Life Insurance Companies Should Be Compelled to Invest in the Securities of Those States in Which the Funds Originate

By Fitz Hugh McMaster
Insurance Commissioner of South Carolina

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It is not an unpleasant assignment to be asked to present to this Convention arguments in favor of so-called compulsory investment laws, even though it may be in opposition to the views expressed by my highly esteemed friend, the Commissioner of Mississippi. My only fear is that, having so long considered this subject and having so fully made up my mind in respect to it, I may take too much for granted and not present some of the fundamental arguments in its favor.

You will pardon a few personal references which are given to explain the statement that I have so long considered this subject and made up my mind in regard to it.

From my earliest childhood I had heard my father lament the constant outflow of money from South Carolina to insurance companies in a few centers in distant States. His sentiments were those of great numbers of the thoughtful men of the State. I recall having heard one of the most conservative, patriotic and intelligent men in South Carolina say that in his opinion it would have been better for the State if it had never admitted a life insurance company of another State within its bounds; that regardless of the fact that a few widows and orphans had been benefited, the great drain upon the people of the State as a whole had been such that their exclusion would have been of material benefit to the State. This man for a number of years occupied one of the highest positions in our State and now occupies a high position with the Federal Government and his talents and his good judgment are recognized by all who know him.

Shortly after leaving college I became private secretary to one of the most successful general agents of a life insurance company whom I have ever known. It was at this time that I became acquainted with the compulsory investment law then under consideration and subsequently enacted in Germany. When I became a member of the South Carolina Legislature in 1900 I introduced two bills, one to prevent rebating, the other to require companies operating in South Carolina to make investments in that State. Both bills were original in their language and very crude. The purpose of the first was to prevent discriminations between large policyholders and small ones in first premium payments at least. The object of the second was to cure the evil which I had heard my father so frequently lament. The German bill, or such information as I could secure concerning it, was taken as my model. I was able to secure the passage of the anti-rebate bill through the Lower House, but the absurdity of preventing an agent's giving a part of his commission to the insured was so great to the minds of the Finance Committee of the Senate—all of whom I believe had received such rebates—that the bill met its Waterloo at their hands.

I was so overwhelmed with the plausible arguments made by the attorneys and agents of the insurance companies that I did not myself press the passage of the compulsory investment bill.

Is it amiss for me to say, in passing, that following the lead of Germany practically all of the civilized nations of the earth have been impressed with the logic of compulsory investment legislation and the economic soundness of requiring the investment of a people's life insurance accumulations in that people's particular securities? So we find that France and Austria and Russia and Japan and Canada and Mexico and the Argentine Confederation and Uruguay and a number of other small countries now require the reserves on the insurance of their citizens to be invested in the securities of those countries. It may possibly be in the nature of a tribute to Italy, which has so frequently led the world in science, in medicine, in art, in music and in the discovery of new lands, to call attention to the fact that after first compelling foreign insurance companies to invest the reserves of her citizens in Italian securities she then not only excluded them entirely from her limits, but has taken over all of her domestic companies and the business of most of the foreign companies, the government itself proposing to take entire charge of the life insurance savings of her people.

United States Larger Than Europe.

Certainly the nations of Europe are not so far separated from each other in respect to time and distance as are the various States of this Union, and while differing more markedly in customs, manners and aspirations, nevertheless the same economic principles for sectional development or impoverishment obtained there as hold good between the various States of the American Union. The failure to recognize the force of this fact only indicates ignorance on our part. And if the plausible arguments put forth by the managements of the great American companies to the effect that capital will follow its natural lines of investment and therefore the life insurance funds of the countries, at their very low rates of interest, would be entrusted to the wonderfully shrewd management of American financiers with their great opportunities for investing in high grade securities bringing high rates of interest,—if these arguments could not withstand the careful analysis of the economists of those nations, then what are we to say of the custom of New Mexico or Washington State or Texas or South Carolina in permitting their capital to be sent to New York to be entrusted for investment to as provincial and untravelled a set of men as exist in America, the majority of them seeming to believe that when a dollar crosses the Hudson River the stamp of Father Knickerbocker should supplant the American Eagle?

I remember once to have been really startled by hearing a very mild-spoken and conservative man say that legislation generally was most favorable to corporate interests and generally unfair to the people as a whole. I ask myself: how could this be when the people had so many representatives and apparently the corporations had so few? But this riddle has been solved for me since I have been Insurance Commissioner. It is easily explained. Organization is always effective against disorganization. Furthermore, corporate interests know exactly what they want and secure the best talent to care for their interests. Trade journals to which the public are supposed to look for authoritative information get their support from the trade to which they are allied—"Whose bread I eat, his song I sing."

It is rarely that the people have a representative free from personal interest with the time to analyze and weigh properly the arguments, often only plausible in the extreme, which the representatives of the corporate interests make.

So, in 1900 I could not find heart to press vigorously my compulsory investment bill. Eight years later, upon the establishment of the Insurance Department of South Carolina and my being made Insurance Commissioner, likewise while there was a still small voice within me crying out against the drain to my State through insurance premiums going elsewhere for control and investment, I could not find a satisfactory answer to the argument brought against it by South Carolina attorneys,—South Carolina citizens employed by and representing insurance companies of other States,—and such agencies as the Life Insurance Presidents' Association and the insurance journals.

So, when in 1909 a State Senator introduced into the Legislature of South Carolina a duplicate of the Texas compulsory law I induced him to withhold pressing it that we might give a trial to a bill which I had prepared for the purpose of inducing investments by reducing taxation to those companies which made investments.

I was the more encouraged to propose this form of legislation because I was impressed by that newly discovered argument of the hideousness of "taxing thrift"! Since the world began has it ever been right to tax thrift? Should not all just governments be supported by the vagrants and the indigent and the poverty-stricken? So the bill proposed by me reducing taxation from 2 per cent. on premium income by one-fourth of one per cent. for each fourth of South Carolina reserves invested in certain South Carolina securities was enacted into law.

I was encouraged to believe that the enactment of such a law would cause the companies not only to invest South Carolina money in South Carolina securities, but would bring the money of other States to South Carolina. That this might come about readily a most active advertising campaign was begun, bringing to the attention of the companies directly the law itself and what they would save by taking advantage of its provisions.

I found no difficulty in inducing the Georgia, the North Carolina, the Tennessee and the Virginia companies to invest in South Carolina securities. Indeed, they have not only invested South Carolina money, but a great deal more. With hardly an exception the companies from those States have invested in South Carolina State, county and municipal bonds and real estate mortgages very much more than their South Carolina reserves, without taking into consideration their loans to policyholders and other South Carolina investments.

But when it camo to companies of more distant States, with the exception of a few—and the exceptions are so marked that I feel I should name the companies: the Fidelity Mutual of Philadelphia, the Metropolitan of New York, the Security Mutual of New York, the State Mutual of Worcester, Mass., and the State Life of Indianapolis, Ind.,—I soon became convinced that nothing short of a compulsory investment law would bring about the desired results. So, in 1913 a compulsory investment law was introduced. But under pleas for more time and promises to do better and some arguments against compulsory investment, the legislation was not adopted. But I believe the danger was so great of the likelihood of such legislation if the larger companies did not change their methods that the companies were impressed. At any rate, with the exception of a very few, the companies of other States now operating in South Carolina are investing largely in South Carolina securities.

The matter of compulsory investment of necessity must be regarded from several points of view.

First, from a national standpoint, as such legislation affects the peace and prosperity of the entire nation.

Second, as it affects the State, as a community, as a political entity.

And lastly, as it affects the policyholders themselves.

From a National Standpoint.

This is a wonderfully great nation of ours, and its mission in the world is wonderfully potential for the good of humanity. But the individual man is a remarkably small creature and he is strangely affected by his environment. Due regard for this must be had in every respect.

I rejoice to know that a broad and sympathetic national spirit does pervade our land, and while steam and electricity and gasoline have wonderfully lessened time and decreased distance, nevertheless we must remember the fact that this is an immense country of more than three million square miles area, differing in soil, in climate, in productions and in the customs and habits of its people. Political divisions, diversity of material interests, and the greatness of the area of the nation require that there be many centers for clearing house purposes, so to speak, and forbid that the entire nation should entrust so much of its wealth to a few trustees in one corner, particularly when the parties at interest—the policyholders—have no control over these trustees or voice in their selection.

Indeed, particularly should this principle govern in life insurance, for with the alleged differences in mortality, equities are violated in uniting in one company risks from so many differing States.

Another matter to which serious consideration should be given is whether injustice is not done the small policyholder by putting in his class heavy insurers. As we all know, the mortality among the insurers carrying large amounts is considerably in excess of the mortality among the small insurers, 14 per cent. I believe greater among those carrying $20,000 or more. It is worthy of consideration then whether companies patronized largely by the very rich men of the country should not be compelled to segregate their heavy insurers or whether equity both in respect to mortality and to the average lines of insurance would not be more clearly met by conditions which would develop companies in the various sections of the country.

I am inclined to believe that the majority of those who carry large lines of life insurance have debased its true principle to a gamble, and they should not be permitted to be placed in the class with the man who carries only two or three thousand dollars' insurance.

Too much power over his fellow-men must not be entrusted to one individual or any set of individuals, and the environment of each man at least should be improved without injustice to his fellow-man. Certainly each community is entitled to its own product, and the stronger should help the weaker rather than the reverse.

Is it necessary for one to be a student of Adam Smith or Ricardo or John Stewart Mills or any of the political economists not to appreciate that the fundamental fact for a nation's peace and prosperity is that its wealth and its power and its influence should not be concentrated in the hands of a few or in particular centers, but that wealth and power should be as generally distributed over the whole, throughout each section, as it is possible to do?

Merely for purposes of illustration I deal now with the experience of the South under the operation of laws which permitted the insurance companies to do as they pleased. The fundamental principles of religion and economics are disregarded and subverted when an impoverished people, as were the Southern people after the war, are drained of their capital so far as it was possible for the insurance companies to do, to be used in the great financial centers of the East or to develop the virgin land of the West. Not only thus was the South drained of her capital, but her young manhood was encouraged to emigrate to other sections where conditions of life were made easy by this self-same capital.

The dangers from the concentration of wealth and from the control of money by a few seem to me to be so apparent that I cannot believe but that all will subscribe to the proposition that so far as it is possible each section should be developed as fully as possible and should have its control of an equitable portion of the capital of the nation, certainly of its own capital. Will any deny this proposition? Then if this proposition be not denied, will any one deny the wisdom of laws which will bring this about?

The Control of Money.

Let us consider this matter of concentration of wealth and control of money as affected by the life insurance companies of the United States. Mark these figures: the total income of all of the life insurance companies of the United States for the year 1913 amounted in round figures to $962,000,000. Of this huge sum, approximating the total income of the national government, $665,000,000 went to the four cities of New York, Hartford, Newark and Philadelphia. Here is a great country of more than three million square miles of area pouring in more than two-thirds of its life insurance funds into one little corner of less than 100 miles radius from Wall Street, New York City.

In the matter of assets the figures are still more impressive. The total assets of all of the life insurance companies of the United States on December 31, 1913, amounted to $4,667,000,000. The assets of the companies with home offices in the four States named amounted to $3,556,000,000 or 75 per cent. of the total. Here are assets belonging to some millions of people living throughout the United States, which are controlled by, I suppose it is no exaggeration to say, about a score of men. Indeed, when we read the testimony of Mr. Mellen as to the disbursement of some eleven millions of dollars of the New York, New Haven and Hartford Railroad Company by Mr. J. Pierpont Morgan, without question one is encouraged to believe that possibly these great insurance funds are ultimately controlled by less than a score of men. Of course, it is to laugh to say that those to whom these funds belong have any voice in the control over them or even in the election of the managements of the so-called mutual companies. The situation becomes the more ridiculous when regarded from a policyholder's controlling standpoint when it is further realized that of the insurance in force in such companies as the New York Life and the Mutual Life only about 14 per cent. is in force in New York State; that of the insurance in force in the Mutual Benefit about 6 per cent. is New Jersey business; that of the Connecticut companies about 4 per cent. is Connecticut business, and of the Philadelphia companies relatively about 20 per cent. is Pennsylvania business. In other words, from about 80 to 95 per cent. of the business of these companies comes from beyond the borders of the State in which they have their home offices. Even supposing—a violent supposition—that the policyholders in the home State influenced the election of their managements, what effect do the 80 per cent. to 95 per cent. of policyholders in other States have?

The realization of this condition has long since convinced me that federal legislation is necessary to the equitable control of the great corporations and that it can never be had through State legislation.

Just here let me quote from a competent and impartial student of insurance matters, as I believe I am justified in describing Best's Insurance News of New York City. In an editorial published some time ago he said:

"Several thoughts are suggested by this condition of affairs, the first is that the companies are laying aside a great deal more money in their reserves than it is likely they will ever require for the payment of claims, and this being so, it is an interesting question how the excess can ever equitably be distributed among the policyholders whose premium payments contribute to the accumulation of these excessive and unnecessary reserves. . . . Who will eventually get them?

"Some time ago we printed an editorial in which we discussed the extraordinary rapid concentration of liquid assets in the hands of life insurance companies in this country, and particularly in this State, stating our opinion that this is not a healthy and desirable condition under our form of government. One reason for this rapid growth is that companies are required, in order to show a solvent condition, to lay aside every year as reserves great sums of money amounting to many millions of dollars in the aggregate which are absolutely unnecessary."

Incidentally I would mention here too that the great diversity in the tax laws of the different States need to be equalized and controlled by Federal legislation so that policyholders throughout the nation will not have what I understand amounts to about 7 per cent. tax laid upon their premiums by the State of Wisconsin, or which permits the State of Connecticut in one form or another practically to appropriate three-fourths of the premium income of the policyholders in that State and thereby lay under contribution to its State Treasury an excessive amount on policyholders in other States. I might say in passing that while New York State deals very equitably with the balance of the Union, that both Pennsylvania and New Jersey go right deeply into the pockets of the policyholders of the country through the imposition of one form of taxation or another on their home companies. But this is all aside from the question of compulsory investment.

From the Standpoint of the Individual State.

Let us now consider the matter from the standpoint of the State as a political entity.

Will not a careful consideration of the matter make any one realize that with the exception of a very few companies, such as the Presbyterian Ministers' Fund of Philadelphia, the German Mutual Life of St. Louis, and the Methodist Ministers' Relief Association at Boston, and a few other such companies, we have no insurance companies per se in America. Of course, there are a few larger companies which may be said to have life insurance as the main purpose of their being. But the large mass of companies, both old and young, hardly do much more than use life insurance as a means to get control of other people's money. Now, what should be the attitude of the State as a political entity towards a corporation from another State which has for its purpose the getting control of a considerable portion of the capital of the people of the State?

A life insurance company never brings any money into any State except its home State save in the few instances of those companies which have invested largely in real estate mortgages and which have taken large volumes of money from other States and have invested them in mortgages in a few selected States. With these exceptions life insurance companies have drawn money from all sections of the United States and have used it very largely for investment in the securities nearby to their home offices, or for the purpose of enabling groups of financiers to get control of the great quasi public corporations of the country. Of necessity life insurance companies must take money out of a State, even though they invest the full reserves of the people of the State in securities of the State, for the tribute laid upon the people of the State by way of managerial expenses, including within this term the home office expenses, amounts to a very much larger percentage of the income than the average man is apt to realize. Excluding municipal, State and federal taxes and license fees, the total expenses, agency, administrative and clerical, of the average life insurance company runs from about 10 to 20 per cent. of the gross income, interest income as well as premium. Of necessity a large portion of this is spent at the home office. So the statement may be repeated with assurance that life insurance companies always take money out of a State. Not only that, do you know of any other business which so fully makes the purchaser rather than the company itself pay the agents of the company? The agent of a life insurance company gets his pay out of the premium paid by the applicant, and if this is not sufficient to pay all the expenses incidental to getting a new member, the additional expense comes out of the pockets of the old members. Certainly then it is good sense for the State to seek to retain as much as possible of the wealth which the agents for the company gather in that State.

Life insurance companies merely promise to pay from the general fund created by all contributors upon the happening of some contingency in exchange for the material wealth of the citizens of a State. There is no exchange of material product for money. Herein is clear and apparent the reason why insurance is not interstate commerce. And certainly a commonwealth for its own material advantage should seek to maintain within its borders the material wealth which has been produced therein represented by the insurance premiums. Unless, as is the case with England, drawing its income largely from the rest of the world and not having within its bounds means for the investment of this income, it is natural that it alone of all of the civilized countries should not pass compulsory investment laws. Possibly like conditions may obtain in Massachusetts, Connecticut and New York. But, indeed, we find that in New York the real estate mortgages on property in New York are many times over, as a general rule, the share of New York in proportion to the insurance in force in that State. The same is true in a lesser degree with the New Jersey and Pennsylvania, not true of the Massachusetts and Connecticut companies. Customarily, but not necessarily, the bank deposits of all companies in the home office cities are out of all proportion to the insurance in force in the home office States.

A recent congressional investigation as to the bottling up of the port of Charleston and other Southern ports by the Southern Railway Company is striking evidence of the need of a State to direct how these great trust funds obtained from their citizens should be invested, for, indeed, these very funds when entrusted to foreign managements may be so used as to control the public utilities in a State greatly to the detriment of that State itself.

Furthermore, another aspect: above all things a State should deal equitably as between the citizens of the State. The man who carries no insurance or who really carries all of his own insurance and is content to put all of his earnings in stocks and bonds and real estate and goods and chattels within the State not only helps to improve the State by adding to its material resources, but is taxed upon every thing he has. Whereas the man who puts a portion of his savings in life insurance practically escapes all taxation, for, despite the great cry that insurance companies are heavily taxed, an analysis of the matter will show that few institutions are so lightly taxed, since they get exemptions in their home States on their reserves, and in the States in which the business originates there is simply a flat tax imposed on the premium. Whereas on property located within the State there is an annual tax on its total assessed value, and though its assessed value is low, it takes only a few years for an annual tax on the assessed value greatly to exceed a flat tax on the purchase price.

From the Policyholders' Standpoint.

Now, let us consider the matter from the policyholders' standpoint. Of course, there are other funds just as sacred as life insurance funds, but as these are intended primarily for the protection of the widow and the orphan, they are essentially trust funds of a most sacred nature. Is it not the duty of the State to direct how the trust funds of its citizens shall be invested? Has ever any greater nonsense been uttered than that a State's directing how these trust funds shall be invested endangers the safety of those funds and interfers with discretion that should be left with trustees? I should like to ask you if any set of trustees in the world have demonstrated their utter unfaithfulness in the use of trust funds as have the managements of a great many insurance companies?

Of course, there are companies with records pure and clean, but take life insurance as a whole in America, have any institutions exceeded them in scandal and corruption? Will you let me quote just a few mild and I am sure justifiable comments upon the recent, but now displaced, managements of three of the largest insurance companies in America. Of one it was said:

"Various former officials and directors reaped large financial benefits, both through excessive salaries and financial profits made possible by their official positions, which profits while perhaps lawful cannot be justified in the case of trustees for policyholders."

Of another it was said:

"There is no doubt that in the past the interest of the stockholders and the clique operating the companies were considered in preference to those of the policyholders. The misleading bookkeeping methods adopted by the former management are said to have been abandoned."

Of another it was said:

"The company was criticized severely by the Armstrong Committee because of payments of one million dollars to Andrew Hamilton, believed to have been made for the purpose of corruptly influencing legislation, for large contributions to the Republican National Committee during three presidential campaigns, for deceptive bookkeeping methods and for financial transactions the nature of which had been concealed in the annual statements."

And how necessary is it to instruct these trustees how they should invest the funds of their charges, for the individual man frequently does not see clearly:

"I'll no say men are villains a';
The real harden'd wicked
Wha hae no check but human law
Are to a few restricted.
But och mankind are unco weak
An' little to be trusted,
When self the wavering balance shakes
It's rarely right adjusted."

Legislative enactments are necessary to correct the defective vision of men. Will you let me quote from a statement made by Senator John Sharpe Williams, of Mississippi? Mr. Williams says:

"I asked Mr. Kingsley if he did not regard it as a misappropriation and essentially a dishonest misappropriation of the funds of widows and orphans and stockholders of mutual companies to contribute to campaign funds, and, of course, he denied that there was anything dishonest about it and said substantially that it was only an error of judgment. Of course, it was dishonest; taking a ward's money or part of an estate entrusted to him as administrator or executor and giving it to a campaign fund."

And you tell me that a State should not write on its statute books how the trust funds for its widows and orphans should be invested? Is there a State in the Union which should not do this? We all have great respect for the code of laws of Massachusetts, Connecticut and New York, but I suppose it is within the bounds of reason to say that in those quarters which oppose compulsory investment laws these States are supposed to be the sublimated essences of wisdom. Will any man dare say that these States have not compulsory investment laws? Do they not with exactness, and, indeed, I suspect with greater limitation than even Texas, pass compulsory investment laws exactly stating the securities in which their insurance companies shall invest all of their assets?

Has not New York State even gone so far as to forbid its domestic companies from investing in stocks, and for what reason I ask you? The supposition is that the managements of these companies could not be trusted to invest in stocks, because of possible self-interest, despite the fact that it is generally admitted that the investments in stocks have been more profitable than investments in bonds.

Very true, the States have not prescribed that their domestic companies which receive from 80 to 90 per cent. of their incomes from beyond the borders of those States shall confine their investments to securities within their home States. Public policy would forbid such suicidal legislation for their insurance companies which draw wealth from the utmost limits of this country and concentrate it within those States, for they well know that the home States will reap the larger benefits from these companies, financial and otherwise.

But I would call your particular attention to the extreme limitations which these very States have placed upon the investments of their savings bank funds. These funds belong to the people of those States. Therefore, even Massachusetts, excellent, broad-minded State as it is, has prescribed State, county and municipal securities of about two-thirds of the States of the Union. I have not examined to see what other States in that section have done, but I know that it is only within the last two years and only after—I will not say because—I had presented to the Legislature of South Carolina the statute of Connecticut which proscribed South Carolina securities as well as the securities of two-thirds of the States of the Union that Connecticut has repealed her statute for the investment of her savings banks and enacted it in general terms.

And do the opponents of compulsory legislation cite the legislation in these States as models? They will only do it until the scales have fallen from the eyes of those who have been unable to see the facts as they are.

The New York Law.

New York State goes farther and recognizes the principle that other States and countries have the right to require New York companies to invest in the securities of those States and countries such funds as are required to meet their obligations in such States or foreign countries. Let me read you one sentence from Section 16 of the New York Insurance Law:

"Every such domestic corporation doing business in other States of the United States or in foreign countries may invest the funds to meet its obligations incurred in such State or foreign country and in conformity with the laws thereof in the same kind of securities in such State or foreign country that such corporation is by law allowed to invest in this State."

I do not think that there has ever been a more outrageous use of power than when the 17 or 18 companies which had been doing business in Texas for a number of years and which held millions of dollars in trust for Texas policyholders withdrew from the State of Texas because the State of Texas required that three-fourths of these funds be invested in certain specified Texas securities. It was nothing but an unjustifiable reprisal against the State of Texas to deprive her of her legitimate taxation on the insurance premiums paid by the citizens of that State and as a threat to all other States which might consider such legislation. I believe, however, that Texas is fully satisfied with the results and feels that the Robertson Law has been greatly to her advantage.

Of course, this body realizes that only by legislative enactment can there be any approach towards control of insurance corporations by the policyholders, for it would be ridiculous to assume that any member of this body or any one else with any information on insurance matters at all imagines that the policyholders have any voice in the control of these insurance corporations. Is it to be imagined for one minute that if the policyholders actually had any control that they would be willing to pay the prices for new business either in commissions or in the subterfuges by way of salaries, for attention to old business that the old and new companies pay; or that they would be willing to go down in their own pockets and pay dividends at the end of the first year under the absurd pretense that the first-year policyholder is entitled to such; or would the policyholder be content to pay insurance managers princely salaries when these managements gave a large portion of their time to devising means for removing even the infinitesimal control that the general public has over these corporations by supplanting all State authority and conferring it upon the general government? There are a thousand and one things which the policyholders would not do, if they had any control over the companies. Would not the policyholders return to the methods of those early days which have been so clearly described by another as follows:

"In the early years the old line companies sold nothing but pure protection; they never paid a dollar of benefits to anybody but widows and orphans.

"In those days their insurance was stronger than it has ever been since and their prices far lower than they are now.

"Their sales, though, were ridiculously small.

"The average man could hardly be clubbed into buying straight protection in those days.

"So the companies covered their pure protection over with an expensive sugar-coating of so-called 'investment features' which caught the public taste and led to enormous sales at greatly increased prices."

I am glad to say that I believe the public are waking up and that they will force the companies to return to the old-time methods, for the same writer goes on to say:

"And what change, if any, has come over life insurance purchasers in recent years?

"One of the finest old line companies in America recently reported that it has lost 35 per cent. of its endowment business during the past five years.

"The same company reported an increase of 60 per cent. in its term (pure protection) business during the same five years.

"This great company devoted its greatest energy to the sale of so-called 'investment policies' for 35 years, yet despite its great efforts it has lost over a third of its big endowment business in this short space of time.

"That company, like many others, sold term policies very reluctantly, yet the term business shows a remarkable increase during the same period.

"The policyholder, therefore, has at last come to appreciate pure protection and appreciates it so fully he often demands it in preference to the expensive sugar-coated protection which the company constantly urges upon him."

The State Must Control Corporations.

So, it is only to the State that we can look for any modicum of control over these great corporations, the only possibility by which a policyholder has any look-in upon the managements.

Summing up the whole matter from a national standpoint, from a State standpoint and from a policyholder's standpoint, there can be but one answer to the proposition—the State must pass compulsory investment laws. In other words, must regulate the class of securities in which trust funds shall be invested. Indeed, unless this Convention takes the position that the laws which have been passed in Massachusetts and New York and Connecticut and in all of the States where insurance has been developed at all, unless it takes the position that these laws which give in detail the classes of securities in which the insurance companies shall invest, unless this Convention denies the wisdom of these laws, it must stand for compulsory investment.

It is submitted that each State should pass laws exactly detailing the class of securities in which not only its domestic companies, but all others doing business therein should invest.

Of course, I appreciate that while it is not indicated in the text of the program that as stated there compulsory investment means whether each State shall require the companies operating in it to invest in securities of that State or not.

I am content to let that question answer itself. Such States as Massachusetts, New York, Connecticut, Pennsylvania and New Jersey, which have laid the whole country under tribute to them through their insurance organizations, of necessity must permit their companies to invest in the securities of other States, though they do compel them to invest in only certain classes of securities. If the other States of the Union are content forever to pay tribute to a handful of States and not require the capital which is collected in those States to be invested in the securities of the State in which it originates, then all that I have to say is that these States are altruistic to the point of folly.

NOTE.—AS TO INTEREST RATES IN TEXAS AND OKLAHOMA.

I feel that a notation on this subject is proper.

The Crop Reporter, a publication of the Bureau of Statistics under the authority of the Secretary of Agriculture at Washington, of date April 12, 1913, states:

"The average rate for Oklahoma, 11.58, is higher than that of any other State; it is based upon 40 returns, as follows: 1 at 8 per cent., 24 at 10 per cent., 2 at 11 per cent., 5 at 12 per cent., 5 at 15 per cent., 1 at 18 per cent. and 2 at 20 per cent."

The Crop Reporter shows that the average rate of interest paid by farmers in 1912 in Texas was 10.3 per cent., in Oklahoma 12.10 per cent. In 1913 in Texas it was 9.97; in Oklahoma 10.58.

A citizen of Oklahoma fully conversant with affairs in that State tells me that the legal rate in Oklahoma is 10 per cent., and that farmers generally pay from 10 per cent. to 15 per cent. and frequently higher; that a good average rate is 12 per cent., the plan being to show 10 per cent. in the mortgage and to charge an additional amount as a premium sufficient to make up whatever rate of interest is agreed upon.

I am reliably informed by direct statements from insurance companies and others that the general practice of insurance companies is to make loans through loan agencies in Oklahoma which give to the insurance companies a first mortgage with interest running at 6 per cent., a second mortgage being given as a commission charge, which is equal in amount to 2 per cent. per annum on the principal sum for the term of the loan. Sometimes a higher commission is charged. One insurance company takes the first mortgage for principal and interest at 6 per cent., and a second mortgage for an amount equal to 2 per cent. per annum for the time the loan is to run, paying its loan agent as a commission an amount equal to 2 per cent. on the loan for one year. One loan agency having an office just beyond the borders of the State, and which lends money for one of the largest insurance companies making loans in Oklahoma, has executed in favor of the company a first mortgage for the amount loaned at 6 per cent. and a second mortgage for 5 per cent. on the amount loaned, payable in 18 months to two years.

Former Commissioner Love, of Texas, has the following to say:

"There are fifteen of the life insurance companies which withdrew from Texas after the passage of the Robertson Law which transacted business in Oklahoma during the year 1911, the last year for which reports are now available. Each of these companies made sworn reports to all the various States, showing the amount invested in Oklahoma mortgages on December 31st, 1910, and on December 31st, 1911. These reports were published by the finance departments of the State of New York and other States and are easily available. These sworn records show that these fifteen companies had invested in Oklahoma real estate mortgages on December 31st, 1911, altogether $7,733,350.00, or about half as much as the foreign life insurance companies doing business in

Texas that year under the Robertson Law had invested in Texas securities at that time. These sworn reports further show that these fifteen companies increased the amount of their investments in the State of Oklahoma during the year 1911, $1,194,150.00, while only two of the foreign companies doing business in Texas invested in Texas mortgages under the Robertson Law during that year approximately $1,400,000.00, and all the companies doing business in the State invested during the year in Texas mortgages more than twice as much as the fifteen companies which withdrew from Texas invested during that year in Oklahoma mortgages."

From the foregoing it is a safe statement to make that no conclusion can be drawn from the interest rates shown in the statements of the insurance companies, and I feel warranted in saying that the most reliable and impartial information shows that lower rates of interest obtain in Texas than in Oklahoma.

The State Co.