

In the annual report to the Insurance Department of December 31st, 1890, the amount of railroad securities owned by each of the three largest life insurance companies in New York, and the proportion they bore to the total assets, were, in round numbers, as follows:—

	Amount owned.	Percentage of total assets.
New York Life.....	\$54,000,000.00	47 per cent.
Mutual Life.....	41,000,000.00	28 " "
Equitable Life.....	36,000,000.00	31 " "

An analysis of the investments of the other great life insurance companies of the country show smaller percentages. In view of the fluctuations in such securities, these questions arise: Are the interests of the policyholders best conserved by the investment in railroad securities of so large a proportion of the assets as we find in the New York Life?

Does the fact that Mr. White (whose business is the purchase and sale of securities) is an influential member of the Finance Committee bear any relation to the amount of such investments?

CHARGE 19. "In violation of the law of the State, which prohibits loans on stock except on a margin of at least 20 per cent., they have made loans on very much less margins, and in one case at least the president has been personally interested in a loan where the securities were for months of less value than the amount borrowed thereon."

The following is Mr. Beers' testimony before the Trustees' Committee in 1887, on this point:—

"The party here referred to is Mr. Fisher. Some time ago Mr. Fisher wanted me to buy Central stock. I told him that I did not want to, and he bothered me about it considerably. Finally he said he would carry stock, and, as I understood him, would guarantee me against loss. I replied that if he did that I did not see any reason why I should not go in, as I could not lose anything if I did not make anything."

"The stock was finally bought for account of Mr. Fisher, Mr. Muser and myself. Mr. Fisher carried it for a long time, and I never heard anything about it. For some reason Mr. Fisher wanted to make a loan. I do not recollect what the margin was, but do not think it was 20%. The stock went down and Fisher would not respond after repeated solicitations. Finally, after we had solicited a number of times, he did put up more margin."

"Fisher died, account was closed up, and we each paid our share of the loss. That is the only interest I had in this loan, if it can be called an interest. Mr. Fisher was repeatedly asked to fix up this margin, and was not treated any differently from anybody else. There have been other cases where I have had large loans, and margin fell below 20%."

"I will say this, however: I have loaned over \$250,000,000 on temporary loans for the company, and in no case have they lost anything on any loans. After death of Mr. Fisher everything was settled up with company."

Q. Is it against by-laws to loan to trustees?

A. Directly, yes. But it is not lending to trustees when you loan to somebody else.

Q. Whose obligation had you in this case?

A. Mr. Hieronymous, but Mr. Fisher was behind it.

Q. You never considered loan in jeopardy?

A. Mr. Fisher was supposed to be worth a million dollars. His estate panned out from \$350,000 to \$500,000.

Q. Do you suppose Mr. Hieronymous was good even without Mr. Fisher?

A. I think he was. With reference to 20% margin, I do not think this company is affected by that law. I have never intended to have less than 20% on any loan.

Mr. Baldwin: If you had a loan on good stock that had been made at 20% margin, and it fell, you would not call for more margin until it got 7 or 8 points off?

Mr. Beers: Probably not, if party was responsible.

This would seem to establish the truth of this charge, except that portion of it which says that it is in violation of the laws of the State, and on that point, for reasons heretofore given, we do not express an opinion.

Mr. Fisher was a trustee of the company. No proof has been offered that any other loans have been made to trustees. A copy of the by-laws marked "Exhibit 13" is filed herewith.

CHARGE 20: "They have directed the falsification of the books and accounts of the company, to make it appear that it was doing a more profitable business than it really was; millions of dollars have been added to dividends paid and also to premiums received, which have had no existence. Other millions have been deducted from commissions and agency expenses, and added to payments on surrendered policies, to hide the expense as well as to make the returns to policyholders appear larger than they really are."

The following is Mr. Beers' reply to this charge as contained in his statement of October 31st, 1891:—

"As to specification 20. Mr. Banta states that he received a statement from Mr. Vail, the former bookkeeper, showing that the dividends declared by the Trustees from 1874 to 1883 inclusive amounted to \$11,374,000, while the dividends reported as having been paid in the annual statements during the same period amounted to \$16,921,000. This difference of figures is due to the method of making the entries with reference to reversionary dividends and purchased reversions. In this connection I refer you to the letter of the Hon. John A. McCall under date of December 14th, 1887, a copy of which is hereto attached.

This method was widely known and practised by other companies, notably the Mutual and Equitable. Mr. McCall's letter shows that it had the approval of the Insurance Department of this State."

We quote as follows from the letter of Mr. McCall referred to by Mr. Beers:—

"When I investigated the Mutual in 1881, I reported the mode of that company in this same particular per the following paragraphs:—

"It is proper under this heading to refer to the method adopted by the company in January of each year in adding to the premium receipts the total amount of the dividend declared, for the reason that an entry is made at once on the actuary's registers of a certain amount of paid up insurance, for which the sum of the dividend is treated as a single premium payment to purchase the insurance. If the transaction was closed by these two entries, possibly no criticism thereon would be proper, but it is well known that the insured has the option of applying the cash value of his dividends to a reduction of the premium when he so elects. Under the system in vogue in the 'Mutual,' and also in most of the other life companies that have been examined by the department, it necessitates an entry in the premium account of a premium paid by dividend, and a charge under disbursements of an equal sum as being paid for a surrendered policy or addition, thereby causing the cancellation of the amount of the paid-up insurance which had been heretofore entered. In consequence of this questionable method of treating the accounts, a part of the sum of \$2,489,425.99 was entered twice in premium receipts, and an equal number of times in disbursements—first as a dividend to the policyholder, and again as a purchase of surrendered policies."

"It is possible that the contrary opinion held by the worthy actuary of the company on this subject may be the correct one. He contends that the passage of the resolution declaring the dividend makes it compulsory on the company to proceed at once to enter the amount thereof on the registers: and the subsequent adjustments or changes must follow as a matter of course, and cannot be ignored."

As Mr. McCall describes this as a "questionable method of treating the accounts," we can hardly agree with Mr. Beers that it had the approval of the Insurance Department of this State. The method of making these entries should be altered so that neither the dividend account nor the premium account would be affected thereby. The proper course to pursue in this matter would be for the Superintendent of Insurance, and the officers of the several companies to agree upon some such method. In the meantime, it would be unfair to the New York Life Insurance Company to compel it to adopt a system of book-keeping which would place it at a great disadvantage with regard to other companies, or to criticize it for having followed the universal practice of other companies.

Reference has been made to the fact that in its annual statements to the Insurance Department, the company gives the cost value of the securities owned by it at figures nearly equal at all times to the market value of such securities, no matter how much they may vary in value from year to year. This is brought about by means of two forms of journal entry. First an entry is made in about the following form, for instance:—

Profit and Loss—to New York Central Bonds.....\$10,000.00.

To bring the cost of above bonds down to par value at time of maturity.

There can be no reasonable objection to an entry of this character. It is unquestionably true that a part of the cost of very many of the securities is due to the rate of interest receivable thereon; for instance, if a first class railroad issues a five per cent. bond for twenty years, and another equally good railroad issues a six per cent. bond running for a like period, the latter bond will certainly bring the higher price in the market; and when the company charges off each year to profit and loss a proper proportion on this account, it is not to be criticized. But there is another journal entry made by the New York Life which is not to be commended, and it is in the following form; for instance, when securities depreciate in value during the year, the following entry is made on December 31st:—

Profit and Loss.....\$165,323.50

To Sundry Bonds—to reduce the cost values to market values:

Atchison, Topeka & Santa Fe Railroad.....\$70,323.50.

Central Railroad & Banking Company, Georgia.....95,000.00.

This latter entry of course reduces the book value of the bonds to the market value, and this figure is reported to the Insurance Department as the actual cost of the bonds to the company. There can be no objection to the entry being made for the purpose of determining the net profits for the year, if it is not used as a means of misrepresenting the cost of the bonds to the public through the publication of the annual report. The company is requested to report the cost, not the book value, of its securities, and should be required to so report. If the securities rise in value in the succeeding year, the amount of the appreciation may be restored to the account by an entry the reverse of the above.

#### CHARGES 23 AND 24.

CHARGE 23. "The President has directed the purchase and sale of millions of securities without the knowledge of the Finance Committee, in some cases purposely withholding information of intended sale because he knew it would be objected to."