in interest, including the Commissioner of Banking and Insurance, and after hearing the Chancellor was authorized to make the appointments requested. The appraisers so appointed were given power to summon witnesses, require the production of books and papers and administer oaths. They were required within such time as fixed by the Chancellor's order to report to him their findings as to the value of such stock, together with the basis upon which such findings were made. Upon filing their report the Chancellor was required to fix a day for hearing any party in interest, and after due notice of such hearing to confirm, modify or disapprove the findings of the appraisers. Upon the final fixing by the Chancellor of the value of such stock the President of the Company was required to call a special meeting of the stockholders at which meeting the stockholders by a majority vote of all outstanding stock might authorize the purchase of the stock, or so much thereof as might be offered to the Company at the price fixed by the Chancellor. In case the stockholders should determine in favor of purchasing the stock the Prudential was then required to call a meeting of the policyholders, giving notice of such meeting to the policyholders in manner and form as the Chancellor should direct. At the policyholders' meeting every policyholder of the age of twenty-one years and upwards whose policy had been in force one year was entitled to vote. In case a majority of the policyholders voting at such meeting should favor the purchase of the stock the action of both meetings was then reported to the Chancellor, who after a hearing with due notice to all parties in interest was given authority to confirm the same. The order of confirmation and the order fixing the value of the stock were both subject to review by the Court of Errors and Appeals. The Chancellor was further required to appoint one or more trustees for policyholders to whom the stock purchased by the Company was to be transferred and who were to hold the legal title thereto until the entire capital stock was acquired, upon the trusts, however, enumerated in the act, namely:

1. To receive all dividends declared thereon and to repay the same within ten days after the receipt thereof to such corporation for the benefit of the policyholders thereof.

2. To receive all other sums paid on such shares in any manner or under any contingency, and within ten days after such receipt to repay such sum or sums to such corporation for the benefit of the policyholders.

3. To vote such stock at any election of directors of said corporation for such person or persons as members of the Board of Directors as the policyholders of such corporation should select at a meeting to be held for that purpose.

4. To vote such stock at the annual meeting of the corporation or at any special or other meeting of the stockholders thereof for or against any measure proposed for the action of the stockholders other than the election of directors according as in their judgment will best promote the interest of the policyholders and the corporation, unless they should be specifically instructed with respect to such measure at the next preceding meeting of the policyholders, in which event they shall vote the stock in accordance with such instructions.

"Provision was made for calling annual meetings of the policyholders and for the Chancellor providing by order for the notice to be given to the policyholders thereof. The Chancellor was also given authority to appoint counsel to represent the policyholders at any and all stages of the proceedings, the compensation of such counsel to be fixed by the Chancellor and to be paid by the Company. (Laws of New Jersey (1913), Chapter 99.)

"After the introduction in the Legislature of the bill hearings were granted by the Committees of both Senate and House. At these hearings the enactment of the bill was urged by the Commissioner of Banking and Insurance and by counsel representing the Company, and was strongly opposed by Mr. Samuel Untermyer and his partner, Mr. Louis Marshall, who stated that they represented a 'group of stockholders.'

"The bill passed the Senate and House without a dissenting vote in either and was approved by Governor Fielder.

"The Chancellor thereupon appointed as Commissioners to appraise the stock Hon. John Franklin Fort, former Governor of New Jersey, Hon. James Smith, Jr., former United States Senator from New Jersey, and Hon. William M. Johnson, former President of the Senate of New Jersey. He also appointed as Attorneys to represent the policyholders in the mutualization proceedings Hon. John W. Griggs, former Attorney General of the United States, and Hon. Merritt Lane, subsequently a Vice Chancellor of the State of New Jersey.

"From the order appointing these appraisers an appeal was taken by certain stockholders to the Court of Errors and Appeals, where the order was affirmed. (See *In Re: Prudential Insurance Company of America*, 88 Atl. Rep. 970.)

"A Writ of Certiorari was then obtained removing the order into the Supreme Court upon the ground that the Act was unconstitutional as against stockholders. Upon the hearing the constitutionality of the law was affirmed and the Writ dismissed. (See *Rippel vs. Prudential Insurance Company of America*, 85 N. J. Law Rep. 395.)

"Hearings were held by the appraisers at which both the policyholders and stockholders were represented and a large amount of testimony taken. Subsequently on June 26, 1914, the Commissioners reported to the Chancellor fixing the value of each share of stock of the said corporation at the price of \$455. This report was by an order of the Chancellor, bearing date the 28th day of July, 1914, confirmed.

"The question as to whether the Company should purchase the stock at the price fixed by the Chancellor was thereupon submitted to separate meetings of stockholders and policyholders as required by the Act.

"At the stockholders' meeting 30,869 shares out of a total of 40,000 shares outstanding were voted in favor of authorizing the purchase of the stock at the price fixed, and none was voted in opposition thereto.

"At the meeting of the policyholders, 940,797 policyholders voted in favor of making such purchase, and 208 policyholders voted in opposition thereto.

"The report of such meetings having been filed with the Chancellor a final hearing was held by him on the 22nd day of December, 1914, at which time an order was made by him confirming the action of the policyholders and stockholders, and authorizing the Company to acquire its capital stock, or so much thereof as might be offered to it for sale, at the price of \$455. per share.

* * * * *

"It will be observed that the New Jersey Mutualization Act differs from that of other States in the following particulars.

1. It provides for a judicial ascertainment of the value of the stock and limits the purchase price to the value so ascertained, instead of permitting the price to be arranged by private negotiation.

2. It provides for the appointment of counsel by the Chancellor to represent the policyholders throughout the proceedings.

3. It provides for separate and independent action by both stockholders and policyholders before the purchase of the stock and *after* the price to be paid has been fixed by the Chancellor.

4. It provides for an immediate transfer of the stock so purchased to a trustee for policyholders whose holding of the legal title to such stock permits the policyholders by reason of their stock ownership to control the Company upon the acquisition of a majority of its stock.

5. It provides for a supervision of the policyholders' meeting by the Chancellor.

"It will be observed that the Chancellor, who is the highest judicial officer in the State of New Jersey, is by the Act given supervision both of the method of mutualization and the conduct of the policyholders' ownership after the stock of the Company has been acquired in their interest.

"Since the adoption of mutualization the Company has purchased at the price fixed by the Chancellor thirty-seven thousand seven hundred and ninety-four and seventy-five one hundredths shares of stock, which in accordance with the provisions of the Act have been transferred to and now stand in the name of the Trustee for Policyholders appointed by the Chancellor.

"Regular meetings of the policyholders have been held annually.

"Notice of such meetings has been given in each instance in accordance with the special order of the Chancellor, providing for advertisement in each State of the United States and each Province in Canada in which the Company does business.

"The method of selecting directors has been for the Board of Directors each year to appoint a Committee on Nominations and a Committee for Proxies.

"The Committee on Nominations has annually recommended to the policyholders the names of candidates to be elected at the annual meeting.

"The Committee on Proxies have acted for the Policy-holders by receiving the proxies, two sets of proxies being submitted to the policyholders. One set providing for the persons named by the Committee on Nominations, and the other set providing for the insertion of any other name or names that he or she may desire. These proxies have been voted annually in accordance with the instructions therein contained. In order to secure as large a vote as possible proxies and letters directed to the policyholders have annually been sent to the Field Force for distribution. * * *

"A certificate setting forth the result of the election at the policyholders' meeting has annually been filed in the office of the Commissioner of Banking and Insurance of this State and a duplicate thereof filed with the policyholders' trustee. In accordance therewith the said trustee has voted annually for such persons as Directors at the next ensuing election of the corporation as have received the highest number of votes at the policyholders' meeting, which vote is, of course, decisive, practically ninety-four per cent of the stock being owned and voted by him.

"The Act contains a provision that the persons voted for as directors need not be stockholders in the corporation. In the suit brought in the Supreme Court attacking the constitutionality of the Act one of the reasons alleged was that the Legislature can not authorize the election as directors of the Prudential Insurance Company of persons not stockholders of said corporation without the consent of all the stockholders of said corporation. The court did not pass upon this question, as under the adjudications in New Jersey the question could not be raised *until* a director not a stockholder was elected and took his seat on the Board.

"The counsel for the Company advised the President that in their opinion this provision might be held unconstitutional and that in order to prevent litigation based thereon it was desirable that *after* the election of a director who was not a stockholder he should be given the opportunity to purchase stock in order to prevent a possible attack upon the Act on the ground stated. The President has, therefore, upon the election of a non-stock holding director given such director the opportunity to purchase one or more shares of stock held by the President personally, and the directors so elected have purchased from the President stock at the appraised value for the reasons given.

"As a result of mutualization the policyholders have secured the following benefits:

1. They are the owners of thirty-seven thousand seven hundred and ninety-four and seventy-five one-hundredths shares of the Company's capital stock, by which ownership they control the Company.
2. They have received annually the dividends declared upon such stock and will continue to so receive the same until the Company is completely mutualized.
3. They have received additional benefits in the way of so-called policy dividends not called for by the policy contract.
4. They have acquired title to the surplus except so much thereof as may be necessary to pay the appraised price upon such of the outstanding stock as may be offered for purchase, together with the ownership of all future accretions and surplus earnings."

* * * * *

Thus concludes Mr. Duffield's statement. In the interest of attaining as perfect an accuracy as possible certain minor corrections and amplifications will now be suggested.

On page 9 it is stated that "From the order appointing these appraisers an appeal was taken by certain stockholders to the Court of Errors and Appeals, where the order was affirmed." In point of fact the appeal was dismissed on motion upon the ground that the court was without jurisdiction.

Also on page 9 it is stated "Upon the hearing the constitutionality of the law was affirmed and the writ dismissed." In point of fact the writ was dismissed upon the ground that consideration of the constitutionality of the law was premature.

On page 10, in referring to the Chancellor's order of December 22, 1914, it may be added that the order recited the finding by the Chancellor that the purchase of the Company's stock at \$455 per share could be made out of the surplus of the corporation "without impairment of the rights of stockholders who elected to retain their stock."

On page 11 it is stated that the Mutualization Act "provides for a supervision of the policyholders' meeting by the Chancellor." This refers to the statutory

prescription that notice of the meetings shall be given in the manner and for the length of time the Chancellor shall direct and not to the conduct of the meetings themselves, which is otherwise regulated in the same section of the Act.

In the last paragraph on page 13 it is stated that the policyholders "have acquired title to the surplus except, etc." The word "title" is of course a misnomer. The fact is that the policyholders now have rights in the surplus subject only to the rights of stockholders who have elected to retain their stock.

It will be observed that by June, 1921 the Company had acquired in the process of mutualization 37,794.75 shares of its capital stock for the benefit of its policyholders out of a total number of 40,000 shares outstanding. From this point the account of mutualization and of its status at this date will be drawn from the records of the Company and from the personal knowledge and experience of the writer.

Mr. Duffield states that "The method of selecting directors has been for the Board of Directors each year to appoint a Committee on Nominations and a Committee for Proxies." This is a correct statement of the practice followed until 1923. At a meeting of the Board held December 28, 1922 the By-Laws were amended to provide for the election by the Board at the stated meeting in January of each year of a Committee on Nominations consisting of five directors. There was also added a new by-law (now numbered 22) prescribing the functions of the Committee on Nominations, as follows:

"22. The Committee on Nominations shall annually recommend to the Board for submission to the policy-holders the names of four persons to succeed the Directors whose terms of office shall expire at the next stockholders' meeting. Whenever a vacancy occurs in the Board of Directors, they shall recommend a suitable person to fill such vacancy."

The effect of these changes was simply to regularize in the form of By-Laws the practice which had theretofore been followed by mere resolutions adopted annually. Thus a method was provided for placing before the policyholders nominations for the office of director and obviating the scattered and possibly ill-considered voting that might well result if no names were submitted to so large an electorate. The system adopted in effect invites a vote of confidence in the management, but does not assure it. As in the case of other corporations, an overturn is always possible by organized effort, on the part of the voting body, and it can hardly be doubted that such a result would follow incompetence or malfeasance on the part of the existing management.

It will be observed that the Committee on Nominations is required annually to recommend to the Board for submission to the policyholders the names of four persons. This provision accords with an amendment to the Charter, adopted May 28, 1917, by which the number of directors, other than State directors, was increased from nine to sixteen, equally divided into four classes, each one of which is elected annually for a term of four years. It is the practice of the Committee on Nominations to submit its annual recommendations to the Board at the regular meeting in June of each year. The Proxy Committee, which is purely a mechanical instrument for voting in accordance with the proxies received from policyholders, is annually named by the Board of Directors at the regular January meeting of the Board. Neither the Mutualization Act nor the By-Laws provide for the appointment of this committee. The practice has been adopted to facilitate voting by proxy which is specifically authorized by the Act.

The governing statute and, with the exception above noted, the relevant By-Laws of the Company have undergone no substantial change from January 1915, when the process of mutualization commenced, until the present. In the revision of the Statutes of New Jersey, completed and adopted by the Legislature in December 1937, the text of the Mutualization Act was considerably altered as to matters of form and grammar, but not as to matters of substance. The practice of the Company with respect to continued purchases of its stock and with respect to all of the machinery for the holding of policyholders' meetings and the election of directors has therefore continued substantially as described by Mr. Duffield.

It will be recalled that after the provisions of the Mutualization Act had become effective as to The Prudential, counsel for the company advised that the provision permitting the election of directors who were not stockholders might be subject to attack on constitutional grounds, and that, in order to forestall litigation, it was desirable that whenever any person who was not a stockholder should be elected to the office of director he should be given an opportunity to purchase stock in order that he might be qualified under such an interpretation of the law. For a number of years the President of the Company retained sufficient stock to provide the necessary supply for this purpose. In 1926 Mr. Duffield, who had in 1922

succeeded Mr. Forrest F. Dryden as President of the Company, discussed with counsel the possibility of assuring to the Company an ample reservoir of qualifying directors' shares, while at the same time placing these shares under the control of the Company itself on such terms that no director or his legal representatives could delay or defeat complete mutualization at such time as all other shares had been acquired for the benefit of policyholders.

From these discussions there was developed a plan by which three trustees, who were and are officers but not directors of the Company, executed a Declaration of Trust dated February 2, 1927 under which deposits of all of the stock then held by each director were voluntarily made, on trusts which assured to each director the legal title and record ownership of his stock so long as he continued to be a director and assured to The Prudential the right to direct the transfer of such stock whenever the holder should cease to be a director, whether by reason of death or otherwise. This instrument contains elaborate provisions for the safeguarding of the rights both of the several directors and of the Company. It has operated without difficulty or dispute. In practice a newly elected director is permitted to receive a transfer of qualifying stock, (invariably that held by his predecessor), only upon his simultaneously depositing the same with the Trustee of the so-called Stock Trust in exchange for a trust receipt. For this he pays the appraisal price of \$455 per share which is in turn paid over to the prior holder or his legal representatives. At the present time forty-eight (48) shares of the Company's stock standing in the names of the several directors elected by the stockholders (as distinguished from those appointed by the Chancellor) are deposited under the Trust and are consequently subject to the control of the Company.

Since June 1921, when the Company had acquired for the benefit of its policyholders 37,794.75 shares of its stock, a substantial number of additional shares have been acquired, for the most part in small amounts from scattered holders, so that at this date the Trustees for Policyholders hold 39,415.24 shares of stock and there are outstanding 584.76 shares, of which forty-eight (48) shares are held in the Stock Trust and the balance amounting to 536.76 shares are held by persons who have not tendered them to the Company for purchase at the appraisal price of \$455 per share. The greater number of these outstanding shares are the subject matter of litigation pending in the Court of Chancery which will now be discussed.

Certain members of the Blanchard family, whose forbears were amongst the founders of the Company, hold substantial blocks of the stock of The Prudential. They and their predecessors in interest have long expressed themselves as dissatisfied with the appraisal of the stock at \$455 per share and have refrained from tendering their stock to the Company at that price. These stockholders represent in part the same interests responsible for the litigation known as *Blanchard v. Prudential*, 78 N. J. Eq. 471, 80 N. J. Eq. 209, described by Mr. Duffield, and also responsible for the litigation which unsuccessfully sought to block the mutualization proceedings. While suggestions have been made from time to time during the past twenty-three years either by these stockholders directly or by persons purporting to represent them that they would be willing to turn in their stock at a price much higher than that at which it had been appraised, it has always been the position of the Company, acting under advice of counsel, that it could not lawfully, and would not, purchase its stock excepting under the conditions prescribed by the Chancellor in the mutualization proceedings. Upon this point the Company has at all times been inflexible.

In December, 1937 the Executors of the Will of Leon F. Blanchard, deceased, holding such four hundred and two (402) shares of the Company's stock, commenced suit in the Court of Chancery for distribution of a fund amounting to approximately \$5,600,000 which had been allocated to stockholders prior to mutualization under resolutions withholding distribution in the discretion of the Board of Directors but not as yet distributed although the earnings thereon are annually paid to stockholders by way of special dividend. This fund is essentially the same fund, plus subsequent additions and accretions, as was the subject of the litigation above mentioned (*Blanchard v. Prudential*, 80 N. J. Eq. 209). As the question raised necessarily affected the interest of the Trustees for Policyholders, they being the largest stockholders of the Company, they saw fit to intervene in the suit for the purpose of opposing the distribution sought by the complainants. At this stage of the proceedings the complainants for the first time interposed the claim that the Trustees for Policyholders were not in fact stockholders of the Company because the stock held by them had been purchased with funds of the Company which they claimed belonged to stockholders, and therefore must be considered as in effect treasury stock. After the disposition of several preliminary motions this case still awaits final hearing.

In June, 1938 the Executors of the Estate of Milton E. Blanchard, holding as such 102.76 shares of the stock of The Prudential, commenced suit against the Company and the Trustees for Policyholders in the Court of Chancery of New Jersey, seeking a declaratory judgment upon a great number of issues some of which are connected with the mutualization proceedings and with the acts of the Company and of the Trustees done pursuant thereto and in effect attacking the constitutionality and validity of the entire proceedings. The Company and the Trustees by their several counsel promptly moved under the rules of the Court of Chancery to strike the bill of complaint for lack of equity upon various grounds, including particularly, as to most of the questions raised, the ground of laches, inasmuch as the complainants for over twenty-three years have slept upon the rights they now seek to have adjudicated. The motion to strike was argued orally December 15, 1938, briefs have since been submitted and decision on the motion is pending.

The 584.76 shares of the Company's outstanding stock not yet purchased and transferred to the Trustees for Policyholders are held as follows:

Directors (in Stock Trust).....	48	shares
Harold M. Blanchard.....	1	share
Ralph F. and Mrs. Fern P. Blanchard.....	1	"
Estate of Leon F. Blanchard.....	402	shares
Lulu T. M. Blanchard.....	1	share
Estate of Milton E. Blanchard.....	102.76	shares
Milton E. Blanchard, Jr.....	1	share
Bertram Meyer, Trustee for Selma Lowy.....	14	shares
Samuel Meyer.....	14	"

It will therefore be observed that, apart from twenty-eight (28) shares held by the Meyer family, the only obstacle to complete mutualization of the Company lies in the shares held by the Blanchard family, practically all of which are involved in the pending litigation. The Meyer family has made no motion towards tendering their twenty-eight shares for purchase by the Company and the company has no knowledge of their intentions in the matter.

To summarize the present situation:

(1) The Company is advised that the Mutualization Act and all proceedings taken thereunder are constitutional and valid;

(2) that consequently there is no basis for the pending attack on the proceedings and on the validity of the stock held by the Trustees for Policyholders;

(3) that the Company is not lawfully empowered to purchase its stock on any terms other than those prescribed by the Chancellor, or at a price in excess of \$455 a share.

(4) As a result of the purchase by the Company and the transfer to the Trustees for Policyholders of 98.54% of its stock, mutualization for the benefit of policyholders is for all practical purposes complete, and the Company is therefore not proposing to take any steps for the acquirement of the stock still outstanding other than to perform its obligation to purchase the same whenever it may be tendered at the appraisal price.

CHARLES B. BRADLEY,
General Counsel.

APRIL 26, 1939.

EXHIBIT No. 1012

[From files of The Prudential Insurance Co. of America]

BROADCAST OF THURSDAY, JUNE 8, 1939

ANNOUNCER. Friends, today I'd like to take a moment to tell you something about the purpose of this program.

Our purpose in bringing this broadcast to you every day is to make you familiar with an organization that has become an American institution—The Prudential Insurance Company of America.

We want you to know how this company has enabled people to find protection and security in the past. We want you to be informed about how it can help you to solve your own life insurance problems. And sometimes we will bring you news about special and interesting services that The Prudential offers.

For example, the Prudential man in your neighborhood is now distributing the Industria' Dividend Certificate. This Certificate explains certain extra benefits that apply to our many weekly premium policies.

Of course, we haven't time to go into all of them, but one of the most important benefits is paid-up additional insurance.

Here's the way it works. Suppose you'd bought a weekly payment life policy in 1922 for two hundred dollars. That policy today is worth two hundred and seventy dollars in case of death. The extra seventy dollars is paid-up additional insurance. It's the result of the dividends declared during these years by The Prudential. And you pay no more for this extra protection.

This shows the way weekly premium policyholders share in the savings of The Prudential. If you haven't seen this year's Dividend Certificate, your Prudential representative will be glad to give you one and explain it to you.

Before we leave our story now, friends, I'd like to remind you of a valuable and helpful service that is available to you at any time.

Your Prudential man is equipped to give you sound advice and counsel on any life insurance problems which you may have. His training and experience enable him to make constructive suggestions which you might not think of yourself.

Your Prudential man considers this a most important part of his work. So call on him for suggestions whenever you need them. You will find him friendly and able—and his efficient services come to you always without your paying a fee.

BROADCAST OF FRIDAY, JUNE 23, 1939

ANNOUNCER. Now, before we go on with our story, let me take a little time to bring you more news about The Prudential Insurance Company of America—the company that makes it possible for you to enjoy "When A Girl Marries."

Founded in 1875 as The Prudential Friendly Society, this company was the first in the United States to offer weekly-payment life insurance. And today, more than twenty-three thousand representatives are bringing the services and ideals of The Prudential to millions of American homes.

Now, one of these representatives is in the studio here with me. I'd like you to meet him. Mr. Frank O'Connor.

O'CONNOR. Thank you, Mr. Gallop. How do you do, ladies and gentlemen.

ANNOUNCER. Frank, yesterday you told me a story about an incident that happened in your territory in New York City. I wonder if you'd mind telling our friends of the radio audience about it.

O'CONNOR. Well, that was quite an experience. A young couple had recently moved into the neighborhood. I made their acquaintance and began making weekly premium calls at their home. The young woman was paying on a Prudential policy. Well, one day she told me that she had another Prudential policy, on which she'd discontinued payment several years before her marriage. She thought that the policy was valueless, although actually it provided continued protection. It also had a cash value, which, in view of her circumstances, she preferred to take, and she surely seemed pleased when I was able to give her a Prudential check.

ANNOUNCER. Thank you, Mr. O'Connor. Friends, I think that probably all of you will see an interesting point in the story Mr. O'Connor has told us. Often, people have old life insurance policies of whose value they are uncertain. The Prudential representatives are always glad to advise on what may be done with such policies. Their counsel is based on the years of experience of The Prudential, and it is offered to you entirely without charge.

Before we leave our story now, friends, I'd like to remind you of a valuable and helpful service that is available to you at any time.

Your Prudential man is equipped to give you sound advice and counsel on any life insurance problems which you may have. His training and experience enable him to make constructive suggestions which you might not think of yourself.

Your Prudential man considers this a most important part of his work. So call on him for suggestions whenever you need them. You will find him friendly and able—and his efficient services come to you always without your paying a fee.

BROADCAST OF MONDAY, JULY 3, 1939

ANNOUNCER. Friends, before we go on with our story, I'd like to tell you of a sincere hope that all of us connected with this program have.

We hope that through listening to our program day by day you are becoming better acquainted with the ideals and services of our Company—The Prudential Insurance Company of America.

We want you to become acquainted with the Prudential man in your own neighborhood—the man who brings the dependability and the service of The Prudential to your own home.

Here's an interesting instance of how a Prudential man solved a critical life insurance problem. One of this man's policyholders—the head of a family—lost his job. He needed insurance badly, and he hated to have to give up the Prudential policy which he held. But finally he had to tell his Prudential representative that he could no longer pay the twenty-five cents per week he had been paying on his policy.

Thereupon, the Prudential man carefully explained the extended insurance feature, under which, in this particular case, the life insurance protection would be continued in force for a period of thirty-four weeks. This means that if the insured died within this period the face amount of insurance would be paid to the beneficiary.

He further informed the insured that this or any other weekly-premium Prudential policy could be reinstated at any time within twenty weeks without regard to the condition of health.

Before the twenty weeks were up, the policyholder got another job and at once desired to reinstate his insurance. The Agent had kept continuously interested and was ready at hand to attend to the reinstatement without delay.

If you face life insurance problems, your Prudential representative will be glad to help you solve them. The Prudential, with its years of experience, stands behind him, and his advice comes to you without a fee.

Over sixty-three years ago—in 1875, to be exact—the Prudential Insurance Company of America began with this one purpose in mind—to bring insurance within the reach of everybody.

And that is exactly what The Prudential has done. Today, there are different sized policies—and different payment plans—a policy and a plan for every purpose.

Millions of people are enjoying Prudential protection for as little as just a few cents a week. Other people are paying many dollars by the year for larger Prudential policies.

Ask your Prudential man about Prudential protection. He will be glad to explain to you the RIGHT Prudential policy—the RIGHT Prudential payment plan—to fit your needs and your circumstances.

BROADCAST OF TUESDAY, AUGUST 1, 1939

ANNOUNCER. Before we go on with our story I'd like to say a few words about one of your neighbors. He's the man who represents The Prudential Insurance Company of America—the man who brings the ideals and services of The Prudential to your home.

This Prudential man stands ready to help you and your family to enjoy the benefits of life insurance more fully. He has a thorough understanding of life insurance, and he's more than glad to give you the benefit of his background and experience.

For example, if you own a Prudential policy, it's this neighbor's job to see that your life insurance is always perfectly in tune with your financial and family circumstances. He can explain to you in plain, everyday language facts about your policies of which you may not be aware.

It may be, for example, that you have policies in your home which have been allowed to lapse sometime in the past. Your Prudential man can tell you the value of these policies. He can arrange for the reinstatement of policies on which payments have been discontinued. He can help you in deciding the best way for life insurance proceeds to be settled when a death occurs. Or—if a change in the beneficiary named in your policy seems advisable—he can have the change made for you.

The Prudential hopes that you'll feel free to ask the advice of your Prudential man as you would that of a good friend. For if he can help you with your life insurance problems, he is fulfilling what The Prudential feels to be one of its most important functions—to give the maximum benefits of life insurance to every policyholder.

Before we leave our story today, I'd like to point out this most important fact: Prudential policyholders share in the company's savings for every policyholder is actually a part owner of The Prudential. All its life insurance policies are participating. The result is a low net cost.

And so, The Prudential follows out one of its guiding principles—to give its policyholders the greatest benefits at the lowest possible cost consistent with safety and security.

Remember, folks, The Prudential has the strength of Gibraltar.

BROADCAST OF MONDAY, AUGUST 21, 1939

ANNOUNCER. Friends, if you have been listening to our story regularly, you know that one of the purposes of this program is to make you more familiar with your Prudential life insurance policies, and their various provisions and advantages.

Today, I'd like to take a few moments to discuss a subject which will interest you even if you are not making payments on a Prudential policy at the present time.

Frequently, people move from one neighborhood to another, get out of touch with their regular Prudential man, and through one or another circumstance, stop making payments on their weekly-premium life insurance policies. The policies are allowed to lapse.

Sometimes, these people do not realize that their Prudential policies still have real values in spite of the fact that payments are no longer made on them. When premium payments are discontinued, even though they may have been made for only a few months, any available value is used to continue the life insurance protection for as long a period as possible.

In many cases where premiums have been paid for several years, the policies may also have an optional cash value, but of course if a policy is given up for cash the extended insurance protection is forfeited, and the family is left without insurance money to help them when emergency comes.

You see, extended insurance runs for a limited period only. That's why we urge men and women who want their families to enjoy the protection of life insurance to keep up their payments, and make them regularly.

But if you have a lapsed Prudential policy, get in touch with the Prudential man in your neighborhood. If you are new in your locality, write the Prudential Home Office in Newark, New Jersey, for his name and address. The Prudential man will gladly examine your policy and point out to you any values that it still has. He will make any necessary arrangements with the Home Office for you. And, of course, there is no fee for his service and advice.

Now, my friends, before we say goodbye, I would like to leave one little thought with you about The Prudential Insurance Company of America.

Millions of persons, ordinary everyday people like you and me, have pooled their interests and banded together in The Prudential for their common safety and security. For sixth-three years, foresighted men and women have turned to this fine, strong company for protection.

And every one of these Prudential policyholders is actually a part owner of the company, and as a result shares in the savings. Prudential participating policies result in low net cost.

EXHIBIT No. 1013

[Prepared by The Western and Southern Life Insurance Co.]

The Western and Southern Life Insurance Company—Cincinnati, Ohio

Date	Dividends		Contributions by Stockholders to Surplus
	Cash (1)	Stock (2)		(3)
1888	None	None	
1889	None	None	\$10,000.00
1890	None	None	10,000.00
1891	None	None	20,000.00
1892	None	None	
1893	None	None	
1894	None	None	
1895	None	None	
1896	None	None	
1897	None	None	
1898	None	None	
1899	None	None	
1900	None	None	
1901	None	None	
1902	None	None	49,050.00
1903	None	None	
1904	None	None	44,943.75
1905	None	None	
1906	\$5,000.00		
1907	10,000.00		
1908	10,000.00		
1909	10,000.00		
1910	10,000.00		385,000.00
1911	60,000.00		
1912	10,000.00		
1913	10,000.00		
1914	195,000.00		
1915	10,000.00	\$200,000.00	
1916	30,000.00	200,000.00	
1917	50,000.00	250,000.00	
1918	200,000.00		
1919	75,000.00		
1920	150,000.00		
1921	150,000.00	500,000.00	
1922	187,500.00	750,000.00	
1923	400,000.00		
1924	440,000.00	1,000,000.00	
1925	570,000.00	2,000,000.00	
1926	600,000.00		
1927	600,000.00		
1928	850,000.00		
1929	1,100,000.00	2,000,000.00	
1930	1,020,000.00	3,000,000.00	
1931	1,200,000.00		
1932	1,500,000.00		
1933	1,700,000.00		
1934	1,700,000.00		
1935	1,700,000.00		
1936	1,500,000.00		
1937	1,100,000.00	5,000,000.00	
1938	1,950,000.00		
	\$19,102,500.00	\$14,900,000.00	\$518,993.75

There was no stock promotion expense or commissions whatsoever paid for the sale of any stock.

Notwithstanding no dividends were paid during the first eighteen years of the Company's existence and, although the greatest economies were practiced in management and the officials were paid but nominal salaries, it was necessary for the stockholders to make the aforesaid voluntary cash contributions to the surplus of the Company to maintain the reserve required by law on its policies and to prevent impairment of its capital.

The aforesaid contributions, with interest, were returned to the stockholders by 1914.

EXHIBIT No. 1014

[Prepared by The Western and Southern Life Insurance Co.]

STOCKHOLDERS OF THE WESTERN AND SOUTHERN LIFE INSURANCE COMPANY

Capital Stock \$50.00 Par Value as of December 31, 1910

Name	No. of Shares	Name	No. of Shares
W. J. Williams	700	H. W. Wannenwetsch	1
Thomas J. Cogan	100	E. S. Runnells	1
Richard Ryan	100	Elizabeth R. Williams	174
J. Wm. Johnson	45	Emma J. Williams	174
Clyde P. Johnson	5		
C. F. Williams	700		2, 000

Capital Stock \$50.00 Par Value as of December 31, 1925

Name	No. of Shares	Name	No. of Shares
W. J. Williams	11, 236 $\frac{1}{6}$	C. F. Williams, Trustee:	
C. F. Williams	10, 723 $\frac{2}{6}$	Emma J. Williams	8, 000
Elizabeth R. Williams	10, 500	Frank C. Williams	8, 000
Clyde P. Johnson	2, 500	Emma L. Williams	8, 000
Elizabeth R. Williams, Trustee:		Marie G. Williams	8, 000
Mary Elizabeth Williams	2, 500	C. F. Williams, Trustee:	
Margaret Mary Williams	2, 500	Mary Elizabeth Williams	2, 500
Charles Matthew Williams	2, 500	Margaret Mary Williams	2, 500
William Joseph Williams	2, 500	Charles Matthew Williams	2, 500
James Ryan Williams	2, 500	William Joseph Williams	2, 500
C. F. Williams, Trustee:		James Ryan Williams	2, 500
Mary E. Williams	1, 000	Frank C. Williams	6 $\frac{1}{6}$
Anna J. Williams	1, 000	A. I. Vorys	6 $\frac{1}{6}$
Clara M. Runnells	1, 000	S. E. Stilwell	6 $\frac{1}{6}$
R. A. Ryan, Trustee	5, 000	Wm. H. Lueders	6 $\frac{1}{6}$
		John F. Ruehlmann	6 $\frac{1}{6}$
		E. S. Runnells	6 $\frac{1}{6}$
			100, 000

Capital Stock \$50.00 Par Value as of December 31, 1938

Name	No. of Shares	Name	No. of Shares
Charles F. Williams	4, 360 $\frac{3}{4}$	Charles F. Williams, Trustee for	
Elizabeth R. Williams	10, 895	William Joseph Williams	7, 500
Wm. H. Lueders	20	James Ryan Williams	7, 500
John F. Ruehlmann	20	Mary Elizabeth W. Kyte	24, 696 $\frac{3}{4}$
E. S. Runnells	20	Margaret Mary W. Herschede	24, 696 $\frac{3}{4}$
C. C. Stayman	1 $\frac{1}{2}$	Charles Matthew Williams	24, 697 $\frac{13}{14}$
William R. Burlingham	1 $\frac{1}{2}$	William Joseph Williams	9, 696 $\frac{3}{4}$
James A. Beha	1 $\frac{1}{2}$	James Ryan Williams	9, 696 $\frac{3}{4}$
Elizabeth R. Williams, Trustee for		Lawrence H. Kyte	937 $\frac{1}{2}$
Mary Elizabeth W. Kyte	3, 000	W. Foy Herschede	937 $\frac{1}{2}$
Margaret Mary W. Herschede	3, 000	Charles M. Williams, Trustee for	
Charles Matthew Williams	3, 000	Emma J. Williams	27, 428 $\frac{3}{4}$
William Joseph Williams	10, 500	Frank C. Williams	27, 428 $\frac{3}{4}$
James Ryan Williams	10, 500	Emma Loretta W. Burlingham	27, 428 $\frac{3}{4}$
		Marie Geraldine Williams	27, 428 $\frac{3}{4}$

Capital Stock \$50.00 Par Value as of December 31, 1938—Continued

Name	No. of Shares	Name	No. of Shares
Charles M. Williams, Trustee under the last will and testament of William J. Williams, deceased	6, 857½	Frances Ryan	1, 875
Charles M. Williams, Trustee for		Rose Ryan	1, 875
Annie J. Williams	3, 000	Anna Boyce	1, 875
Clara M. Runnells	3, 000	Clyde P. Johnson	1, 500
Mary Josephine Bacciocco	1, 500	Ella W. Johnson	2, 100
Nellie Catherine Runnells	1, 500	Mary Jane Johnson	450
Richard A. Ryan	1, 875	Morse Johnson	450
Margaret Ryan	1, 875	Ella W. Johnson, Trustee for	
Mary Ryan	1, 875	Mary Jane Johnson	1, 500
		Morse Johnson	1, 500
			300, 000

EXHIBIT No. 1015

[Prepared by The Western and Southern Life Insurance Co.]

Table of income taxes paid by the Western and Southern Life Insurance Company

Taxable income year	Total	(a) Officers, directors, and stockholders	(b) Other employees in home office	Taxable income year	Total	(a) Officers, directors, and stockholders	(b) Other employees in home office
1913	\$643.96	\$643.96		1927	\$46,379.75	\$44,857.00	\$1,522.75
1914	2,061.58	2,061.58		1928	88,678.62	87,335.43	1,343.19
1915	2,781.93	2,781.93		1929	133,607.35	132,824.32	783.03
1916	4,743.48	4,743.48		1930	140,388.84	138,180.83	2,208.01
1917	19,011.12	19,011.12		1931	165,735.37	163,423.80	2,311.57
1918	58,437.11	58,036.47	\$400.64	1932	517,128.38	517,128.38	
1919	21,816.95	21,192.32	624.63	1933	815,253.04	815,253.04	
1920	19,134.25	17,206.49	1,927.76	1934	1,007,922.23	1,007,922.23	
1921	45,334.74	44,407.79	926.95	1935	1,125,319.07	1,125,319.07	
1922	42,631.42	41,217.15	1,414.27	1936	1,348,931.16	1,348,931.16	
1923	52,609.06	50,494.13	2,114.93		1,429.27	1,429.27	
1924	54,026.52	53,483.54	542.98				
1925	54,699.01	54,008.32	690.69		5,835,469.70	5,817,675.34	17,794.36
1926	63,765.49	62,782.53	982.96				

¹ Represents adjustments on taxable income of various years.

NOTE.—Officers and Directors Taxes paid for taxable year beginning 1913, Stockholders beginning 1915 all ceasing with 1936, Employees beginning 1918 and ceasing in 1931.

EXHIBIT No. 1016

[Prepared by The Western and Southern Life Insurance Co.]

THE WESTERN AND SOUTHERN LIFE INSURANCE CO.

The following voluntary insurance benefits were granted to policyholders.

May 1, 1913: Industrial Whole Life policies in force ten or more years declared fully paid-up and no further premiums required when the insured reaches 75 years of age.

Jan. 1, 1917: Disability provision without premium charge added to all Industrial policies and made retroactive to all Industrial policies in force.

Jan. 1, 1919: Industrial Whole Life policies declared fully paid-up and no further premiums required when the insured reaches 75 years of age.

Aug. 17, 1921: The benefits on all Industrial policies issued at age one next birthday made the same as if insured at age two next birthday, thus giving greater values without extra premium charge.

Oct. 15, 1921: Amounts of insurance increased on Industrial Life policies, the increased benefits retroactive to all policies in force on this plan.

Oct. 31, 1921: Benefits in current Industrial Endowment policies made retroactive to policies in force on this plan.

Jan. 2, 1922: All industrial adult policies containing a provision for full benefits after six months or one year placed in full immediate benefit from date of issue.

Jan. 1, 1923: All Industrial Whole Life policies containing provision for reduced paid-up term insurance recognized as paid-up Life policies.

April 16, 1923: Amounts of insurance increased in the early policy years on Industrial Infantile Whole Life policies and made retroactive to existing policies.

Benefits at age one next birthday increased on Industrial Infantile 20 Year Endowment, 20 Pay—30 Year Endowment, and 20 Payment Life Plans.

March 18, 1924: Free Physical Health Examination granted to policyholders.

July 1, 1924: Premiums reduced on all existing Ordinary policies issued on Limited Payment Life and Endowment plans.

Oct. 1, 1924: Disability provision in Industrial policies providing for one-half payment and endorsement of the policy for the remaining half in the event of dismemberment of hands or feet, or blindness of the insured, changed to provide for full payment in cash and surrender of the policy.

April 13, 1926: Liberalized disability provision made retroactive to all existing Industrial policies, providing for payment of the full amount of the policy in the event of dismemberment of hands or feet, or blindness of the insured, and the granting of a fully paid-up policy. In the event of the loss of one hand or one foot, one-half of the face amount of the policy is payable in cash and the policy is endorsed as fully paid-up for the full amount of the policy.

Sept. 16, 1927: All Industrial Whole Life Policies issued by the former Public Savings Insurance Company declared fully paid-up and no further premiums required after the seventy-fifth birthday. (Public Savings policies did not contain such provision.)

Sept. 1, 1928: Industrial policies in force three or more years maturing as Endowments or by death, during 1928, 2% to 20½% added to the amount of insurance.

Jan. 1, 1929: Industrial policies in force three or more years maturing as Endowments or by death during 1929, 2% to 20½% added to the amount of insurance.

Jan. 1, 1929: An accidental death benefit without premium charge added to all Industrial policies providing for payment of an additional sum if death occur from accidental means after age 5 and prior to age 75.

Jan. 11, 1929: On Ordinary policies maturing by death, in lieu of charging premiums for the full policy year as provided by the policies, only such premiums charged as necessary to maintain the policy in force to the end of the policy month in which death occurs.

Jan. 14, 1929: Cash surrender values in current Industrial Endowment policies retroactive to existing Endowment policies, thus giving greater values.

Jan. 21, 1929: Table of paid-up values in current Industrial policies used in computation of paid-up values on existing policies, giving greater paid-up values.

Industrial policies previously lapsed, irrespective of policy terms and date of lapse, granted paid-up values current policies bear, thus giving greater values.

Industrial policies containing paid-up term provision recognized for paid-up amounts although term period had expired.

Same calculation of paid-up values used on National Progressive and Ohio Burial Industrial policies as on Western and Southern policies, giving greater benefits.

Jan. 1, 1930: Industrial policies in force three or more years maturing as Endowments or by death during 1930, 2% to 20½% added to the amount of insurance.

Jan. 1, 1931: Industrial policies in force three or more years maturing as Endowments or by death during 1931, 2% to 20½% added to the amount of insurance.

Jan. 1, 1932: Industrial policies in force three or more years maturing as Endowments or by death during 1932, 2% to 20½% added to the amount of insurance.

March 2, 1932: Cash surrenders granted on Industrial paid-up policies to relieve prevailing economic stress.

June 11, 1932: Cash surrenders granted on all Industrial policies in force five or more years to relieve prevailing economic stress.

Jan. 1, 1933: Industrial policies in force three or more years maturing as Endowments or by death during 1933, 2% to 20½% added to the amount of insurance.

March 14, 1933: Liberal consideration given to payment of claims under Industrial and Ordinary policies out of benefit due to conditions brought about by National Bank Holiday.

Sept. 1, 1933: Industrial 20 Payment Life benefits increased and made retro-active to all existing policies on this plan.

Sept. 1, 1933: The benefits in Infantile Industrial 20 Year Endowment policies increased to present day benefits at death or maturity.

Jan. 1, 1935: Industrial policies in force two or more years maturing as Endowments or by death between January 1 and May 6, 1935, 1% to 20½% added to the amount of insurance.

May 6, 1935: Industrial policies in force more than one year maturing as Endowments or by death between May 6 and December 31, 1935, 1% to 20½% added to the amount of insurance.

June 1, 1935: Cash surrender privileges granted on Industrial paid-up policies or on policies eligible for paid-up insurance if lapsed for more than one year, provided said policies are ten or more years old on the date of request for cash surrender.

July 22, 1935: Cash surrender privileges granted on Industrial 20 Payment Life policies fully paid-up and on Industrial Whole Life policies paid-up at age >5 years.

July 22, 1935: Cash surrender privileges in current Industrial Whole Life and 20 Payment Life policies made applicable to all similar policies which do not contain a cash surrender provision.

Dec. 31, 1935: Industrial policies in force more than one year maturing as Endowments or by death between January 1 to December 31, 1936, 1% to 20½% added to the amount of insurance.

Jan. 27, 1936: Adoption of revised Industrial contracts containing five year cash surrender provision.

June 24, 1936: Cash surrender privileges granted on the following Industrial policies:

All fully-paid-up policies. In force policies on which premiums have been paid for more than ten years. Endorsed reduced paid-ups ten years old from issue to date of request, and one year after endorsement. Automatic reduced paid-ups ten years old from issue to date of request, and one year after lapse.

May 21, 1937: Cash surrender privileges extended to cover Industrial policies which were in force and upon which premiums have been paid for eight years or more; to all fully-paid-up policies; to endorsed reduced paid-ups eight years old from issue to date of request and one year after endorsement; to automatic reduced paid-ups eight years old from issue to date of request and one year after lapse.

Jan. 22, 1938: Cash surrender privileges further extended to cover Industrial policies which were in force and on which premiums had been paid for seven years or more; to all fully paid-up policies; to endorsed reduced paid-ups seven years old from issue to date of request and one year after endorsement; to automatic reduced paid-ups seven years old from issue to date of request and one year after lapse.

Aug. 1938: Cash surrender privileges extended to cover all Industrial policies on which premiums were paid for at least five years.

EXHIBIT No. 1017

[Prepared by The Western and Southern Life Insurance Co.]

JULY 6, 1939.

The Western & Southern Life Insurance Company—Ratio of chargeable finals

Year	Number of debits at year's end	Number finals	Ratio	Year	Number of debits at year's end	Number finals	Ratio
1933-----	1,745	1,305	71.5%	1937-----	1,864	862	45.6%
1934-----	1,796	852	49.4%	1938-----	1,841	794	42.8%
1935-----	1,824	867	47.6%	1939 (25 wks.)-----	1,849	323	17.5%
1936-----	1,886	910	49.3%	1938 (25 wks.)-----	1,854	403	21.6%

EXHIBIT No. 1018

[Prepared by The Western and Southern Life Insurance Co.]

4-11-39

CAUSES FOR 160 FINALS IN 1939

1. *Lack of training*.—89 finalized because of non success, inability to produce, dissatisfied, insufficient earnings, other employment, not qualified for business. 67 of these had been with the Company less than one year. Practically no one in this group ever made sufficient money to really become interested in the business.

2. *Lack of supervision*.—43 finalized for deficiency, manipulating Company funds, irregularities. 20 of these were in service less than a year. Who taught them to be crooked?

3. Balance were for miscellaneous reasons such as; poor health, marital difficulties, moved to another city, etc.

EXHIBIT No. 1019

[Prepared by The Western and Southern Life Insurance Co.]

JULY 6, 1939.

The Western & Southern Life Insurance Company employees with 5 or more years of service

Year	Home office	D. O. clerks	Field	Total with 5 years service	%	Total number employees
1934	392	97	522	1,011	32.3%	3,125
1935	414	110	561	1,085	34.1%	3,180
1936	452	112	628	1,192	36.5%	3,258
1937	419	96	720	1,235	38.3%	3,222
1938	427	101	786	1,314	40.4%	3,250

EXHIBIT No. 1020

[From files of The Western and Southern Life Insurance Co.]

(Written:) This form was attached to each letter going out.

MINIMUM COST OF A FINAL

DIRECT AND IMMEDIATE LOSSES

½ of Superintendents average weekly earnings during final and introduction (3 weeks)	\$78.06
Manager's time recruiting and training new agent—10 hours @ \$2.80	28.00
Special commission—average per final in 1938	85.03
Deficiencies—average per final in 1938	1.55
Cost of New Agent's Minimum Earnings Guarantee	10.86
To Manager—three fourths time on final lapses	3.97
To Superintendent—4 times on final lapses	21.16

MULTIPLY NUMBER OF YOUR FINALS BY THIS FIGURE \$228.63

LOSSES NOT MEASURABLE IN DOLLARS

Morale

Production

Good Will and prestige on debit

By other agents needing Superintendent

Wasted Home Office supervision and expense

Policyholders' business needlessly sacrificed

Poor collections, conservation and lower compensation

EXHIBIT No. 1021

[From files of The Western and Southern Life Insurance Co.]

Table Showing Direct Field Compensation Costs for Industrial Insurance only. Excluding District Office Expense and Field Supervision Expense.

	(1)	(2)	Per Cent of (1)	(3)	Per Cent of (1)	(4)	Per Cent of (1)	(5)	Per Cent of (1)
	Industrial Premiums	Agents' Collection Commission		Mgr. & Supt. Salaries		Spec. Comm. Add'l. Comp.		Total Comm. Paid Field	
			Per-cent		Per-cent		Per-cent		Per-cent
1925	\$12,198,038	\$1,873,323	15.4	\$1,296,967	10.6	\$766,253	6.2	\$3,936,543	32.3
1926	13,679,215	2,141,367	15.7	1,491,164	10.9	1,235,712	9.0	4,868,243	35.6
1927	16,988,708	2,634,062	15.5	1,687,925	9.9	1,165,389	6.8	5,487,376	32.3
1928	18,454,564	2,544,044	13.8	1,479,844	8.0	932,375	5.0	4,956,263	26.9
1929	19,947,223	2,619,530	13.1	1,595,065	8.0	1,233,513	6.2	5,448,108	27.3
1925-'29 Av.	16,253,550	2,362,465	14.5	1,510,193	9.3	1,066,618	6.6	4,939,307	30.4
1930	20,136,012	2,630,918	13.1	1,356,128	6.7	595,779	2.9	4,582,825	22.8
1931	19,598,042	2,589,926	13.2	1,314,707	6.7	641,492	3.2	4,546,125	23.2
1932	18,300,724	2,295,164	12.5	1,071,012	5.9	623,124	3.4	3,989,300	21.8
1933	14,895,416	1,767,951	11.9	822,072	5.5	224,835	1.5	2,814,861	18.9
1934	15,245,817	1,917,082	12.6	839,782	5.5	705,298	4.7	3,462,162	22.7
'30-'34 Av.	17,635,202	2,240,209	12.7	1,080,740	6.1	558,106	3.2	3,879,055	22.0
1935	16,285,806	2,092,604	12.85	937,499	5.76	1,174,508	7.21	4,204,611	25.82
1936	18,049,752	2,257,780	12.51	987,199	5.47	1,503,190	8.33	4,748,169	26.31
1937	19,401,819	2,381,754	12.28	998,778	5.15	1,605,518	8.28	4,936,050	25.70
1938	19,978,835	2,424,267	12.13	981,629	4.91	725,926	3.63	4,131,823	20.68

Explanation: Col. (2) does not include H. O. cost of collecting 5% of debit by mail. Col. (3) includes much District Office expense paid by allowances to Mgrs. for 1925-29, but none thereafter. Some of Col. (3) is chargeable to Ordinary Department, for 1934-39 at least 1.5% of the 5.5% average.

EXHIBIT No. 1022

[Prepared by The Western and Southern Life Insurance Co.]

1938 Industrial Persistency—Lapse Ratio For Individual Weeks of Issue

	After Premiums Have Been Paid for the Following Number of Weeks													
	2	3	4	5	6	7	8	9	10	11	12	13	26	52
1931	15.7	21.2	25.7	29.0	31.9	34.3	36.5	38.3	39.9	41.4	42.8	44.0	55.3	65.3
1932	17.8	23.6	28.2	31.9	35.0	37.7	40.0	42.1	44.0	45.7	47.3	48.9	61.7	72.6
1933	16.7	21.5	23.8	28.1	30.5	31.6	34.2	35.8	37.2	38.5	39.6	40.8	49.3	56.1
1934	10.9	14.4	17.1	19.4	21.3	23.0	24.6	26.0	27.3	28.5	29.6	30.7	38.6	46.1
1935	8.7	11.5	14.0	16.1	18.1	19.7	21.3	22.6	23.9	25.1	26.2	27.2	35.1	42.0
1936	7.8	10.2	12.4	14.1	15.7	17.2	18.5	19.7	20.8	21.8	22.7	23.6	29.9	36.2
1937	7.2	9.3	11.3	13.0	14.6	16.0	17.2	18.4	19.5	20.6	21.5	22.4	29.8	38.8
1938	8.4	10.8	12.9	14.6	16.2	17.5	18.8	20.0	21.1	22.0	23.0	23.9	-----	-----

EXHIBIT No. 1023

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—net costs. Policy: Whole Life, paid up on policy anniversary after age 74 (or nearest equivalent form)—age 25—amount of insurance, \$250—1939 issue

(1) Name of Company	(2) Amount of insurance for 5¢ weekly	(3) Aggregate premium per year for \$250 policy	(4) Ten years premiums (520 wks)	(5) Ten years premiums less dividends	(6) Tenth year cash value	(7) Net cost—Policy surrendered end of 10th year	(8) Twenty years premiums (1040wks)	(9) Twenty years dividends	(10) Twenty years premiums less dividends	(11) Twentieth year cash value	(12) Net cost—Policy surrendered end of 20th year
American National	\$102	\$6.37	\$63.70	\$63.70	\$19.76	\$43.94	\$127.40	None	\$127.40	\$54.51	\$72.89
Colonial Life ¹	91	7.14	71.40	71.40	23.65	47.75	142.80	"	142.80	63.71	79.09
Equitable Life (D. C.)	105	6.19	61.90	61.90	20.88	41.02	123.80	"	123.80	55.24	68.56
Franklin National ²	96	6.77	67.70	67.70	17.75	49.95	135.40	"	135.40	(³)	(³)
Home Beneficial (Va.) ⁴	97	6.70	67.00	67.00	16.49	50.51	134.00	"	134.00	45.62	88.38.
John Hancock	96	6.77	67.70	67.70	20.89	39.39	135.40	25.78	109.62	61.49	48.13
Life Ins. Co. of Virginia	105	6.19	61.90	61.90	20.88	41.02	123.80	None	123.80	55.22	68.56
Metropolitan Life ⁵	96	6.77	67.70	67.70	21.69	39.24	135.40	21.75	113.65	61.49	52.16
Monumental Life ⁶	100	6.50	65.00	65.00	19.48	45.52	130.00	None	130.00	52.15	77.85
National Life & Accident	97	6.70	67.00	67.00	21.47	45.53	134.00	"	134.00	60.85	73.15
Peoples Life (D. C.) ⁴	105	6.19	61.90	61.90	19.50	42.40	123.80	"	123.80	49.25	74.55
Sun Life of America ⁴	98	6.63	66.30	66.30	19.13	47.17	132.60	"	132.60	47.93	84.67
Washington National	96	6.77	67.70	67.70	21.69	46.01	135.40	"	135.40	61.49	73.91
Western & Southern	97	6.70	67.00	67.00	20.88	46.12	134.00	"	134.00	55.23	78.77

¹ Whole Life, paid up on policy anniversary after age 69.² Whole Life, paid up on policy anniversary after age 75.³ No information available as to amount of 20th year cash value.⁴ Whole Life, premiums payable until death.⁵ Endowment payable on policy anniversary after age 75.

EXHIBIT No. 1024

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—net costs. Policy: Whole Life, paid up on policy anniversary after age 74 (or nearest equivalent form)—age 1—amount of insurance, \$250—1939 issue

(1) Name of Company	(2) Amount of insurance for 5¢ weekly	(3) Aggregate premium per year for \$250 policy	(4) Ten years premiums (520 wks) dividends	(5) Ten years premiums less dividends	(6) Tenth year cash value	(7) Net cost—Policy surrendered end of 10th year	(8) Twenty years premiums (1040 wks)	(9) Twenty years dividends	(10) Twenty years premiums less dividends	(11) Twentieth year maturity value	(12) Net cost—Policy matured end of 20th year
American National.....	\$210	\$3.10	\$31.00	\$31.00	\$9.24	\$21.76	\$62.00	None	\$62.00	\$33.89	\$28.11
Colonial Life ¹	200	3.25	32.50	32.50	10.71	21.79	65.00	"	65.00	35.94	29.06
Equitable Life (D. C.).....	215	3.02	30.20	30.20	5.69	24.51	60.40	"	60.40	29.22	31.18
Franklin National ²	210	3.10	31.00	31.00	4.00	27.00	62.00	"	62.00	(³)	(³)
Home Beneficial ⁴	215	3.02	30.20	30.20	4.00	23.34	60.40	"	60.40	16.63	43.77
John Hancock.....	200	3.25	32.50	28.94	5.86	23.08	65.00	\$12.38	52.62	35.63	16.99
Life Ins. Co. of Va.....	215	3.02	30.20	30.20	8.17	22.03	60.40	None	60.40	29.51	30.89
Metropolitan Life.....	200	3.25	32.50	29.25	9.70	19.55	65.00	10.44	54.56	35.63	18.93
Monumental Life ⁵	200	3.25	32.50	32.50	8.24	24.26	65.00	None	65.00	18.81	46.19
National Life & Acc.....	210	3.10	31.00	31.00	9.71	21.29	62.00	"	62.00	35.64	26.36
Peoples Life (D. C.) ⁴	215	3.02	30.20	30.20	6.38	23.82	60.40	"	60.40	18.25	42.15
Washington Nat'l.....	200	3.25	32.50	32.50	9.70	22.80	65.00	"	65.00	35.63	29.37
Western & Southern.....	210	3.10	31.00	31.00	5.89	25.11	62.00	"	62.00	29.41	32.59

¹ Whole Life, paid up on policy anniversary after age 69.

² Whole Life, paid up on policy anniversary after age 75.

³ No information available as to amount of 20th year cash value.

⁴ Whole Life, premiums payable until death.

⁵ Endowment payable on policy anniversary after age 75.

EXHIBIT No. 1025

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—net costs. Policy: 20 Year Endowment—age 25—amount of insurance, \$250—1939 issue

(1) Name of Company	(2) Aggregate premium per year for \$250 policy	(3) Ten years premiums (520 wks)	(4) Ten years dividends	(5) Ten years premiums less dividends	(6) Tenth year cash value	(7) Net cost—Policy surrendered end of 10th year	(8) Twenty years premiums (1040 wks)	(9) Twenty years dividends	(10) Twenty years premiums less dividends	(11) Twenty year maturity value	(12) Net cost—Policy matured end of 20th year
American National	\$44	\$147.70	None	\$147.70	\$89.49	\$58.21	\$295.40	None	\$295.40	\$250.00	\$45.40
Colonial Life ¹	44	147.70	"	147.70	91.87	55.83	295.40	"	295.40	250.00	45.40
Equitable Life (D. C.)	48	135.40	"	135.40	91.87	43.53	270.80	"	270.80	275.52	-4.72
Franklin National	42	154.80	"	154.80	85.28	69.52	309.60	"	309.60	250.00	59.60
Home Beneficial (Va.)	(³)	14.56	"	145.60	90.50	55.10	291.20	"	291.20	250.00	41.20
John Hancock ¹	42	154.80	16.96	137.84	91.91	45.93	309.60	57.93	250.67	250.00	67
Life Ins. Co. of Virginia	48	135.40	None	135.40	91.90	43.50	270.80	None	270.80	250.00	20.80
Metropolitan Life ¹	42	154.80	15.48	139.32	91.91	47.41	309.60	49.70	259.90	250.00	9.90
Monumental Life	42	154.80	None	154.80	92.80	62.00	309.60	None	309.60	250.00	59.60
National Life & Accident	42	154.80	"	154.80	91.91	62.89	309.60	"	309.60	250.00	59.60
Peoples Life (D. C.)	42	154.80	"	154.80	93.75	61.05	309.60	"	309.60	250.00	59.60
Sun Life of America	42	156.00	"	156.00	92.80	62.00	309.60	"	309.60	270.00	39.60
Washington National	(³)	15.48	"	156.00	91.90	64.10	312.00	"	312.00	250.00	62.00
Western & Southern	42	154.80	"	154.80	91.91	62.89	309.60	"	309.60	276.25	33.35

¹ Industrial 20 Year Endowment not issued in 1939; figures based on policy as last issued in 1938.² Includes voluntary maturity dividend or bonus as follows: (a) Metropolitan, \$25.00; (b) Western & Southern, \$26.25; (c) Sun Life of Amer., \$20.00; (d) Equitable of D. C., \$25.52.³ No information available as to amount of insurance granted for 5¢ weekly premium; figures shown are for \$250 policy issued on weekly premium basis.

EXHIBIT No. 1026

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—net costs. Policy: 20 Year Endowment—age 1—amount of insurance, \$250—1939 issue

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Name of Company	Aggregate premium per year for \$250 policy	Ten years premiums (520 wks)	Ten years dividends	Ten years premiums less dividends	Tenth year cash value	Net cost—Policy surrendered end of 10th year	Twenty years premiums (1040 wks)	Twenty years dividends	Twenty years premiums less dividends	Twentieth year maturity value	Net cost—Policy matured end of 20th year
American National	\$50	\$13.00	None	\$130.00	\$90.00	\$40.00	\$260.00	None	\$260.00	\$250.00	\$10.00
Colonial Life ¹	50	130.00	"	130.00	89.40	40.60	260.00	"	260.00	250.00	10.
Equitable Life (D. C.)	53	12.26	"	122.60	89.91	32.69	245.20	"	245.20	274.29	-29.09
Franklin National	50	13.00	"	130.00	87.65	42.35	260.00	"	260.00	250.00	10.
Home Beneficial (Va.)	50	13.00	"	130.00	88.00	42.00	260.00	"	260.00	250.00	10.
John Hancock ¹	50	13.00	\$14.25	115.75	89.35	26.40	260.00	\$49.50	210.50	250.00	-39.50
Life Insurance Co. of Va.	53	12.26	None	122.60	90.23	32.37	245.20	None	245.20	250.00	-4.80
Metropolitan Life ¹	50	13.00	13.00	117.00	89.35	27.65	260.00	41.75	218.25	275.00	-56.75
Monumental Life	55	11.82	None	118.20	93.23	24.97	260.00	None	236.40	250.00	-13.60
National Life & Accident	50	13.00	"	130.00	89.35	40.65	260.00	"	260.00	250.00	10.
Peoples Life (D. C.)	50	13.00	"	130.00	90.13	39.87	260.00	"	260.00	250.00	10.
Sun Life of America	50	13.00	"	130.00	89.05	40.95	260.00	"	260.00	270.00	-10.
Washington National	50	13.00	"	130.00	97.10	32.90	260.00	"	260.00	250.00	10.
Western & Southern	50	13.00	"	130.00	89.35	40.65	260.00	"	260.00	276.25	-16.25

¹ Industrial 20 Year Endowment not issued in 1939; figures based on policy as last issued in 1938.

² Includes voluntary maturity dividend or bonus as follows: (a) Metropolitan, \$25.00; (b) Western & Southern, \$26.25; (c) Sun Life of Amer., \$20.00; (d) Equitable of D. C., \$24.29.

EXHIBIT No. 1027

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—net costs. Policy: Whole Life, paid up on policy anniversary after age 74 (or nearest equivalent form)—amount of insurance, \$250—issue of 1918

Name of Company	(1) Amount of insurance for 5¢ weekly	(2) Aggregate premium per year for \$250 policy	(3) Ten years premiums (520 wks)	(4) Ten years dividends	(5) Ten years premiums less dividends	(6) Tenth year cash value	(7) Net cost— Policy sur- rendered end of 10th year	(8) Twenty years premiums (1040 wks)	(9) Twenty years dividends	(10) Twenty years premiums less dividends	(11) Twen- tieth year cash value	(12) Net cost— Policy sur- rendered end of 20th year
Age 2:												
Baltimore Life.....	\$190	\$3.42	\$34.20	None	\$34.20	\$12.58	\$21.62	\$68.40	None	\$68.40	\$24.12	\$44.28
Boston Mutual.....	190	3.42	34.20	\$1.25	32.95	None	37.95	68.40	\$4.47	63.93	8.89	55.04
Equitable (D. C.).....	215	3.02	30.20	None	30.20	2.33	27.87	60.40	None	60.40	7.14	53.26
John Hancock.....	190	3.42	34.20	1.97	32.23	12.20	20.03	68.40	11.25	57.15	35.22	21.93
Metropolitan.....	214	3.04	30.40	1.69	28.71	15.37	13.34	60.80	8.47	52.33	42.16	10.17
No. Carolina.....	150	4.33	43.30	None	43.30	9.33	33.97	86.60	None	86.60	23.00	63.60
Prudential 1.....	190	3.42	34.20	4.87	29.33	15.03	14.30	68.40	19.34	49.06	41.97	7.09
Age 25:												
Metropolitan.....	96	6.77	67.70	3.78	63.92	21.69	42.23	135.40	18.88	116.52	61.49	55.03
Prudential 1.....	89	7.30	73.00	9.27	63.73	22.36	41.37	146.00	34.69	111.31	63.71	47.60
Age 35:												
Baltimore Life.....	69	9.42	94.20	None	94.20	35.62	58.58	188.40	None	188.40	82.17	106.23
Equitable (D. C.).....	70	9.29	92.90	None	92.90	24.43	68.47	185.80	None	185.80	69.54	116.26
John Hancock.....	68	9.56	95.60	5.51	90.09	32.98	57.11	191.20	31.43	159.77	81.29	78.48
Metropolitan.....	69	9.42	94.20	5.25	88.95	32.50	56.45	188.40	26.27	162.13	86.34	75.79
No. Carolina.....	63	10.32	103.20	None	103.20	18.25	84.95	206.40	None	206.40	57.14	149.26

1 Whole Life, paid up at age 70.

EXHIBIT No. 1028

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—net costs. Policy: 20-Year Endowment—amount of insurance, \$250—issue of 1918

Name of Company	(1) Amount of insurance for \$6 weekly	(2) Aggregate premium per year for \$250 policy	(3) Ten years premiums (520 wks)	(4) Ten years dividends	(5) Ten years premiums less dividends	(6) Tenth year cash value	(7) Net cost—Policy surrendered—end of 10th year	(8) Twenty years premiums (1040 wks)	(9) Twenty years dividends	(10) Twenty years premiums less dividends	(11) Twenty-tenth year maturity value	(12) Net cost—Policy matured end of 20th year
Age 2:												
Baltimore Life	\$50	\$13.00	\$130.00	None	\$130.00	\$81.35	\$48.65	\$260.00	None	\$260.00	\$250.00	\$10.00
Boston Mutual	50	13.00	130.00	\$4.75	125.25	93.50	31.75	260.00	\$17.00	243.00	250.00	-7.00
Equitable (D. C.) ¹	50	13.00	130.00	None	130.00	87.25	42.75	260.00	None	260.00	275.00	-15.00
John Hancock	50	13.00	130.00	7.50	122.50	95.15	27.35	260.00	42.75	217.25	250.00	-32.75
Metropolitan	50	13.00	130.00	7.25	122.75	97.10	25.65	260.00	36.25	223.75	275.00	-51.25
Prudential	50	13.00	130.00	12.25	117.75	95.15	22.60	260.00	54.50	205.50	250.00	-44.50
Age 25:												
Metropolitan	42	15.48	154.80	8.63	146.17	91.91	54.26	309.60	43.15	266.45	275.00	-8.55
Prudential	42	15.48	154.80	12.80	142.00	91.91	50.09	309.60	55.95	253.65	250.00	3.65
Age 35:												
Equitable (D. C.) ¹	40	16.25	162.50	None	162.50	88.25	74.25	325.00	None	325.00	281.25	43.75
Metropolitan	40	16.25	162.50	9.06	153.44	90.94	62.50	325.00	45.31	279.69	275.00	4.69
John Hancock	40	16.25	162.50	9.38	153.12	90.94	62.18	325.00	53.44	271.56	250.00	21.56

¹ Policy payable as an endowment on the 20th birthday of the insured after date of issue.

EXHIBIT No. 1029

[Prepared by Securities and Exchange Commission Insurance Study Staff]

*Industrial life insurance—net costs—Metropolitan Life Insurance Co.—age 25—
amount of insurance, \$250—issue of 1928*

Type of Policy	(1) Amount of in- surance for 5¢ weekly	(2) Aggre- gate premium per year for \$250 policy	(3) Ten years premi- ums (520 wks)	(4) Ten years divi- dends	(5) Ten years premi- ums less divi- dends	(6) Tenth year cash value	(7) Net cost— Policy surren- dered end of 10th year
Whole Life, Paid up on Policy anniversary after Age 74:							
Weekly Premium Policy...	\$96	\$6.77	\$67.70	\$5.73	\$61.97	\$21.69	\$40.28
Monthly Premium Policy...	-----	5.94	59.40	¹ 6.98	52.42	23.60	28.82
20 Year Endowment:							
Weekly Premium Policy...	42	15.48	154.80	13.10	141.70	91.91	49.79
Monthly Premium Policy...	-----	12.96	129.60	¹ 16.99	112.61	91.90	20.71

¹ Dividends paid in form of paid-up life additions; figure represents cash equivalent of paid-up additions.

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—graded death benefits—age 1—issue of 1939

Company	Aggregate premium per year for \$250 Policy	Amount payable after policy has been in force:												
		Less than 3 months	Less than 1 year but over 3 months	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years	11 years
Whole Life Paid up on Policy Anniversary after Age 74:														
American National	\$3.00	\$11.91	\$23.81	\$59.53	\$89.29	\$119.05	\$142.86	\$166.67	\$190.48	\$208.34	\$226.20	\$250.00	\$250.00	\$250.00
Colonial Life ¹	3.25	12.50	25.00	62.50	93.75	125.00	150.00	175.00	200.00	218.75	237.50	250.00	250.00	250.00
Equitable Life (D. C.)	3.02	13.95	29.07	63.95	93.02	122.09	145.35	168.61	191.86	209.30	226.75	250.00	250.00	250.00
Franklin National ⁴	3.10	27.38	29.07	63.10	92.86	122.62	148.81	172.62	196.43	214.29	232.15	250.00	250.00	250.00
Home Beneficial (Va.) ⁵	3.02	29.07	29.07	58.14	87.21	116.28	145.35	168.61	191.86	209.30	226.75	250.00	250.00	250.00
John Hancock	3.25	12.50	25.00	62.50	93.75	122.09	145.35	168.61	191.86	209.30	226.75	250.00	250.00	250.00
Life Ins. Co. of Virginia	3.02	13.95	29.07	63.95	93.75	125.00	150.00	175.00	200.00	218.75	237.50	250.00	250.00	250.00
Metropolitan Life	3.25	12.50	25.00	62.50	93.75	125.00	150.00	175.00	200.00	218.75	237.50	250.00	250.00	250.00
Monumental Life ⁶	3.25	25.00	25.00	50.00	75.00	100.00	125.00	150.00	175.00	200.00	225.00	250.00	250.00	250.00
National Life & Accident	3.10	11.91	26.19	61.91	92.86	122.62	148.81	172.62	196.43	214.29	232.15	250.00	250.00	250.00
Peoples Life (D. C.) ⁵	3.02	13.95	29.07	63.95	93.02	122.09	145.35	168.61	191.86	209.30	226.75	250.00	250.00	250.00
Washington National	3.25	12.50	25.00	62.50	93.75	125.00	150.00	175.00	200.00	218.75	237.50	250.00	250.00	250.00
Prudential Life ⁷	3.07	11.79	23.58	47.17	70.75	94.34	117.92	141.50	165.09	188.67	212.26	235.84	250.00	\$250.00
Western & Southern	3.10	26.19	26.19	61.91	92.86	122.62	148.81	172.62	196.43	214.29	232.15	250.00	250.00	250.00
20 Year Endowment:														
American National	13.00	50.00	75.00	125.00	175.00	225.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Colonial Life	13.00	25.00	50.00	100.00	150.00	200.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Equitable Life (D. C.)	12.26	23.59	47.17	94.34	141.51	188.68	235.85	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Franklin National	13.00	75.00	75.00	100.00	150.00	200.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Home Beneficial (Va.)	13.00	50.00	50.00	100.00	150.00	200.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
John Hancock	13.00	25.00	50.00	100.00	150.00	200.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Life Ins. Co. of Virginia ⁵	12.26	23.59	47.17	94.34	141.51	188.68	235.85	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Metropolitan Life ⁸	13.00	25.00	50.00	100.00	150.00	200.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Monumental Life	11.82	45.46	45.46	68.18	90.91	113.64	136.37	159.09	181.82	204.55	227.28	250.00	250.00	250.00
National Life & Accident	13.00	50.00	50.00	100.00	150.00	200.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Peoples Life (D. C.)	13.00	50.00	50.00	100.00	150.00	200.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Prudential ⁸	7	12.26	23.59	47.17	70.75	94.34	117.92	141.50	165.09	188.67	212.26	235.84	250.00	\$250.00
Sun Life of America	13.00	50.00	50.00	100.00	150.00	200.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Washington National	13.00	25.00	25.00	62.50	75.00	100.00	100.00	112.50	125.00	156.00	175.00	200.00	225.00	\$250.00
Western & Southern	13.00	50.00	50.00	100.00	150.00	200.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00

⁶ Endowment payable on policy anniversary after age 75.

⁷ Premiums increase 20% after 5 years from date of issue.

⁸ Industrial 20 Year Endowment not issued in 1939; figures based on policy as last issued in 1938.

¹ Whole Life, paid up on policy anniversary after age 69.

² Amount payable if death occurs before insured is 3 months of age.

³ Amount payable if death occurs after insured is 3 months of age but less than 1 year.

⁴ Whole Life, paid up on policy anniversary after age 75.

⁵ Whole Life, premiums payable until death.

EXHIBIT NO. 1031

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—Reserves and non-forfeiture benefits. Policy: Whole Life, paid up on policy anniversary after age 74 (or nearest equivalent form)—age 25—amount of insurance, \$250—1939 issue

Company	Amount of insurance for 5¢ weekly	Aggregate premium per year for \$250 policy	Valuation Standard			End of 5th year						
			Mortality Table	Rate of Interest	Basis of Valuation	Reserve	Cash Value	Surrender Charge		Paid Up Life Insurance ¹		
								Amount	% of Reserve		Years	Days
American National	\$102	\$6.37	Standard Industrial trial.	3½%	Modified Preliminary Term—N. Y. Standard.	\$10.62	\$5.76	\$4.86	45.8	2	21	\$14.71
Colonial Life	91	7.14	Standard Industrial trial.	3½%	Modified Preliminary Term—N. J. Standard.	11.20	10.08	1.12	10.0	3	259	25.82
Equitable Life (D. C.)	105	6.19	Standard Industrial trial.	3½%	Full Level Premium	13.10	6.86	6.24	47.6	(2)	---	17.50
Franklin National ³	96	6.77	Actuaries'	4%	Full Preliminary Term	8.49	0	8.49	100.0	(2)	---	13.02
Home Beneficial (Va.) ⁴	97	6.70	American Experience.	3½%	Modified Preliminary Term—Ill. Standard.	8.39	6.70	1.69	20.1	(2)	---	20.62
John Hancock	95	6.77	Standard Industrial trial.	3½%	Full Level Premium	13.10	6.85	6.25	47.7	(3)	(3)	(3)
Life Ins. Co. of Virginia	105	6.19	Standard Industrial trial.	3½%	Full Level Premium	13.10	8.73	4.37	33.4	3	63	0
Metropolitan Life	96	6.77	Standard Industrial trial.	3½%	Full Level Premium	13.10	10.47	2.63	20.0	3	308	26.82
Monumental Life ⁶	100	6.50	American Experience.	3½%	Full Level Premium	11.12	0	11.12	100.0	4	230	725.00
National Life & Accident	97	6.70	Standard Industrial trial.	3½%	Full Level Premium	13.10	10.36	2.74	20.9	3	308	28.35
Peoples Life (D. C.) ⁴	105	6.19	American Experience.	3½%	Full Level Premium	10.23	0	10.23	100.0	(2)	---	23.70
Prudential ¹	105	6.19	Standard Industrial trial.	3¼%	Full Level Premium	10.36	6.76	3.60	34.7	2	154	16.19
Sun Life of America ⁴	98	6.63	American Experience.	3½%	Full Level Premium	10.23	7.83	2.40	23.5	4	11	0
Washington National	96	6.77	Standard Industrial trial.	3½%	Modified Preliminary Term—N. J. Standard.	10.89	10.21	.68	6.2	3	240	0
Western & Southern	97	6.70	Standard Industrial trial.	3½%	Full Level Premium	13.10	6.86	6.24	47.6	2	175	0

¹ Whole Life, paid up on policy anniversary after age 69.

² No such option in policy.

³ Whole Life, paid up on policy anniversary after age 75.

⁴ Whole Life premiums payable until death.

⁵ Value granted, but amount unknown.

⁶ Endowment at age 75 (anniversary after age 75).

⁷ Paid up endowment, payable on policy anniversary after age 75.

⁸ Premiums increase 20% after 5 years from date of issue.

Company	Amount of insurance for 5¢ weekly	Aggregate premium per year for \$250 policy	Valuation Standard				End of 10th year					
			Mortality Table	Rate of Interest	Basis of Valuation	Reserve	Cash Value	Surrender Charge		Extended Term Insurance		
								Amount	% of Reserve	Years	Days	
American National	\$102	\$6.37	Standard Industrial trial.	3 1/2%	Modified Preliminary Term—N. Y. Standard.	\$24.80	\$19.76	\$5.04	20.3	6	273	\$44.12
Colonial Life 1	91	7.14	Standard Industrial trial.	3 1/2%	Modified Preliminary Term—N. J. Standard.	26.29	23.65	2.64	10.0	8	84	55.50
Equitable Life (D. C.)	105	6.19	Standard Industrial trial.	3 1/2%	Full Level Premium	27.12	20.88	6.24	23.0	(2)	---	48.88
Franklin National 3	96	6.77	Actuaries'	4%	Full Preliminary Term	20.76	17.75	3.01	14.5	(2)	---	41.67
Home Beneficial (Va.) 4	97	6.70	American Experience.	3 1/2%	Modified Preliminary Term—Ill. Standard.	20.61	16.49	4.12	20.0	(2)	---	43.81
John Hancock	96	6.77	Standard Industrial trial.	3 1/2%	Full Level Premium	27.12	20.89	6.23	23.0	(5)	(5)	(5)
Life Ins. Co. of Virginia	105	6.19	Standard Industrial trial.	3 1/2%	Full Level Premium	27.12	20.88	6.24	23.0	7	63	0
Metropolitan Life	96	6.77	Standard Industrial trial.	3 1/2%	Full Level Premium	27.12	21.69	5.43	20.0	7	175	50.78
Monumental Life 6	100	6.50	American Experience.	3 1/2%	Full Level Premium	24.36	19.48	4.88	20.0	10	21	750.00
National Life & Accident	97	6.70	Standard Industrial trial.	3 1/2%	Full Level Premium	27.12	21.47	5.65	20.8	7	176	51.55
Peoples Life (D. C.) 4	105	6.19	American Experience.	3 1/2%	Full Level Premium	22.36	19.50	2.86	12.8	(2)	---	52.60
Prudential 1	105	6.19	Standard Industrial trial.	3 1/4%	Full Level Premium	25.74	21.76	3.98	15.5	7	154	48.33
Sun Life of America 4	98	6.63	American Experience.	3 1/2%	Full Level Premium	22.36	19.13	3.23	14.4	9	312	0
Washington National	96	6.77	Standard Industrial trial.	3 1/2%	Modified Preliminary Term—N. J. Standard.	25.50	21.69	3.81	14.9	7	150	0
Western & Southern	97	6.70	Standard Industrial trial.	3 1/2%	Full Level Premium	27.12	20.88	6.24	23.0	7	63	0

1 Whole Life, paid up on policy anniversary after age 69.

2 No such option in policy.

3 Whole Life, paid up on policy anniversary after age 75.

4 Whole Life premiums payable until death.

5 Value granted, but amount unknown.

6 Endowment at age 76 (anniversary after age 75).

7 Paid up endowment, payable on policy anniversary after age 75.

8 Premiums increase 20% after 5 years from date of issue.

Industrial life insurance—Reserves and non-forfeiture benefits. Policy: Whole Life, paid up on policy anniversary after age 74 (or nearest equivalent form)—age 25—amount of insurance, \$250—1939 issue—Continued

Company	Amount of insurance for 5¢ weekly	Aggregate premium per year for \$250 policy	Valuation Standard			End of 20th year						
			Mortality Table	Rate of Interest	Basis of Valuation	Reserve	Cash Value	Surrender Charge		Extended Term Insurance		
								Amount	% of Reserve	Years	Days	
American National.....	\$102	\$6.37	Standard Industrial trial.	3½%	Modified Preliminary Term—N. Y. Standard.	\$59.54	\$54.51	\$5.03	8.4	13	224	\$105.39
Colonial Life ¹	91	7.14	Standard Industrial trial.	3½%	Modified Preliminary Term—N. J. Standard.	63.70	63.71	0	0	16	7	124.18
Equitable Life (D. C.).....	105	6.19	Standard Industrial trial.	3½%	Full Level Premium.....	61.49	55.24	6.25	10.2	(2)	—	107.67
Franklin National ²	96	6.77	Actuaries'.....	4%	Full Preliminary Term.....	52.23	(5)	(5)	(5)	(2)	—	(5)
Home Beneficial (Va.) ³	97	6.70	American Experience.	3½%	Modified Preliminary Term—III. Standard.	51.75	45.62	6.13	11.8	(2)	—	100.51
John Hancock.....	96	6.77	Standard Industrial trial.	3½%	Full Level Premium.....	61.49	61.49	0	0	(5)	(5)	(5)
Life Ins. Co. of Virginia.....	105	6.19	Standard Industrial trial.	3½%	Full Level Premium.....	61.49	55.22	6.27	10.2	13	301	0
Metropolitan Life.....	96	6.77	Standard Industrial trial.	3½%	Full Level Premium.....	61.49	61.49	0	0	15	161	119.79
Monumental Life ⁶	100	6.50	American Experience.	3½%	Full Level Premium.....	58.39	52.15	6.24	10.7	18	234	7 110.00
National Life & Accident.....	97	6.70	Standard Industrial trial.	3½%	Full Level Premium.....	61.49	60.85	.64	1.0	15	156	118.56
Peoples Life (D. C.) ⁴	105	6.19	American Experience.	3½%	Full Level Premium.....	53.26	49.25	4.01	7.5	(2)	—	107.95
Prudential ¹	105	6.19	Standard Industrial trial.	3¼%	Full Level Premium.....	63.18	60.50	2.68	4.2	14	322	113.10
Sun Life of America ⁴	98	6.63	American Experience.	3½%	Full Level Premium.....	53.26	47.93	5.33	10.0	17	108	0
Washington National.....	96	6.77	Standard Industrial trial.	3½%	Modified Preliminary Term—N. J. Standard.	61.49	61.49	0	0	15	150	0
Western & Southern.....	97	6.70	Standard Industrial trial.	3½%	Full Level Premium.....	61.49	55.23	6.26	10.2	13	301	0

¹ Whole Life, paid up on policy anniversary after age 69.

² No such option in policy.

³ Whole Life, paid up on policy anniversary after age 75.

⁴ Whole Life premiums payable until death.

⁵ Value granted, but amount unknown.

⁶ Endowment at age 76 (anniversary after age 75).

⁷ Paid up endowment, payable on policy anniversary after age 75.

⁸ Premiums increase 20% after 5 years from date of issue.

EXHIBIT No. 1032

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—indexes of net costs. Policy: Whole life, paid up on policy anniversary after age 74 (or nearest equivalent form)—age 25—amount of insurance, \$250—issue of 1939

Name of Company	Aggregate Yearly Premium	Index of net cost for:					
		1 Year	2 Years	3 Years	5 Years	10 Years	20 Years
American Nat'l.....	\$6.37	\$5.25	\$10.28	\$14.96	\$19.28	\$29.38	\$42.49
Colonial ¹	7.14	5.91	11.56	15.37	18.76	32.28	47.65
Equitable of D. C.....	6.19	4.98	9.73	13.14	17.09	26.18	37.76
Franklin Nat'l ²	6.77	5.54	10.85	15.94	21.88	33.21	(³)
Home Beneficial.....	6.70	5.48	10.72	15.54	19.55	33.50	49.62
John Hancock.....	6.77	(³)	(³)	(³)	18.87	25.63	28.20
Life Ins. Co. of Va.....	6.19	4.98	9.73	13.81	15.54	26.28	38.26
Metropolitan.....	6.77	5.24	10.16	14.26	15.20	24.59	28.17
Monumental ⁴	6.50	5.28	10.33	12.93	20.06	29.80	43.94
Nat'l Life & Ace.....	6.70	5.48	10.72	13.72	16.53	30.12	42.83
People of D. C. ⁵	6.19	4.98	9.73	14.30	16.35	27.22	40.92
Prudential ⁶	6.19	4.71	9.18	13.47	17.17	(³)	(³)
Sun Life.....	6.63	5.41	10.58	14.55	18.29	30.90	46.72
Washington Nat'l.....	6.77	5.64	11.05	14.71	17.42	31.39	44.93
Western & Southern.....	6.70	5.32	10.39	15.19	19.36	30.28	44.26

- ¹ Whole Life, paid up on policy anniversary after age 69.
- ² Whole Life, paid up on policy anniversary after age 75.
- ³ Omitted due to lack of full information.
- ⁴ Endowment payable on policy anniversary after age 75.
- ⁵ Whole Life, premiums payable until death.
- ⁶ Premiums increase 20% after 5 years from date of issue.

EXHIBIT No. 1033

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial life insurance—indexes of net costs. Policy: 20 Year Endowment—age 25—amount of insurance, \$250—issue of 1939

Name of Company	Aggregate Yearly Premium	Index of net cost for:					
		1 Year	2 Years	3 Years	5 Years	10 Years	20 Years
American Nat'l.....	\$14.77	\$13.52	\$26.51	\$32.05	\$33.68	\$52.01	\$72.19
Colonial ¹	14.77	13.45	26.37	31.84	30.59	49.79	71.19
Equitable of D. C.....	13.54	12.24	24.00	18.51	24.94	39.36	41.70
Franklin Nat'l.....	15.48	14.14	27.74	10.79	36.69	60.18	81.04
Home Beneficial.....	14.56	13.24	25.97	38.18	32.22	48.98	68.27
John Hancock ¹	15.48	(²)	(²)	(²)	31.56	42.84	45.50
Life Ins. Co. of Va.....	13.54	12.24	24.00	28.33	24.94	39.56	54.12
Metropolitan ¹	15.48	13.36	25.16	35.71	30.54	42.76	36.82
Monumental.....	15.48	14.14	27.74	30.56	39.43	55.07	81.04
Nat'l Life and Ace.....	15.48	14.14	27.74	33.38	33.81	55.67	81.04
Peoples of D. C.....	15.48	14.14	27.74	40.79	34.04	54.42	81.04
Prudential ¹	³ 13.54	11.83	23.18	29.69	29.85	(²)	(²)
Sun Life.....	15.48	14.14	27.74	30.56	33.77	54.85	71.23
Washington Nat'l.....	15.60	14.33	28.11	33.68	35.31	57.27	83.71
Western & Southern.....	15.48	13.73	26.92	33.83	33.75	55.43	68.29

- ¹ Industrial 20 Year Endowment not issued in 1939; data based on policy as last issued in 1938.
- ² Omitted due to lack of full information.
- ³ Premiums increase 20% after 5 years from date of issue.

EXHIBIT No. 1034

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial and Ordinary life insurance—Comparative indexes of net costs. Ordinary policy: Whole life (or nearest equivalent form). Industrial policy: Whole Life, paid up on policy anniversary after age 74 (or nearest equivalent form)—age 25—amount of insurance, \$250.00—issue of 1939

Name of Company	Aggregate Yearly Premium		Index of net cost for:											
			1 Year		2 Years		3 Years		5 Years		10 Years		20 Years	
	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.
American Nat'l	\$6.37	\$3.87	\$5.25	\$3.47	\$10.28	\$6.71	\$14.96	\$8.47	\$19.28	\$10.83	\$29.38	\$15.56	\$42.49	\$20.20
Colonial	7.14	4.04	5.91	3.64	11.56	7.04	15.37	6.72	18.76	9.33	32.28	15.28	47.65	22.53
Equitable (D. C.) ²	6.19	4.12	4.98	3.72	9.73	6.74	13.14	8.07	17.09	11.16	26.18	18.73	37.76	22.74
Home Beneficial	6.70	3.95	5.48	3.55	10.72	6.87	15.54	7.58	19.55	10.37	33.50	17.46	49.62	20.53
John Hancock ²	6.77	4.97	(³)	(³)	(³)	(³)	(³)	(³)	18.87	9.82	25.63	12.64	28.20	18.12
Life Ins. Co. of Va. ²	6.19	4.27	4.98	3.87	9.73	7.50	13.81	8.50	15.54	11.85	26.28	20.01	38.26	24.89
Metropolitan ²	6.77	4.76	5.24	4.36	10.16	8.46	14.26	7.36	15.20	9.34	(³)	(³)	(³)	(³)
Monumental ⁴	6.50	4.03	5.28	3.63	10.33	7.02	12.93	7.01	20.06	9.94	29.80	15.55	43.94	22.38
Nat'l Life & Acc. ²	6.70	4.26	5.48	3.86	10.72	7.48	13.72	6.45	16.53	9.53	30.12	15.78	42.83	24.75
Peoples (D. C.) ^{2 5}	6.19	4.05	4.98	3.65	9.73	7.06	14.30	8.99	16.35	12.71	27.22	17.79	40.92	22.55
Prudential ^{1 6}	7.19	4.80	4.71	4.40	9.18	7.77	13.47	8.01	17.17	9.48	(³)	(³)	(³)	(³)
Sun Life	6.63	4.19	5.41	3.79	10.58	7.34	14.55	8.27	18.29	11.48	30.90	19.50	46.72	23.97
Washington Nat'l ²	6.77	4.14	5.64	3.74	11.05	7.24	14.71	9.25	17.42	12.09	31.39	17.34	44.93	23.85
Western & Southern ²	6.70	3.95	5.32	3.55	10.39	6.87	15.19	7.58	19.36	10.17	30.28	17.11	44.26	20.30

¹ Industrial policy is "Whole Life, paid up on policy anniversary after Age 69."

² Ordinary policy is "Endowment payable on policy anniversary nearest Age 85."

³ Omitted due to lack of full information.

⁴ Industrial policy is "Endowment payable on policy anniversary after Age 75."

⁵ Industrial policy is "Whole Life, premiums payable until death."

⁶ Ordinary policy is "Whole Life, paid up on policy anniversary nearest Age 85."

⁷ Premiums increase 20% after 5 years from date of issue.

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial and Ordinary life insurance—Comparative indexes of net costs. Policy: 20 Year Endowment—age 25—amount of insurance, \$250.00—issue of 1939

Name of Company	Aggregate Yearly Premium		Index of net cost for:											
			1 Year		2 Years		3 Years		5 Years		10 Years		20 Years	
	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.	Ind.	Ord.
American Nat'l.....	\$14.77	\$10.57	\$13.52	\$10.17	\$36.51	\$19.87	\$32.05	\$11.72	\$33.68	\$14.75	\$52.01	\$20.13	\$72.19	\$23.55
Colonial ¹	14.77	10.26	13.45	9.86	26.37	19.26	31.84	10.82	30.59	13.10	49.79	16.45	71.19	19.09
Equitable (D. C.).....	13.54	10.77	12.24	10.37	24.00	18.63	18.51	12.30	24.94	15.88	39.36	22.53	41.70	26.42
Home Beneficial.....	14.56	10.77	13.24	10.37	25.97	20.26	38.18	12.30	32.22	15.88	48.98	22.53	68.27	26.42
John Hancock ¹	15.48	11.99	(²)	(²)	(²)	(²)	(²)	(²)	31.56	12.22	42.84	15.37	45.50	18.30
Life Ins. Co. of Va.....	13.54	10.77	12.24	10.37	24.00	20.26	28.33	12.30	24.94	15.88	39.56	22.53	54.12	26.42
Metropolitan ¹	15.48	11.54	13.36	11.14	25.16	13.64	35.71	12.73	30.54	15.10	(²)	(²)	(²)	(²)
Monumental.....	15.48	10.55	14.14	10.15	27.74	19.83	30.56	11.66	39.43	14.09	55.07	18.64	81.04	23.26
Nat'l Life & Acc.....	15.48	10.45	14.14	10.05	27.74	19.63	33.38	10.48	33.81	12.94	55.67	15.65	81.04	21.82
Peoples (D. C.).....	15.48	10.57	14.14	10.17	27.74	19.87	40.79	10.60	34.04	13.50	54.42	18.23	81.04	23.55
Prudential ¹	³ 13.54	11.82	11.83	11.42	23.18	12.86	29.69	11.66	29.85	13.79	(²)	(²)	(²)	(²)
Sun Life.....	15.48	10.90	14.14	10.50	27.74	12.62	30.56	12.67	33.77	16.49	54.85	23.63	71.23	28.29
Washington Nat'l.....	15.60	10.57	14.33	10.17	28.11	19.87	33.68	11.72	35.31	14.75	57.27	19.78	83.71	23.55
Western & Southern.....	15.48	10.69	13.73	10.29	26.92	20.10	33.83	12.30	33.75	15.10	55.43	20.80	68.29	25.27

¹ Industrial 20 Year Endowment not issued in 1939; figures based on policy as last issued in 1938.

² Omitted due to lack of full information.

³ Premiums increased 20% after 5 years from date of issue.

EXHIBIT No. 1036

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial and Ordinary life insurance—ratio of Industrial index of net cost to Ordinary index of net cost. Ordinary policy: Whole Life (or nearest equivalent form). Industrial policy: Whole Life, paid up on policy anniversary after age 74 (or nearest equivalent form). Age 25—amount of insurance, \$250.00—issue of 1939

Name of Company	Ratio of Industrial Index of Net Cost to Ordinary Index of Net Cost for:					
	1 year	2 years	3 years	5 years	10 years	20 years
American Nat'l.....	151%	153%	177%	178%	189%	210%
Colonial ¹	162%	164%	229%	201%	211%	211%
Equitable (D. C.) ²	134%	144%	163%	153%	140%	166%
Home Beneficial.....	154%	156%	205%	189%	193%	242%
John Hancock ²	(3)	(3)	(3)	192%	203%	156%
Life Ins. Co. of Va. ²	129%	130%	162%	131%	131%	154%
Metropolitan ²	120%	120%	194%	163%	(3)	(3)
Monumental ⁴	145%	147%	184%	202%	192%	196%
National Life & Acc. ²	142%	143%	213%	173%	192%	173%
Peoples (D. C.) ^{2, 5}	136%	138%	159%	129%	153%	181%
Prudential ^{6, 1}	107%	118%	168%	181%	(3)	(3)
Sun Life.....	143%	144%	176%	159%	158%	195%
Washington Nat'l. ²	151%	153%	159%	157%	181%	188%
Western & Southern ²	150%	151%	200%	190%	177%	218%

¹ Industrial policy is "Whole Life, paid up on policy anniversary after age 69."

² Ordinary policy is "Endowment payable on policy anniversary nearest age 85."

³ Omitted due to lack of full information.

⁴ Industrial policy is "Endowment payable on policy anniversary after age 75."

⁵ Industrial policy is "Whole Life, premiums payable until death."

⁶ Ordinary policy is "Whole Life, paid up on policy anniversary nearest age 85."

EXHIBIT No. 1037

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial and Ordinary life Insurance—ratio of industrial index of net cost to Ordinary index of net cost. Policy: 20 Year Endowment—age 25—amount of insurance, \$250.00—issue of 1939

Name of Company	Ratio of Industrial Index of Net Cost to Ordinary Index of Net Cost for:					
	1 Year	2 Years	3 Years	5 Years	10 Years	20 Years
American Nat'l.....	133%	133%	273%	228%	258%	307%
Colonial ¹	136%	137%	294%	234%	303%	373%
Equitable (D. C.).....	118%	129%	150%	157%	175%	158%
Home Beneficial.....	128%	128%	310%	203%	217%	258%
John Hancock ¹	(2)	(2)	(2)	258%	279%	249%
Life Ins. Co. of Va.....	118%	118%	230%	157%	176%	205%
Metropolitan ¹	120%	184%	281%	202%	(2)	(2)
Monumental.....	139%	140%	262%	280%	295%	348%
Nat'l Life & Acc.....	141%	141%	319%	261%	356%	371%
Peoples (D. C.).....	139%	140%	385%	252%	299%	344%
Prudential ¹	104%	180%	255%	216%	(2)	(2)
Sun Life.....	135%	220%	241%	205%	232%	252%
Washington Nat'l.....	141%	141%	287%	239%	290%	355%
Western & Southern.....	133%	134%	275%	224%	266%	270%

¹ Industrial 20 Year Endowment not issued in 1939; figures based on policy as last issued in 1938.

² Omitted due to lack of full information.

EXHIBIT No. 1038

[Prepared by Social Security Board Staff]

Total deaths in the United States and amount of payments under an insurance system providing \$250 benefit for all deaths

Calendar Year	Number of Deaths ¹	Amount of Payments ²	Calendar Year	Number of Deaths ¹	Amount of Payments ²
1940.....	1, 598	400	1960.....	2, 183	546
1945.....	1, 743	436	1970.....	2, 391	598
1950.....	1, 909	477	1980.....	2, 510	628

¹ In thousands of persons. Based on population estimate of the Committee on Economic Security.
² In millions of dollars. Exclusive of administrative expense.

EXHIBIT No. 1039

[Prepared by Social Security Board Staff]

Total population and deaths in the United States by age groups, 1940 and 1980

NUMBER IN GROUP

Age Group	1940		1980	
	Popula- tion ¹	Deaths ¹	Popula- tion ¹	Deaths ¹
Under 15.....	32, 831	287	31, 578	286
15-64.....	91, 086	713	101, 318	938
65 & Over.....	8, 311	598	16, 990	1, 286
Total.....	132, 228	1, 598	149, 886	2, 510

PERCENT IN GROUP

Under 15.....	24.8%	18.0%	21.1%	11.4%
15-64.....	68.9	44.6	67.6	37.4
65 & Over.....	6.3	37.4	11.3	51.2
Total.....	100.0	100.0	100.0	100.0

¹ In thousands of persons. Based on population estimate of the Committee on Economic Security.

EXHIBIT No. 1040

[Prepared by Social Security Board Staff]

Number of contributors and annual contribution for an insurance system providing \$250 benefit for all deaths under various plans of financing ¹

NUMBER OF CONTRIBUTORS ²

Calendar Year	Plan A	Plan B	Plan C	Plan D	Plan E
1940.....	132.2	123.9	122.6	55.0	53.0
1945.....	136.7	129.7	128.3	57.4	55.1
1950.....	140.6	129.8	128.2	59.2	56.6
1960.....	146.5	132.9	130.9	61.5	58.2
1970.....	149.6	134.5	132.2	62.8	59.2
1980.....	149.9	132.9	130.4	63.1	59.0

ANNUAL CONTRIBUTION ³

Calendar Year	Plan A	Plan B	Plan C	Plan D	Plan E
1940.....	\$3.03	\$3.23	\$3.26	\$7.27	\$7.55
1945.....	3.19	3.36	3.40	7.60	7.91
1950.....	3.39	3.67	3.72	8.06	8.43
1960.....	3.73	4.11	4.17	8.88	9.38
1970.....	4.00	4.45	4.52	9.52	10.10
1980.....	4.19	4.73	4.82	9.95	10.64

¹ Description of Plans:

Plan A—Flat annual contribution payable by every person.

Plan B—Flat annual contribution payable by every person under 65.

Plan C—Flat annual contribution payable by every person under 65 except for those who are dependents of persons over 65.

Plan D—Annual contribution payable by all gainful workers, with the amount varying directly with the number of dependents (i. e. gainful worker with 4 dependents pays 5 times as much as single individual).

Plan E—Same as Plan D except gainful workers over 65 are excluded from contributions (but not benefits so that cost is higher for gainful workers under 65).

² In millions of persons. Based on population estimate of the Committee on Economic Security.³ For Plans A, B, and C, all contributors pay this flat amount. For Plans D and E the figures shown are average payments per gainful worker since each pays an amount based on the number of dependents.

EXHIBIT No. 1041

[Prepared by Social Security Board Staff]

Total deaths in the United States and amount of payments under an insurance system providing benefits graded by age ¹

Age Group	1940		1980	
	Deaths ²	Payments ³	Deaths ²	Payments ³
Under 10.....	269	\$13	268	\$13
10-14.....	18	2	18	2
15-20.....	43	9	39	8
21 & Over.....	1,268	317	2,185	546
Total.....	1,598	341	2,510	569
Savings ⁴		59 (15%)		59 (9%)

¹ Age at Death:

Under 10.....	Benefit	\$50
10-14.....		100
15-20.....		200
21 & Over.....		250

² In thousands of persons. Based on population estimate of the Committee On Economic Security.³ In millions of dollars. Exclusive of administrative expense.⁴ Savings of graduated benefit scale over flat amount (\$250) as in Table 1.

"EXHIBIT No. 1042" appears in text on p. 6007

"EXHIBIT No. 1043" appears in text on p. 6008

"EXHIBIT No. 1044" appears in text on p. 6008

"EXHIBIT No. 1045" appears in text on p. 6008

"EXHIBIT No. 1046" appears in text on p. 6010

"EXHIBIT No. 1047" appears in text on p. 6013

"EXHIBIT No. 1048" appears in text on p. 6014

"EXHIBIT No. 1049" appears in text on p. 6016

"EXHIBIT No. 1050" appears in text on p. 6017

"EXHIBIT No. 1051" appears in text on p. 6017

"EXHIBIT No. 1052" appears in text on p. 6017

EXHIBIT No. 1053

[From Washington, D. C., files of Life & Casualty Insurance Co. of Tennessee]

A. M. BURTON, *President*

H. B. FOLK, *Secretary, Treas.*

LIFE & CASUALTY INSURANCE COMPANY OF TENNESSEE

Industrial Ordinary

Incorporated 1903

Life & Casualty Building, Nashville, Tennessee

E. R. DERRYBERRY, *Controller*

FEBRUARY 22, 1939

Mr. H. A. HOLLINS,
District Manager,
Washington, D. C.

DEAR MR. HOLLINS: We are enclosing for the information of your employees a list of earnings, interest on Bond Savings, and dividends for the year 1938. The earnings include the amount paid in the Industrial and the Ordinary Departments.

Yours very truly

E. R. DERRYBERRY.

E. R. Derryberry
Controller

mc

Earnings of representatives in Washington, D. C.

Name	Salary	Bond sav- ings	Dividends
H. L. Alsobrook	\$193.66	\$3.62	
J. A. Anderson	1.97		
J. A. Balderson	2,590.94		
D. M. Baldwin	236.00	8.19	
C. R. Baxter	.17	4.02	
C. R. Beans	256.14	1.50	
J. A. Benton	1,121.04		
A. M. Campbell	1,521.10		\$107.00
W. H. Carson	1,447.18	6.77	
J. M. Corbett	6.42		
C. J. Cunningham	1,254.73		
J. C. Dodbson	817.14		
C. M. Dye	343.41		
B. W. Eubank	2,011.08		
S. G. Farrah	263.57		
I. T. Feldman	2,451.65		
Kenneth Fink	1,325.39		
T. L. Gibson	11.12		
R. L. Goldup	123.03	3.78	
K. C. Griffiths	345.48		
E. L. Gusack	1,805.32		
D. B. Guynn	356.44		
P. D. Harnish	1,426.44	6.00	
W. M. Hayes	720.89	9.15	
R. W. Heigham	899.55	4.00	
M. B. Holleman	2,052.28		
H. A. Hollins	5,112.06		119.25
J. S. Hollins	94.34		
M. H. Hollins	882.00		
Wardell Hopkins	477.26	2.66	
T. H. Howlin	2,535.16	10.63	
J. L. Huestis	1,478.08	6.66	
E. P. Jefferson	460.56	3.00	
W. W. Johnston	92.97		
B. J. Keren	220.46	1.50	
R. O. King	173.33		
Sam Kleigman	1,726.31		
J. F. Lee	1,836.83		
J. W. Loye	3,113.38	14.78	
Leslis McWhorter	377.04	8.85	
Charles Mankin	18.00		
W. W. Mathews	1,490.40	4.64	
J. E. Moran	234.45	1.54	
W. E. Nash	860.72	5.29	
A. L. Norfleet	990.16		
S. C. Phillips	1,524.20	6.00	
M. R. Phipps	236.90	3.50	
G. E. Pulley	2,368.22	6.52	
C. A. Rees	794.00		
W. P. Regan	207.40		
C. O. Reynolds	2,111.41		
R. E. Roberson	2,094.15	11.65	48.00
Geo. Rosen	2.74		
F. W. Rudderforth	1,095.92		
S. P. Saffelle	211.65	2.50	
R. E. Sallade	134.68		
E. E. Sancomb	446.17		
G. W. Sanders	18.05		
K. H. Sawyer	1,041.31	4.00	
Irwin Selki	1,767.22		
M. B. Shuey	881.11		
Lawrence Slack	539.81	2.74	
M. H. Smith	.39		
M. S. Smith	13.09		
Frank Strader	363.86		
C. J. Strayne	933.37		
L. G. Taylor	383.02	2.74	
G. S. Taylor	884.17		
B. W. Teates	1,304.80	12.00	
G. H. Turner	47.07		
O. S. Vaughn	2,219.43	9.03	
R. M. Waddell	498.56	2.00	
Henry Walder	2,738.56	7.55	
W. E. Wrightson	14.28	5.50	
F. C. Wync	2,414.17	12.00	175.00
P. T. Zacharias	346.57		

“EXHIBIT No. 1054” appears in text on p. 6032

“EXHIBIT No. 1055” appears in text on p. 6033

“EXHIBIT No. 1056” appears in text on p. 6034

“EXHIBIT No. 1057” appears in text on p. 6035

“EXHIBIT No. 1058” appears in text on p. 6035

EXHIBIT No. 1059

[Submitted by Home Beneficial Association]

HOME BENEFICIAL ASSOCIATION

RICHMOND, VIRGINIA

The amount of cash dividends paid each year since organization

Year:	Cash dividend	Year:	Cash dividend
1906.....	\$4, 000	1924.....	200, 000
1907.....	4, 000	1925.....	200, 000
1908.....	4, 000	1926.....	200, 000
1909.....	2, 000	1927.....	200, 000
1910.....	24, 000	1928.....	240, 000
1911.....	13, 000	1929.....	200, 000
1912.....	15, 000	1930.....	200, 000
1913.....	30, 000	1931.....	200, 000
1914.....	45, 000	1932.....	200, 000
1915.....	60, 000	1933.....	200, 000
1916.....	60, 000	1934.....	200, 000
1917.....	60, 000	1935.....	200, 000
1918.....	120, 000	1936.....	200, 000
1919.....	150, 000	1937.....	200, 000
1920.....	160, 000	1938.....	200, 000
1921.....	160, 000	1939.....	200, 000
1922.....	160, 000		
1923.....	200, 000		4, 511, 000

“EXHIBIT No. 1060” appears in text on p. 6045

“EXHIBIT No. 1061” appears in text on p. 6045

“EXHIBIT No. 1062” appears in text on p. 6053

“EXHIBIT No. 1063” appears in text on p. 6064

EXHIBIT No. 1064

[From Washington, D. C., files of Home Beneficial Association]

M. D. NUNNALLY, *President*W. E. WILTSHIRE, *Secretary*HOME BENEFICIAL ASSOCIATION
ORDINARY AND INDUSTRIAL INSURANCE

Home Office: Ninth and Broad Sts.

Richmond, Va.

FEBRUARY 18, 1938.

Mr. J. W. WRIGHT,
Washington, D. C.

DEAR MR. WRIGHT: To reach our goal of \$100,000,000 Insurance in Force by the end of 1938, it is going to take a lot of planning and a great amount of work. It will be a big job, and we should fully realize the futility of any delayed start. There is only one way in which we can reach that goal, and that is for each district, each staff, and each agent to make its proportionate amount of Ordinary and Industrial Increase each week, as it goes. To do this, it is necessary that we keep our allotments before us for each week, to know each week in the year if we are ahead or behind in our allotments. Only by doing this can we expect to know where we are at the end of each week, and whether or not we are keeping pace with our allotments.

In order that every district may keep its allotment on Ordinary and Industrial Increase before it each week in the year, we are shipping you two large graphs. One of these graphs is for Ordinary Increase and the other is for Industrial Increase. Both of the graphs are to be placed in a prominent position in the agent's room, where they will be plainly visible to everyone.

You will notice that the graphs have vertical lines dividing them into weeks and that the weeks are dated at the bottom of the graph. On the left-hand margin we have placed the amounts opposite the horizontal lines. The red line running diagonally across the graph from the first week in the year to the last week in the year will show you what the district's allotment is at the end of each week. Both of these graphs have been correctly marked up to date. As long as the district remains above the red line it has its allotment for that week. If the district drops below the red line, it is below its allotment. Therefore, it should be the goal of the district to keep above the red line each week in the year.

We are listing below the total amounts of Ordinary and Industrial Increase or Decrease which your district had at the end of each week this year. These figures are taken from the Ordinary and Industrial Bulletins and are listed here so that you may compare them with the graphs to see exactly how they are worked.

	Jan. 3	Jan. 10	Jan. 17	Jan. 24	Jan. 31	Feb. 7	Feb. 14
Ordinary.....	\$1,500	\$2,000	\$6,000	\$8,500	\$19,500	\$23,500	\$31,500
Industrial.....	39.82	53.76	92.21	100.52	131.83		

Should you have any difficulty in working these graphs, we wish you to communicate with the writer immediately, stating what you do not understand. These graphs are to be MARKED EACH WEEK, and ONLY IN THE MEETING ON SATURDAY MORNING. You may draw a light pencil line in advance if you wish, as a guide. We are enclosing a pen point and suggest that you get a bottle of black India ink with which to mark these graphs. The graphs are punched at the top so that they may be hung by a cord, if necessary. However, we wish you to tack them to the wall if it is possible to do so.

We feel certain that you will use these graphs to the best of advantage in your meetings and that they will assist you in keeping before your district the allotments of the district. The record of your district will be very closely watched this year. Can we count on your district to do its part in reaching our goal of \$100,000,000 Insurance in Force by getting its allotment on both Ordinary and Industrial? This is your opportunity to demonstrate your leadership ability.

Yours very truly,

F. R. BRAUER.

FRB: CP
Enc.

EXHIBIT No. 1065

[From Washington, D. C., files of Home Beneficial Association]

M. D. NUNNALLY, *President*W. E. WILTSHIRE, *Secretary*

HOME BENEFICIAL ASSOCIATION

ORDINARY AND INDUSTRIAL INSURANCE

Home Office: Ninth and Broad Sts., Richmond, Va.

SEPT. 23, 1936.

Mr. J. W. WRIGHT AND STAFF,
Washington, D. C.

GENTLEMEN:

1866—M. D. Nunnally—1936.

September 28, 1936, will be the 70th Anniversary of the birth of our president, Mr. Nunnally—seventy years of rich experience, nearly thirty-eight of which have been closely interwoven in the destinies of the Home Beneficial Association.

This company, which has furnished us with the opportunity not only to earn a livelihood for ourselves, but to make homes for our families, educate our children and prepare for our old ages, has depended so much on his fine judgments in councils in which his interest in the welfare of all of its employes has been an uppermost thought. Those of you who have not met him have been unfortunate but you, as well as those who know him well, may rest assured that your welfare is of utmost concern to him.

The week of September 28 has been designated "Our President's Week" in celebration of his 70th birthday, and the Company is asking that during that week every man in your district write 28 Industrial applications, collect 100% of his debit, and write at least one Ordinary, Juvenile or Intermediate application.

The report of every man's accomplishment for "Our President's Week" will be laid on Mr. Nunnally's desk and we can think of no token that would be more appreciated by him.

Let your accomplishment be your birthday greeting and be sure you have 28 Industrial applications, 100% collections, and at least one Ordinary, Juvenile or Intermediate application.

Yours truly,

E. G. HOBSON.

EGH:NC

P. S.—See Field News announcement.

EXHIBIT No. 1066

[From Washington, D. C., files of Home Beneficial Association]

M. D. NUNNALLY, *President*W. E. WILTSHIRE, *Secretary*

HOME BENEFICIAL ASSOCIATION

ORDINARY AND INDUSTRIAL INSURANCE

Home Office: Ninth and Broad Sts., Richmond, Va.

JULY 7, 1936.

Mr. J. W. WRIGHT AND STAFF,
Washington, D. C.

GENTLEMEN: "Batter up!" The game is on—baseball season has started and for nine weeks in July and August—weeks full of excitement, thrills, weeks on the anxious seat—who will be the winner?

It's a big league you are in—every team anxious and ambitious and none giving or asking favors, every team for itself. There are no soft spots. Minor league performance won't win.

A schedule such as this is one that tests the mettle of every team and every man on the team. The winners should have and will have the acclaim and respect of all of us. It's going to be hard work but lots of fun.

The winning team will be the team that puts all it has in each game, never letting up until the last man is out in the ninth inning of the last game—the team that hits hard for new business and fields clean with close collections.

The star players will be those who realize that there will be no pinch hitters, no relief pitchers—that the team's standing and their own standings at the end of the season depend entirely on the efforts of the individual players.

Team trophies, pen and pencil sets, and fountain pens are the rewards for the good hitters, good fielders, and the fellows who don't give up.

Hit that old apple on the nose and hit it often, and when the winners are announced let us take our hats off—to you and to your district.

Yours truly,

E. G. HOBSON.

EGH:NC

EXHIBIT No. 1067

[From files of Equitable Life Insurance Company of Washington, D. C.]

AGENT'S AGREEMENT

In consideration of my appointment as an Agent of the **EQUITABLE LIFE INSURANCE COMPANY**, I do hereby agree as follows:

Sec. 1. To devote my entire time to the business of the Company; to promote its success and welfare and to conform to and abide by its rules, requirements and instructions issued by the Company in its Agents' Instruction Books (receipt of said books is hereby acknowledged) or as otherwise issued.

Sec. 2. To canvass regularly for new Industrial and Ordinary insurance, to collect Industrial premiums regularly every week and Monthly Debit Ordinary premiums regularly every month, and to collect Ordinary premiums when Ordinary premium receipts are given me for collection of said premiums.

Sec. 3. To furnish to the Company at my expense, to secure faithful performance of duty, such bonds as it shall prescribe.

Sec. 4. To accept in full payment for my services hereunder the salary or commissions hereinafter provided, with the understanding and agreement that the rates and forms of payment of salary and commissions may be changed from time to time in the discretion of the Company.

THE FOLLOWING SECTIONS RELATE ONLY TO BUSINESS KNOWN AS INDUSTRIAL INSURANCE,

being that on which premiums are payable weekly

Sec. 5. That "INDUSTRIAL DEBIT" means the Industrial policies listed on the official life register and charged to me for report and collection of premiums thereon under the Company's rules and regulations, the policies so listed being subject to all changes as they are made from time to time by reason of transfers to or from that account and by reason of policies issued or reinstated and by reason of policies on which premiums cease for any cause.

Sec. 6. (a) WEEKLY SALARY.—That "Weekly Salary" shall be paid to me for collecting and conserving the "Industrial Debit," for maintaining a rate of production in all branches of the business that will be satisfactory to the Company, and for performing all the duties required by the rules of the Company; and that the amount of "Weekly Salary" I am to receive shall be based upon the amount of the "Industrial Debit" as set forth in the following table (provided, however, that in the event of my not completing a week's service, I am to be paid only the proportional part of my "Weekly Salary" for the number of days I actually work):—

Industrial Debit	Less than \$25.00	\$25.00 to \$29.99	\$30.00 to \$34.99	\$35.00 to \$39.99	\$40.00 to \$44.99	\$45.00 to \$49.99	\$50.00 to \$59.99	\$60.00 to \$69.99	\$70.00 to \$79.99	\$80.00 to \$89.99	\$90.00 to \$99.99
Weekly Salary.....	\$12.50	\$13.00	\$13.50	\$14.00	\$14.50	\$15.00	\$15.50	\$16.00	\$16.50	\$17.00	\$17.50
Industrial Debit	\$100.00 to \$109.99	\$110.00 to \$119.99	\$120.00 to \$129.99	\$130.00 to \$139.99	\$140.00 to \$149.99	\$150.00 to \$159.99	\$160.00 to \$169.99	\$170.00 to \$179.99	\$180.00 to \$189.99	\$190.00 to \$199.99	
Weekly Salary.....	\$18.00	\$18.50	\$19.00	\$20.00	\$21.00	\$22.00	\$23.00	\$24.00	\$25.00	\$26.00	

and that when the "Industrial Debit" exceeds \$199.99 the "Weekly Salary" will be increased \$1 for each \$10 additional debit or fraction thereof.

(b) That in determining the amount of the "Industrial Debit" upon which said "Weekly Salary" shall be based, the weekly premiums of any business in course of transfer To my debit shall be added thereto when the amount is \$10.00 or over from any other single debit, and the weekly premiums on any business in course of transfer FROM my debit shall be deducted therefrom when the amount is \$10.00 or over to any other single debit.

Sec. 7. (a) INDUSTRIAL SPECIAL SALARY.—That I am to receive an "Industrial Special Salary" equal to fifteen times the "Net Increase" on the Industrial Debit, unless such Industrial Special Salary, or any part thereof, is used by the Company to offset a Net Decrease in my Monthly Debit Ordinary business as provided in Section 37. That the "Net Increase" is the excess of the New Business and Revival premiums, officially issued and credited to me by the Company's rules, over the lapsed premiums on the debit and lapses of transferred business for which I am responsible by the Company's rules. That from the lapsed premiums on the debit there will be deducted all premiums lapsed because of death, the disability provision, the payment of premiums in full to the end of the premium-paying period on limited-payment policies, and the maturity of endowment policies.

(b) That if the lapsed premiums for which I am responsible by the Company's rules exceed the new business and revival premiums officially issued and credited to me by the Company's rules, the excess will be a "Net Decrease" which must be offset by "Net Increase," as described in Section 7 (a), before further special salary will be due me, unless such "Net Decrease" shall be fully offset by my Monthly Debit Ordinary Special Salary as described in Section 37.

(c) That if this Agreement be terminated, any "Net Increase" accruing by the Company's rules after the last payment of Industrial Special Salary shall be credited in the adjustment of the account at the number of times under which my last Special Salary was computed and any Industrial "Net Decrease" accruing in a like manner shall be debited at the same number of times.

(d) That the amount of Industrial Special Salary to be paid me in any week shall not amount to more than the quality of the business in the opinion of the Company will warrant, and in no case shall I be entitled to any salary described herein until all of the conditions contained in this Agreement have been fully complied with. That should the premium arrears on the debit be deemed excessive or my percentage of collections be not satisfactory to the Company, all salary may be withheld until all conditions are regarded as satisfactory to the Company.

Sec. 8. (a) INDUSTRIAL SEMI-ANNUAL SPECIAL SALARY.—That at the expiration of every period of twenty-six weeks, computing from and including the first week that Weekly Salary is paid under this Agreement, provided I have conducted my business to the satisfaction of the Company, I am to receive [in weekly instalments, as specified in Section 8 (b)] an "Industrial Semi-Annual Special Salary," equal to fifteen times the Net Increase on the Industrial Debit for said period.

(b) That the Industrial Semi-Annual Special Salary due me at the end of any period will be paid in equal weekly instalments over the next succeeding twenty-six weeks, should I remain in the employ of the Company.

(c) That should I fail to qualify for an Industrial Semi-Annual Special Salary for any said period of twenty-six weeks, I shall be allowed one additional period of twenty-six weeks in which to do so, and the Industrial Semi-Annual Special Salary, if earned, will be fifteen times the Net Increase of the Industrial Debit for the combined two periods of twenty-six weeks each, and the Industrial Semi-Annual Special Salary will be paid in equal weekly instalments over the next succeeding twenty-six weeks, should I remain in the employ of the Company.

Sec. 9. (a) INDUSTRIAL ANNUAL SALARY.—That at the expiration of every period of fifty-two weeks, computing from and including the first week that Weekly Salary is paid under this Agreement, provided I have conducted my business to the satisfaction of the Company and the arrears on my Industrial debit for said period do not average more than seventy-five per cent (75%) of the debit, I am to receive, in weekly instalments as specified in Sec. 9 (b), an Industrial Annual Salary based on my total Industrial Net Increase and the collections of my Industrial debit for said period as set forth in the following table:

If Collections of	98%	or over	-----	5 times	Net Increase
"	"	" 96%	to less than 98%	-----	4 times
"	"	" 94%	to less than 96%	-----	3 times
"	"	" 92%	to less than 94%	-----	2 times

(b) That the Industrial Annual Salary due me at the end of any period will be paid to me in equal weekly instalments extending over the next succeeding fifty-two weeks, should I remain in the employ of the Company.

(c) That should I fail to qualify for an Industrial Annual Salary in any period, I shall be allowed one additional similar period in which to do so, and the Industrial Annual Salary, if earned, will be based on the results of the two periods, and will be paid in equal weekly instalments extending over the next succeeding fifty-two weeks, should I remain in the employ of the Company.

Sec. 10. That no Industrial Semi-Annual Special Salary and/or Industrial Annual Salary, however, shall become due or payable unless there is credited to me on the books of the Company at the Home Office an Industrial net increase equal to an average of not less than Twenty (20) Cents per week during the period of my service with the Company; said average, however, to be for a period not in excess of one hundred and four (104) weeks immediately preceding and including the date of computation.

Sec. 11. That whenever the Company determines that the premiums in arrears on my debit are excessive, or that the percentage of collections thereon is below the standard prescribed by it or that new insurance issued on applications written by me is not satisfactory to it or has been obtained by my improper practices, then, in any such case, the Company may withhold all salary (or salaries) which otherwise would be due and all sums so withheld shall not become due me nor become a credit to me in any accounting between me and the Company unless and until the Company determines that the debit and insurance written have been made satisfactory to it by me in all these matters; and that the Company in its discretion may at any time withhold a portion or all of any salary or salaries due me to establish a reserve or credit against my special salary account. All sums withheld for any of the reasons herein set forth may be held by the Company until it elects to pay them to me or until a final accounting is made between us, but at all times the Company shall have the right to deduct therefrom any indebtedness from me to it arising out of my employment and under this agreement.

Sec. 12. That, if this Agreement be terminated, all lapses made in the Industrial Debit on my last report which is known as the agent's Final and all lapses made in the debit which are officially lapsed within four weeks after my "Final" shall be charged to my account with the understanding that all policies issued on applications written by me and all former policies of the debit officially reinstated by the Company within the same period shall be added to that debit and credited to my account with the Company.

Sec. 13. That, after any "Final" on any Industrial Debit, my account shall be computed as provided by Section 12 hereof; and if the account so computed shows a net decrease, which shall be cumulative from the time net increase was last determined or during the term of employment, if no net increase has been determined, this net decrease shall be the final net decrease and the amount thereof, multiplied by the same factor which would be applied in the event of net increase, shall be an item of indebtedness from me to the Company; and that any such indebtedness may be deducted from any sums held in Reserve, or from any Ordinary commissions then or thereafter due me, or from any Monthly Debit Ordinary Special Salary due me.

Sec. 14. That if this Agreement be terminated either by myself or the Company for any cause whatsoever, by resignation, dismissal, death, or otherwise, all remunerations which a continuance of my Agency might have secured to me shall be waived and forfeited, it being agreed that I shall have no claim on any Industrial Semi-Annual Special Salary and/or Industrial Annual Salary, or any instalments thereof, remaining unpaid at termination of my active service under this Agreement.

Sec. 15. That under no circumstances, either directly or indirectly, will I pay premiums for policyholders from whom it is my duty to collect premiums. nor will I make entries in my Collection Books which will show that premiums have been collected by me unless such premiums have actually been received.

Sec. 16. (a) That I will prepare and forward to the Home Office each week, oh proper lapse schedules, a list of all Industrial policies upon which four weeks' premiums are due and unpaid or upon which premiums cannot be collected; and that in case the insured under a new policy refuses to accept the policy and pay premium thereon, I will immediately report the policy for lapse and turn in the policy and premium receipt book at the District Office.

(b) That in case any policy or policies in my Agency become lapsable under the Company's rules through default in payment of premiums and I fail to report such policy or policies to the Company for lapse at the time specified in said rules, the arrears in excess of the amount regularly allowed by the Company are to be charged to my account.

THE FOLLOWING SECTIONS RELATE TO BUSINESS KNOWN AS MONTHLY DEBIT
ORDINARY INSURANCE

(Ordinary policies issued on a monthly debit basis)

Sec. 17. That "MONTHLY ORDINARY DEBIT" means the Monthly Debit Ordinary (hereinafter referred to as "M. D. O.") policies listed on the official life register and charged to me for report and collection of premiums thereon under the Company's rules and regulations, the policies so listed being subject to all changes as they are made from time to time by reason of transfers to or from that account and by reason of policies issued or reinstated and by reason of policies on which premiums cease for any cause.

Sec. 18. (a) M. D. O. SPECIAL SALARY.—That I am to receive [in weekly instalments, as specified in Section 18 (b)] an "M. D. O. Special Salary" equal to four times the "Net Increase" on the Monthly Ordinary Debit, unless such Special Salary, or any part thereof, is used by the Company to offset a Net Decrease in my Industrial business as provided in Section 37. That the "Net Increase" is the excess of the New Business and Revival premiums, officially issued and credited to me by the Company's rules, over the lapsed premiums on the debit and lapses of transferred business for which I am responsible by the Company's rules. That from the lapsed premiums on the debit there will be deducted all premiums lapsed because of death, the disability provision, the payment of premiums in full to the end of the premium-paying period on limited-payment policies, and the maturity of endowment policies.

(b) That the M. D. O. Special Salary credited to me for any month will be paid in four or five equal weekly instalments during the following month (according to the number of Mondays in such following month), should I remain in the Company's employ.

(c) That if the lapsed premiums for which I am responsible by the Company's rules exceed the new business and revival premiums officially issued and credited to me by the Company's rules, the excess will be a "Net Decrease" which must be offset by "Net Increase," as described in Section 18 (a), before further Special Salary will be due me, unless such "Net Decrease" shall be fully offset by my Industrial Special Salary as described in Section 37.

(d) That if this Agreement be terminated, any "Net Increase" accruing by the Company's rules after the last payment of M. D. O. Special Salary shall be credited in the adjustment of the account at the number of times under which my last M. D. O. Special Salary was computed and any "Net Decrease" accruing in a like manner shall be debited at the same number of times.

(e) That the amount of M. D. O. Special Salary to be credited to me in any month shall not amount to more than the quality of the business in the opinion of the Company will warrant, and in no case shall I be entitled to any salary described herein until all of the conditions contained in this Agreement have been fully complied with. That should the premium arrears on the debit be deemed excessive or my percentage of collections be not satisfactory to the Company, all salary may be withheld until all conditions are regarded as satisfactory to the Company.

Sec. 19. (a) M. D. O. SEMI-ANNUAL SPECIAL SALARY.—That at the expiration of every period of six months, computing from and including the first month for which M. D. O. Special Salary is credited to my account under this Agreement, provided I have conducted my business to the satisfaction of the Company, I am to receive [in weekly instalments, as specified in Section 19 (b)] an "M. D. O. Semi-Annual Special Salary" equal to two times the Net Increase for said period.

(b) That the M. D. O. Semi-Annual Special Salary due me at the end of any period will be paid in equal weekly instalments over the next succeeding twenty-six weeks, should I remain in the Company's employ.

Sec. 20. (a) M. D. O. ANNUAL SPECIAL SALARY.—That at the expiration of every period of twelve months, computing from and including the first month for which M. D. O. Special Salary is credited to my account under this Agreement, provided I have conducted my business to the satisfaction of the Company, I am to receive [in weekly instalments, as specified in Section 20 (b)] an "M. D. O. Annual Special Salary" equal to one times the Net Increase on my Monthly Debit for said period.

(b) The M. D. O. Annual Special Salary due me at the end of any period will be paid in equal weekly instalments over the next succeeding fifty-two weeks, should I remain in the Company's employ.

Sec. 21. COLLECTION COMMISSION.—That I am to receive a "Collection Commission" equal to five per cent of the premiums collected by me on M. D. O. policies in force, on my Monthly Ordinary Debit and remitted to the Company in cash.

Sec. 22. That, if this Agreement be terminated, all lapses made in the Monthly Debit Ordinary (which would have been charged to my account had I remained in the employ of the Company) which (a) have been reported but not officially lapsed and/or (b) are subsequently reported on account of default of premium payment due for the month in which my service with the Company was terminated, shall be charged to my account with the understanding that (a) all policies issued on applications written by me and/or (b) all former policies of the debit officially reinstated within sixty days (inclusive of the grace period) after the due date of the premium, the default of which caused the lapse, shall be added to that debit and credited to my account with the Company.

Sec. 23. That, after any "Final" on any Monthly Ordinary Debit, my account shall be computed as provided by Section 22 hereof; and if the account so computed shows a net decrease, which shall be cumulative from the time net increase was last determined or during the term of employment, if no net increase has been determined, this net decrease shall be the final net decrease and the amount thereof, multiplied by the same factor which would be applied in the event of net increase, shall be an item of indebtedness from me to the Company; and that any such indebtedness may be deducted from any sums held in Reserve, or from any Ordinary commissions then or thereafter due me, or from any Industrial Special Salary due me on account of my Industrial Debit.

Sec. 24. That if this Agreement be terminated either by myself or the Company for any cause whatsoever, by resignation, dismissal, death, or otherwise, all remunerations which a continuance of my Agency might have secured to me shall be waived and forfeited, it being agreed that I shall have no claim on any M. D. O. Special Salary and/or any M. D. O. Semi-Annual Special Salary and/or any M. D. O. Annual Special Salary, or any instalments thereof, remaining unpaid at termination of my active service under this Agreement.

Sec. 25. That under no circumstances, either directly or indirectly, will I pay premiums for policyholders from whom it is my duty to collect premiums, nor will I make entries in my Collection Books which will show that premiums have been collected by me unless such premiums have actually been received.

Sec. 26 (a) That I will prepare and give to my Assistant District Manager each month, on proper lapse schedules, a list of all M. D. O. policies upon which premiums due the first of the current month are unpaid, and of such policies upon which premiums cannot be collected.

(b) That in case any policy or policies in my Agency become lapsable under the Company's rules through default in the payment of premiums and I fail to report such policy or policies to the Company for lapse at the time specified in said rules, the arrears in excess of the amount regularly allowed by the Company are to be charged to my account.

THE FOLLOWING SECTIONS RELATE ONLY TO BUSINESS KNOWN AS ORDINARY INSURANCE, OTHER THAN MONTHLY DEBIT ORDINARY INSURANCE

Sec. 27. That during the continuance of this Agreement the "Compensation on Ordinary Insurance" to be allowed me shall be a commission upon premiums paid in cash to the Company, on the Ordinary policies issued from applications secured by me under this Agreement, at the rates set forth in the following table; provided that commissions on premiums discounted and paid in advance shall be allowed me only on the due dates of such premiums.

Kind of Policy	Per Cent of Premiums				
	First Policy Year		Second Policy Year	Third Policy Year	Fourth Policy Year
	Premiums Paid Quarterly or Semi-Annually	Premiums Paid Annually			
Whole Life.....	40	45	10	5	5
Endowment at Age 85.....	40	45	10	5	5
20-Payment Endowment at Age 85.....	40	45	10	5	5
10-Payment Life.....	30	35	10	5	5
15-Payment Life.....	30	35	10	5	5
20-Payment Life.....	40	45	10	5	5
25-Payment Life.....	40	45	10	5	5
30-Payment Life.....	40	45	10	5	5
10-Year Endowment.....	20	20	5	5	5
15-Year Endowment.....	25	25	10	5	5
20-Year Endowment.....	30	35	10	5	5
25-Year Endowment.....	35	40	10	5	5
30-Year Endowment.....	40	45	10	5	5
Endowment at Age 65:					
Under Age 38.....	40	45	10	5	5
Ages 38 through 42.....	35	40	10	5	5
Ages 43 through 47.....	30	35	10	5	5
Ages 48 through 52.....	25	25	10	5	5
Over Age 52.....	20	20	5	5	5
Modified Endowment.....	35	40	10	5	5
Insurances to Age 60 and Age 65 with Deferred Annuity:					
Under Age 43.....	35	40	10	5	5
Ages 43 through 47.....	30	35	10	5	5
Ages 48 through 52.....	25	30	10	5	5
Over Age 52.....	20	25	5	5	5
25-Year Additional Endowment.....	25	30	10	5	5
25-Payment Endowment at Age 80.....	30	35	10	5	5
5-Yr. and 10-Yr. Term.....	15	20	10	5	5
15-Year Term.....	20	25	10	5	5
Juvenile Policies:					
20-Payment Endowment at Age 85:					
Ages 0 through 9.....	30	35	10	5	5
Ages 10 through 14.....	40	45	10	5	5
Other Endowments					
Term of Endowment:					
7 Years or Less.....	15	15	5	5	5
8 through 12 Years.....	20	20	5	5	5
13 through 17 Years.....	25	25	10	5	5
Over 17 Years.....	30	35	10	5	5
10-Payment Life.....	30	35	10	5	5
15-Payment Life.....	30	35	10	5	5
25-Payment Life.....	40	45	10	5	5
30-Payment Life.....	40	45	10	5	5
Deferred Annuities:					
Under Age 38.....	40	45	10	5	5
Ages 38 through 42.....	35	40	10	5	5
Ages 43 through 47.....	30	35	10	5	5
Ages 48 through 52.....	25	25	10	5	5
Over Age 52.....	20	20	5	5	5
Single Premium Life Insurance.....	4				
Single Premium Annuities.....	2½				

On all other classes of policies the compensation shall be determined by the Company.

Sec. 28. That on any policy issued under this Agreement and in connection with which there has been a medical examination, commission will be allowed me on a first quarterly premium payment only when said payment is \$7.50 or more; and in event no commission has been paid on the first quarterly premium payment, said commission will be payable with commission due in event the second quarterly premium payment is made.

Sec. 29. That no compensation shall be paid to me on account of any policy after it has been canceled or become paid-up, but if, during the continuance of this Agreement, I shall secure the revival of any policy issued under this Agreement, I shall be entitled to the compensation on account of such policy as provided herein, as though such policy had not been canceled.

Sec. 30. That when policies issued under this Agreement are changed and allowance is made on an old policy and applied to the payment of new insurance, no compensation shall be paid me on the amount thus allowed unless by special agreement.

Sec. 31. That when a policy issued by the Company is changed to any other form of insurance, the Company shall have the right to determine what commissions, if any, shall be payable.

Sec. 32. That when a policy issued under this Agreement replaces a policy or policies previously issued by this or any other insurance company, the Company shall have the right to adjust the payment of commissions, or to pay no commissions, as the Company may decide.

Sec. 33. That if the Company shall return the premiums upon a policy, I will repay to the Company on demand the amount of compensation received by me on such premiums.

Sec. 34. That no compensation shall be allowed upon any premium or portion thereof, payment of which is waived because of the disability provisions contained in the policy. That no compensation shall be allowed upon any premium or portion thereof, which has been exempted from compensation as set forth by the rules of the Company from time to time.

Sec. 35. That if this Agreement shall be terminated either by myself or the Company for any cause, the compensation on account of premiums paid in cash to the Company, which shall then have been paid to me, together with the amount then accrued under this Agreement, shall be in full settlement of all claims and demands upon the Company in my favor under this Agreement, and any further compensation which a continuance of this Agreement might have secured to me shall be waived and forfeited.

Sec. 36. That should the issue of an Ordinary policy or my solicitation for new insurance result in the lapse of Industrial insurance and/or Monthly Debit Ordinary insurance and/or other Ordinary insurance, the Company shall have the right to determine what compensation, if any, shall be payable.

THE FOLLOWING SECTIONS RELATE TO BUSINESS KNOWN AS INDUSTRIAL AND/OR ORDINARY INSURANCE, INCLUDING MONTHLY DEBIT ORDINARY INSURANCE

Sec. 37. That should I be credited with Industrial Special Salary under Section 7 (a) and be charged with M. D. O. Net Decrease under Section 18 (c), or should I be credited with M. D. O. Special Salary under Section 18 (a) and be charged with Industrial Net Decrease under Section 7 (b), such credit may, at the discretion of the Company, be first used by the Company to offset the charge against me for such Net Decrease.

Sec. 38. (a) That I will keep true accounts of the business in the books provided by the Company, and render when required on the forms provided a true account of all moneys received by me on behalf of the Company.

(b) That I will hold all moneys or securities received by me, for or on behalf of the Company, whether I was authorized to collect the same or not, as a fiduciary trust, separate and distinct, notwithstanding that any sum or sums may be due me by the Company either under this Agreement or otherwise; it being expressly declared that the moneys or securities aforesaid shall not in any case form items in a debtor and creditor account, and that I will not, under any circumstances whatever, make any personal or other use of them, or make any deduction for any amount I may claim to be due by the Company, but will immediately pay them over to the Company; and that I will return to the Company at the proper time or on demand, all undelivered policies and all uncollected receipts given to me for collection.

(c) That in all instances where the accounts kept by me in the books provided by the Company and the reports made by me to the Company contain entries or items made by me indicating that moneys have been received by me on behalf of the Company, such entries or items shall be conclusive evidence of such receipt by me on the Company's behalf and the Company shall not be bound to make further proof of such receipt.

Sec. 39. (a) That upon termination of this Agreement either by myself or the Company for any cause, or at any other time upon request by the Company, I will immediately submit said books and records for an inspection and accounting, to be made in accordance with the rules of the Company then in force.

(b) That all books, records, and supplies furnished to me by the Company shall be the property of the Company; and that, upon the termination of this Agreement for any cause, I will hand over said books, records, and supplies to a proper representative of the Company.

Sec. 40. That I will pay all expenses for transmission of moneys, parcels, postage, license fees, and all expenses of every other kind incident to carrying on the business of my agency.

Sec. 41. That if this Agreement shall be terminated either by myself or the Company for any cause, any indebtedness to the Company from me shall be a prior lien upon any amounts due me, my executors, administrators or assigns, by the terms of this Agreement, until the amount of such indebtedness is fully paid.

Sec. 42. That in case I shall hereafter be employed by the Company under any other appointment, any indebtedness of mine to the Company shall be charged against my account under such appointment, and any indebtedness of mine to the Company now existing, shall be charged to my account under this appointment, and that I will, upon request of the Company, sign and deliver to it a voucher or vouchers for the balance of such indebtedness.

Sec. 43. That in case inquiry is made of the Company for information regarding my record therewith, my personal character, habits, ability, and cause for leaving the service, I hereby release the Company from all liability for damages in connection with the furnishing of such information.

Sec. 44. That I have no authority on behalf of the Company to make, alter or discharge any policy contract, to extend the time for paying a premium, to waive forfeitures, to incur any liability on behalf of the Company or to allow the delivery of any policy unless the applicant be in good health and the first premium paid in full.

Sec. 45. That my appointment as Agent and this Agreement may be terminated either by myself or the Company at any time.

Sec. 46. That no suit at law or in equity relating to my employment under this Agreement shall be maintainable until thirty days shall have expired after service, upon the proper representative of the Company, of a written statement of particulars and amount of my claim; nor after six months from the termination of this Agreement.

Sec. 47. That no assignment of compensation earned or accrued under this Agreement shall be valid unless approved in writing by the Company.

Sec. 48. That I will not pay or allow, or offer to pay to allow, as an inducement to any person to insure, any rebate of premium or any inducement not specified in the policy.

Sec. 49. That I will not issue or circulate any bills or papers, or write or send any communication to or insert any advertisement in any publication, at my expense or otherwise, in any way relating to the business of this or any other insurance company without first obtaining the written authority of the Company; or use any language or commit any act tending to bring this or any other insurance company into disrepute.

Sec. 50. That I will not canvass for Ordinary, Monthly Debit Ordinary or Industrial insurance in any territory in which I do not have a license to operate.

Sec. 51. That the decision of the Company as to the meaning of any section in this Agreement and its computations of salary and commissions hereunder shall be accepted by me as final and conclusive.

Sec. 52. That this Agreement supersedes any previous agreement that I may have had with the Company.

Sec. 53. That the terms and conditions as herein set forth may be altered only by a duly authorized officer of the Company.

Sec. 54. That this Agreement, if approved by the Company at its Home Office, shall become effective on Monday, the _____ day of _____, 19____, and shall cover the territory to which I may be assigned from time to time by the Company.

(Two Copies of This Agreement Are To Be Signed; One To Be Kept by the Company, the Other by the Agent.)

----- Agent ----- District.
 Dated at _____ this _____ day of _____, 19____
 Witness -----

EXHIBIT No. 1068

[From files of Equitable Life Insurance Company]

EQUITABLE LIFE INSURANCE COMPANY

HOME OFFICE—WASHINGTON, D. C.

M. D. O. Circular No. 38-1

Re: Industrial Offsetting M. D. O. and Vice Versa.

MARCH 1, 1938.

To the Field Force:

Beginning with the week of March 7, 1938, the following becomes effective:

(a) AGENTS.—The provisions in the Agent's Agreement as to the offsetting of Industrial Special Salary against Monthly Debit Ordinary Net Decrease and the offsetting of Monthly Debit Ordinary Special Salary against Industrial Net Decrease will be waived at the discretion of the Company.

(b) DISTRICT MANAGERS AND ASSISTANT MANAGERS.—The provisions of the District Manager's and Assistant District Manager's Agreements as to the offsetting of Industrial contingent salary against Monthly Debit Ordinary Net Decrease and the offsetting of Monthly Debit Ordinary contingent salary against Industrial Net Decrease will be waived at the discretion of the Company.

If, after a limited trial, the Company finds that such waivers appear to be detrimental to the Industrial, the Monthly Debit Ordinary, or the regular Ordinary Department, the Company will thereupon abrogate such waivers and will thereafter abide by the provisions of the present agreements.

The Company reserves the right at any time to abrogate such waiver as to an Agent, an Assistant District Manager or a District Manager.

The waivers as outlined in paragraphs (a) and (b) are not retroactive. The adjustments already made of offsetting debits and credits shall remain as adjusted.

I am sure you will welcome this trial change of accounting to prove which will be the best for all concerned.

Yours very truly,

L. H. HANNAH, *Vice President.*

LHH/lb

EXHIBIT No. 1069

[Prepared by Equitable Life Insurance Company]

EQUITABLE LIFE INSURANCE COMPANY, WASHINGTON, D. C.

Analysis of Finals—September 5, 1939

District	1934	1935	1936	1937	1938	1939
Baltimore, Md.....	14	17	27	23	15	
Bellaire, Ohio.....			8	19	19	
Charleston, W. Va.....				7	5	
Clarksburg, W. Va.....	7	6	14	10	6	
Cleveland, Ohio.....	12					
Cleveland East, Ohio.....	13	19	21	27	25	
Cleveland West, Ohio.....	20	25	18	14	9	
Columbia, D. C.....	8	27	16	34	18	
Columbus, Ohio.....	22	18	20	13	14	
Dover, Del.....	3	3	13	19	14	
East Liverpool, Ohio.....						
Fairmont, W. Va.....	7	11	21	25	19	
Stuebenville, Ohio.....	5	6	11	17	14	
Washington, D. C.....	26	18	17	46	14	
Wheeling, W. Va.....	16	20	11	8	12	
Wilmington, Del.....	15	5	16	16	10	
Total—Finals.....	168	175	213	278	274	1 152 Plus 80=232
Number of Debits.....	253	275	331	383	393	393
Per Cent.....	66	64	64	73	69	59%

¹ Approximate number of finals balance of 1939.

9-5-39

"EXHIBIT No. 1070" appears in text on p. 6059

EXHIBIT No. 1071

No 646 012

\$ 5000.

ACCOUNTABLE LIFE INSURANCE COMPANY



HOME OFFICE
WASHINGTON, D.C.

Age
35

ANNUAL PREMIUM
\$ 98.55

Hereby Insures the Life of

Robert S. Beatty

(herein called the Insured),

In the sum of ----- Five Thousand ----- Dollars (the face amount of this Policy),
for the term of life, payable to

or to such other
due proof of the
This Policy
which maintain
and of the paym
day of
until the death
Incontestab
except for non p
Assignment
The Company u
Age—If the
purchased at th
Indebtedne
Policy and
and constitutes
be deemed repr
unless it be con
Policy when iss
of Columbia.
This Policy
a part of this C
In W
this Contract of
Jun

I am a lapsed policy! A widow's tears have stained my withered surface. I am only a scrap of paper consigned to the trash heap where I now belong. Once, I was a living contract. I was proud of my ability to guarantee my owner's wife a regular income should she have to go on without him. I represented comfort and security for his family. I was a guaranteed estate free from taxes and administrative costs.

But something happened. The money for my premium was used for other things, much less important. And then came Death! Suddenly and unexpectedly it took my owner away. Its swiftness stunned his family, and when they turned to me for help they found me as I am today — A Lapsed Policy!

upon receipt of
five cents,
(set forth below)
of the due date),
its date of issue,
its Home Office.
paid would have
ment thereof.
hereto, contains
absence of fraud,
claim thereunder
attached to the
Washington, District
all its pages form
Secretary, signed
day of

Examined
J.P.

Allen D. Clark
Secretary

Henry P. Davis
President

Whole Life Policy, Non-Participating
Premiums Payable for Life.
Form A-22, 10-25-1911

Attest:
J.P. [Signature]

EXHIBIT No. 1072

[Prepared by Monumental Life Insurance Company]

Service record of field men of Monumental Life Insurance Company, as of August 1, 1939

56	Managers in the Company's service, with a total of 590 years of service to their credit, or an average of ten (10) years for our Managers.		
24	Assistant Managers Employed	1 year or more	14.4%
11	"	2 years or more	6.6%
33	"	3 years or more	19.8%
26	"	4 years or more	15.6%
56	"	5 years or more	33.7%
10	"	10 years or more	6.0%
3	"	15 years or more	1.7%
2	"	20 years or more	1.2%
1	Assistant Manager Employed	30 years or more	.6%
<hr/>			
166	Total Assistant Managers.		
<hr/>			
209	Agents under contract	1 year or less	24.2%
206	Agents under contract	1 year or more	23.8%
171	Agents under contract	2 years or more	19.8%
90	"	3 years or more	10.5%
48	"	4 years or more	5.0%
114	"	5 years or more	13.3%
11	"	10 years or more	1.2%
7	"	15 years or more	0.8%
7	"	20 years or more	0.8%
<hr/>			
863	Total Agents.		
7	Open Debits 7/29/39.		
<hr/>			
870	Total Debits.		

EXHIBIT No. 1073

[From files of Home Friendly Insurance Co.]

Policy Number

KNOW ALL MEN BY THESE PRESENTS, That the undersigned member and policyholder of the HOME FRIENDLY INSURANCE COMPANY OF MARYLAND, hereby constitutes and appoints, for such period as I shall remain a member of said Company, CHAS. H. TAYLOR, D. F. ZEIGLER, F. CHASE MACCUBBIN, GEORGE W. KELLEY, BERLIN F. WRIGHT, DANIEL B. CHAMBERS, GEORGE S. MCKINDLESS, and E. T. WESTERVELT, or the survivors of them, with full power of substitution, and with full power for a majority of them to appoint a successor to any proxy who shall die or resign, vested with the same power and authority as that possessed by the one so dying or resigning, my true and lawful Attorneys and proxies, in all matters and things as the majority of them shall determine and direct, to act for me and in my place and stead to fully represent me at the annual meeting of members or policyholders, and at any and every other meeting of the members or policyholders of said HOME FRIENDLY INSURANCE COMPANY OF MARYLAND, and for me and in my place and stead to vote for the election of Directors and upon all other matters presented at any such meeting or meetings, the number of votes that I am entitled to cast at any such meeting or meetings, as fully and to the same extent that I might do if I were personally present.

WITNESS my signature and seal this.....day of.....19.....Month

Witness

Signature

(SEAL)

DEBIT NO.

PROXY MUST BE WITNESSED AND DATED

EXHIBIT No. 1074

[From files of Home Friendly Insurance Co.]

HOME FRIENDLY INSURANCE COMPANY OF MARYLAND

ANNOUNCEMENT OF 55TH ANNIVERSARY CONTEST - MAY 1939

For highest number of applications submitted weeks April 17 to May 8 inclusive and issued for weeks May 1 to May 22 inclusive.

For highest percent of collections for month of May (weeks May 1 to May 29 inclusive).

Bonus for net weekly premium increase of \$4.00 or more for the weeks May 1 to May 22 inclusive, after deduction of any decrease for week of April 24.

Prizes payable week June 12. Bonus payable week September 11.

DISTRICT AND STAFF CONTEST

A first prize of \$25.00 will be awarded the leading District or Staff (note condition determining Staff and/or District competition) which has the highest number of policies issued per agent for weeks May 1 to May 22 inclusive.

A second prize of \$20.00 will be awarded the leading District or Staff (note condition determining Staff and/or District competition) which has the second highest number of policies issued per agent for weeks May 1 to May 22 inclusive.

One prize of \$25.00 will be awarded the leading Canvassing Staff which has the highest number of policies issued per agent for weeks May 1 to May 22 inclusive providing the total premium for such issues per agent be at least equal to the total average premium per agent for the Company for weeks May 1 to May 22 inclusive. Canvassing Staffs may compete which have four or more canvassers receiving issues for weeks May 1 to May 22 inclusive.

Condition: The winning Districts and/or Staffs and Canvassing Staffs must have an average percent of collections for the month of May (weeks May 1 to May 29 inclusive) at least equal to the average of the Company for the same period but not less than 100%; and must also have an average increase for weeks May 1 to May 22 inclusive of not less than an average of 25¢ per week per agent, but not less than the average weekly premium increase per agent for the Company.

One prize of \$25.00 will be awarded the leading District or Staff which has the highest percent of collections for month of May (weeks May 1 to May 29 inclusive) but not less than 103%.

Condition: The winning District or Staff must have issued an average number of policies per agent at least equal to the average per agent for the Company for weeks May 1 to May 22 inclusive, and must have an average increase for weeks May 1 to May 22 inclusive of not less than an average of 25¢ per week per agent, but not less than the average weekly premium increase per agent for the Company; likewise, average collections for the District or Staff for the months of April and May must at least equal the average for the Company for April and May.

Staffs of five agents or more employed throughout the period of the Contest May 1 to May 29 inclusive and under the supervision of Staff Manager shall be deemed separate units for the purpose of the Contest. Districts or Detached Offices with five or more agents employed throughout the period of the Contest and under the supervision of Managers and/or Assistant Managers shall be deemed separate units for the purpose of the Contest; however, Districts with four agents may participate if such District has a Canvassing Staff of three agents or more.

AGENTS CONTEST - TWENTY-THREE PRIZES

The agent having the largest number of policies issued for weeks May 1 to May 22 inclusive will be awarded the first prize of \$25.00.

The agent having the second largest number of policies issued for weeks May 1 to May 22 inclusive will be awarded the second prize of \$20.00.

The agent having the third largest number of policies issued for weeks May 1 to May 22 inclusive will be awarded the third prize of \$15.00.

Agents with the ten next largest number of policies issued for weeks May 1 to May 22 inclusive will be awarded the fourth prize of \$10.00 each.

Agents with the ten next largest number of policies issued for weeks May 1 to May 26 inclusive will be awarded the fifth prize of \$5.00 each.

Conditions: To qualify for the above described prizes agents must have an average percent of collections for the month of May (weeks May 1 to May 29 inclusive), at least equal to the average of the Company for the same period but

not less than 100%. Agent must also have a number of policies issued at least equal to the average per agent for the Company for the weeks of May 1 to May 22 inclusive, but not less than a minimum of 60 policies issued for the same period; and must have a minimum net weekly premium increase for the weeks May 1 to May 22 inclusive of not less than \$4.00 after deduction of any decrease for week of April 24 and a net increase for the year to and including week April 24.

To participate, agents must have not less than \$25.00 weekly premium debit each week during the Contest and must be in the employ of the Company upon date of actual payment in order to receive prize.

BONUS PRIZES—AGENTS

In addition to the prizes as described in the foregoing, special salary, and bonus payments now in effect, a 55TH ANNIVERSARY ADDITIONAL BONUS will be computed on the amount of net weekly premium increase on condition that the agent make a minimum of \$4.00 net weekly premium increase during the weeks May 1 to May 22 inclusive, after deduction of any decrease for week of April 24. Bonus will be computed on the following basis:

5 additional times.....	98% collections
6 additional times.....	99% collections
8 additional times.....	100% collections
10 additional times.....	101% collections

Conditions.—Payment of the 55th Anniversary Additional Bonus is contingent on the maintenance of net weekly premium increase up to and including week August 28 in an amount at least equal to the minimum required for participation.

Example: Agent eligible to claim bonus on \$6.00 increase made during the weeks May 1 to May 22 inclusive, his record to and including week August 28 disclosing \$5.00 increase over the entire period from May 1 to August 28 inclusive, his payment would be based on \$5.00 weekly increase.

To be eligible to participate in the Additional Bonus agent must likewise attain an average percent of collections of not less than the minimum of 98% for the month of May (weeks May 1 to May 29 inclusive), and maintain not less than 98% for the full period to and including week August 28. Bonus to be computed on the average percent maintained but not in excess of the percent made during the Contest.

Example: Agent eligible to claim bonus on \$6.00 increase at 100% collections made during the Contest, his record to and including August 28 disclosing \$6.00 increase at 99% collections over the entire period to August 28 inclusive, his payment would be based on \$6.00 increase at 99% collections.

The agent must also have not less than \$25.00 debit each week during the Contest, must have a net increase for the year to and including week April 24, and be in the employ of the Company and in good standing upon actual date of payment. Bonus will be credited to the reserve of those agents on a canvassing basis of payment; however, agents operating under the provisions of the #2 Canvassing plan may be paid the additional bonus provided \$100.00 reserve has been credited to their reserve account.

BONUS PRIZES—MANAGERS, STAFF, AND ASSISTANT MANAGERS

Managers and Assistant Managers will each participate in an amount equal to 15% of the Additional Bonus actually received by the participating agents of their District; however, Assistant Managers will not be eligible to participate for Additional Bonus received by canvassers working under supervision of Canvassing Staff Manager.

Staff Managers of the Baltimore District will each participate in an amount equal to 25% of the Additional Bonus actually received by the participating agents of their staffs.

Managers of other Districts in which Assistant Managers or Staff Managers are not employed will each participate in an amount equal to 25% of the Additional Bonus actually received by the participating agents of their Districts.

Managers and Staff Managers of Districts other than Baltimore, where two or more Staff Managers are employed will participate on a group basis not to exceed an amount equal to 30% of the Additional Bonus actually received by the participating agents of the District. On this basis the Manager will receive his share of bonus due District in the proportion that the number of Staff Managers and himself bears to the whole. The Staff Managers will receive their share of the remainder in the same proportion that the bonus actually received by the agents of their respective staffs bears to the remainder.

Condition: Districts or Staffs must have an amount of weekly premium increase at least equal to the accumulated weekly premium increase of all the participating agents of the District or Staff for the period May 1 to August 28 inclusive and not less than 98% collections for the Contest period.

Net weekly premium increase includes increase on both #1 and #2 accounts and in accordance with announcement of October 16, 1933.

The vernal equinox and Easter, being now past and spring well under way, this is a most propitious time in which to celebrate the Company's 55th Anniversary by an enthusiastic contest that will permit the field man to show all other field men how GOOD he is and how GOOD TO HIM is the LIFE INSURANCE BUSINESS.

It is not necessary for me to dwell upon the real money that is in this contest. Conditions of the contest make that self evident. Take no chances but start in AT ONCE—TO WIN!

CHAS. H. TAYLOR,
President.

APRIL 15, 1939.

Incorporated 1884

HOME FRIENDLY INSURANCE COMPANY OF MARYLAND

SUPPLEMENTARY RULES—55TH ANNIVERSARY CONTEST—MAY 1939

Two or more applications on the same life will be treated as one application. This rule will apply regardless of whether the applications are on different plans of insurance.

Agents accompanied by Manager, Staff, Assistant, or Canvassing Staff Manager, or Home Office Inspector, for purposes of specialing, or inspecting, will be credited with three-fourths the number of applications obtained during the week in which their debit was specialed or inspected. This rule is in the cause of fairness, as otherwise the agent whose debit was being specialed or inspected for new business would have unusual advantage over other agents.

Applications for insurance, which for any reason indicate such applications were not rendered in good faith, will not be counted in the Contest, even though policies of insurance shall have been issued.

Applications should be submitted to each local office promptly, daily, if possible. This will permit medical examination and inspection. Agents should be careful as to correct addresses in order to avoid delay in issuance.

Where a medical examination or inspection is required, one additional week will be allowed for those applications actually submitted weeks April 17th to May 8th inclusive, in determining prize winners and for inclusion of business upon which bonus will be paid.

Before submitting any inquiries to the Home Office regarding the announced plan of prizes and bonus, re-read the entire matter and consider same carefully.

CHAS. H. TAYLOR, *President.*

APRIL 15, 1939.

"EXHIBIT No. 1075" appears in text on p. 6098

"EXHIBIT No. 1076" appears in text on p. 6099

EXHIBIT No. 1077

[From files of Home Friendly Insurance Co.]

JUNE 7, 1938.

Mr. T. J. KELLEY,
Dist. Mgr., Home Friendly Insurance Company, Salisbury, Md.

DEAR MR. KELLEY:

PRIZES—MANAGERS

Those having a net premium increase for the month of June, with not less than 99% for collections, will be awarded a Cruver 100 Year Guaranteed Propel Repel Expel Pencil.

PRIZES—STAFF MANAGERS

Those having a net premium increase for the month of June, with not less than 99% for collections, will be awarded a Cruver 100 Year Guaranteed Propel Repel Expel Pencil.

PRIZES—ASSISTANT MANAGERS

Those having a net premium increase for the month of June, with not less than 99% for collections, will be awarded a Cruver 100 Year Guaranteed Propel Repel Expel Pencil.

PRIZES—CANVASSING STAFF MANAGERS

Those having a net premium increase for the month of June, with not less than 99% for collections, will be awarded a Cruver 100 Year Guaranteed Propel Repel Expel Pencil.

PRIZES—AGENTS

Those having a net premium increase for the month of June, with not less than 99% for collections, will be awarded a Redipoint Pencil.

Trusting your organization will be well represented among the prize winners, I am

Yours very truly,

GEORGE L. WARD,
Supervisor of Agencies.

GLW:mc

EXHIBIT No. 1078

[From files of Home Friendly Insurance Co.]

DECEMBER 15, 1937.

Prizes for Collections

Mr. C. C. COLE,
*Dist. Mgr. Home Friendly Insurance Company
Havre de Grace, Md.*

DEAR MR. COLE: The weeks of December 20th–December 27th have been designated Special Collection Weeks.

Two prizes will be awarded the agents having the highest percentage of collections for the Havre de Grace District.

The agent having the highest percentage of collections for the two week period will be awarded the first prize of \$5.00.

The agent having the second highest percentage of collections for the two week period will be awarded the second prize of \$2.50.

Prizes will be awarded week of January 10, 1938.

Conditions.—To qualify, agents must have not less than fifty dollars weekly premium debit each week.

Agents must have an average of not less than 100% for the two week period.

Deficiencies shown on inspections will not be included in percentage for collection prizes.

Agents accompanied by Manager for the purpose of specializing or inspecting, will not be credited with the first 5% for collection prizes, as they would have an advantage over other agents.

Agents must be in the employ of the Company the actual date prizes are payable.

Very truly yours,

GEORGE L. WARD,
Supervisor of Agencies.

GLW:mc

P. S. Please do not announce contest until after all accounts have been rendered for the current week.

EXHIBIT No. 1080

[From offices of Home Friendly Insurance Co.]

	CHARLES H. TAYLOR, <i>President</i>
D. FRANK ZEIGLER, <i>Senior Vice-Pres.</i>	F. CHASE MACCUBBIN, <i>Vice-Pres.</i>
BERLIN F. WRIGHT, <i>Secy & Treas.</i>	GEO. W. KELLEY, <i>Vice-Pres.</i>
DANIEL B. CHAMBERS, <i>Asst. Secy. & Counsel</i>	GEO. A. CHASE, <i>Vice-Pres.</i>

HOME FRIENDLY INSURANCE COMPANY OF MARYLAND
 Home Office: Centre Street at Park Avenue, Baltimore

OFFICE OF SENIOR VICE-PRESIDENT

JANUARY 25, 1938.

Re: Proxy Solicitation

Mr. L. G. HAYNIE,
Dist. Mgr. Home Friendly Insurance Company
Washington, D. C.

DEAR LLOYD: Inclosed with this week's issue of new policies you will find a supply of blank proxies for distribution to each agent. Proxies are to be obtained for all policies issued during 1937 and in force as of the date on which the agent solicits signature.

For your guidance I am herewith noting the number of the first and last policies issued during 1937:

Number of first policy	2476319
Number of last policy	2546687

It is necessary that policy and debit numbers be accurately entered on the blank proxies for business issued during 1937, before the proxy is presented to the policyholder for signature. It should be a simple matter to copy this data from the Agents' Life Register. This work may be done by either the clerk or the agent, as the Manager may determine. If done by the agent, he should do it in the office and at the same time pencil the name and address of the policyholder on the reverse side of proxy. Proxies must be carefully dated and policyholders' signature witnessed. It is important that the Manager examine each proxy and know that it is correct in every detail before sending same to Miss Foster, Chief Clerk of the General Clerical Department.

In addition you will receive proxies which have been filled-out in the Home Office. These proxies are those for old policies where proxies have expired. These proxies on old business will be inclosed in a separate package with agent's name noted on wrapper. It is necessary that the Manager have these proxies listed, also that he check the proxies after they have been properly signed and dated, and return to the Home Office, separately addressed, to Miss Virginia Foster, Chief Clerk of the General Clerical Department.

Solicitation of proxies is to commence January 31, 1938, for all Districts. Solicitation should terminate in two weeks; namely, proxies for all business issued during 1937 and in force at this time should be in hand and forwarded to the Home Office at the end of the two week period.

Proxies are being distributed for signatures in accordance with the custom among many life insurance companies.

The sale of new insurance should not be impeded by the solicitation of proxies; to the contrary, this should be the means of bringing the agent in contact with many policyholders that he would not otherwise see and, thus, renew profitable relationships. Many of the Home Friendly policyholders are under-insured and have been overlooked by the agent. It is noteworthy that in previous years a very large number of agents increased their sales volume while doing this work.

It is necessary that you consider the best means of efficiently and promptly performing this duty and thus avoid confusion. Take especial care to see that all forms are in proper order before they leave your office.

In addition to the foregoing comment, I suggest that you use proxy solicitation as a means of stimulating sales of new insurance, especially on members of the family called upon, who are not now insured by the Home Friendly. The new policies issued by the Home Friendly, with the commencement of the present

year, certainly place our field men in a strong position to acquire a large increase in sales volume for 1938 and I suggest as a goal, that each field man make it his purpose to earn as much or more from special salaries and bonus payments, as he receives for collecting a debit.

Very truly yours,

(Signed) D. F. ZEIGLER,
(Typed:) (D. Frank Zeigler,
Senior Vice President.)

DFZ:mc

“EXHIBIT No. 1081” appears in text on p. 6106

EXHIBIT No. 1082

[Prepared by The Baltimore Life Insurance Co.]

THE BALTIMORE LIFE INSURANCE COMPANY
The Baltimore Life Building, Baltimore, Md.

	1937	1938	6 months 1939
Agency turnover:			
First week of year—Agents	529	551	609
Last week of year—Agents	551	609	630
Average number agents for year	540	580	619
Average number debit agents	473	496	521
Finals during year of debit agents	348	345	159
Percentage of finals debit agents	73%	69%	61%
Average number of canvassing agents	67	84	98
Finals during year of canvassing agents	114	129	88
Percentage of finals canvassing agents	170%	153%	179%
Agency compensation:			
Average weekly debit man salary		\$21.74	\$22.63
Average weekly canvasser's salary		11.66	16.07
Agency debit:			
*Average size debit of men for 1938			\$99.37

* [NOTE.—This does not include debits below \$40.00, as they are termed as canvassing debits.]

EXHIBIT No. 1083

[From files of The Baltimore Life Insurance Co.]

[Copy]

THE BALTIMORE LIFE INSURANCE COMPANY
The Baltimore Life Building, Baltimore, Md.

BALTIMORE, MD. *February 6, 1939.*

ALLOTMENT

From February 6, 1939 to February 5, 1940

Mr. E. F. LORT,
Washington, D. C.

Dear Sir: The following is your allotment for 1939:

Percentage of Collections, 98%; Industrial increase of Debits, \$102; New Ordinary Business issued and paid for, \$75,000.

These assignments are your minimum for the year. Since they are very low we expect you not only to reach these figures, but to make a much better showing under each item.

The method for you to pursue is to allot each of your men (if you have any) along the same lines we have done above. Then see to it that they reach the figures.

Very truly yours,

—————, *Vice President.*

EXHIBIT No. 1084

[Prepared by The Baltimore Life Insurance Co.]

THE BALTIMORE LIFE INSURANCE COMPANY
The Baltimore Life Building, Baltimore, Md.

An Exhibit of the Policies paid for, terminated and remaining in force for the following years. Also the percentage of paid for terminated during their years of issue:

	Amount Paid for during		Terminated during		Percent of paid for terminated		In force end of	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
1932 ¹		\$33,880,457		\$17,569,532		\$51.86		\$16,310,925
1933 ¹		38,710,358		18,776,997		48.51		19,933,361
1934	148,481	37,982,967	72,665	19,177,103	48.93	50.49	75,816	18,805,864
1935	147,290	35,074,891	73,121	17,663,122	49.64	50.36	74,169	17,411,769
1936	125,083	30,597,187	63,193	15,298,349	50.52	50.00	61,890	15,298,838
1937	102,522	25,642,234	46,732	11,832,131	45.58	46.14	55,790	13,810,103
1938	103,482	26,268,814	47,055	12,023,094	45.47	45.79	56,427	14,240,720

¹ The numbers for these years were not easily available.

EXHIBIT No. 1085

[From files of John Hancock Mutual Life Insurance Co.]

AGENT'S AGREEMENT

(FOR APPOINTMENTS SUBSEQUENT TO JULY 1, 1938)

In consideration of my appointment as an Agent of the John Hancock Mutual Life Insurance Company, hereinafter called the Company, I do hereby agree as follows:

SECTION 1: To devote my whole time to the business of the Company, to promote its success and welfare, to conserve its established business, and to conform to its instructions, rules and requirements.

SEC. 2: To solicit regularly applications for Weekly Premium, Monthly Debit Ordinary, and Ordinary Insurance, after I have been granted a State license, and to collect the premiums on Weekly Premium policies regularly each week and the premiums on Monthly Debit Ordinary policies regularly each month.

SEC. 3: That there shall be payable to me for my services hereunder a Weekly Collection Commission, or Weekly Collection Salary, as provided in Section 5, a Monthly Debit Ordinary Collection Commission, as provided in Section 6, a Temporary Advance, as provided in Section 8, First Year Commissions, as provided in Sections 9, 10, 11, a Conservation Bonus subject to provisions of, and as provided in Section 12, and Compensation for Ordinary Business and Annuities, as provided in Sections 16 to 20, inclusive.

PROVISIONS RELATING TO WEEKLY PREMIUM AND MONTHLY DEBIT ORDINARY BUSINESS

SEC. 4: That the words "Weekly Premium Debit" or "Monthly Ordinary Debit" mean the Weekly Premium policies or Monthly Debit Ordinary policies listed on the official policy registers and charged to me for report and collection of premiums thereon under the Company's rules and regulations, the policies so listed being subject to all changes as they are made from time to time by reason of transfers to or from my account and by reason of policies issued and reinstated and by reason of policies on which premium payments cease for any cause.

SEC. 5: That a Collection Commission or Collection Salary shall be paid to me each week for collecting and conserving the Weekly Premium debit, for maintaining production thereon in all classes of the business that will be satisfactory to the Company, and that the Weekly Collection Commission or Collection Salary shall be as follows:

- (a) If the amount of my Weekly Premium debit as shown by my weekly account is over \$150.00, a Collection Commission will be payable to me at the rate of twelve percent. (12%) of the premiums collected, and as remitted to the Company.

- (b) If the amount of my Weekly Premium debit as shown by my weekly account is \$150.00 or less, the Collection Salary shall be \$18.00 for the week of such accounting.

SEC. 6: That for collecting and conserving the Monthly Ordinary debit and for performing the duties required by the rules of the Company incident to the care of the Monthly Ordinary debit, a Collection Commission will be payable to me at the rate of four and one-half per cent. (4½%) of the premiums collected, and as remitted to the Company.

SEC. 7: That my first "fiscal quarter" shall be construed to mean the period of thirteen weeks commencing with the second week after the week in which this Agreement becomes effective, and that each succeeding period of thirteen weeks shall constitute further fiscal quarters.

That a "calendar quarter" shall be construed to mean a period of three months commencing with the first week of January, April, July, and October.

TEMPORARY ADVANCE

SEC. 8: That beginning with the week in which this Agreement becomes effective to and including the last week of my first "fiscal quarter" of my active service as an Agent under this Agreement, there shall be paid me each week an advance of \$5.00.

That payments under this section are in lieu of any Commission or Bonus payments at termination of this Agreement which otherwise would have been payable to me under Sections 9, 10, 11, or 12 if this Agreement were not terminated.

FIRST YEAR COMMISSIONS

SEC. 9: That for new business on the Weekly Premium and Monthly Debit Ordinary plans procured by me and issued after the date of this Agreement, the Company will pay the Commissions as set forth hereinafter based on "cumulative gross increase in first year premiums."

SEC. 10: That "cumulative gross increase in first year premiums" as used herein is defined to be the premiums on new Weekly Premium and new Monthly Debit Ordinary policies issued to my credit, less the premiums on such Weekly Premium policies on which less than fifty-two premiums are paid and Monthly Debit Ordinary policies on which less than twelve premiums are paid, and previously credited to my account, after deducting therefrom premiums on such policies reinstated and on those terminated by death.

SEC. 11: A. That during the second fiscal quarter of my active service as an Agent under this Agreement, there shall be paid to me each week 85% of the "cumulative gross increase in first year premiums" on the Life plan and 60% of the "cumulative gross increase in first year premiums" on the Endowment plan, made during the preceding fiscal quarter.

B. That during the third fiscal quarter of my active service as an Agent under this Agreement, there shall be paid to me each week 50% of the "cumulative gross increase in first year premiums" on the Life plan and 35% of the "cumulative gross increase in first year premiums" on the Endowment plan, made during the two preceding fiscal quarters.

C. That each week thereafter during my active service as an Agent under this Agreement, there shall be paid to me 35% of the "cumulative gross increase in first year premiums" on the Life plan and 25% of the "cumulative gross increase in first year premiums" on the Endowment plan, made during the fifty-two weeks immediately preceding, or such portion thereof as I may have rendered continuous service under this Agreement.

D. That these provisions for First Year Commissions shall apply to both Weekly Premium and Monthly Debit Ordinary premiums, and that it is understood that before making these calculations the Monthly Debit Ordinary premiums will be reduced to a weekly basis by dividing the total of such premiums by four and one-third (4⅓) that being the average number of weeks in the month throughout the year.

E. That First Year Commissions will not be allowed on any policy written by me on the life of any person, or any relative sharing the home with the person, who has terminated a policy not more than three months before or who terminates a policy within three months after such policy is written.

CONSERVATION BONUS

SEC. 12: A. That the following provision for the payment of a Conservation Bonus is a part of this Agreement only in those States in which it is permitted by law.

B. That beginning with the second week of my second fiscal quarter and weekly thereafter during the continuance of my active service under this Agreement, there shall be paid to me a Conservation Bonus based on my efficiency in conserving my Weekly Premium and Monthly Debit Ordinary debits, determined quarterly by the ratio obtained by dividing "my combined net lapse per \$100 of cumulative debit" during the last preceding quarter by the "combined net lapse per \$100 of cumulative debit for the Company" for this class of business during the corresponding period, in accordance with the following table:

If the ratio of my net lapse to the Company's net lapse as described above is—	<i>Amount of Weekly Conservation Bonus to be paid</i>
Under 20%-----	\$6. 00
20% but less than 40%-----	5. 00
40% " " " 60%-----	4. 00
60% " " " 80%-----	3. 25
80% " " " 100%-----	2. 50
100% and over-----	2. 00

Payments of such Conservation Bonus will be made on a fiscal quarter basis to and including the first week of the third calendar quarter of my service under this Agreement, after which time payments will continue to be made weekly over each thirteen weeks' period based on ratios obtained from the previous calendar quarter's experience.

"My combined net lapse per \$100 of cumulative debit" during any fiscal or calendar quarter shall be calculated by dividing "my combined net lapse" as defined hereafter in Paragraph 1 (below) by one hundredth of "my cumulative debit" for the same period as defined hereafter in Paragraph 2 (below). The "combined net lapse per \$100 of cumulative debit for the Company" shall be determined for the corresponding period in the same manner.

Paragraph 1. "My combined net lapse" during said fiscal or calendar quarter, shall be the sum of the premiums on all lapsed Weekly Premium and Monthly Debit Ordinary policies listed on my official policy registers after deducting from such total the sum of the premiums on all such policies officially reinstated to my credit, and after deducting premiums on policies terminated by death or by maturity as an Endowment, (all monthly premiums being divided by four and one-third (4 1/3) for the purpose of reducing them to a weekly basis).

Paragraph 2. "My cumulative debit" shall be the sum of my Weekly Premium and Monthly Debit Ordinary debits as of the beginning of each week of the thirteen-week period used to determine "my combined net lapse," (all monthly premiums being divided by four and one-third (4 1/3) for the purpose of reducing them to a weekly basis).

Paragraph 3. If "my combined net lapse per \$100 of cumulative debit" calculated as aforesaid, is in excess of 100% of the "combined net lapse per \$100 of cumulative debit for the Company," the amount of "my combined net lapse" which produces such excess shall be added to "my combined net lapse" for the next succeeding quarter.

Paragraph 4. If "my combined net lapse" for any quarter is a negative amount, such amount shall be deducted from "my combined net lapse" for the succeeding quarter.

FURTHER PROVISIONS RELATING TO WEEKLY PREMIUM AND MONTHLY DEBIT ORDINARY BUSINESS

SEC. 13: That if this Agreement shall be terminated by myself or by the Company for any cause, I am to be paid no further compensation as provided in Sections 5, 6, 8, 11 and 12, after the last week of my active service under this Agreement.

SEC. 14: That I will report for lapse through the District Manager to the Home Office each week on lapse schedules provided by the Company, all Weekly Premium policies on my debit upon which four (4) weeks' premiums are due and unpaid or upon which premiums cannot be collected. That I will prepare and forward to the Home Office each week at such times and in such form as may be prescribed by the rules of the Company, a list of all Monthly Debit Ordinary policies upon which premiums are due and unpaid for a period of thirty-one days. That under no circumstances, either directly or indirectly, will I advance premiums on policies which it is my duty to collect, nor will I make entries in the collection book which will show that premiums have been collected by me unless such premiums have actually been received by me.

SEC. 15: That whenever the Company determines that the premiums in arrears on either or both my Weekly Premium and Monthly Ordinary debits are excessive, or that the percentage of collections thereon is below the standard prescribed by it or that new insurance issued on applications written by me is not satisfactory to it or has been obtained by improper practices, then, in any such case, the Company may withhold all, or any, Commissions, or Salary which otherwise would be payable to me and all sums so withheld shall not become due me nor become a credit to me in any accounting with the Company unless and until the Company determines that the debit and the insurance written have been made satisfactory to it in all respects.

PROVISIONS RELATING TO ORDINARY BUSINESS EXCLUDING MONTHLY DEBIT
ORDINARY BUSINESS

SEC. 16: That during the continuance of this Agreement, the "compensation on Ordinary Insurance, (excluding Monthly Debit Ordinary), Annuities, Group Life, Group Accident and Sickness, Group Accidental Death and Dismemberment, and Wholesale Insurance" to be allowed shall be commission on premiums on such policies issued on applications procured by me under this Agreement, when collected by me and paid over to the Company in cash, at the rates set forth in the following table:

Ordinary Insurance	First Year Commission on Individual Policies		Renewal Commissions	
	Under \$2,500	\$2,500 and Over	Second, Third and Fourth Policy Years	5th-10th Policy Years, incl. but not exceeding Premium Paying Period
KIND OF POLICY				
Life Policies and Selective Security Policies:				
30 or more Annual Premiums.....	35%	42½%	6%	3%
20-29 Annual Premiums incl.....	35%	40%	6%	3%
18 and 19 Annual Premiums.....	30%	37½%	6%	3%
15-17 Annual Premiums incl.....	30%	32½%	6%	3%
14 Annual Premiums.....	20%	27½%	6%	3%
10-13 Annual Premiums incl.....	20%	22½%	6%	3%
5-9 Annual Premiums incl.....	10%	12½%	6%	3%
Single Premiums.....	3%	3%	6%	3%
Modified Life.....		27½%	6%	3%
Preferred Risk Whole Life Under \$10,000.....		37½%	6%	3%
Preferred Risk Whole Life \$10,000 and Over.....		42½%	6%	3%
Endowment at Age 85 Policies.....	35%	47½%	6%	3%
Family Independence Plan Policies.....		42½%	6%	3%
Endowment Policies and Retirement Fund Policies:				
40 Annual Premiums.....	35%	47½%	6%	3%
35-39 Annual Premiums incl.....	32%	42½%	6%	3%
30-34 Annual Premiums incl.....	32%	37½%	6%	3%
25-29 Annual Premiums incl.....	30%	32½%	6%	3%
20-24 Annual Premiums incl.....	25%	27½%	6%	3%
15-19 Annual Premiums incl.....	20%	22½%	2%	1%
10-14 Annual Premiums incl.....	15%	17½%	2%	1%
5-9 Annual Premiums incl.....	5%	5%	2%	1%
Single Premiums.....	2%	2%		
Term Policies:				
5 Year Term.....	10%	15%	6%	3%
10 Year Term.....	20%	27½%	6%	3%
15 Year Term.....	20%	27½%	6%	3%
Joint Life Policies:				
Life Continuous Premiums.....	35%	47½%	6%	3%
Life, 20 or more Annual Prens.....	35%	40%	6%	3%
20 Year Endowment.....	25%	27½%	6%	3%

NOTE: No first year commission will be payable on any policy issued on lives between the ages of ten and fourteen, inclusive, if the amount of insurance is not in excess of \$1,000, unless and until the premium for the first full year shall have been paid.

NOTE: On all forms of Ordinary policies, except single premiums and 5-9 year Endowments, issued at ages above nearest 50 birthday, the commissions for the first year will be 5% less than stated in above schedule.

NOTE: Upon payment of premiums on Modified Life policies for the sixth year, the commission on the increase of the premium of the sixth year, namely, the difference between the gross first premium and the gross sixth premium will be 42½%, provided I am still in the Company's service at the time the said sixth year's premium is collected.

	First Policy Year	Second, Third and Fourth Policy Years
Annuitants: Single Premium Life Annuities.....	2 %	
Annual Premium Retirement Annuities—Ages at Issue:		
45 and under.....	20 %	4 %
46-50 incl.....	17½ %	4 %
51-55 incl.....	15 %	4 %
56-60 incl.....	12½ %	4 %
61 and over.....	10 %	4 %
	First Insurance Year	Second, Third and Fourth Insurance Years
Group Life Insurance—Amount of Premium:		
\$1,000 and under.....	20 %	5 %
Over \$1,000 and incl. \$5,000.....	20 %	3 %
Over \$5,000 and incl. \$10,000.....	15 %	2 %
Over \$10,000 and incl. \$20,000.....	12½ %	2 %
Over \$20,000 and incl. \$30,000.....	10 %	2 %
Over \$30,000 and incl. \$50,000.....	5 %	2 %
Over \$50,000.....	2½ %	1 %
Group Accident and Sickness Insurance—Group Accidental Death and Dismemberment Insurance:		
Amount of Premium:		
\$1,000 and under.....	20 %	5 %
Over \$1,000 and incl. \$5,000.....	20 %	3 %
Over \$5,000 and incl. \$10,000.....	15 %	1½ %
Over \$10,000 and incl. \$20,000.....	12½ %	1½ %
Over \$20,000 and incl. \$30,000.....	10 %	1½ %
Over \$30,000 and incl. \$50,000.....	5 %	1½ %
Over \$50,000.....	2½ %	1 %
Wholesale Policies.....	20 %	2 %

First Year commissions on any group or wholesale case are applicable to the adjusted first year premium (initial premium plus additions during the first insurance year and minus first year refunds) when paid to the Company and due within the first insurance year of the case. Renewal commissions are applicable to adjusted premiums due and when paid to the Company after the first insurance year of the case and will be paid within the limits of the schedule above. The insurance years are defined by successive anniversaries of the date of the case.

SEC. 17: That renewal commissions as provided in Section 16 will not be paid for longer periods than those specified in the above table and may be withdrawn at the discretion of the Company and will be payable to me only while I remain in the continuous service of the Company. In case I shall be transferred to another District office, renewal commissions on policies previously written by me may, at the option of the Company, be commuted under the provisions of the New York Insurance Law.

SEC. 18: That no commissions will be allowed on premiums waived under the total and permanent disability clause.

SEC. 19: That commissions on policies or contracts changed to other forms, on rewritten policies, and on forms of policies not mentioned herein, will be fixed by the Company. Commissions on Ordinary policies replacing Weekly Premium or Monthly Debit Ordinary policies will be subject to the provisions of Section 11 E.

SEC. 20: That if the Company shall return the premium or premiums upon a policy or contract, I will repay the Company on demand the amount of commission received by me on such premium or premiums.

PROVISIONS RELATING TO WEEKLY PREMIUM, MONTHLY DEBIT ORDINARY AND ORDINARY BUSINESS

SEC. 21: That my appointment as Agent and this Agreement may be terminated either by myself or by the Company at any time.

SEC. 22: That I will treat all monies received by me on behalf of the Company as trust funds, and pay over such monies promptly to the Company when received.

SEC. 23: That I will keep true accounts of the business in the books provided by the Company, and render when required on the forms provided a true account of all monies received by me on behalf of the Company.

SEC. 24: That upon termination of this Agreement, either by myself or by the Company for any cause, or at any other time upon request by the Company, I will immediately submit said books and records for an inspection and accounting, to be made in accordance with the rules of the Company then in force.

SEC. 25: That all books, records, and supplies furnished to me by the Company shall remain the property of the Company; and upon the termination of this Agreement for any cause, I will hand over said books, records, and supplies to a proper representative of the Company.

SEC. 26: That I have no right or title to retain any part of premiums collected by me and the entire amount of all collections shall be paid over by me to the Company without any deduction by me for Salary or Commissions.

SEC. 27: That no action at law or suit in equity involving any claim or matter under or in connection with this Agreement shall be maintainable until thirty days shall have expired after service upon the Company at its Home Office in Boston, Massachusetts, of a written statement of particulars and amount of my claim; nor after six months from the termination of this Agreement.

SEC. 28: That I will not pay or allow or offer to pay or allow, as an inducement to any person to insure, any rebate of any premium or any inducement not specified in the policy.

SEC. 29: That I will not issue or circulate any bills or papers, or write or send any communication to or insert any advertisement in any publication, at my own expense or otherwise, in any way relating to the business of the Company or any other insurance company without first obtaining the written authority of the Company; or use any language or commit any act tending to bring the Company or any other insurance company into disrepute.

SEC. 30: That I have no authority to make contracts for the Company, or to alter, change, modify, or waive any of the terms or conditions of any policy or contract, or to waive any lapse or forfeiture of, or to reinstate any policy or contract, or to exercise any of the Company's rights or privileges thereunder, or to extend the time for payment of any premium or other monies due the Company, or to incur any liability on behalf of the Company, or to bind it by making any statement or receiving any information, or to deliver or permit the delivery of any policy unless the applicant be in sound health and the first premium is paid in full.

SEC. 31: That upon the termination of this Agreement the Company may apply any amount due or payable to me, or any person claiming under me under this Agreement, to the satisfaction of any indebtedness owed by me to the Company.

SEC. 32: The right is reserved to the Company to change and modify any or all the terms and conditions of this Agreement, or of any schedule therein, at any time upon written notice sent to its District offices.

SEC. 33: That this Agreement supersedes any previous agreement that I may have or have had with the Company.

SEC. 34: That this Agreement shall not take effect unless my application for appointment as Agent is approved by the Home Office.

I hereby accept the foregoing agreement, subject to all its terms and conditions, as the Senior Agent's Contract referred to in my application, dated 19 , to John Hancock Mutual Life Insurance Company for appointment as a Junior Agent of said Company, and agree that said agreement shall, in all particulars, be effective as of the date of my first report as a Junior Agent, namely, 19 , but shall not affect or modify any of the terms or conditions set forth in said application.

DATED and executed in duplicate at _____ this

day of _____ 19

Witness

EXHIBIT No. 1086

[From files of John Hancock Mutual Life Insurance Co.]

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY
 CONSERVATION PRODUCTION BUILDING UP GOOD WILL

6/28/39.

DISTRICT MANAGERS' ORDINARY ISSUE QUOTA

	Quota 6-23-39	Issue 6-23-39	Amount Over or Under Quota	% Issue to Quota
New York State.....	\$8,509,475	\$10,323,231	\$1,813,756	121.3
Mid-Western.....	28,018,060	32,352,922	4,334,862	115.4
New England.....	38,513,850	44,223,151	5,709,301	114.8
Greater New York.....	33,028,350	36,478,848	3,450,498	110.4
Southeastern.....	12,860,275	14,200,680	1,340,405	110.4
West Coast.....	4,168,150	4,361,563	193,413	104.6
All Districts.....	125,098,160	141,940,395	16,842,235	113.4

DISTRICT MANAGERS' INDUSTRIAL ISSUE QUOTA

Southeastern.....	\$12,139.40	\$10,226.43	\$-1,912.97	84.2
Mid-Western.....	25,616.50	20,754.07	-4,862.43	81.0
New England.....	35,253.40	26,543.09	-8,710.31	75.2
New York State.....	7,716.80	5,137.69	-2,579.11	66.5
Greater New York.....	24,042.20	14,482.83	-9,559.37	60.2
West Coast.....	5,059.60	2,532.27	-2,527.33	50.0
All Districts.....	\$109,827.90	\$79,676.38	\$-30,151.52	72.5

I am told that some of our Agents have gathered the impression that we, here in Boston, are satisfied with gains in Ordinary and gains in Monthly Debit Ordinary, with no gains in debit.

Now, listen. We want and expect gains in Monthly Debit Ordinary, and gains in Ordinary, but if *we* keep on losing debit *you* are sure to lose income, and what's the result? Small debits and small salaries, and fewer men in a District Office. That will never do for us. We say, "IT CAN BE DONE". We say, *it must be done*, meaning that INDUSTRIAL MUST BE WRITTEN, and while the application may be smaller, let's have more of them.

We would not say "it must be done" if it were not possible to do it, but we have daily demonstrations that "it can be done"

Your Company has for more than fifty years been writing Industrial Insurance and making Increase year in and year out without number. Some of us have seen the Company grow in size from a very small Company here in America, to sixth, seventh, and eighth in size, depending on whether it's insurance in force, assets, surplus, or income. And we have come to the conclusion from our own experience that "it can be done" providing we look for it. Throughout the whole country your Company's District Managers have consistently produced and are now consistently producing in both branches.

Yes, we expect Monthly Debit Ordinary, and Ordinary, and Industrial Increase too, but we don't expect any Agent will sit and dream while his debit slips from under him because of lack of effort on his part. Neither do we expect him to submit occasionally a fifty thousand dollar application (we issued two of them last week, and this week we have a one hundred thousand dollar application Endowment at Eighty-five) and be satisfied that such application will be a substitute for Weekly Premium applications. You can do both. And you also know it's eighty per cent of your average income. As time runs on you should receive a larger percentage of your income from Ordinary, yet your Industrial will be your backlog for many years. Your debit is a rich stake for prospects. Don't go too far from the debit. Stick to it. Work with your people. Many of your boy Industrial policyholders have become successful merchants and manufacturers, and they are the ones you should follow for Ordinary.

We are making progress now in our debit building, and we want all those who have fallen by the wayside to get aboard and come along with the rest of us in more debit building.

Nothing herein should be interpreted as an excuse to let up on your splendid gain in either Ordinary or Monthly Debit Ordinary, and you must know we are proud of your gains, but we need at the same time to make Industrial debit gains.

Yes, "IT CAN BE DONE."

Sincerely yours,

Vice President.

Boston, Massachusetts, June 28, 1939.

"EXHIBIT No. 1087" appears in text on p. 6142

EXHIBIT No. 1088

[Prepared by Peoples Life Insurance Co.]

W. WALLACE CHISWELL,

President

F. F. LEITH,

Vice President

M. H. CHISWELL,

Secretary-Treasurer

S. W. HAUSER,

Actuary

PEOPLES LIFE INSURANCE CO.

Peoples Life Insurance Building, Fourteenth & H Streets N. W.
WASHINGTON, D. C., August Fifteenth, 1939.

Number of Agents, January, 1938	605
Number of New Agents Employed during 1938	494
Number of Agents finalized during 1938	427
Number of Agents December, 1938	672
Number of Agents, January, 1939	657
Number of New Agents Employed during first six mos	192
Number of Agents finalized during first six months	164

The above does not include Builders, Canvassers or Loose men.

SUPPLEMENTAL DATA

The following schedule of collateral loans made to Irene T. Reaney, Secretary to the President of Monumental Life Insurance Company, was entered in the record on September 11, 1939 and appears herewith in connection with testimony, supra, p. 5684.

EXHIBIT No. 1089

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Schedule of information concerning collateral loans to Irene T. Reaney shown upon schedule C of the convention form annual statements of the Monumental Life Insurance Company for the years 1929 to 1938, inclusive

Date of Loan	Amount of Loan	Date of Repayment	Amount of Repayment	Date of Loan	Amount of Loan	Date of Repayment	Amount of Repayment
7-12-29	\$2,575	10-2-29	\$2,575			1-16-33	\$44,000
9-10-29	1,250	10-1-30	1,250	1-16-33	\$44,000	12-31-34	5,000
10-2-29	3,575	11-18-29	3,575			1-14-35	32,000
11-18-29	13,200	8-11-30	13,200			1-13-36	7,000
8-11-30	25,300	10-1-30	2,300	10-6-36	600	1-14-37	600
		12-19-30	8,000	5-19-37	1,400	1-10-38	500
		4-1-31	15,000	5-19-37	1,600	11-16-38	1,600
4-1-31	30,000	4-9-31	30,000	9-28-37	400	10-18-38	300
4-9-31	45,000	12-31-31	45,000	12-9-37	12,000	1-4-38	12,000
1-2-32	45,000	8-9-32	1,000				

Recapitulation of Irene T. Reancy collateral loans reflecting balance outstanding from July 12, 1929 to December 31, 1938, inclusive

Date of Loan	Amount of Loan	Amount of Repayment	Balance Outstanding	Date of Loan	Amount of Loan	Amount of Repayment	Balance Outstanding
7-12-19	\$2,575		\$2,575	1-14-35		\$32,000	\$7,000
9-10-29	1,250		3,825	1-13-36		7,000	
10-2-29	3,575	\$2,575	4,825	10-6-36	\$600		600
11-18-29	13,200	3,575	14,450	1-14-37		600	
8-11-30	25,300	13,200	26,550	5-19-37	3,000		3,000
10-1-30		3,550	23,000	9-28-37	400		3,400
12-19-30		8,000	15,000	12-9-37	12,000		15,400
4-1-31	30,000	15,000	30,000	1-4-38		12,000	3,400
4-9-31	45,000	30,000	45,000	1-10-38		500	2,900
12-31-31		45,000		10-18-38		300	2,600
1-2-32	45,000		45,000	11-16-38		1,600	1,000
8-9-32		1,000	44,000				
1-16-33	44,000	44,000	44,000	Balance December,			
12-31-34		5,000	39,000	31, 1938			1,000

The following agent's contract of the Life Insurance Company of Virginia was entered in the record on September 11, 1939 and appears at this point in connection with testimony supra, p. 6030.

EXHIBIT No. 1091

[From files of The Life Insurance Company of Virginia]

Circular

THE LIFE INSURANCE COMPANY OF VIRGINIA

Home Office: Richmond, Virginia

CIRCULAR LETTER No. 1345 (B)

NOVEMBER 1, 1938.

In re: Additional Compensation to Agents for Weekly Premium Business (Contract Form No. 18-1, N. T.-P. A., N. A. Ed. 11-38)

To the Company's Representatives in the Industrial Field

GENTLEMEN: In addition to the "Debit Salary" provided in the new Agent's Contract, the following additional compensation will be paid to Agents for Weekly Premium Business:

I. COMMISSIONS ON FIRST YEAR INCREASE IN EXCESS OF \$10.00

"First Year Increase" made by an Agent in any week is defined as the difference between the weekly premiums issued or reinstated to his credit in the second column of his life register and the weekly premiums on policies lapsed for the week (other than by death) as shown in second column of his lapse register computed as follows:

"First Year Issue" being premiums upon all applications written by the present agent on the debit and issued in the second premium column in the life register.

"First Year Revivals" being the premiums on policies reinstated on which 52 weeks or less had been collected when lapsed against the present agent. Credit will also be allowed to a present agent for the reinstatement of a policy 13 weeks or more in arrears, if lapsed against another agent. No other reinstatements will affect an Agent's First Year Account and all credit as first year increase for any reinstatement will be discontinued after 52 weeks' premiums have been collected.

"First Year Lapses" constitute the weekly premiums on policies lapsed for the week (other than by death) which were issued or reinstated, as described above to the credit of the present agent and on which 52 weeks or less premiums had been paid.

Where any policy or policies in force on the same life or on the life of any other member of the family residing at the same address had lapsed within a period of 13 weeks before or after the date of the application for the new policy, the premium issued will be applied to the first year increase account only to the extent that the premium issued exceeds the premium lapsed.

2. CONSERVATION SALARY

In each week of any fiscal quarter after 1938, Agents in the service who have been continuously employed not less than 13 weeks and who qualify as specified below, will be paid a "Conservation Salary" in accordance with the table below. Such Conservation Salary shall be based upon the size of the adjusted debit at the end of the preceding fiscal quarter and upon the renewal lapse per \$100.00 of accumulated debit during the last preceding fiscal quarter. Renewal lapse rate is defined as the ratio of (1) the premiums on policies lapsed in the quarter, other than by Death or Maturity, on which more than 52 weeks' premiums had been paid, less the premiums on policies reinstated in the quarter on which more than 52 weeks had been paid when lapsed, to (2) the sum of the debit for each week during the quarter.

WEEKLY CONSERVATION SALARY WHEN
AND SIZE OF ADJUSTED DEBIT IS

Renewal Lapse Rate Per \$100.00 Accumulated Debit Is	Under \$80.00	\$80.00 to \$89.99	\$90.00 to \$99.99	\$100.00 to \$109.99	\$110.00 to \$119.99	\$120.00 to \$129.99	\$130.00 to \$139.99	\$140.00 to \$149.99	\$150.00 to \$159.99	\$160.00 to \$169.99
Over 24 cents.....										
O'er 18c but not o'er 24c.....				\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$1.00	\$0.50
O'er 12c but not o'er 18c.....				1.00	1.00	1.00	1.00	1.00	1.50	1.00
Over 6c but not over 12c.....	\$0.50	\$0.50	\$0.50	1.00	1.00	1.00	1.00	1.00	1.50	1.50
6c and less.....	1.00	1.00	1.00	1.50	1.50	1.50	1.50	1.50	2.00	2.50

Renewal Lapse Rate Per \$100.00 Accumulated Debit Is	\$170.00 to \$179.99	\$180.00 to \$189.99	\$190.00 to \$199.99	\$200.00 to \$209.99	\$210.00 to \$219.99	\$220.00 to \$229.99	\$230.00 to \$239.99	\$240.00 to \$249.99	Etc.
Over 24 cents.....									
O'er 18c but not o'er 24c.....	\$0.50	\$0.75	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	Same thereafter as for debit of \$240.00
O'er 12c but not o'er 18c.....	1.00	1.50	2.00	2.00	2.00	2.00	2.00		
Over 6c but not over 12c.....	2.00	2.50	3.00	3.50	3.50	3.50	3.50		
6c and less.....	3.00	3.50	4.00	5.00	5.00	5.00	5.00		

3. SERVICE COMMISSIONS

Agents who have been in the Company's service continuously for 3 or more years and whose records in both Weekly Premium and Ordinary branches are satisfactory to the Company in every respect, will be paid additional compensation consisting of a percentage of the combined commissions on First Year Increase and Conservation Salary. The percentage will be 1% in the fourth year of service, increased by 1% for each additional year of service in excess of 3.

When an Agent leaves the service of the Company the last payment made him on account of First Year Commission and Conservation Salary is the final payment to the Agent. In other words, there will be no withheld compensation due Agent nor will Agent owe Company balance on First Year Commission Account or Conservation Salary Account.

Yours very truly,

I. T. TOWNSEND, *Vice-President.*

Circular Letter No. 1345 (b)

The following data was entered in the record on September 11, 1939, and is printed herewith in connection with the testimony of Dr. Donald Davenport, *supra* p. 5603.

EXHIBIT No. 1092

[Prepared by Securities and Exchange Commission Insurance Study Staff]

Industrial Insurance—Insurance in Force and New Issues: Proportion in Three Largest Companies, 1938

Total Industrial Insurance issued during 1938: ¹

Number of policies	14, 962, 742
Amount of Insurance	\$3, 752, 432, 727

Industrial Insurance issued by three largest companies during 1938:

	No. of Policies	Am't of Ins.
Metropolitan Life Insurance Co	2, 833, 192	\$832, 256, 074
Prudential Insurance Co. of America	2, 880, 406	1, 046, 145, 415
John Hancock Mutual Life Ins. Co	991, 745	232, 308, 876
Totals	6, 705, 343	\$2, 110, 710, 365

Total Industrial Insurance issued in 1938: Percentage Issued by three largest companies:

By Number of Policies	44. 8%
By Amount of Insurance	56. 2%

Total Industrial Insurance in force Dec. 31, 1937: Percentage in force in three largest companies:

By Number of Policies ²	77. 6%
--	--------

¹ Source: Annual statements of 67 companies for 1938.

² Source: Spectator Insurance Year Book, 1938.

The following letter was entered in the record on September 13, 1939, and appears at this point in connection with the testimony of Mr. C. M. Corey, see text, p. 6122, and p. 6131.

EXHIBIT No. 1119

[Copy]

Agency Department

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY
Home Office, Boston, Massachusetts

SEPTEMBER 8TH, 1939.

Mr. GERHARD A. GESELL,
Counsel, SEC, Temporary National Economic Committee,
Washington, D. C.

DEAR MR. GESELL: As requested by the Committee on September 6th, during the course of testimony which I gave, the following information is respectfully submitted:

(1) Monthly Debit Ordinary insurance in force December 31, 1938—\$105,753,798—or 4.9% of the total Ordinary (excluding Group).

Monthly Debit Ordinary insurance in force at the end of July 1939—\$146,809,273—or 6.6% of the total Ordinary (excluding Group).

(2) The cost of our Visiting Nurse Service for Industrial policyholders for the year 1938—\$549,121.41.

Cost of Life Conservation Booklets 1938—\$38,450.40.

Total—\$587,571.81.

May I take this opportunity to express thanks for courtesies received.

Very truly yours,

(Signed) C. M. COREY,
Manager Agency Department.

CMC
RMC

The following correspondence relating to loans made by the Monumental Life Insurance Company to the Real Estate Trust Company was entered in the record on September 22, 1939, and is included at this point in connection with the testimony of Milton Roberts, president of Monumental, see text, p. 5708.

EXHIBIT No. 1128

MILTON ROBERTS, *President*H. ELMER SINGEWALD, *Vice-Pres. & Sec'y.*ADELBERT W. MEARS, *Treasurer*

THE REAL ESTATE TRUST COMPANY

CAPITAL AND SURPLUS, \$750,000

Charles and Chase Streets, Baltimore, Md.

AUGUST 30, 1939.

Re: *Monumental Life Insurance Co. of Baltimore*

HON. GARLAND S. FERGUSON,

*Temporary National Economics Committee,**Congress of United States, Washington, D. C.*

DEAR SIR: At the time of my appearance before the Temporary National Economics Committee on August 24th and 25th, I was asked to explain certain items appearing in the records of the Monumental Life Insurance Co. which purported to represent loans made by the Monumental Life Insurance Co. to The Real Estate Trust Company. My answer was that the Real Estate Trust Company had never borrowed from anybody. I was requested to furnish supporting data in connection with those entries on the Monumental's books, and the following is the explanation:

Item No. 1—\$40,000 dated December 5, 1927.

This item was a mortgage made by the Baltimore Club of Baltimore City to the Real Estate Trust Co. with money supplied by the Monumental Life Insurance Co., then known as Mutual Life of Baltimore. Interest was payable to the Real Estate Trust Co. as agent for the Insurance Co., for which the Trust Co. received 1/4 of 1% as service charge. The mortgage was assigned to the Insurance Co.

Item No. 2—\$150,000 loan dated July 11, 1928.

This was a participation in a call loan made for the account of the Monumental Life Insurance Co., then Mutual Life, to Dr. George W. Mitchell for \$253,972.71 secured by certain stocks and bonds. The Real Estate Trust Co. received 1/2 of 1% as a service charge on the \$150,000, as the loan agent.

Item No. 3—\$50,000 loan dated April 6, 1929.

This was also a call loan made for the account of the Mutual Life Insurance Co., now Monumental Life, secured by certain stocks and bonds. This loan was to Dr. Geo. W. Mitchell. The Trust Company received 1/2 of 1% as loan agent.

Item No. 4—\$250,579.27 loan dated July 9th, 1929.

This was a call loan to Dr. Geo. W. Mitchell for the account of the Monumental Life, then Mutual Life, secured by certain stocks and bonds. The Real Estate Trust Co. received 1/2 of 1% as a service charge, as agent for the Monumental Life.

Item No. 5—\$50,000 loan dated Dec. 18, 1930.

This was participation to the extent of \$50,000 for the account of the Monumental Life Insurance Company, then Mutual Life, in a call loan to Dr. George W. Mitchell secured by certain stocks and bonds. The Trust Co. received 1/2 of 1% as a service charge, as agent for the Insurance Co.

You will note from the above that all of the items were call loans by the Trust Co., as agent for the Monumental Life Insurance Company, for which it received payment for its services as agent, in accordance with the general practice in banking circles at that time, and in no sense was a liability of the Trust Co. to the Insurance Co.

The Real Estate Trust Co., at no time since its organization, has ever borrowed money from any source.

If there is any further information desired, please advise me.

Very truly yours,

MILTON ROBERTS,
President.

SEPTEMBER 6, 1939.

Mr. MILTON ROBERTS,
*President, The Real Estate Trust Company,
 Charles and Chase Streets, Baltimore, Maryland.*

DEAR MR. ROBERTS: Your letter of August 30, 1939, concerning the Monumental Life Insurance Company of Baltimore, addressed to the Honorable Garland S. Ferguson, has come to my attention. The information contained therein is satisfactory with only three minor exceptions. I would appreciate your giving me the following information in order that our records will be entirely complete:

1. Who is Dr. George W. Mitchell and what, if any, was his connection with the Monumental Life Insurance Company, the Real Estate Trust Company or any other business venture in which you or other officers of the Monumental are interested?

2. With respect to the loan in favor of the Baltimore Club of Baltimore City, please furnish an explanation as to why this transaction was not handled directly by the insurance company and state whether or not any officer or director of Monumental was at the time of the loan either connected with the Baltimore Club in an official capacity or instrumental in carrying forward on behalf of the club any of the negotiations leading up to the loan.

3. With respect to the five loans covered by your letter, kindly advise the date each loan was paid off.

Very truly yours,

GERHARD A. GESELL,
Special Counsel, Insurance Section, Monopoly Study.

GAGesell:rhr

(Stamped:) Mailed by Mail and Files. Sep. 7, 1939.

MILTON ROBERTS, *President*

H. ELMER SINGEWALD, *Vice-Pres. & Secy.*

ADELBERT W. MEARS, *Treasurer*

THE REAL ESTATE TRUST COMPANY

CAPITAL AND SURPLUS \$750,000

Charles and Chase Streets, Baltimore, Md.

SEPTEMBER 14, 1939.

Mr. GERHARD A. GESELL,
Special Counsel, Securities & Exchange Commission, Washington, D. C.

DEAR MR. GESELL: The information requested by you in your letter of September 6th, concerning Monumental Life Insurance Company, is supplied herewith as follows:

(1)—Item #1 in my letter of August 30, 1939 to Honorable Garland S. Ferguson: This mortgage was paid off March 23rd, 1924.

Item No. 2 in said letter: Loan paid off Nov. 21, 1928.

Item No. 3 paid off July 19, 1930.

Item No. 4 paid off July 19, 1930.

Item No. 5 paid off Jan. 16, 1931.

(2)—Dr. George W. Mitchell had no connection in any wise with the Monumental Life Insurance Co., either as an officer, employee or stockholder; nor, was he connected with The Real Estate Trust Company, in any manner. He was simply one of our customers and borrower, who suffered in the 1929 difficulties, through speculations in the stock market.

(3)—With reference to the Baltimore Club mortgage; this loan was for \$150,000 and was made shortly after the Bank opened for business. The Baltimore Club was one of the oldest social organizations for males in Baltimore, and located within three blocks of this Bank, and the Directors considered the loan as a good business connection from which business contacts might be made with four or five hundred of the most prominent citizens of Baltimore. The Bank, however, did not care to put out the entire amount of the loan, and inasmuch as the entire loan had been spent for new buildings and improvements by the Club, the Monumental Life Insurance Co. agreed to participate to the extent of \$100,000 secured by a first mortgage, which was assigned to the Monumental, the Bank taking a second

mortgage for the balance. The real estate of the Baltimore Club at that time was assessed at nearly \$400,000. The crash in the stock market in 1929 so seriously affected the personnel financially, the Club found it necessary to go through receivership, and the Bank in order to protect its investment, was obliged to take title to the property, and pay the mortgage of the Monumental Life Insurance Co. The Bank still owns the building which is now leased to a responsible tenant. At the time of this transaction, no officer or director of the Monumental Life Insurance Co. was a member, nor connected in any wise with the Baltimore Club. It is simply an instance of the wreckage following that period.

Very truly yours,

MILTON ROBERTS, *President.*

MR/t

The following data was entered in the record on September 22, 1939 and appears at this point in connection with the testimony of Leroy Lincoln, president of Metropolitan Life Insurance Company. See text, p. 5848.

“EXHIBIT No. 1129”

[From Vice President J. L. Madden, Metropolitan Life Insurance Co.]

506 Metropolitan agents presently employed by the Company are enrolled in the course for Chartered Life Underwriters and 9 have thus far received the C. L. U. designation. In addition, 300 representatives not classified as agents but actively engaged in sales work are similarly enrolled, and 32 such representatives have received the C. L. U. designation. Instruction in C. L. U. subjects is given to a large number of agents in the District Office educational meetings throughout the country, but since they are not intending to sit for the examinations, no formal record of their activity is maintained at the Home Office. The above figures are exclusive of Canada.

The following data was entered in the record on September 22, 1939 and appears at this point in connection with the testimony of Leroy Lincoln, president of Metropolitan Life Insurance Company. See text, p. 5849, and p. 5856.

“EXHIBIT No. 1130”

[From Metropolitan Life Insurance Company]

The six years represents the average duration with the Company for those Agents who were still with the Company on the 1st of March 1937. As of Sept. 11, 1939, the average duration with the Company for active agents is about 7.64 years. This figure is exclusive of Canada and of agents on disability. Several hundred agents are on disability. Their average duration is nearly 17 years and if they are included the average of 7.64 becomes about 7.90.

	<i>No. of Active Agents Sept. 11, 1939 exclu- sive of Canada</i>
a. Less than one year-----	863
b. Over one year but less than two years-----	1710
c. Over two years but less than three years-----	2096
d. Over three years but less than five years-----	3234
e. Over five years but less than ten years-----	5763
f. Over ten years-----	4966

18, 632

Under b we have interpreted the “over one year” to mean “one year or over” and similarly for the following items.

The following data was entered in the record on September 22, 1939, and appears herewith in connection with the testimony of Geo. L. Ward, of the Home Friendly Insurance Company, supra, p. 6095.

EXHIBIT No. 1131

[Submitted by Home Friendly Insurance Co.]

HOME FRIENDLY INSURANCE COMPANY OF MARYLAND

Corrected Copy

	1937	1938
1. Number of agents employed for Debits.....	177	191
2. Number of agents employed as Canvassers.....	132	246
3. Number of terminations for Debits.....	238	202
4. Number of terminations for Canvassers.....	85	183
5. Number of agents finalled who had deficiencies.....	137	153
6. Amount of loss for deficiency after deducting amount of recovery for each year.....	904.60	261.46

7. Duration of Employment for New Agents by Months for Debits and Canvassers.

	1937		1938	
	Debit Agents	Canvassers	Debit Agents	Canvassers
Less than 1 Month.....	5	57	10	83
1 Month.....	11	15	12	33
2 Months.....	14	12	18	19
3 Months.....	22	10	14	24
4 Months.....	15	13	19	24
5 Months.....	19	2	15	17
6 Months.....	15	5	15	8
7 Months.....	15	3	11	5
8 Months.....	2	1	5	8
9 Months.....	3	2	6	5
10 Months.....	4	1	2	2
11 Months.....	7	2	8	1
One year or more.....	45	9	56	12
	177	132	191	246

8. Number of Agents & Canvassers Employed.

	1937		1938	
	Debit Agents	Canvassers	Debit Agents	Canvassers
1st. Week.....	202	14	198	45
Last Week.....	200	45	202	60

The following data appears at this point in connection with the testimony of Mr. F. F. Leith, Vice-President of Peoples Life Insurance Company, supra, p. 6149.

EXHIBIT No. 1132

[Prepared by Peoples Life Insurance Co.]

W. WALLACE CHISWELL,
President.
F. F. LEITH,
Vice President.

M. H. CHISWELL,
Secretary-Treasurer.
S. W. HAUSER,
Actuary.

PEOPLES LIFE INSURANCE CO.

Peoples Life Insurance Building, Fourteenth & H Streets N. W.

WASHINGTON, D. C., *September Twenty First, 1939.*

List of men employed by the Peoples Life Insurance Company for the following number of years

Less than one year.....	277
Over one year to five years.....	414
Over five years to seven years.....	57
Over seven years to ten years.....	57
Over ten years to fifteen years.....	77
Over fifteen years to twenty years.....	19
Over twenty years to twenty five years.....	10
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FFL/ht

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