AN ALLEGED FORM OF DANGER TO LIFE ASSURANCE COMPANIES.

The Insurance Commissioner for State of Massachusetts, Mr. Cutting, in his report just issued, for 1902, wraws attention to and discusses the question of life insurance companies falling under the control of other corporations or syndicates. The possibility of this he regards as arising from the eager quest by promoters for funds to finance all kinds of enterprises, and the determined struggle to grasp every opportunity for speculation. Such conditions would, he thinks, make it no cause for wonder if covetous glances should be turned towards the massive funds of life insurance companies. What would be the result of such control, and whether the funds of such companies are imperilled by these modern methods are serious questions upon which the Commissioner comments. "Mutual companies which may be governed by their policyholders, if they exercise their rights, could not be subjected to alien interests if the insured opposed it." But, we submit that it is practically impossible for the policyholders of a large mutual life company to "exercise their right," for they are too numerous and too scattered to engage in any combined action. On the other hand the control of a stock company is obtainable by purchasing a majority of its capital stock. Mr. Cutting remarks:

"If a king of finance should start out to secure a majority of the stock of such corporations, the chances are that, in some cases, he would be successful. He might be obliged to pay more than the book value of the shares, but perhaps *control* of a company's assets would be well worth twice or thrice or more than such value. On no other theory can the figure offered for life insurance stock in some cases be accounted for, since the offers are not warranted by the surplus nor by the dividends, nor both combined."

The proceeding of such an ambitious financier, or syndicate would be, to secure a controlling interest in assets aggregating, say, $100,000,000. Having accomplished this by purchasing enough stock, the rights of control so obtained might be transferred to a "trust," association, or trust company. The controlling trust company, or whatever it might be, would become the medium through which the investments of the controlled companies would be made, all sales of their securities would pay tribute to its treasury, all funds awaiting investment would be in its keeping, and the most valuable of their securities might be turned into cash, and then used by the controlling power for such purposes as was seen fit. All these things the Commissioner says, "are conceivable, and their accomplishment would be no greater task than some of the gigantic operations in finance of the last few years."

What such control would mean, would be, that the trust, or syndicate would control changes in by-laws, elect officers, and dictate methods. Should it seem best to the trust or syndicate controlling the stock to wreck one of the companies, Mr. Cutting remarks that:

"No power vested in policyholders, or a minority stockholder could prevent it." Let the confidence of the insured be undermined, and there would be a multitude of withdrawals or lapses, each of which would enrich the trust, as the lapsing members would abandon contingent dividends and values not matured. As a bankrupt life company might become solvent by lapses, so a rich one might become richer and better worth wrecking by a policy of management which would drive away the policyholders."

The Commissioner refers to the history of a life company formerly doing business in Boston, as proof of the feasibility of the above conditions being created, which company was rescued by the Legislature, from the grasp of parties whose operations, in an earlier report of Massachusetts, were denounced as, "if not thievery, very closely allied thereto." Mr. Cutting asks: "Is there really any danger that any trust or syndicate will attempt to so control the stock and assets of life companies, or is this simply the presentation of possibilities? He answers this question by giving an extended and highly interesting statement of what is known as "The Prudential Merger Case." This, very briefly stated, was an arrangement for increasing the capital of the "Fidelity Trust Company for," the acquisition of a controlling interest in the "Prudential Insurance Company, of America." Somewhat contradictory to this, though both statements are in the prospectus of the proposal, it is said, "While by this arrangement the Prudential Company will control the Fidelity Trust Company, the Fidelity will own a majority of the stock of the Prudential." By this remarkable arrangement, the Prudential directors control the Fidelity, and the Fidelity directors control the Prudential! Upon this merging of a life company and a trust company, a vigorous onslaught was made by the insurance department, as contrary to public policy, it would "give a close corporation a chance to manipulate the property of others without the restraint to the managers of the risk of endangering their own." The Court stopped this unique scheme being carried out, but the decision does not appear to prevent the exploitation of several insurance companies by a trust company or syndicate which might be very unfortunate for policyholders.

The question discussed by the Massachusett's Commissioner, is exciting great interest in life insurance circles. There can be no doubt that the danger he points out, will be removed, as the life companies are vitally interested in preventing policyholders losing confidence in the absolute integrity of the management. If the public acquired a conviction that the assets of any life company were being or were liable to be exploited for the aggrandisement of an outside syndicate, or trust, it would have its career rapidly cut short.